



REPUBLIC OF SOUTH SUDAN
NATIONAL AUDIT
CHAMBER



**PERFORMANCE
AUDIT MANUAL**
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PERFORMANCE AUDIT MANUAL

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I

GLOSSARY OF ACRONYMS

AFROSAI	African Organization of Supreme Audit Institutions
AFROSAI-E	African Organization of Supreme Audit Institutions for English Speaking Countries
CBTF	Capacity Building Trust Fund
(CCAF-FCVI)	Canadian Comprehensive Audit Foundation
3 E'S	Economy, Efficiency and Effectiveness
IDI INTOSAI	Development Initiative
INTOSAI	International Organization of Supreme Audit Institutions
ICBF	Institution Capacity Building Framework
ISSAI(s)	International Standards of Supreme Audit Institutions
MDA(s)	Ministries, Departments, and Agencies
NAC	National Audit Chamber
NLA	National Legislative Assembly (also referred to as Parliament)
PAC	Public Accounts Committee of the Parliament
RSS	Republic of South Sudan
SAI	Supreme Audit Institution
UN	United Nation
VFM	Value for Money
WB	World Bank

PREFACE

II



This is the second Performance Audit Manual for the National Audit Chamber (NAC). This manual is customized based on AFROSAI-E Performance Audit Handbook 2016. The first manual was produced in 2013 by a specialist hired and funded by Capacity Building Trust Fund (CBTF) sponsored project.

The mandate of the NAC to conduct performance audit is regulated by the South Sudan NAC Act, 2011, article 15-Value for Money Audit (VFM). Sub-section 4 of the Article 15, however precludes the Auditor General from “questioning the merits of the policy objectives of any Ministry, Department, Agencies (MDAs) public authority or other body in respect of which an examination is carried out”. In effect, the Auditor general can examine the appropriateness, adequacy and quality of the inputs made in the policy formulation by the MDAs, etc., and in the implementation concerning such policy choices and formulations.

As a member of INTOSAI and AFROSAI-E, NAC, like many other Supreme Audit Institutions (SAIs) in the world and the region, is required by these professional institutions, to adopt International Principles, Standards and Guidelines, specifically ISSAI 3000 dealing with the concept of Three Es: Economy, Efficiency and Effectiveness – for public sector audit. The art and science of audit of governance is to study the problems of public sector programmes, projects and processes and suggest better ways to heighten the output and outcome and improve citizen satisfaction.

This manual is at once telescopic and microscopic. Public Sector Audit spans several varied and different economic and social sectors. To review, choose and assess these initiatives from conceptual to citizen satisfaction levels is a telescopic task. To pragmatically analyze these governmental efforts from the stand points of economy, efficiency and effectiveness is a microscopic task. The manual attempts to do justice to both these and caters for the challenges of knowledge expansion and skill development. While the manual addresses current issues, it also alerts us of emerging issues to make this manual a living document.

To present this comprehensive and well-illustrated manual for serious readership of the senior and middle management of the NAC is a pleasure. Similarly, I salute the African Organization of Supreme Audit Institution-English Speaking (AFROSAI-E) for the technical assistance in the customization processes which culminated in the production of this manual.

I’m happy to hereby release the second National Audit Chamber Performance Audit Manual.

Amb. Steven Kilion Wonda

Auditor General.

RSS, Juba

III INTRODUCTION

In line with the requirements in INTOSAI Principles 20:3, the National Audit Chamber referred to as the NAC has adopted the International Standard for Performance Auditing (ISSAI 3000), issued by the International Organisation of Supreme Audit Institutions (INTOSAI), as the authoritative standards for performance auditing. The standards form part of the framework of International Standards of Supreme Audit Institutions (ISSAIs), which means that the auditor must comply with all ISSAIs relevant to the audit.¹ If not all relevant requirements have been fulfilled, reference to this standard shall not be made without disclosure of that fact and further explanations about the consequences thereof.² In public-sector auditing the role of “auditor” is fulfilled by the Head of the SAI and by persons to whom the task of conducting the audits is delegated.³ Thus, the NAC Performance Audit Manual applies to all managers and other officers within the NAC who are directly or indirectly involved in performance auditing in their work related to performance auditing. For performance auditors, chapters 6 – 9 relating to the audit process are the most important in their daily work during performance audit engagements.

The principles for public sector auditing (ISSAI 100 – 400) in no way override national laws, regulations or mandates or prevent SAIs from carrying out investigations, reviews or other engagements which are not specifically covered by the existing ISSAIs.⁴ By adopting the Standard for performance auditing, the NAC has committed to comply with all ISSAIs relevant to the audit, within the framework of the mandate and national legislation and regulations.

The NAC manual explicitly reflects the conflicts that may exist between the ISSAIs and the mandate, national

legislation and regulations. Performance auditing is also in a development phase, where there may from time to time be challenges in fully developing the capacity or making the resources needed available for performance auditing. The NAC is committed to take reasonable initiatives in an attempt to overcome any limitations preventing full compliance with ISSAIs. In line with INTOSAI Principles 20:3, the NAC will also inform main stakeholders on how it complies with the adopted standards and methodologies.

Structure of the NAC Performance Audit Manual

The NAC Performance Audit Manual is developed by customising the Template Performance Audit Manual provided by the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E). The manual is structured in three parts.

Part I covers an introduction to performance auditing in Chapter 1 – 4, including the following:

- What is performance auditing (chapter 1);
- Overview of INTOSAI Standards (chapter 2);
- Economy, efficiency and effectiveness (chapter 3); and
- Performance auditing in NAC (chapter 4).

Part II deals with the institutional level of performance auditing in the NAC, following the structure of the five domains in the AFROSAI-E Institutional Capacity Building Framework (ICBF)⁵. The ICBF reflects the requirements of the SAI’s quality control systems according to ISSAIs. The framework is used for annual self-assessments by the SAIs, to promote continuous improvement and increased compliance with standards. Chapter 5 describes how the NAC has designed these

¹ ISSAI 100:10.

² ISSAI 3000:13.

³ ISSAI 100:25.

⁴ ISSAI 100:7.

⁵ See the AFROSAI-E guideline Institutional Capacity Building Framework (2012). Appendix 1 presents the different elements of ICBF.

quality control systems, creating the pre-conditions for performance audit engagements. The chapter covers the following:

- 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).

Part III, finally, presents the standards and requirements on designing and implementing performance audit engagements in the NAC, structured after four main steps in the performance audit process covering the following:

- Planning (chapter 6);
- Execution (chapter 7);
- Deciding and reporting (chapter 8);
- Follow-up (chapter 9).

A blue box is presented initially in section 5.1 – 5.5 and chapters 6 – 9, quote the requirements for performance auditing according to ISSAI 3000, as well as reflect other important statements in the standard.

The manual systematically refers to ISSAIs, and in selected instances to INTOSAI Principles and Guidance.

1

WHAT IS PERFORMANCE AUDITING?

Definition of performance auditing

According to the Performance audit principles 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:⁶

- 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 such as service delivery or the effects of regulations, thereby placing special focus on citizens, as well as issues cutting across many entities.

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

Objectives of performance auditing⁷

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 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 the manner in which they are implemented 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.

⁶ ISSAI 300:9-10. See also ISSAI 3000:17-18.

⁷ ISSAI 300:12. See also ISSAI 3000:18.

STANDARDS FOR PERFORMANCE AUDITING

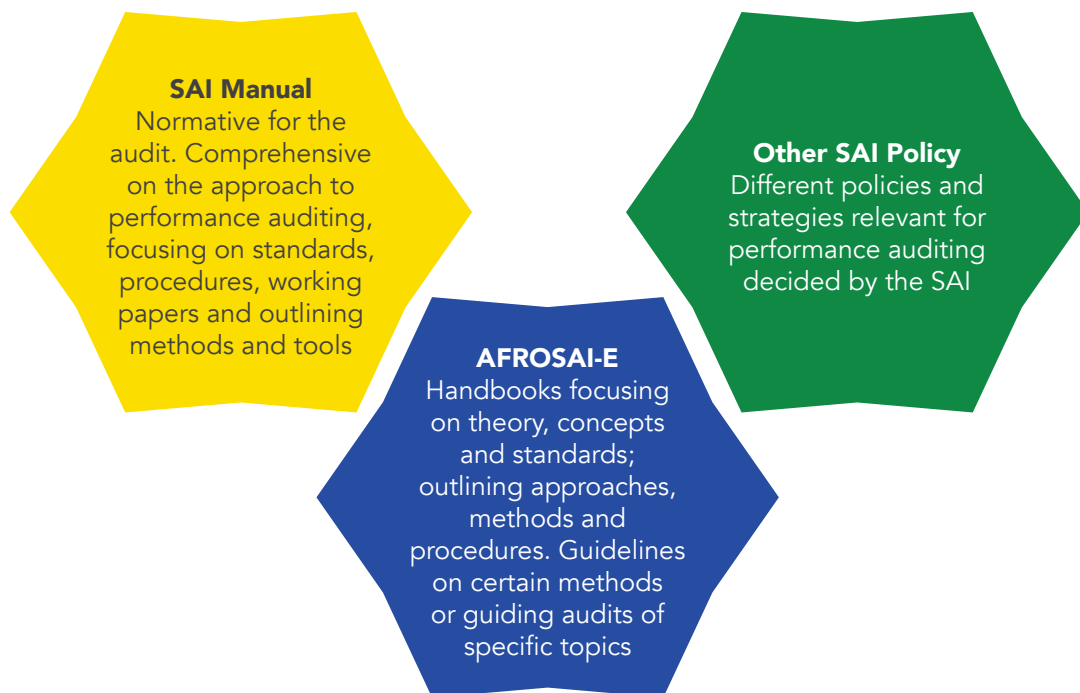
The NAC Performance Audit Manual should be applied by all managers and other officers in the NAC who are directly or indirectly involved in performance auditing. The Manual is based on the ISSAIs and the experience of performance auditing in South Sudan. The Manual is complemented by other policy decided by the NAC. Within the framework of NAC Performance Audit Manual and other policy, performance auditors should also consider handbooks and guidelines relevant

for performance auditing issued by AFROSAI-E (see figure 2.1).

The AFROSAI-E Performance Audit Handbook further explains many concepts and methods relevant in the performance audit process. This general reference to the Handbook replaces detailed references in each section.

Figure 2.1:

The relation between the Performance Audit Manual, other NAC policy and relevant handbooks and guidelines from AFROSAI-E:



ISSAIs aim to promote independent and effective auditing and to support the members of INTOSAI in the development of their own professional approach

in accordance with their national laws and regulations and mandate.⁸ The following ISSAIs are the most important for performance auditing.

⁸ ISSAI 300:1 and 3000:1.

NUMBER	NAME	CONTENT
INTOSAI PRINCIPLES		
1	The Lima Declaration (1977)	The founding principles call for independent government auditing and establish goals for achieving this.
10	Mexico Declaration on SAI independence (2007)	States eight core principles for independence flowing from the Lima declaration.
12	Values and Benefits of SAIs (2013)	Twelve 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 on-going relevance to citizens and other stakeholders; and being model organisations through leading by example.
20	Principles of Transparency and Accountability (2010)	Principles regarding the availability of information about the SAI, transparency in work processes and products, open communication with media and others and being visible in the public arena.
INTOSAI AUDITING STANDARDS (ISSAI)		
<i>Fundamental principles of public sector auditing</i>		
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.
<i>SAI Organisational requirements</i>		
ISSAI 130	Code of Ethics (2016)	A statement of the values and principles guiding the daily work of SAIs and auditors; ethical requirements embodied in the key words: Integrity, Independence and Objectivity, Competence, Professional Behaviour, as well as Confidentiality and Transparency.
ISSAI 140	Quality Control for SAIs (2010)	Assists SAIs to establish and maintain a system of quality control, covering leadership, ethical requirements, what work can be accepted, human resources, engagement performance and monitoring of the quality control system.
<i>Principles and standards relevant for performance auditing</i>		
ISSAI 300	Performance Audit Principles (2013)	These principles provide the framework for performance auditing, general principles for the performance audit engagements and principles related to the audit process. Can be used to develop national standards.
ISSAI 300	Performance Audit Principles (2013)	These principles provide the framework for performance auditing, general principles for the performance audit engagements and principles related to the audit process. Can be used to develop national standards.
INTOSAI GUIDANCE FOR PERFORMANCE AUDITING¹		
3100	Guidelines on Central Concepts for Performance Auditing (2016)	Provides guidelines on central concepts included in the Standard for performance auditing (ISSAI 3000).
3200	Guidelines for the performance auditing process (2016)	Provides guidelines on the audit process outlined in the Standard for performance auditing (ISSAI 3000).
¹ Additional documents from the ISSAI 5000 series may be included as INTOSAI Guidance.		

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 following:

- The Professional Standards Committee with its Performance Audit Sub-committee, www.psc-intosai.org/subcommittees/performance-audit;
- The Capacity Building Committee, <http://www.intosaicbc.org>; 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 on performance audit of government's response to environmental problems provides an overview of guidance developed by WGEA. The material is also available on: www.environmental-auditing.org/Home/WGEAPublications/StudiesGuidelines/tabid/128/Default.aspx

AFROSAI-E guidance for performance auditing

The NAC recommends that performance auditors make use of the materials and facilities available in the Performance Audit Flow and on the AFROSAI-E website. The AFROSAI-E guidance materials in the box below can be downloaded by registered users from the website at <http://afrosai-e.org.za/performance-audit>, together with the principles ISSAIs and guidance from INTOSAI most important for performance auditing.

The purpose of the AFROSAI-E guidance materials is to assist SAIs in implementing ISSAIs. The standards and guidance from INTOSAI, AFROSAI-E and different working groups are also included in the IT tool the Performance audit flow.

Guidance for performance auditing developed by AFROSAI-E

- Template Performance Audit Manual (2016)
- Performance Audit Handbook (2016)
- Quality Assurance Handbook (2012, revision 2016 for performance auditing is available)
- 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)

Through the AFROSAI-E website, registered users can also access other methodological guidance for performance auditing provided courtesy of SAI United Kingdom and the Canadian Comprehensive Audit Foundation (CCAF-FCVI), as well as a database with performance audit reports from a number of English-speaking SAIs provided by CCAF-FCVI. These materials are also included in the Audit Flow.

AFROSAI-E further provides guidance at 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).

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. The NAC is planning to introduce environmental audit. INTOSAI describes the concepts as follows:⁹

CONCEPT	DEFINITION
Economy	The principle of economy means minimising the costs of resources. The resources used should be available in due time, in and of 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.
Environmental	The assessment of the extent to which an organization is observing practices to minimise harm to the environment for sustainable development.

The different concepts draw attention to different aspects of government activities and programmes, and represent different purposes of and perspectives in the audits. These concepts also encompass audits addressing environmental topics, equity or efficacy.

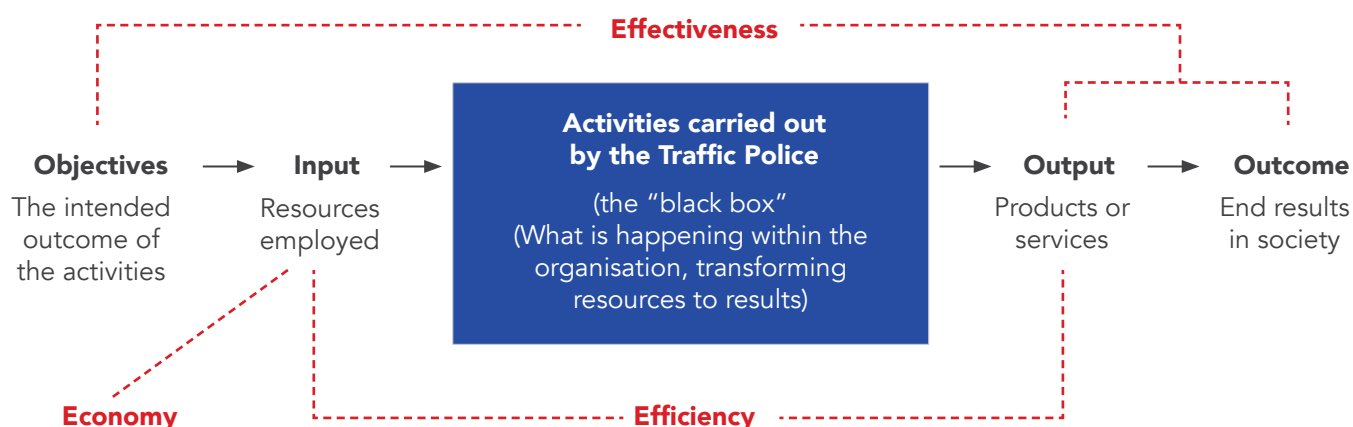
Performance audits often include an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld.

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.¹⁰

The concepts of the three Es are illustrated through the input-output model in figure 3.1.

Figure 3.1:

The input-output model and the three Es¹



⁹ ISSAI 300:11 and 3000:18.

¹⁰ ISSAI 300:11. See also 3000:19.

¹The input-output model in Figure 1 in INTOSAI Guidance 3200 also includes the concept of cost-effectiveness – relating the outcome to the input. See further AFROSAI-E Performance Audit Handbook, Section 3.3.

A basic understanding of the concepts of economy, efficiency and effectiveness in public administration forms the foundation for performance auditing. The concepts clarify the problems or weaknesses which, from a performance perspective, may be addressed by performance audits. The concepts can also help auditors to orient themselves and avoid commenting on the effectiveness of government entities if the audit had focused on aspects of economy. 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. The concepts are also directly related to how the organisations/ activities are defined, and may change if this definition is modified.

It is rare for one performance audit to include all aspects of economy, efficiency or effectiveness. At the same time, it is common for audits to 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 the causes of 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 lead to a focus on different questions.

Considering the risks of fraud and corruption in performance auditing

Auditors should make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. Performance auditors should

consider the risk for fraud when planning the audit. They should maintain an attitude of professional scepticism and be alert to the possibility of fraud throughout the audit process.¹¹

Fraud and corruption may be committed by individuals, but it can also be more broadly prevalent in government systems and entities. In general, the performance of individuals is significantly affected if they are taking bribes or is involved in using deception to obtain unjust or illegal advantages, as it distorts the attempts of reaching government objectives. When this is not limited to individual cases, or if it is of a sufficiently large scale, it poses a serious threat also to the performance of the concerned government systems and entities as such. The significance of risks for performance problems due to fraud and corruption are affected by the type of government operations as well as by the general prevalence and perception of fraud and corruption in society.

The methodology of performance auditing is highly appropriate for analysing the functioning of administrative and management systems in order to better prevent fraud and corruption. On the other hand, 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. When suspicion arise on individual cases of fraud and corruption, performance auditors should usually report those suspicions to management, for consideration on whether to make further investigations and or to report the suspicions further to the appropriate authorities.

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. To meet the requirement in ISSAI 3000:73, auditors shall in each audit consider and document the risks for fraud and corruption in general in the country as well as the specific risks inherent in the systems or area covered by the audit area.

⁹ ISSAI 300:11 and 3000:18.

¹⁰ ISSAI 300:11. See also 3000:19.

¹¹ ISSAI 100:47; ISSAI 300:37; ISSAI 3000:73.

In case of specific general and/or system specific risks, auditors shall also during the pre-study perform limited procedures to collect information on how management of audited entities have addressed those risks. The risks and how they have been addressed by management of audited entities should be documented in working paper *WP12 Pre-study memorandum and work plan*.

If the risk for fraud and corruption is considered significant, and management has not taken appropriate action, the auditors should document their considerations of appropriate actions to take in WP12.

The following actions can be considered:

1. If there is a significant risk that fraud and corruption affects government performance, explicitly or implicitly address the risk for fraud corruption relevant to the audit objective in the performance audit;
2. Inform management of the audited entities in a letter that, preliminary, weaknesses in handling the risk for fraud and corruption have been identified by the auditors, but will not be addressed in the planned audit as they are not relevant to the objective of the audit; the audit entity can also be recommended to further investigate the weaknesses and take appropriate action to overcome them.
3. Inform financial and/or compliance auditors in the SAI about the preliminary observations made.
4. Inform those charged with governance of the concerned audit entities about the preliminary observations made.
5. Inform the appropriate enforcement or oversight authorities, such as the police or an anti-corruption commission about the preliminary observations made.

Each performance 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 auditors in the NAC should decide to what extent it is relevant to consider the risk of fraud and corruption in the main audit, for example:

- To select **audit topics** that address systems where fraud and corruption are known or perceived to exist;
- 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 that fraud and corruption are likely to be a cause of poor performance.
- 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 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 the relevant authorities or regularity auditors as appropriate, regardless of whether the information has been used in developing the performance audit report. In such cases the need to keep the detailed information secret should be carefully considered, in order to enable other potential forensic investigations.

4

PERFORMANCE AUDITING BY THE NAC

The NAC's approach to performance auditing

The overall audit approach is a central element of any audit. It determines the nature of the examination and also defines the necessary knowledge, information and data and the audit procedures required to obtain and analyse them. According to ISSAI 300:26 and 3000:40, 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 concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central government. A bottom-up perspective focuses on problems of significance to people and the community.¹²

The NAC uses the same definition of performance auditing as provided in ISSAI 300:9 and 3000:17, namely an "...independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement".

The NAC's approach to performance auditing is a combined approach where aspects of problems, systems and results are considered. The main approach is to focus the audits on areas or government undertakings where there are reasons to believe that material performance problems exist. 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 derived either from shortcomings in the outputs and results (from a government or citizen perspective) or from shortcomings in the government systems and processes. The audit will then verify the problem and analyse the causes thereof. This approach enables the auditors to focus on material 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.

The NAC 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 are functioning as intended. Such information may, for example, be

¹² ISSAI 300:26.

requested or needed by Parliament or the general public. As a complement, this means the NAC may choose to initiate a performance audit without having any specific reason 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 NAC must consider whether this motivates a more in-depth analysis of the causes of such problems. With these audits, the same methodology will be used as for the main approach, with the exception that no audit problem is selected and the audit questions will focus on important or risky areas rather than on the expected causes of the problem.

The readers expect reliable reports which set out the NAC’s 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 auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. Assurance means that

users can be confident in the findings, conclusions and recommendations in the report. The auditor provides the users with assurance by explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the findings result in the conclusions. The auditor needs to transparently communicate the audit objective(s), scope, methodology and data gathered and any significant limitations in the report so that users will not be misled. See further section 5.4.4.¹³

Different steps in performance audit engagements

The performance audit process is divided into four main steps: planning, execution, reporting and follow-up, the steps used to structure chapters 6 – 9. According to ISSAI 300:35, these steps may be iterative. For instance, new insights from the planning stage may necessitate changes to the audit plan, and important elements of reporting (e.g. the drawing of conclusions) may be sketched out or even completed during the planning stage. Figure 4.1 presents the main activities performed.

Figure 4.1:

Main activities in performance audit engagements (partly overlapping)



¹³ ISSAI 3000:32-34. See also ISSAI 300:21-22.

5

INSTITUTIONAL CAPACITY FOR PERFORMANCE AUDITING

This chapter describes the requirements on SAI's quality control systems according to ISSAIs, and how the NAC has designed its internal systems to meet the requirements. This creates the pre-conditions for designing and implementing performance audit engagements in NAC. The chapter is structured according to the five domains in the ICBF developed by AFROSAI-E. The elements in the ICBF cover but are not limited to the requirements of the quality control systems of SAIs according to ISSAI 140 (see appendix 1).

The quality framework for SAIs in ISSAI 140¹⁴

ISSAI 140 outlines the quality framework for SAIs according to 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 establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirement. The SAI should ensure that employees comply with the requirements in the legal and regulatory framework governing the operations of the SAI and the fundamental ethical values in ISSAI 130: integrity, independence and objectivity, competence, professional behaviour and confidentiality and transparency. (See section 5.3.)

Another key element of the quality system is 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 already be considered when the auditors develop a proposal for an audit.

Sufficient resources, performance auditors and management with the right competence are of utmost 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 ensure 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 practice (see further section 5.4.2).

It is also necessary to check whether procedures and policies are working effectively, which is done through quality assurance reviews. (See further section 5.4.3.)

¹⁴ Based on Safeguarding quality in the performance audit process, INTOSAI Performance Audit Sub-committee

AFROSAI-E Institutional Capacity Building Framework

The five domains in ICBF cover, but are not limited to the requirements in ISSAI 140:

- 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 blue boxes in the beginning of section 5.1 – 5.5 and chapters 6 – 9 quotes the requirements in ISSAI 3000 the Standard for performance auditing as well as paraphrases other important statements in the standard.

5.1 Independence and legal framework (ICBF Domain 1)

The international standard for performance auditing (ISSAI 3000) states that:

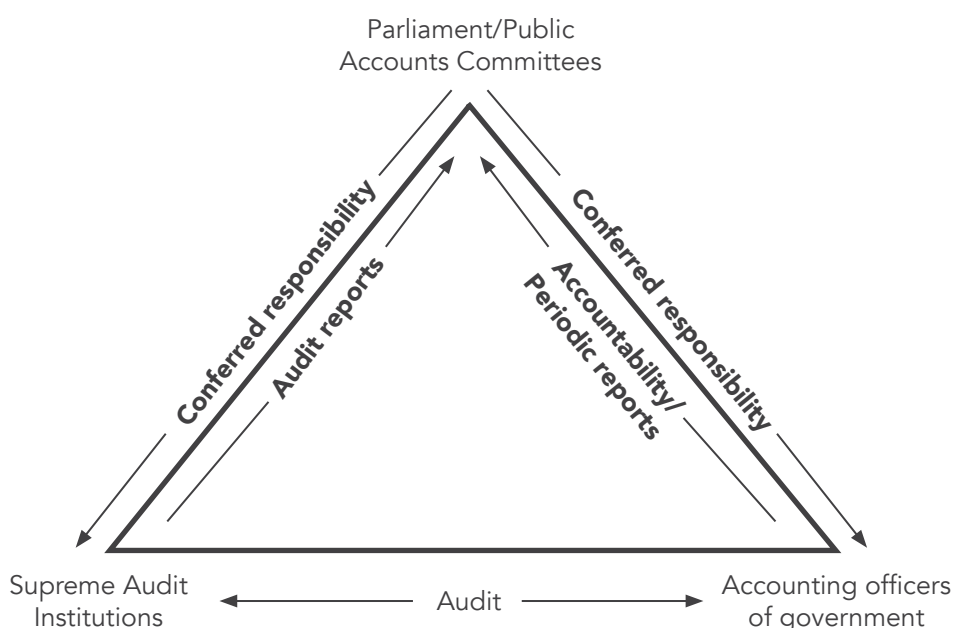
- The standard for performance auditing (ISSAI 3000) in no way overrides national laws, regulations or mandates. ISSAI 3000:12

The system of accountability in which the NAC operates

The NAC operates within what is commonly referred to as the Westminster system of accountability, based on the system originating from the United Kingdom. Figure 5.2 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.

Figure 5.1:

The Westminster system for accountability and oversight in government



Parliament confers responsibility on accounting officers to economically, 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 provide a report on the financial information presented by government executives 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 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 officers are followed up. Effective oversight in a Westminster system relies heavily on a well-functioning relationship between the SAI and the PAC.¹⁵

Expectations and requirements in the standards

Each SAI must operate within their mandate, national legislation and regulations. In December 2011 the

General Assembly of the United Nations (UN) adopted a resolution recognising that SAIs will only accomplish their tasks objectively and effectively if they are independent of the audited entity and are protected against outside influence. The UN encourages member states to apply INTOSAI Principles 1 and 10 the Lima Declaration and the *Mexico Declaration on independence*.¹⁶

According to INTOSAI Principles 10:3, the SAI's mandate should 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 examines whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. Performance auditing does not question the intentions and decisions of the legislature, but examines whether possible shortcomings in the laws and regulations or their implementation have prevented the specified objectives from being achieved.¹⁷

While respecting the laws enacted by the legislature that apply to them, SAIs are also free of direction or interference from the legislature or the executive with regard to the:¹⁸

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

The head of SAI should seek to obtain a suitable legal mandate that comprises the following criteria:¹⁹

- A mandate to carry out performance auditing on the economy, efficiency and effectiveness of government programmes and entities;
- Freedom to select what to audit and when to audit and how to audit, conclude, report on and publish 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.

¹⁵ See further the AFROSAI-E Toolkit for SAIs on communication with and reporting to PAC (2012).

¹⁶ Resolution adopted by the General Assembly, 22 December 2011 [on the report of the Second Committee (A/66/442)] 66/209.

¹⁷ ISSAI 300:12 and 300:31.

¹⁸ INTOSAI Principles 10:3-4.

¹⁹ INTOSAI Guidance 3100, appendix, par. 20. See also ISSAI 300:12. INTOSA Principles 1:4-5 and 16; INTOSAI Principles 10:3-4. INTOSAI Principles 1:5. INTOSAI Principles 1:4.

The right of the SAI to have discretion in the selection of audit issues, and the freedom to decide on 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 are the requirement for audited entities to comment on findings within an established

period of time and the SAI's right to report on particularly important and significant findings during the year and to make the reports available to the general public.²⁰

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.²¹

The value and benefit of SAIs

An independent, effective and credible SAI is an essential component in a democratic system, where accountability, transparency and integrity are indispensable parts of a stable democracy. SAIs can show relevance by appropriately responding to:

- Challenges of citizens;
- Expectations of different stakeholders; and
- Risks and changing environments in which audits are conducted.

To fulfil functions and ensure potential value to citizens, SAIs need to be seen as trustworthy. SAIs only deserve trust if objectively judged as being credible, competent, independent and held accountable for operations. They need to be model institutions, setting an example from which other organisations in the public sector in large can learn.

The Value and Benefits of SAIs (INTOSAI Principles 12) provides objectives and principles for the value and

benefits of SAIs, as a complement to the principles in the Lima and Mexico Declarations presented in section 5.1.2. The intention is that the SAI should strive towards those principles to enable them to communicate and promote the value and benefits that they can bring to democracy and accountability in their respective jurisdictions (see Figure 8). The principles apply equally to SAI staff and those who undertake work on behalf of the SAI.

²⁰ INTOSA Principles 1:4-5 and 16; and 16; INTOSAI Principles 10:3-4

²¹ INTOSAI Principles 10:3-4.

Figure 8:

Objectives & principles in INTOSAI Principles 12 Value and Benefits of SAls



Interpretation of the NAC’s mandate and legal framework for performance auditing

The NAC interprets the mandate and legal framework for performance auditing as follows:

National Audit Chamber draws its mandate to carry out performance audit from National Audit Chamber Act 2011 chapter III Section 15, which states that the Auditor General may, for the purposes of establishing the economy, efficiency and effectiveness of any expenditure or use of resources by any ministry or department in respect of which appropriated accounts are required to be prepared under the provisions of this Act or any public authority or other public body. Sub Section IV of Article 15, however precludes the Auditor General from ‘questioning the merits of the policy objectives of any Ministry, Department, Public authority or other body in respect of which and examination is carried out’

5.2 Organisation and management (ICBF Domain 2)

The international standard for performance auditing (ISSAI 3000) states that:

- Performance auditing carried out by SAIs is an independent, objective and reliable examination of whether government undertakings operate in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. ISSAI 3000:17
- Performance auditing aims to contribute to improved economy, efficiency and effectiveness as well as to good governance, accountability and transparency. It seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. ISSAI 3000:18
- The role of the auditor is fulfilled by the Head of the SAI and by people to whom the task of conducting the audits is delegated, which comprises the audit team and those in charge of supervision and management. ISSAI 3000:6

The international standard on performance auditing (issai 3000) requires:

- The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify audit risks and problems. ISSAI 3000:89
- The auditor shall select audit topics that are significant and auditable, and consistent with the SAI's mandate. ISSAI 3000:90
- The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities. ISSAI 3000:91

This section addresses:

- Organisation and responsibilities (section 5.2.1);
- Overall planning (section 5.2.2); and
- Management (section 5.2.3).

5.2.1 ORGANISATION AND RESPONSIBILITIES

Expectations and requirements in the standards

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.²² Based on this notion, each SAI needs to set priorities.

A large enough specialised performance audit unit is needed to sustain performance audit activities on a continuous basis and to develop a performance audit culture. According to the ICBF level 3, the critical mass necessary for coping with staff turnover while

maintaining the level of quality of production is at least 10 performance auditors. Such a unit would be expected to produce at least three performance audit reports per year.²³

Strong support from top management is a necessary condition for a SAI to be successful in establishing performance auditing. ISSAI 140²⁴ also stresses the importance of the leadership's responsibility for quality – setting the tone for the whole organisation.

²² INTOSAI Principles 1:4

²³ To reach level 4 in ICBF, there is a need to allocate 40% of the auditors to performance auditing.

²⁴ ISSAI 140, element 1, page 5–6.

Management must also be involved in deciding to start performance audits at an appropriate level, allocate sufficient resources for their implementation and include a proper mechanism for authorising the audit reports to be sent to Parliament or other main recipient.

It is important for the head of the SAI to manage the legislature's expectations carefully because performance auditing is unlikely to deliver immediate results and impacts from any decision to invest in performance auditing. The benefits will come in the medium and longer term.²⁵

Success in performance auditing depends on cooperation by all performance audit staff with other parts of the SAI as well as with the audited entities and other stakeholders. All performance auditors should enhance the spirit of cooperation and respect in dealing with one another, as well as with external actors. All SAI employees must support common efforts to help the SAI to attain its statutory mandate and strategic goals in a cost-effective manner.

This means, among other things, to contribute towards:

- Producing high-quality performance audit reports;
- Timely execution of performance audits within the allocated budget;
- Maintaining good relations with other SAI officers and assisting them to perform their duties well; and
- Maintaining good relations with external stakeholders, including audited entities.

ISSAIs require responsibility to be clearly assigned for all work carried out. SAIs should also ensure that appropriate procedures are in place for supervision and review of all work, as well as procedures for authorising reports to be issued.²⁶

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 130 expects each SAI to develop or adopt a code of ethics, which should be at least as stringent as the INTOSAI Code.

The SAI shall also implement an ethics control system to identify and analyse ethical risks, to mitigate them, to support ethical behaviour, and to address any breach of ethical values.²⁷

Organisation and responsibilities for performance auditing in the NAC

Performance auditing in the NAC is organised into one or more separate units, within a Department of Performance Auditing. The department may also include specialised audits within the performance audit units or in separate units.

Within the NAC, the following actors play an important role in performance auditing. Their main responsibilities are outlined below:

- **Top management** - including the Auditor-General and the Deputy Auditor-General responsible for performance audit;
- **Performance audit management** – the heads of performance audit (possibly with assisting managers);
- **Team leaders** with the audit team members; and
- **Other review functions** (for independent quality control reviewers and quality assurance).

²⁵ INTOSAI Guidance 3100, appendix, par. 21.

²⁶ ISSAI 140, element 4, page 10 and element 5, page 11-12. See also ISSAI 300:31 and 3000:66-67.

²⁷ ISSA 130:12.

TOP MANAGEMENT

The Auditor-General provides high-level leadership and control in respect of all matters relating to performance auditing at the NAC, directly or by delegation to other officers. Quality in all performance audit work and all audit reports is paramount for the NAC and is ultimately the responsibility of the Auditor-General. Top management is also responsible for organising, coordinating, controlling and supervising

all audit and administrative functions (including staff development and discipline) and the relationship between different functions. They are responsible for setting and maintaining high professional auditing and administrative standards for performance auditing as well as for the completeness, accuracy, presentation and issuance of performance audit reports.

More specifically, the responsibility of top management includes but is not limited to the following:

1. Approve the overall strategy and annual plan for performance auditing;
2. Establish a quality control system, including relevant policies and procedures, designed to promote an internal culture recognising that quality is essential in all performance audit work;
3. Coordinate performance auditing with other parts of the NAC;
4. Inform performance auditors about the relevant developments within the NAC and the public sector, gathering information and noting their concerns for consideration;
5. Approve work plans for each audit engagement (pre-studies and main studies), including the audit topic, audit design, team composition and allocation of sufficient competence and resources to implement such plans;
6. Follow up and support managers and performance auditors as needed, and at least monthly review the progress made with each performance audit;
7. Conduct quality control reviews of draft performance audit reports (before sending a draft for comments by the audited entity and before making decisions);
8. Decide whether or not to publish an audit report and sign reports to be published;
9. Decide on how to market the report in the media; and
10. Interact with the PAC using up-to-date information regarding performance audit reports and related matters, based on the needs of and agreements with the PAC.

PERFORMANCE AUDIT MANAGEMENT

The performance audit management oversees all aspects of the audits and is responsible for the daily management of the performance audit unit(s), including planning, overall coordination, supervision and control,

monitoring, staff development and discipline. They are responsible for ensuring the completeness, quality and accuracy of reports and documentation.

More specifically, the responsibility of performance audit management includes but is not limited to the following:

1. Organise area-watching and propose annual operational plans, budgets and audit topics for performance auditing, presenting estimates of the support staff and other resources needed;
2. Propose audit topics and composition of teams, notify the audited entities of decisions to carry out audits and accompany the team to the entry/exit conferences;
3. At least monthly, monitor and report to top management on progress made with each performance audit, proposing appropriate action to overcome challenges, delays and risks of cost overruns;
4. Monitor, supervise and support the work in the unit to ensure quality work and adherence to high professional standards according to this Manual, other policy of the NAC, ethical standards and code of conduct;
5. Assist staff as needed during the performance audit, also with their professional development, taking initiatives for coaching and mentoring of staff, organising on-the-job training and joining inexperienced teams in the field at appropriate stages of the audit;
6. Review working papers and audit files (to ensure high quality and compliance with requirements) regularly during the audit process and conduct a final review before submission of the draft report to verify all findings, observations, conclusions and recommendations made by the team;
7. Take initiatives for the professional development of the unit as a whole, as well as individual staff members, including performance appraisals, and arrange in-house seminars and on-the-job training;
8. Initiate reviews and updates of the performance audit policies and procedures, and ensure development of audit tools, training materials and guidance;
9. Conduct quality control review of draft pre-studies and work plans as well as draft reports before submission to the Deputy Auditor-General, including ensuring that the quality of the drafts and the documentation is of an appropriate standard; and
10. Disseminate information from top management and communicate information and concerns within the unit to top management for consideration

TEAM LEADERS WITH THE AUDIT TEAMS

Team leaders assist in drafting proposals for audit topics. They are also responsible for developing pre-study memorandums and work plans, executing the audits according to agreed plans, leading and

allocating responsibilities, supporting and supervising the audit team on a daily basis and drafting a high-quality performance audit report.

More specifically, the responsibility of the team leaders includes but is not limited to the following:

1. Carry out area-watching, pre-studies and main studies according to the approved work plan and ensure timely delivery of high quality drafts to the performance audit management;
2. Draft proposals for audit topics, pre-study memos and work plans;
3. Lead the work on pre-studies and main studies in accordance with the work plan and ensure timely delivery of high quality drafts to the Head of Unit;
4. Allocate tasks to team members and daily supervise and support team members in the execution of these tasks as needed. This includes contributing to the professional development of team members by allocating challenging tasks under supervision and providing on-the-job training. It also includes coordinating the tasks of different team members;
5. Lead the team and ensure proper collection of data and thorough analysis thereof. This includes reviewing draft working papers and ensuring that collected data and analysis are of a high quality and that the standards for documentation have been followed;
6. Lead and guide the team in developing draft reports, with an introduction, descriptive chapters, findings, conclusions and recommendations according to the Performance Audit Manual;
7. Review all parts of the draft report against NAC policy and requirements, including ensuring that all findings, conclusions and recommendations are based on sufficient and relevant audit evidence and documented in the audit file;
8. Report difficulties in following agreed plans to the Head of Unit and initiate discussions on deviations from the work plan, and when needed, initiate formal revision of the work plan, based on what is practically possible and necessary to ensure high-quality audit work;
9. Maintain good team work within the team; and
10. Participate in presentation of audit reports to the PAC.

The team members assist the team leaders in carrying out these responsibilities. It is usually not fruitful to use a far-reaching division of work in the audit team, as all members need insight into the audit problem, its main causes and the overall development of the project. Even so, different tasks need to be allocated to members of the team. The team members participate

in the development of proposals for audit topics and in carrying out pre-studies and main studies under the guidance of the team leader. Team members report to the team leader regarding the implementation of allocated audit tasks. In matters not related to tasks allocated to the team, staff members report to performance audit management.

OTHER REVIEW FUNCTIONS

ISSAI 140 requires the SAI to ensure that appropriate procedures are in place for engagement quality control review (here called independent quality control review) and independent monitoring of the quality control procedures within the SAI (quality assurance).²⁸ Independent quality control reviews need to be carried out for audit engagements involving high risks. Responsibility for reviewing performance audits must be assigned to individuals within the SAI with sufficient and appropriate experience and authority to assume such responsibility. In addition, the reviewers should be independent of the work performed.

In the *Quality Assurance Handbook*, AFROSAI-E recommends that all performance audits be subject to independent quality control review, as they all constitute a high risk to the SAI. Methods for the independent quality control review as well as for quality assurance, however, need to be developed stepwise and adjusted to the level of development and size of the performance audit practice in the SAI.²⁹

• Independent quality control review

The NAC has organised the function for independent quality control review as follows. The quality control is done through reviews using working paper number (WP20).

The review is done in three levels; Team leader, Audit Manager and, director / Deputy Auditor General. They review each stages of the audit cycle to give reasonable assurance that audit has been done in accordance with international standards and best practices.

• Quality assurance review

The first priority for NAC is to establish a capacity for production, followed by establishing capacity for quality control. Currently NAC is following AFROSAI-E's external quality assurance reviews as a temporary measure.

There is a need for cooperation between performance and regularity auditors in order to use available resources more efficiently in producing good audit reports which 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 target individual entities, even if some transversal themes are often chosen for audit across the audited entities. It would be easier to elevate common problems to the level of systems in performance audits and to consider whether regulations are appropriate.

The following links between the two audit disciplines should be considered by all auditors:

- Performance auditors may use the regularity audit manual in developing their understanding of financial risks and controls in relevant areas and possibly make use of elements in the checklists, e.g. checklists regarding procurement.
- There may be findings arising from regularity audits that indicate common problems across the public sector, for example the use of consultants and the use or maintenance of property, which can be considered as topics for performance audit.
- Regularity auditors may have useful documents and findings relating to different processes in the entities to be addressed by a performance audit.
- In planning regularity audits, there is a need to consider whether findings and recommendations made in a performance audit should be followed up to ensure that identified problems are addressed and actions are taken to improve performance.
- There may be audit topics where there is a need to use auditors from different audit disciplines.

²⁸ ISSAI 140, element 5, page 12 and element 6, page 12-14.

²⁹ See AFROSAI-E *Quality Assurance Handbook*, chapter 6 and relevant appendices.

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 particularly important when the audited entity does not respond to requests and is far from where the performance auditors are stationed.

5.2.2 OVERALL PLANNING

The overall planning of audit engagements is structured into the following eight activities:

ACTIVITY		RESPONSIBLE
A1	External strategic scanning	PA management
A2	Internal strategic scanning	Top management
A3	Drafting a strategy for performance auditing	PA management
A4	Deciding on a strategy for performance auditing	Top management
A5	Area watching	Auditors
A6	Annual internal scanning	PA management
A7	Drafting annual plans for performance auditing	PA management
A8	Deciding on annual plans for performance auditing	PA management Top management

Expectations and requirements in standards

Audit topics are selected through the SAI's strategic planning process by analysing potential topics and conducting research to identify risks and problems. Besides audits carried out under legal mandate at the request of Parliament or other empowered entity, performance audit topics should be selected on the basis of problem and/or risk assessment and materiality (not only financial materiality, but also social and/or political materiality), focusing on the results obtained through the application of public policies.

If appropriate, auditors should contribute to this process in their respective fields of expertise. They may share knowledge gained in previous audits, while information obtained during the strategic planning process may be relevant in the auditor's subsequent work. In this process, auditors should consider whether audit topics are 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 from the audit while taking audit capacities into account (e.g. human resources and professional

skills). Formal techniques like risk analysis or problem assessments, can help structure the process but need to be complemented by professional judgement to avoid one-sided assessments.³⁰

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.

It is important that the head of the SAI takes into account that performance auditing is different, demanding and time-consuming. The head of the SAI needs to communicate a clear vision regarding the purpose of performance auditing and the desired outcomes to be achieved. 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.³¹

³⁰ ISSAI 300:36 and 3000:89-94

³¹ INTOSAI Guidance 3100, appendix, par. 44.

Strategic planning of performance auditing in the NAC

Strategic planning of performance auditing follows the same process as is used in general within NAC. The periods, time schedules, formats and responsible officers are described in Strategic plan and may be drafted for a period of five years and should link with the national strategic development plan. Further, the plans must be reviewed at least once a year to reckon

with the dynamics within the Ministries, Departments and Agencies (MDAs) and the NAC, especially with regard to the availability of resources and the emergence of new goals and new ways of delivery occasioned by changes in the country

The development of a performance audit strategy for the NAC typically involves:

1. External scanning;
2. Internal scanning; and
3. Analysis of the results and developing a strategy.

Top management provides direction for each strategic planning process, which may partly deviate from the general descriptions below.

1. EXTERNAL SCANNING – STRATEGIC SECTOR ASSESSMENTS

Step one: Overview of the government sector

Obtain an overview of the area covered by the performance audit mandate and group the area into main sectors (possibly in accordance with the responsibilities of ministries). Remember to cover responsibilities for cross-cutting issues, municipalities and parastatals as appropriate.

Step two: Review the sector

Review available documents and interact with key stakeholders as well as top management and other audit disciplines in order to obtain:

- A basic understanding of and collect basic information about the sector;
- An overview of the current development in the public administration and priorities set by Parliament and government; and
- An overview of indications of and information on problems and risks for poor performance (not meeting the principles of economy, efficiency and effectiveness) in the sector, including risks for poor performance inherent in the nature or structure of services and functions.

Step three: Compile information

Very briefly compile information about each sector (and possibly some sub-sectors), using the working paper WP1 Sector assessment. Include a short description of:

- The budget lines and the last known expenditures;
- The main government services and functions;
- The funding arrangements in the sector;
- The current development and other topical issues or events in the sector;
- Indications of and information on problems and risks for poor performance in the sector;
- Performance audit reports for the sector published the last 10 years;
- Recent, on-going or planned other studies; and
- Special considerations or limitations in the audit mandate.

Step four: Assess selected undertakings in more detail.

Further detail the assessment of selected main services/ functions of interest for performance auditing, using the working paper WP1 Sector assessment. Indicate:

- The name of the government undertaking;
- Whether there are any limitations in the audit mandate;
- How material (financial, social, political) the government undertaking is;
- The risks for performance, namely:
 - What has or can go wrong (so that the principles of economy, efficiency and effectiveness are not met)?

– What is the probability that it goes wrong? (Observed weaknesses are obviously of a high probability.)

– What and how severe are the consequences if it goes wrong?

- The auditability of the government undertaking; and
- The potential for change and improved performance.

2. INTERNAL SCANNING

Step one: Consider internal factors

Consider how the situation in the NAC influences the capacity for and direction of performance auditing:

- Overall strategy of the SAI and directives for strategic planning;
- Challenges in performance auditing and compliance with ISSAIs and NAC policy;
- Available financial resources and number and competence of staff;
- Plans to increase financial resources and changes in the number and competence of staff;
- Strengths and weaknesses of the current performance audit operations; and
- Opportunities for cooperation with other audit disciplines.

Step two: Assess how operations are affected

Assess how these factors affect performance auditing in general and could possibly create difficulties in performance auditing in certain sectors.

Step three: Assess development measures

Assess how these factors affect performance auditing in general and could possibly create difficulties in performance auditing in certain

3. ANALYSIS OF THE RESULTS AND DEVELOPING A STRATEGY

Step one: Draft a strategy

Analyse the results of the external and internal scanning and draft a strategy for performance auditing, for example covering issues in the box below. In doing so the sector assessments need to be considered and possibly compiled into an overall assessment.

The analysis must also consider the internal assessment of capacity and resources for performance audit to ensure that the NAC can deliver performance audit reports of a high quality.

Potential content of a performance audit strategy

1. A brief summary of the NAC's current strengths and challenges regarding performance

2. Production: Strategic direction for performance audit operations during the period

- Objectives for the production, for example:
 - Quantity of reports;
 - View on quality of reports;
 - Production time; and/or
 - Stakeholder satisfaction.
- Directions for the selection of audit topics during the strategy period, for example:
 - Particular developments or material issues to consider in the selection of topics;
 - Prioritised sectors, services/functions, topics (possibly including cross-cutting issues);
 - Sector coverage; and/or
 - Flexibility for meeting other needs for audits that may arise (for example, based on a request from Parliament or observations made by top management).
- Principles for follow-up and reporting on recommendations in previous reports.

3. Improving performance auditing: Objectives and direction for the development of performance auditing, for example initiatives to:

- Improve the quality and impact of performance audit reports;
- Improve the audit methodology and compliance with ISSAIs, when appropriate, including initiatives to remove limitations to ISSAI compliance in the legislation or regulations;
- Further develop the staff composition and competence;
- Improve cooperation with the PAC, audited entities and other stakeholders;
- Further develop the structure, number of auditors and other resources for performance auditing;
- Shorten the production time for audit reports; and
- Raise stakeholder awareness of performance auditing.

4. Implementation of the strategy

- Responsibilities and processes for implementing the strategy; and
- Monitoring of and reporting on the objectives and strategic directions.

3. ANALYSIS OF THE RESULTS AND DEVELOPING A STRATEGY

Step two: Get feedback

Review and discuss the draft strategy, obtaining feedback from:

- Performance auditors;
- Key stakeholders and experts; and
- Top management.

Step three: Decision

Top management's decisions regarding the strategy

Step four: Internal dissemination

Disseminate the strategy and discuss its implications with all performance auditors.

Step five: Make publicly available

Make the strategy available/accessible to stakeholders and the general public. The Strategic development plan is disseminated through NAC web site, distributing hard copies to PAC and other stake holders.

Annual planning of performance auditing in the NAC

The annual planning of performance auditing is built on the NAC strategy and is part of the overall planning process within the NAC. The periods, time schedules, formats and responsible officers are described in annual operational plan as follows:

The performance audit team conducts area survey to come up with community problems, analyse the problems and come up with audit topics, identify the staff to do the audits, budget for financial resources and time required to complete the audits.

The following planning documents should be developed during annual planning of performance auditing:

1. A section in the NAC's annual operational plan;
2. An annual plan for the performance audit department.

PLANNING DOCUMENT	GENERAL CONTENT
Section in the NAC's annual operational plan	Brief description of Audit topics to be carried out within one year.
Annual plan for the performance audit unit	Brief description of the audit topics to be carried out during the year, the time expected to complete the audit, the officers required to complete the audit and the financial resources required.

Top management provides direction for each annual planning process, which may partly deviate from the general descriptions below. Performance audit management may from time to time also provide specific directions. The development of annual plans for performance auditing in NAC typically involves:

1. Area watching;
2. Internal scanning;
3. Scoring and prioritisation of topics; and
4. Drafting of annual planning documents.

1. AREA WATCHING

Area watching is used for three different purposes. It is not necessarily carried out in sequential steps and the same assignment can have different purposes:

- Developing and maintaining general knowledge about a sector, a part thereof or specific cross-cutting issues;
- Updating or detailing the strategic assessment of a sector or part thereof; and
- Testing ideas and developing proposals for audit topics.

Performance audit management can assign responsibility for area watching to individuals or teams as a continuous activity during the year, as a specific assignment during a certain period or as part of the more structured process of annual planning.

Area watching is a continuous process for **developing general knowledge about sectors and sub-sectors** to ensure that the NAC is always in possession of updated information about what happens in society and areas that may require further examination.

This involves monitoring key issues in the public sector to keep abreast of developments. Its purpose is to identify possible audit areas for further scrutiny. It is carried out by reading relevant publications (from Parliament, government, audited entities and others), reading previous reports from performance and compliance audits, listening to the experience of regularity and forensic auditors, listening to or reading transcripts of parliamentary debates, attending conferences and seminars, discussions with colleagues, stakeholders and specialists, listening to radio and television broadcasts, and reading newspapers and journals. Continuous area

watching may focus on certain sectors, based on the strategy and directions from top management.

Updating or further detailing of strategic sector assessments. The strategy and strategic sector assessments made must be considered in the NAC's annual planning process. Performance audit management may also decide to selectively update or further detail some of the sector assessments made during strategic planning. This could mean conducting more detailed assessments of some sub-sectors in order to find ideas for audits.

If there is a need for it, an option is also to selectively update some of the information in the sector assessments made during strategic planning, for example financial figures and the consideration of problems and risks.

Developing proposals for audit topics. Assignments to develop proposals for audit topics can be given for a sector, sub-sector or a more specific audit area. Each proposal for an audit topic should be documented in the working paper WP2 Proposal for audit topic, and should include the following information:

- A brief background of the audit area and indications of or risks for poor performance
- A brief assessment of the audit topic using the five selection criteria (further elaborated on in section 6.2.2):
 - Within the NAC's audit mandate;
 - Materiality of the subject matter (financial, social and political);
 - Risks for performance problems;
 - Auditability;
 - Potential for adding value and promoting change;
 - A recommendation whether or not to carry out a pre-study.

2. INTERNAL SCANNING

Step one: Consider internal factors

Consider how the situation in the NAC influences the capacity for and direction of performance auditing:

- Overall strategy of the SAI and directives for strategic planning;
- Challenges in performance auditing and compliance with ISSAs and NAC policy;
- Available financial resources and the number and competence of staff;
- Plans to increase financial resources and changes in number and competence of staff;
- Strengths and weaknesses of the current performance audit operations; and
- Opportunities for cooperation with other audit disciplines.

Step two: Assess how operations are affected

Assess how these factors affect performance auditing in general and could possibly create difficulties for performance auditing in certain sectors.

Step three: Assess development measures

Assess the need for specific measures to further develop and improve the capacity and resources for performance auditing.

3. SCORING AND PRIORITISATION OF AUDIT TOPICS

Step one: Score topics

Score the proposed audit topics, with cooperation between the responsible performance audit Manager and those who developed the proposal, using working paper WP3.

Step two: Review and analyse

- The strategy and the sector assessments (made in strategic planning as well as updated assessments);
- The proposed audit topics in different sectors;
- The scoring of proposed audit topics;
- The internal scanning; and
- Additional information and knowledge on audit topics from management.

Step three: Prioritise topics

Prioritise proposed audit topics using working paper WP4, based on professional judgement and considering the scoring on the following criteria:

- Audit mandate;
- Materiality (financial, social and political);
- Risk for problems with the three Es (performance problems);
- Auditability; and
- Potential for change.

Step four: Obtain feedback and include topics in the plan

Discuss suggested prioritisation between management and performance auditors before finalising it and include relevant parts thereof in the annual plans.

4. DRAFTING ANNUAL PLANNING DOCUMENTS

Step one: Analyse information

Analyse the results of area watching, internal scanning and prioritisation and draft the appropriate annual planning documents for performance auditing, for example covering issues in the box below and on overleaf.

Potential content of a performance audit strategy

There may be different annual plans in the NAC at different levels. The different plans should be consistent and may together include:

- 1. A brief summary of the NAC's current strengths and challenges regarding performance**
- 2. Production: Direction for performance audit operations during the period**

- Targets for the production, for example:
 - Number of completed pre-studies, main studies and follow-ups;
 - Number of started pre-studies and main studies;
 - Targets or information on the quality of reports;
 - Targets for production time;
 - Targets on time keeping versus the plans; and/or
 - Targets or information on the stakeholder satisfaction.
- Directions for the performance audit work during the period, for example:
 - On-going main studies to be completed;
 - On-going pre-studies to be completed, and possibly lead to commencement of main studies;
 - New pre-studies to be initiated; and/or

Potential content of a performance audit strategy (continued)

– Flexibility for meeting other needs for audits that may arise (for example, based on requests from Parliament or observations made by top management).

- Number of follow-ups on previous audit reports during the period.
- Other production activities (information meetings, etc.).

3. Improving performance auditing: Objectives and directions for the development of performance auditing, for example activities aimed at:

- Improving the quality and impact of performance audit reports;
- Improving the audit methodology and compliance with ISSAIs;
- Professional development of staff in the audit work (with support and under supervision);
- Other professional development of staff;
- Improving cooperation with the PAC, audited entities and other stakeholders;
- Shortening the production time for audit reports;
- Raising stakeholder awareness of performance auditing; and
- Further developing administration of performance auditing.

4. Implementation of the strategy

- *Responsibilities and processes for implementing the strategy; and*
- *Monitoring of and reporting on the objectives and strategic directions.*

4. DRAFTING ANNUAL PLANNING DOCUMENTS

Step two: Obtain feedback

Review and discuss the draft annual plans, obtaining feedback from:

- Performance auditors;
- Key stakeholders and experts; and
- Top management.

Step five: Make publicly available

Make the annual plan available/accessible to stakeholders and the general public.

The annual plans for performance auditing are shared with the auditee and the relevant stake holders.

Step three: Decision

Top management's decision on the annual operational plan for the NAC and other annuals plans (consistent with the NAC's operational plan) at the appropriate levels

Step four: Internal dissemination

Disseminate and discuss the annual plans with all performance auditors.

5.2.3 MANAGEMENT

SAIs and auditors are expected to apply the principles of good project management in the audits and the work of the audit staff at each level shall be properly supervised during the audit process. Audit supervision involves providing sufficient guidance and direction to the audit team assigned to the audit. The need for this varies between different audits and audit teams. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors' professional skills. There is a need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams.³²

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.³³

Overall principles for managing performance auditing in the NAC are presented in this section, while management responsibilities and activities as part of

the audit process are detailed in section 5.2.1 and chapters 6 – 9. Monitoring of progress made with the audit engagement and the quality control review of draft pre-study memorandums and draft reports are addressed in chapters 6 and 8 respectively

NAC managers should play an active role in the audit process, including supervision and review

Managers play an important role in the performance audit process. A challenge for managers is to adjust their management to the skills and experiences of each audit team. The supervision of a highly skilled, well-experienced and highly reliable audit team may to a reasonable extent be delegated to the team leader and the team members themselves. The less skilled and experienced the team leader and team members, the greater the importance of the supervision and support of the manager. The responsible performance audit manager should during all audits supervise staff, monitor progress made with the audit and review the quality of all work.

The responsibilities of different levels of management are outlined in section 5.2.1, and further elaborated on in chapters 6 - 9. To summarise, managers are particularly 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 entity as well as the assessment of risks in the audit;
- Regularly reviewing progress made with the audit;
- Supporting the audit teams when needed;
- Ensuring appropriate supervision of teams;
- Ensuring appropriate quality control;
- Reviewing draft reports;
- Participating in presentation of the report when appropriate;
- Ensuring appropriate follow-up of the implementation of the audit engagement and the lessons learned;
- Ensuring appropriate follow-up of recommendations; and
- Ensuring quality assurance of performance audit practice when the SAI has reached a certain level of development.³⁴

³² INTOSAI Principles 20:6; ISSAI 300:30 and 32; ISSAI 3000:66-67 and 96

³³ INTOSAI Guidance 3100, appendix, par. 19.

³⁴ See section 5.4 and AFROSAI-E recommendations in the Quality Assurance Handbook.

All work of audit staff during planning and execution of the audit must be supervised and reviewed.³⁵ The policy of NAC is that the team leader should review all the work of the team, all working papers and the audit file and cross-reference the audit file to the audit report.

The responsible performance audit manager should perform spot-checks on work done and the documentation to ensure that this has been appropriately done. The responsible performance audit manager should also

regularly monitor progress made with the audit and report on such progress to top management. The responsible performance audit manager should ensure that the adopted standards for the quality of audit work, the report and audit documentation are met.

Supervisors and managers should also direct, support, guide and coach auditors and audit teams in their work to ensure that the audit objectives are met and that the audit is of a high quality and complies with standards.

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:³⁶

- Ensuring that all team members fully understand the audit objectives;
- Ensuring that audit procedures are adequate and properly carried out;
- Ensuring that audit evidence is relevant, reliable, valid, sufficient and documented, and supports the audit findings and conclusions;
- Ensuring that the relevant legislation and regulations, NAC Performance Audit Manual and adopted standards and policies are followed;
- Tracking the progress of the audit to ensure that budgets, timetables and schedules are met.
- Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately;
- Supporting the auditor as and when needed to overcome challenges in the audit;
- Providing hands-on support in solving issues that arise;
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement; and
- Reviewing the audit work.

Operational management of NAC efficiency

According to ISSAI 100:48, auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner. SAs should apply sound management practices, including timely execution of the audit in line with the work plan, and management should regularly monitor progress (with major decisions on changing the plan explained and documented) and follow up on lessons learned by the end of the audit.³⁷ Monitoring constitutes a review of progress against the task allocated to team members,

considering the possibilities of performing the work as planned, the quality of work performed, the emerging results compared to expectations and the timeline and budget. An appropriate and sufficiently detailed audit design and work plan for the audits enable monitoring of progress made with audits against the plan. Performance audit management should regularly inform top management about progress made with performance audits.

³⁵ ISSAI 140:5 and 3000:66.

³⁶ INTOSAI Guidance 3200:82.

³⁷ INTOSAI Principles 20:6; ISSAI 140:5. See also ISSAI 300:38 and 3000:96 on requirements of good project management.

While the time needed to complete a performance audit is usually long, there are frequently delays that can be avoided. The policy of the NAC is that staff and managers should take the following measures to avoid unnecessary delays in performance audits:

- Do not choose audit problems that are too complex 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, which will make each audit less complex.
- Choose thematically related audits.
- Do not make the activity plan too detailed, so that it is easier to update.
- Organise appropriate supervision of audit teams.
- Ensure that management regularly monitors progress made with the audit, in substance as well as in terms of costs and timing. This includes regular reporting and involvement of top management and may lead to corrective actions, and when needed, revision of the work plan. In performance auditing there is little value in following a plan which according to current knowledge is no longer relevant.
- Ensure that management review of pre-studies and draft reports is given priority.
- Device means if representatives of the audited entity 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 entity on a higher level to try to get the requested information or meeting. Don't forget, however, that the powers to access information should be used tactfully and with due regard to on-going operational responsibilities.
- Not acceptable if audited entities not submit comments on draft reports within reasonable time. The Auditor-General may inform audited entities that have not responded within the required time, that unless they respond within a set deadline, the report would be published anyway – including the information that the audited entity has not responded to the requests for comments.

Resource-intensive performance audits also call for management to have a good knowledge of how the resources are used and to constantly question 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.

Managing the audit teams in the NAC

According to the INTOSAI Guidance, experience proved that introducing performance auditing will often require changes in attitudes, management style, organisational behaviour, recruitment practices, etc.³⁸

Performance auditing calls for teamwork

Performance audits call for the application of wide professional knowledge, varied skills and experience,

a resilient attitude and good interpersonal skills. In addition, the successful completion of each audit requires collective effort. At the heart of every successful performance audit there is an effective team of auditors and managers. It follows therefore that the creation and management of audit teams are critical functions that should be given keen attention.

Team management entails all those activities that go into making an effective team, including the selection, development and leading of team members and assigning them roles and responsibilities, building their relationships, encouraging cooperation among them and resolving conflicts and disagreements should these occur.

³⁸ INTOSAI Guidance 3100, appendix, par 19.

Selecting the team members

In selecting team members, an effort should be made to get the right people and the right mix of skills, intellect, experience and interpersonal skills in the team. The relative importance of these qualities varies from project to project.

Any person appointed to a performance audit team should have the ability to approach a problem in a structured manner by breaking it into components. The selection criteria should consider potential and demonstrated ability. The real value of a team comes from diversity in experience plus the right balance of background, enthusiasm and strong intellect.

In the composition of audit teams, management should also consider how to promote the professional competence of the auditors, ensuring the necessary support and supervision.

Creating an effective team

Putting the right people in the right roles is the first step in creating an effective team. Building and fostering the team members' skills and attitudes that are congruent with the needs of the team should follow, with each member being aware of what is expected of him or her individually. Clear terms of engagement among team members are therefore necessary.

Developing consensus and agreement may help in avoiding prolonged debates and disagreement on subjective matters, and thus enable members of the team to work towards the common vision. However, consensus may not always be the right way to resolve contentious issues since some may require clear direction in one way or the other.

Articulating the team's commitment to the work plan

The team leader should articulate the team's commitment to the work plan to ensure that each member understands what and how he or she is expected to contribute to the success of the team. In addition, the team leader should on a regular basis provide team members with feedback on their performance.

A good understanding of the stages of a team's development – forming, storming, norming and performing – may help team members put events and occurrences in the team's life in their proper perspective.

Importance of team work and cooperation

Successful teams have their members heading in the same direction and working for the same purpose. Therefore building understanding and collaboration should be a conscious decision that the team must make right from the beginning. Attaining high levels of collaboration may mean having to sacrifice individual autonomy for the sake of the common good of the team.

Should conflicts and disagreements arise in the course of audit work, these should be resolved quickly to avoid a negative impact on teamwork.

Developing team member competencies

Working in a team offers great opportunities for members to develop their knowledge and skills. Whenever possible, the team leader should provide dedicated team members with interesting and challenging tasks in order to develop their professional competence. In such cases it is also important that the team leader provides the necessary support and supervision.

5.3 Human resources (ICBF Domain 3)

The international standard for performance auditing (ISSAI 3000) requires:

- The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics. ISSAI 3000:21
- The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users. ISSAI 3000:23
- The auditor shall maintain a high standard of professional behaviour.¹ ISSAI 3000:75

¹ Professional behaviour means that the auditor must 1) apply high professional standards in carrying out the work competently and with impartiality, 2) not undertake work he/she is not competent to perform, 3) know and follow applicable laws, regulations, conventions, policies, procedures and practices, 4) possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity, 5) not engage in behaviour that may discredit the SAI, 6) comply with ethical principles and requirements. ISSAI 3000:76

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 competence for performance auditing

Auditors in performance audits typically work in a team offering different and complementary skills.³⁹ A performance auditor must be well educated, and in general is required to have a university degree and experience in investigative/evaluation work.⁴⁰

According to ISSAI 300:30 and 3000:63-64, the audit team should collectively 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 may also 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.

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 possible impacts. This knowledge must be acquired or developed frequently 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 on going professional development. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors' professional skills.⁴¹ The NAC strives to recruit performance auditors with a basic university degree.

In specialised areas, external experts can be used to complement the knowledge of the audit team. Performance auditors and managers should determine whether and in what areas external expertise is required. In engaging experts, the NAC should ensure that they are independent of the government undertaking and have the necessary competence for purposes of the audit. The experts should also be informed about the conditions and the ethics required. The work of experts may be used as evidence, but the NAC retains full responsibility for the conclusions in the audit report.⁴²

³⁹ ISSAI 300:16. See also ISSAI 3000:63.

⁴⁰ INTOSAI Guidance 3100, appendix, par. 42.

⁴¹ ISSAI 300:30.

⁴² ISSAI 300:30. See also ISSAI 3000:65.

It may not always be possible for the NAC 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. Maintaining and developing professional competence

is a key way to keep up with technical, professional and business developments, to respond to a changing environment and increased stakeholders' expectations. The SAI needs to develop a continuous learning environment to support staff in applying and developing their competence.

Such an environment is implemented by:⁴³

- Initial and continuous training strategies and programmes in key areas for the SAI's performance;
- Development and updating of manuals and written guidance;
- Coaching, supervision and feedback mechanisms;
- Personal development plans;
- Knowledge-sharing tools, such as Intranet and databases.

A key factor in the development process is also learning through practical audit work.

SAI staff shall maintain and develop their knowledge and skills to keep up with the developments in their professional environment in order to perform their job optimally. In case their expertise is not appropriate or sufficient to perform a specific task, SAI staff raises this with their superiors or the responsible management.⁴⁴

The background, skills and experiences of performance auditors will determine the need 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 topics such as current developments in performance audit methodology, research design, 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.⁴⁵

While living up to high standards and requirements for 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 and an attitude to work, including a strong personal commitment, honesty and openness within the office, persistence, promoting team work and sharing knowledge and assisting colleagues to overcome challenges.

⁴³ ISSAI 130:55-56.

⁴⁴ ISSAI 130:51 and 58.

⁴⁵ INTOSAI Guidance 3100:78.

The NAC uses the following opportunities to support the professional development of performance auditors:

- 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 during the audits; and
- Encourage contacts with academic institutions and professional organisations.

Professional judgement and scepticism

According to ISSAI 300:31 and 3000:68, the auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. Performance audits require significant judgment and interpretation because audit evidence for this type of audit is more persuasive than conclusive in nature. Professional judgment refers to the application of collective knowledge, skills, and experience to the audit process. Using professional judgment helps the auditor determine the level of understanding needed for the audit subject matter. It involves the exercise of reasonable care in the conduct of the audit and the diligent application of all relevant professional standards and ethical principles.

Professional scepticism means maintaining professional distance from the audited entity and an alert and questioning attitude when assessing the sufficiency

and appropriateness of the audit evidence obtained throughout the audit. Auditors are expected to make rational assessments and discount their own personal preferences and those of others.

Exercising **professional judgment and scepticism** allows the auditor to be receptive to a variety of views and arguments and better able to consider different perspectives, maintain objectivity, and evaluate the full range of audit evidence. It also helps to ensure that the auditor avoids errors of judgment or cognitive bias and draws objective conclusions based on a critical assessment of all of the audit evidence collected. 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.

The concepts of professional judgement and scepticism are further elaborated on 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 and logical, and provide the right emphasis on individual issues; and
- Communicating with the audited entity about the audit process, findings, conclusions, and recommendations.

Professional scepticism is the term used to describe the mind-set 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 in ensuring that 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?

Professional behaviour and willingness to innovate⁴⁶

According to ISSAI 3000:75, the auditor shall maintain a high standard of professional behaviour. This means that the auditor must:

- Apply high professional standards in carrying out the work competently and with impartiality;
- Not undertake work he/she is not competent to perform;
- Know and follow applicable laws, regulations, conventions, policies, procedures and practices;
- Possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity;
- Not engage in behaviour that may discredit the SAI; and
- Comply with ethical principles and requirements.

The auditor shall according to ISSAI 3000:77 also be willing to innovate throughout the audit process. By being creative, flexible, and resourceful, the auditor will be in a better position to identify opportunities to develop innovative audit approaches for collecting, interpreting, and analysing information. It is important to recognize that different stages of the audit process provide different levels of innovation opportunities. During the planning stage, the auditor may have the greatest opportunity to innovate while still in the process of determining the best audit approaches and techniques applicable to the 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 130 Code of Ethics and ISSAI 140 Quality Control for SAIs contain guidance in this regard. The existence of these procedures at SAI level is a prerequisite for applying INTOSAI standards or developing national standards based on the fundamental auditing principles.

The Code of Ethics in ISSAI 130 is intended for all those who work for the SAI. The Code addresses the responsibilities of SAIs as well as the ethical behaviour of all those who work for the SAI. It is based on five fundamental values and guiding principles in the box below.⁴⁷

KEY CONCEPT	MEANING
Integrity	To act honestly, reliably, in good faith and in the public interest
Independence and objectivity	To be free from circumstances or influences that compromise, or may be seen as compromising professional judgement, and to act in an impartial and unbiased manner
Competence	To acquire and maintain knowledge and skills appropriate for the role, and act in accordance with applicable standards, and with due care
Professional behaviour	To comply with applicable laws, regulations and conventions, and to avoid any conduct that may discredit the SAI
Confidentiality and Transparency	To appropriately protect information, balancing this with the need for transparency and accountability.

⁴⁶ ISSAI 3000:75-78.

⁴⁷ ISSAI 130:9.

Each SAI is expected to develop or adopt a code of ethics, which should be at least as stringent as the INTOSAI Code. The SAI shall also implement an ethics control system to identify and analyse ethical risks, to mitigate them, to support ethical behaviour, and to address any breach of ethical values.

The main components of the ethics control system are:⁴⁸

- Code of ethics;
- Leadership and tone at the top;
- Ethics guidance; and
- Ethics management and monitoring.

Periodic rotation of staff is normally not necessary or feasible in performance auditing, except in the rare occasion where auditors repeatedly audit the same entity. It may be needed though for some audit managers. The SAI may also need to consider the need to take other actions to avoid that staff over time develop a relationship with the audited entity that threatens their independence.⁴⁹

ISSAI 3000 further specify some of the requirements in ISSAI 130.⁵⁰ The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics. Independence comprises independence in fact and independence in appearance. Independence in fact allows the auditor to perform activities without being affected by influences that compromise professional judgement; to act with integrity and exercise objectivity and professional scepticism. Independence in appearance is the absence of circumstances that would cause a reasonable and informed stakeholder, having knowledge of relevant information, to reasonably doubt the integrity, objectivity or professional scepticism of the auditor, or conclude that they have been compromised. Additional guidance on independence is contained in INTOSAI Principles 10, and on ethics, in ISSAI 130.

Another requirement is that the auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such

by the intended users. The auditor must consider specific risks to independence that may be present in performance audits. The auditor has a particular role in identifying audit criteria, measuring against them, and formulating a balanced audit report. In this regard, the auditor needs to remain independent so that the audit report is impartial and the ethical behaviour of the audit team is safeguarded. It is also important to consider the positions of relevant stakeholders, and their interests, and to establish open and good communication with them nevertheless it is essential to guard one's independence.

Nac auditors should comply with the ethical requirements

Auditors in NAC shall comply with the laws and regulation governing the operations of NAC and comply with the ethical requirements in the following documents: South Sudan audit chamber code of ethics which is a comprehensive statement of the values and principles established to guide the daily work of all public sectors' auditors.

The audit team and managers shall specifically consider the ethical requirements in each audit engagement. This involves among other things the following. The independence and integrity of the audit team should be considered in the plan for the pre-study. Before starting each pre-study, the auditors and performance audit manager (including the head of the unit) should also

⁴⁸ ISSA 130:12-23.

⁴⁹ Compare ISSAI 130:39 (f).

⁵⁰ ISSAI 3000:21 and 23. See also the explanations in ISSAI 3000:22 and 24.

sign working paper WP14 Code of ethics declaration. Top managers to be involved in the audit should consider whether anything may impair their integrity and objectivity in the audit. If this is the case, the

issues at stake should be documented in the audit file together with the measures taken to mitigate the risks envisaged.

In each audit engagement, the auditors shall comply with the ethical requirements based on the five fundamental values and guiding principles in the box above. In addition to complying with the ethical values, staff needs to take concrete action such as to:⁵¹

- Identify situations where their integrity, independence and objectivity can be impaired;
- Inform management about relationships and situations that may present a threat;
- Maintain and develop their knowledge and skills;
- Raise with their superior if their expertise is not sufficient to perform a specific task;
- Sign declarations of interests and conflict to help identify and mitigate threats to independence;

5.4 Audit standards and methodology (ICBF Domain 4)

The international standard for performance auditing (ISSAI 3000) states that:

- ISSAI 3000 is the international Standard for performance auditing and should be read and understood in conjunction with the Performance audit principles (ISSAI 300) and the Fundamental principles of public-sector auditing (ISSAI 100).¹ ISSAI 3000:2
- SAs that choose to adopt ISSAI 3000 as their authoritative standard can make direct reference to it by stating: We conducted our audit(s) in accordance with the International Standard of Supreme Audit Institutions for Performance Auditing (ISSAI 3000). ISSAI 3000:3, 13-14
- SAs that has adopted and refers to ISSAI 3000 as their standard shall comply with each requirement (unless in the circumstances is not relevant). If some requirements have not been fulfilled, this should be disclosed with an explanation of the consequences thereof. ISSAI 3000:13
- The standard needs to be complemented with an appropriate level of detail to guide the auditor to follow good practices when conducting a performance audit. ISSAI 3000:11

The international standard for performance auditing (issai 3000) requires:

- The SAI shall ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process. ISSAI 3000:66
- The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair audit reports that add value and answer the audit questions. ISSAI 3000:79

¹ The INTOSAI Principles 1, 10, 12 and 20 as well as ISSAI 130 and 140 also needs to be considered as they provide an authoritative international frame of reference defining public-sector auditing. See ISSAI 100:3-4 and 300:13.

This section addresses:

- 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).

⁵¹See ISSAI 130:35, 39, 51 and 58.

5.4.1 STANDARDS AND GUIDANCE⁵²

Expectations and requirements in standards

SAls should, according to INTOSAI Principles 10, use appropriate work and audit standards and a code of ethics, based on official documents of INTOSAI, the 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 national laws and regulations. The performance audit principles (ISSAI 300) seek 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.

The NAC has adopted the international Standard for performance auditing (ISSAI 3000) as the authoritative

standard for the NAC's performance audit work. This means that auditors must comply with all ISSAIs relevant to the audit. If some requirements have not been fulfilled, this should be disclosed with an explanation of the consequences thereof.⁵³ All auditors and managers in the NAC have a responsibility to work for the standards to be well known and complied with by themselves and by supporting and guiding colleagues as needed.

Performance audit principles

The performance audit principles in ISSAI 300 give an overview of key aspects covered specifically for performance auditing in the standards. These principles are further specified to requirements in the Standard for performance auditing (ISSAI 3000). These requirements and other key statements are included in the blue boxes in the beginning of section 5.1 – 5.5 and chapter 6 – 9. Additional requirements in the standards cover the institutional level and general requirements for public sector auditing. ISSAI 300 presents 10 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 on in the standards. The principles are briefly presented in the box below and used throughout the Manual.

⁵² The first five paragraphs in this section refer to INTOSAI Principles 10:3; ISSAI 100:1-2 and 7; and ISSAI 300:1-6 and 8. See section 5.4.4 on how to make reference to ISSAIs in performance audit reports.

⁵³ ISSAI 100:10; ISSAI 3000:13.

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

- ISSAI 300:25 - Audit objective: 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 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 aspects 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 together with ISSAI 3000 the basis for section 5.2.2 and chapters 6 – 9 in the Manual.

PRINCIPLES RELATED TO THE PERFORMANCE AUDIT PROCESS IN ISSAI 36-41

- 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 on 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

Expectations and requirements in standards

The quality framework in ISSAI 140 is presented in the beginning of chapter 5. According to ISSAIs, 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. This includes systems to ensure that individual audits have been conducted in accordance with standards and regulatory and legal requirements.⁵⁴

In an information-based and professional activity such as performance auditing, it is generally more important to support the audit teams in their efforts to achieve a good level of quality in their work, than to supervise them in the traditional sense of the term.

ISSAI 140 offers general guidance on the system for quality control at organisational level. In conducting performance audits, the following specific issues need to be addressed:⁵⁵

- The 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 applying control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received. If there is a difference

⁵⁴ ISSAI 100:10; ISSAI 3000:13.

⁵⁵ ISSAI 300:32.

in opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team's perspective is given sufficient consideration and that the SAI's policy is consistent.

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

A focus on quality in performance auditing in the NAC
The credibility and effectiveness of the NAC is highly influenced by the extent to which the NAC can establish and maintain a high level of quality in its audit products. ISSAIs 140, 300 and 3000 also offer standards aimed at 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. Top management of the NAC is responsible for the setting and functioning of the overall quality framework (from recruitment, planning, quality control and reporting to ex post control). Performance audit management and the audit teams are responsible for the day-to-day management of the audit and the quality of the audit work at engagement level.

Quality at engagement level

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

In summary, auditors in the NAC should take the following measures during the planning stage:

- Conduct comprehensive research to build knowledge about the audit area, find indications of performance problems and design the audit;
- Define the audit objective, scope, questions and criteria;
- Examine various perspectives and study designs, checking whether the necessary data is available and assessing what strategy and methods to use for data collection and analysis; and
- Consult and possibly engage scientists and experts.

The NAC also needs to ensure that the work plan proposals are critically examined, particularly 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).

During the main study, performance auditors in the NAC should in summary apply the following measures to ensure high-quality audits:

- Provide the audited entity with a proper introduction;
- Involve the audited entity 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;
- Ensure well-functioning supervision and well-informed management, reviewing the quality of the report and checking whether the design and work plan have been followed and tools used properly, whether data and analysis are balanced and sufficient and whether there are significant disagreements with the audited entity;
- Conduct focus group meetings;
- Have experienced colleagues within the office to review drafts;
- Get critical external examination by scientists and experts;
- Conduct a proper clearance process with the audited entity;
- 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 whether the report meets requirements in standards.

5.4.3 INDEPENDENT QUALITY CONTROL REVIEW AND QUALITY ASSURANCE IN THE NAC⁵⁶

Responsibilities and organisational arrangements for independent quality control review and quality assurance were discussed in section 5.2.1.

Reviews taking place before the report is issued form part of the NAC's 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 NAC has established processes for in-house review involving people not involved in the audit (neither as auditors nor as line managers). All performance audits in the NAC should be subject to independent quality control review. The reviewers should use working paper WP13 Quality control checklist – Pre-study and WP20 Quality control checklist – Audit report for the reviews in the respective phases.

Quality assurance involves checking whether the appropriate quality control systems have been put in

place and whether they are appropriately implemented. It includes reviewing already published reports (ex post). Through quality assurance, the NAC should ensure that the quality control processes secure improvements and prevent repetition of mistakes. In external as well as internal quality assurance reviews, the methodology described in AFROSAI-E's Quality Assurance Handbook should be used. The NAC will fully and partly rely on AFROSAI-E external reviews for quality assurance. When the NAC is able to start with internal assurance reviews, the focus will initially be on reviewing performance audit engagements, even if institutional issues may be raised as appropriate.

The NAC will also consider requesting academic institutions to review a sample of published reports in order to learn how future audits can be improved.

⁵⁶ This section is based on AFROSAI-E Quality Assurance Handbook, section 3.2.2

5.4.4 CONFIDENCE AND ASSURANCE IN PERFORMANCE AUDITING⁵⁷

Assurance in performance auditing

ISSAI 300 states that:

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. They will therefore expect reliable reports, which set out the SAs' evidence-based position on the subject examined. Consequently, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports. ISSAI 300:21

For this reason, ISSAI 3000 requires the auditor to communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. Assurance means that the users can be confident in the findings, conclusions and recommendations in the report. The auditor provides the users with assurance by explaining how findings, criteria and conclusions were developed in a balanced and reasonable manner, and why the findings result in the conclusions.⁵⁸ Put simply, intended users of assurance reports should be able to be reasonably sure that the conclusion (and the findings it is based on) accurately reflects the underlying subject matter.

To achieve this, the conclusion(s) must be clearly linked to the audit objective(s) and audit criteria, and written in a way that enhances the degree of confidence of the intended users about the evaluation of the underlying subject matter against criteria. Reaching an audit conclusion is an inferential exercise involving considerable judgement. Because of this it is important that:

- All aspects of the conclusion is supported by findings,
- All findings are considered in drawing the conclusion; and
- All findings are based on sufficient appropriate audit evidence relative to criteria.

However, it is also important to make these links clear to the intended users. This is done by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasonable manner, and why the combinations of findings and criteria result

in a certain overall conclusion, set of conclusions and recommendations.⁵⁹ If this is done properly, the intended users can be confident about the validity of the conclusions. The auditor has then provided assurance.

Providing assurance involves managing audit risk to an acceptably low level, see further section 7.4.2.

How to communicate assurance

ISSAI 300:22 states that the auditor can convey the degree of economy, efficiency and/or effectiveness achieved in the performance audit report in different ways:

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

The *Standards for Performance Auditing*, ISSAI 3000, requires the auditor to communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. Since in NAC, all performance audits direct reporting engagements⁶⁰, assurance is communicated in a descriptive way with no explicit categorisation of the level of assurance. The auditor provides the users with assurance by explaining how findings, criteria and conclusions were developed

⁵⁷ This section is based on ISSAI 100:31-33, 300:21-23 and 3000:32-34; INTOSAI Guidance 3100:27-33; and the Draft 2016-09-10 of the IDI ISSAI Performance Audit Handbook.

⁵⁸ ISSAI 3000:32-33.

⁵⁹ ISSAI 100:32.

⁶⁰ See ISSAI 100:3 for the distinction between attestation and direct reporting engagements

in a balanced and reasonable manner, and why the findings result in the conclusions.

The auditor also needs to transparently communicate the audit objective(s), scope, methodology and data gathered and any significant limitations in the report so that users will not be misled. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

The auditor should ensure that the audit report does not mislead intended users as to the level of assurance

provided. To meet this requirement, the performance audit report can include a statement to communicate assurance to intended users.

In NAC, the reference to the adopted standard and the level of assurance shall be communicated to the reader of performance audit reports by including the following text in the submission letter.

We conducted our audit(s) in accordance with the International Standard of Supreme Audit Institutions for Performance Auditing (ISSAI 3000). This standard requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

5.5 Communication in performance auditing (ICBF Domain 5)

The international standard for performance auditing (ISSAI 3000) requires:

- The auditor shall plan for and maintain effective and proper communication of key aspects¹ of the audit with the audited entity and relevant stakeholders throughout the audit process. ISSAI 3000:55
- The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI. ISSAI 3000:59
- The SAI shall clearly communicate the standards that were followed to conduct the performance audit. ISSAI 3000:61

¹ The key audit aspects that the auditor needs to communicate to the audited entity include; the audit subject matter, audit objective(s) and/or audit questions, audit criteria, the time period to be audited, and the government undertakings, organizations and/or programmes to be included in the audit. ISSAI 3000:57

This chapter addresses principles for external communication (section 5.5.1) and internal communication (section 5.5.2). External communication as part of the audit process is mainly addressed in chapters 6 – 9.

5.5.1 EXTERNAL COMMUNICATION

Expectations and requirements in standards

ISSAIs expect SAIs to communicate timeously 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 these are considered confidential in terms of special laws and regulations.⁶¹

The head of the SAI should be prepared to promote the value of performance auditing to a number of stakeholders. The legislature should be made aware of the fact that performance auditing is about identifying opportunities for improvement in economy, efficiency and effectiveness. Public sector reform and improvement of government are more likely to happen if a parliamentary mechanism is in place to consider the performance audit reports. It is also important to ensure that government authorities are made aware of the procedures relating to performance auditing and understand the key requirements of performance auditing.⁶²

Auditors should also 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. The key audit aspects that the auditor needs to communicate to the audited entity include; the audit subject matter, audit objective(s) and/or audit questions, audit criteria, the time period to be audited, and the government undertakings, organizations and/or programmes to be included in the audit.⁶³

A prerequisite for developing effective communication with the stakeholders is that they have been identified and their needs considered. This is needed at a general level for performance auditing in the NAC as well as in each performance audit engagement.

NAC policy for external communication in performance auditing

The NAC uses the following principles for external communication in performance auditing:

External communication is through the Auditor General's office:

- Through interviews with the media, and other stakeholders
- Through NAC Web-site

The procedures used in different phases of the audit process are described in chapters 6 – 9.

5.5.2 INTERNAL COMMUNICATION AND MONITORING MEETINGS

Performance auditing requires well-functioning internal communication within the SAI to help the employees understand what is expected of them and help them to work towards the objectives. Performance audit managers must communicate with staff on the strategic direction and plans of the SAI, the audit methodology with professional and ethical requirements, the progress made with work and important decisions taken in the SAI. The purpose is also to promote dialogue between management and staff and to create motivation for work.⁶⁴

Written documents and ad hoc meetings form an important part of internal communication. The main

part of the communication within the audit team, as well as within management and among the team management, takes place informally on a needs basis. Management should encourage a working culture where staff feel it appropriate to raise concerns and ideas for improvement of the work done, as well as the conditions provided for the operations. The open discussions need to be based on realistic assessments of the situation in the country and within the SAI, with a focus on delivering the best possible audit services.

⁶¹ INTOSAI Principles 20:7-8.

⁶² INTOSAI Guidance 3100, appendix, par. 21 and 25.

⁶³ ISSAI 300:29; ISSAI 3000:55 and 57.

⁶⁴ AFROSAI-E Communication Handbook, pages 54-57.

To complement the informal daily communication between managers and staff, there is a need for some regular meetings. Reasons for holding regular staff meetings include the following:⁶⁵

- To keep staff on track and focused on the work at hand and on the same goal;
- To follow up plans and to discuss plans for the next period;
- To forward information from top management;
- To provide opportunities for staff to express their ideas and concerns;
- To provide group feedback on results;
- To talk about issues that are important to all the participants at the meeting; and
- To make staff see how they are part of the group's overall achievement of results.

The following performance audit meetings should take place on a regular basis⁶⁶ in the NAC, unless the chair decides to cancel or postpone a meeting. This type of meeting should be planned in advance and should have an agenda. Minutes should be taken.

PERFORMANCE AUDIT MANAGEMENT MEETINGS	
Frequency	Three times within an audit cycle
Participants	The Deputy Auditor-General and performance audit management
Chair	The Deputy Auditor-General
Content	Discussions on the general management of performance auditing in the NAC. Reporting by top management on initiatives and information outside the NAC which are relevant for performance auditing. Reporting by performance audit management on progress made on each performance audit, including challenges in terms of audit methodology, quality, time keeping and budget. As appropriate, the meetings should also address other issues affecting performance auditing, such as strategy, annual planning, staffing, funding, training and professional development of auditors and managers, participation in international conferences and seminars, etc.
Reporting	The Deputy Auditor-General reports back to the Auditor-General or at top management meetings as appropriate. Performance audit managers disseminate relevant information to staff.

GENERAL STAFF MEETINGS IN PERFORMANCE AUDIT UNIT(S)	
Frequency	Five times within an audit cycle
Participants	All members of the unit
Chair	Performance audit management, or when appropriate, the Deputy Auditor-General
Content	Information about important developments relevant to performance auditing, if any (this may include information from contacts with PAC, government entities other stakeholders as well as INTOSAI and AFROSAI-E. Includes reporting by top management on important issues in the NAC as well as discussion of the concerns of and proposals from the auditors to be forwarded to top management. Brief information on the progress made with each performance audit.
Reporting	Performance audit management reports back to top management, including ideas and concerns of staff in the unit.

⁶⁵ AFROSAI-E Human Resources Handbook, page 62.

⁶⁶ Formal and informal meetings of top management or audit teams, and audit progress meetings are not covered here.

The international standard for performance auditing (ISSAI 3000) requires:

- The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management. ISSAI 3000:96
- The auditor shall acquire substantive and methodological knowledge during the planning phase. ISSAI 3000:98
- The auditor shall explicitly identify the intended users and the responsible parties of the audit and throughout the audit consider the implication of these roles in order to conduct the audit accordingly. ISSAI 3000:25
- The auditor shall identify the subject matter of a performance audit. ISSAI 3000:29
- The auditor shall set a clearly-defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness. ISSAI 3000:35
- The auditor shall choose a result-, problem or system-oriented audit approach, or a combination thereof. ISSAI 3000:40
- The auditor shall articulate the audit objective(s) in sufficient detail in order to be clear about the questions that will be answered and to allow logical development of the audit design. ISSAI 3000:36
- If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. ISSAI 3000:37
- The auditor shall establish suitable audit criteria¹, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness. ISSAI 3000:45
- The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity. ISSAI 3000:49
- During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s) and question(s). ISSAI 3000:101
- The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process.² ISSAI 3000:73
- The SAI shall ensure that, the audit team collectively has the necessary professional competence³ to perform the audit. ISSAI 3000:63
- The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval. ISSAI 3000:104

¹ The audit criteria need to provide an appropriate and reasonable basis for assessing against audit objectives and enable the audit questions to be answered. ISSAI 3000:48

² The auditor needs to identify and assess the risks of fraud relevant to the audit objectives. If the risk of fraud is significant, it is important during the audit for the auditor to obtain a good understanding of the relevant internal control systems and examine whether there are any signs of irregularities that could hamper performance. ISSAI 3000:74

³ Relevant professional competence include sound knowledge of auditing, social science methods, evaluation techniques, personal abilities (analytical capacity, writing and communication skills, creativity and receptiveness), knowledge of functions related to the subject matter and sometimes more specific expertise. ISSAI 3000:64

The planning of audit engagements is structured into the following 15 activities:

ACTIVITY		RESPONSIBLE
B1	Assigning responsibility for the pre-study to a team and a PA manager	PA management
B2	Developing a plan for the pre-study	Team leader
B3	Conducting quality control review and deciding on the plan for the pre-study	PA management Top management
B4	Completing the Code of ethics declaration	PA management Top management
B5	Sending introductory letter to the audited entity	Top management
B6	Having an entry meeting with the audited entity	PA management Team leader
B7	Collecting and analysing data	Team leader
B8	Regularly reviewing progress made with the pre-study	PA management Top management
B9	Discussing a tentative focus of the audit with the NAC management	Team leader PA management Top management
B10	Developing a pre-study memorandum and work plan	Team leader
B11	Conducting quality control review of the pre-study memorandum and work plan	PA audit management Independent reviewer Top management
B12	Revising the pre-study memorandum and work plan and submission thereof to PA management	Team leader PA management
B13	Deciding whether or not to approve the pre-study memorandum and work plan	Top management
B14	Completing the documentation of the pre-study process and collected data in the audit file	Team leader
B15	New team members complete the Code of ethics declaration, others report to management if the signed declaration is no longer fully relevant	All team members PA management

Regarding planning, the *Performance Audit Manual* focuses on auditing topics where there are reasons to believe that material performance problems exist. The NAC may also face situations where there is a demand for audits without having previous information on performance problems. Typically, the information expected in such cases relates to whether government has achieved specific results as planned, or whether specific 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 expectations have been met or whether there are problems with performance. If material performance problems are identified in such audits, the NAC may also decide to analyse the causes of such problems.

The purpose of and outputs from the pre-study

The purpose of the pre-study is to assess whether a topic is viable for audit and, if so, to develop a proposal for a detailed work plan for management's consideration on whether or not to proceed with a main study. In the pre-study the performance auditors need to:

- collect information to increase the performance auditors' knowledge of the audit topic;
- make preliminary observations and find indications of problems in the audit area;
- structure problems in the audit area to understand how they are related to each other;
- identify possible audit problems as alternative focus for a main study;
- use selection criteria to recommend to management whether or not to start a main study, as well as what audit problem to focus on;
- collect information on audit criteria that may be used in the audit;
- develop an understanding of what information can be collected in order to consider the methodology for data collection and analysis;
- plan the audit methodology in terms of defining the audit objective and scope, audit questions and sub-questions, audit criteria, methodological approach and methods for data collection and analysis; and
- develop an administrative plan covering:
 - a timed activity plan with main milestones defined
 - a budget for financial and other resources needed
 - how to communicate with the audited entities and other stakeholders
 - how the audit engagement will be monitored by management
 - an assessment of the risks in the audit (for the implementation of the audit as well as the reputational risks for the NAC).

The output from the pre-study is a pre-study memorandum, including a detailed work plan for a main study, or clear reasons for not recommending a main study. The pre-study memorandum and work plan is for the internal use of the NAC, even if the audited entities should be informed about key aspects (see section 5.5.1 and section 7.1).

6.1 Planning the pre-study

Deciding on the topic

In the NAC, the topics for pre-studies are usually selected during the process of annual planning, but may occasionally be decided ad hoc by top management (see section 5.2.2).

Appointing an audit team

To start the work, performance audit management allocates a responsible performance audit manager for the pre-study and appoints a team leader with an audit team to carry out the pre-study. Normally, the team will comprise two to four auditors, including the team leader. Factors to consider when appointing the team leader include the following:

- Skills and experience in leading teams and managing performance audit projects;
- Sound knowledge of the subject matter being audited and the public sector, e.g. government organisations, programmes or functions;
- Personal strengths such as interpersonal, analytical, writing and communication skills;
- Ability to demonstrate professional judgement and scepticism;
- Compliance with the ethical requirements in each performance audit engagement.

At this stage, management should preliminarily consider the composition of the team and the role of different team members to ensure that they collectively have the appropriate capabilities, competence and time to perform the pre-study⁶⁷ and are able and committed to follow the adopted standards, ISSAI 130 Code of ethics⁶⁸ as well as national ethical standards and requirements.

As mentioned in section 5.2.3, performance audit management should select team members with the objective of getting the right people and the right mix of skills, intellect, experience and interpersonal skills in the team. The real value of a team comes from diversity in experience plus the right balance of background, enthusiasm and strong intellect. In the composition of audit teams, management should also consider how to promote the professional competence

of the auditors, ensuring the necessary support and supervision. Management should also consider how the audit engagement can be used for further professional development of the performance auditors. Systematically considering how auditors can be assigned new challenging tasks, with support and supervision, is a good tool to enhance their professional skills.

The team composition is to be reconsidered, and a more thorough assessment of the capabilities is to be made in the work plan for the main study. Each team member and the responsible performance audit manager, including the head of the unit, should sign working paper WP14 Code of ethics declaration before commencing the pre-study. The declaration includes a commitment to report to management if the decisions on how to design the main study affect the statements made in the declaration.

⁶⁷ ISSAI 300:30 and 3000:63.

⁶⁸ ISSAI 100:36.

Developing a plan for the pre-study

In the pre-study the team will test different ideas and consider alternative audit problems and methods. Even so, it is important to have a plan for how to work during the pre-study as such. The pre-study plan should include:

- background of the audit area and a brief motivation for the pre-study in terms of the materiality of the subject matter, observed and risks for performance problems, auditability, potential for adding value and promoting change;
- the topic for the audit when relevant further detailing the objective, issues and audited entities to be investigated;
- methods to collect information;
- audit team and its competence, possibly complemented by specific expertise from performance audit management, other auditors and possibly experts;
- timed activity plan and completion of the pre-study (normally within one to three months); and
- need for resources (budget, transport, etc.).

Working paper WP5 Plan for the pre-study should be used to develop a brief plan for the pre-study. The pre-study plan should be brief and not too detailed, as the auditors at this stage usually do not have much knowledge of the audit topic. It should not take long time to develop a plan for the pre-study. The pre-study gives the auditors an opportunity to explore the audit topic and consider how it can be audited. This calls for auditors to be open-minded and flexible in following up important leads of information related to the topic, even if this was not initially planned.

Quality control and decision on the plan for the pre-study

The plan for the pre-study is prepared by the team leader and subject to quality control review by performance audit management using working paper WP6 Quality control checklist – Plan for the pre-study and referring to this review on the front page of working paper WP5. Based on this review, top management will decide whether or not to start a pre-study and will document the decision on the front page of working paper WP5.

6.2 Conducting the pre-study

Once the NAC has decided to start a pre-study by approving the pre-study plan, the top management of the audited entity should be informed of the purpose of the pre-study before data collection from the audited entity starts. This should be done by sending a letter signed by top management, using working paper WP7 Introductory letter (pre-study).

6.2.1 UNDERSTANDING OF THE TOPIC AND IDENTIFYING PERFORMANCE PROBLEMS

During the pre-study, the auditors should develop an understanding of:

- the relevant objectives for the government undertakings related to audit topic (for example the objective related to road safety, public procurement, health care, education, water distribution etc.);
- the role, responsibility, processes and activities of government entities that have an influence on the achievement of the overall objectives;
- the risks or observed performance problems in government undertakings related to the audit topic as well as (when possible) their causes and how they are related to each other;
- the risks for fraud and corruption in the specific audit area and the analyses made and measures taken by management of the audited entities to mitigate such risks (see section 3 and WP 12);
- the requirements, standards and other information that is available that may be considered for use as audit criteria in a main study;
- the data that is available and possible to collect during a main study to develop sufficient and appropriate audit evidence; and
- the opportunities for improved performance in government undertakings by collecting initial thoughts from those involved on what can be done to improve the situation.

Collecting data in the pre-study

Information can be collected by using a number of methods, such as documentary reviews, interviews and observations/inspections. It is important to avoid collecting primary data in the field if the relevant information already exists in other sources of information. The auditors need to establish the nature, location and availability of files, existing statistics and other documents during early stages of the pre-study. This will provide information that can be used in the pre-study memorandum as well as enable auditors to develop an appropriate strategy and cost-effective methods for data collection. It is also important to collect information on which criteria that can be considered for use in the

assessment in the main study. Use working paper WP8 – WP11 for data collection and analysis as appropriate.

Usually, there are many documents relevant for use as sources in a pre-study, as well as later on in the main study. Sometimes there may be other studies or evaluations of the audit topic, or newspaper articles reporting the concerns of citizens or other problems in the area. Reviewing relevant documents is important to develop an understanding of the audit area and the problems that exist and to come up with ideas for sources of criteria and data in the audit.

In general, performance auditors have to familiarise themselves with the relevant:

- legislation, regulations and policies;
- sections of the government budget, including funding arrangements and levels of expenditure and revenue;
- strategies and overall plans for the audited entity, including its main objectives;
- expected results and actual achievements, e.g. progress reports, annual implementation reports;
- internal and external environment, including external constraints for government undertakings, the role of involved stakeholders and the views and experiences they have regarding the undertakings by government;
- work and management processes, procedures and files for activities of potential interest for the audit;
- professional standards and best practice (if available);
- international treaties, memorandum of understandings and protocols, etc.;
- existing statistics from the audited entity as well as, for example, from government, academic and international institutions and non-government actors;
- current developments in the audit area, e.g. ongoing or planned reforms; and
- on-going or recently completed studies in the area of audit.

Information should also be gathered through interviews or discussions with people who have special knowledge of the area, and people who are willing to assist in giving information and discussing possible audit problems. The auditors should normally interview key stakeholders, including:

- managers at different levels in entities responsible for the government undertaking – in order to let them explain how they operate and what challenges they face and also to help the auditors understand collected documents;
- staff in different functions involved in the area and activities selected for audit to get an in-depth understanding of the processes, how they operate and the challenges they face;
- whenever possible, the audit team should consider interviewing other stakeholders related to the government undertaking, such as other government entities and non-governmental and private sector organisations;
- individuals or organisations with expert knowledge of the topic for audit, such as professional organisations, academic institutions, research organisations and non-governmental organisations to obtain external opinions on how the responsible entities operate and perform; and
- citizens, clients or other recipients of government services to obtain information on their experiences of the services delivered and treatment received. An alternative or complement to interviews is to use focus group discussions to collect this information.

The interviews should also be used to collect information about documents available that may be relevant for the auditors as well as the important officials and stakeholders to be contacted in order to develop the required understanding of the audit topic.

Site visits, walkthrough observation of the audited entity's operations and inspections of physical objects can also be useful during the pre-study. Observing operations can be useful to develop a detailed understanding of how the auditee performs the work subject to audit, e.g. how established systems are implemented in practice and what staff actually do in the processes. It can also be useful to inspect the physical conditions under which the audited entity operates, either as part of a general understanding of the conditions for the operations or to learn about key issues to be addressed in the audit such as the conditions and maintenance of government buildings. At this stage observations and inspections are largely exploratory and aimed at developing the auditors' understanding of the topic and the problems in the area and planning for how to conduct the audit. In order to collect sufficient and appropriate audit evidence for the audit report, however, the observations and inspections need to be made systematically (also see section 7.2 on data collection).

Identifying and structuring problems related to the audit topic

In order to understand the audit topic and the problems in the audit area, the information collected on the processes, systems and problems in the area should be compiled and analysed. The audit team should develop descriptions of the audited activities and preliminary findings regarding the performance problems involved, the causes of the problems and, when relevant, their consequences. The auditors should look for common themes or problems indicated or confirmed by different

sources. Usually the observations are best presented grouped into main areas of preliminary findings, indicating the sources of different observations and indications of performance problems. It is also important to understand the relationship between different problems or indications of problems in the area. The preliminary findings need to be sufficiently explained in terms of the performance problems involved and the sources on which the information is based. At this planning stage, however, there are no strict requirements in terms of evidence presented or criteria used in the preliminary assessment. For issues to be addressed in the main study, however, the auditors need to identify suitable criteria as well as the sources and relevant type of data to ensure that findings in the main study can be developed based on sufficient appropriate audit evidence.

The audit team can use brain storming to list observations and indications of problems and discuss how they are related to each other. Brain storming can be combined with techniques such as problem tree analysis, mind mapping or the input/output model as tools to identify and structure performance problems and their causes (see the Performance Audit Handbook, sections 3.1 and 6.1 – 6.2).

The pre-study memorandum in working paper WP12

Working paper WP12 Pre-study memorandum and work plan should be used to develop the pre-study memorandum, unless decided otherwise by performance audit management. The working paper provides guidance as to what should be included in the different sections, and an overview is presented in the box on the next page.

The structure of the pre-study memorandum (see further working paper WP12)

1. Introduction
2. A brief background and overview, putting the audit topic into context, as well as the motivation for selecting the topic.
3. Design of the pre-study
4. A brief outline of the purpose of the pre-study and how it was carried out, the issues covered and the methods and sources of information used.
5. Description of the audit area
6. An overview to understand the area under review, e.g. objectives, legislation, funding, organisation, etc. Also include description of how relevant systems, processes and activities are supposed to function.
7. Results of the pre-study
8. A brief description of observations or indications of performance problems and the causes thereof in the audit area (preliminary findings). In a special sub-section you should also consider the general and specific risks for fraud and corruption in the audit area and its relevance for performance. If case of significant risks, actions taken by management of audited entities to analyse and mitigate such risks should be described.
9. Recommend whether a main study should be carried out, and select a focus for the audit (an audit problem)
10. Application of selection criteria (mandate, materiality, risk for the three Es, auditability, potential for change) to main alternative audit problems. Recommendation to management on whether or not to carry out a main study, and if so, which one.

Advice for how to present the results of the pre-study is also presented below, and advice for selecting a focus for the audit – the audit problem – is presented in section 6.2.3.

Results of the pre-study

Briefly describe observations and indications on performance problems in the area and what is likely to cause them. Try to group different observations and indications after the issue they are related to, including conflicting observations. Try to formulate preliminary findings covering each group. Analyse and try to structure the pattern of how different performance problems and causes are related to each other, possibly using the technique of drawing a problem tree. Remember that you cannot be expected to have clear criteria based on explicit sources at this stage.

If the technique of drawing a problem tree is used, it is at this stage often more appropriate (and easier)

to draw a highly simplified problem tree, rather than a tree that is comprehensive and detail all branches. This can provide an overview of the main problems and causes, and cover the main alternatives for a main study. A more detailed tree as basis for developing audit questions and sub-questions can be drawn once a proposed main focus for the audit has been preliminarily agreed with management.

The audit team also needs to consider the risks for fraud and corruption in the specific audit area, and in case of significant risks describe preliminary observations on the analyses made and measures taken by management of the audited entities to mitigate such risks.

6.2.2 SELECTING A FOCUS FOR THE AUDIT – AN AUDIT PROBLEM

The NAC's main approach is to focus the audits on areas or government undertakings where there are reasons to believe that material performance problems exist. 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 derived either from shortcomings in the outputs and results (from a government or citizen perspective) or from shortcomings in the government systems and processes. The audit will then verify the problem and analyse the causes thereof.

The process of selecting an audit problem may not be relevant in instances where top management has decided on an audit topic not related to indications or perceptions of problems in a certain area. In such cases, the auditors may be to use a results oriented approach, to find out if certain objectives are met, or a systems oriented approach, to find out if a certain system is functioning as intended. In case material problems with the results or the systems are verified, the NAC needs to decide whether or not to also analyse the causes to these problems.

The auditors should base their analysis of alternative audit problems on the observations and indications of performance problems in the pre-study. Sometimes the topic selected by top management will be specific enough to be used as the audit problem. In such cases, the auditors should search for observations that can confirm or disprove that the initial ideas are reasonable. The auditors should also consider whether there are alternative audit problems in the area that may be a better choice than the specific topic selected by management.

According to ISSAIs, performance auditing is an examination of whether government performs in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Auditors should in the overall planning bear in mind that audit topics should be significant,

auditable and reflect the mandate of the NAC. 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). Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.⁶⁹

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 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. 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.⁷⁰

For many topics, the ultimate problem represents a long-term societal problem with many different factors influencing the problem. Some factors are often not within the control of government undertakings, while other factors are directly or indirectly influenced by government. Broad and complex problems are often material, but difficult to audit. Narrow problems are often easy to audit, but may not be material. The auditors need to balance these dimensions against each other. Performance problems are usually more complex than initially envisaged. For this reason, it is usually better to choose an audit problem that is not too complex and not too heavily influenced by external factors.

⁶⁹ ISSAI 300:9-10 and 36, ISSAI 3000:17-18 and 90-91.

⁷⁰ ISSAI 300:33 and 300:83-85.

Problems that are mainly caused by a *shortage of resources* are normally *not suitable* as audit problems and as the main focus of an audit. The reason is that the auditors will not by looking in one area get sufficient knowledge about the allocation of resources by

government. Thus, it will not be possible to recommend that government or Parliament reallocate resources between areas or sectors. The resource situation may need to be considered as complementary in audits focusing on performance problems.

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

- Within the NAC's audit mandate;
- Materiality of the subject matter (financial, social and political): money involved, importance for the citizens, the public administration or the economic development, legislative of public interest or request for audit);
- Risks for performance problems: significant risks of not meeting overall objectives, i.e. inherited and observed weaknesses or risks for not meeting the principles of economy, efficiency or effectiveness in government or public sector organisations (problems mainly caused by a shortage of resources are normally not suitable as a focus for audits);
- Auditability (possibility of conducting an audit):
 - Relevant audit methods applicable;
 - Resources available (budget, transport, time);
 - Relevant audit skills available;
 - Relevant audit criteria;
 - Reputational risks to the NAC;
 - Political sensitivity; and
 - Timeliness, considering major changes or studies in progress by other bodies;
- Potential for adding value and promoting change:
 - Improvements or solutions are possible (excluding increased allocation of resources from the government budget);
 - Importance for public accountability;
 - No major factor (political, financial or other) limits the potential for change;
 - Interest in change shown by the audited entity or the government; and
 - The potential value added (the potential contribution to improved performance and better services to citizens).

The auditors should always present a narrative analytical text of main alternative audit problems that may be considered as focus for the audit in the pre-study memorandum. As a complement, the team may score the extent to which different criteria are met.

Once the auditors have drafted a recommendation to management on the selection of a focus for the audit,

a meeting should be arranged with top management and performance audit management. The purpose of the meeting is to discuss the auditors' analysis and recommendation and for management to give their views and direction before the team starts to develop a work plan. The final decision to carry out a certain audit cannot be taken at this stage, as the audit has not yet been designed and planned.

6.2.3 DEVELOPING A WORK PLAN FOR THE MAIN STUDY

When the audit problem suggested by the team has been preliminarily discussed with management, a work plan for a main study has to be drafted by the team. The draft work plan should be presented to performance audit management and, after review and revision, be approved by top management. The purpose of the work plan is to plan and describe how the audit of the specific audit problem will be carried out during the main study. The work plan will help the team to structure their thoughts and guide them throughout the audit process.

Performance auditors should plan the audit in a manner that contributes to a high-quality audit conducted in

an economic, efficient and effective way, in a timely manner and in accordance with the principles of good project management.⁷¹ The plan also provides a basis for management to monitor the main study throughout the process.

The auditors should explicitly identify the elements of a performance audit (auditor, responsible party, intended user, subject matter and criteria) as defined in ISSAI 100, and let this guide their execution of the audit (see the box below).⁷² This section provides guidance for the development of the work plan, including how to cover the elements of performance audits in planning the audit engagement.

THE ELEMENTS OF PERFORMANCE AUDITS	
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.
Responsible parties	As defined in the audit scope, these are the entities responsible for managing the subject matter (in this Manual referred to as the audited entities or the auditees). There may 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. Parliament, something that cannot always be foreseen when planning the audit.
Intended users	Refers to the persons for whom the auditor prepares the performance audit report, e.g. Parliament, government agencies and the general public. The responsible party can be one of the intended users, but is usually not the only one. The intended users are preliminarily defined in the work plan and presented in the 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	These 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	Refers to the result of the evaluation of the subject matter using the criteria and presented in the performance audit report.
Source: Based on ISSAI 100:25-27, 30; and ISSAI 300:16-19.	

⁷¹ ISSAI 300:37 and 3000:96.

⁷² ISSAI 300:15-20 and 3000:25 and 29.

The planning of the main study should consider:⁷³

- 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); and
- 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 time frames and milestones, and the main control points of the audit.

Additional requirements on designing performance audit engagements

“Senior and operational management and the audit team should be fully aware of the design of the audit and what it entails. Senior management should assure that skills, resources and capacities are in place to address the audit objectives and the audit questions.

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.”

Source: ISSAI 300:37

⁷³ ISSAI 300:37 and 3000:96, 98 and 101.

Advice for users of working paper WP12 Pre-study memorandum and work plan

Working paper WP12 Pre-study memorandum and work plan should be used to develop the work plan, unless decided otherwise by performance audit management. The working paper provides guidance for users on what should be included in different sections and templates for a design matrix, activity

plan and budget. For some key concepts and issues, the same advice is presented below. The main users of the working paper WP12 are the performance audit teams, but the advice is also relevant for reviewers and performance audit management.

The structure of the work plan (also see working paper WP12)

6. Methodological design

- 6.1. Audit objective, scope and questions
- 6.2. Audit criteria
- 6.3. Strategy and methods for data collection and analysis
- 6.4. Expected results of the audit
- 6.5. Audit design matrix

7. Administrative planning

- 7.1. The audit team and performance audit manager
- 7.2. Timed activity plan and planned completion
- 7.3. Need for resources
- 7.4. Supervision and monitoring progress of the audit
- 7.5. Audit risks and risks for NAC's reputation.
- 7.6. Communication with the audited entities and other main stakeholders

• Audit objective

As a user of working paper WP12, formulate a clear neutral audit objective as a brief statement of what the audit intends to accomplish, when possible encompassing the audit problem as well as an overall formulation of the causes to it. The objective should be related to the principles of economy, efficiency and effectiveness. The audit objective is further detailed by the audit scope, audit questions and sub-questions. The audit objective, scope and questions together define the subject matter of the audit. The subject matter does not have to be limited to specific programmes, 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.⁷⁴ Finally, the perspective of the citizen that is related to the performance of the audited entity should be taken into account where appropriate. An example of an audit objective is as follows:

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

⁷⁴ ISSAI 300:19, 25, 37 and 3000:29-30 and 35

• Audit scope

Describe the audit scope by defining the 'who, what, when and where'. Define who is responsible for management of the government undertaking to be audited (the audited entity or auditee), but also other parties responsible for providing information or for initiating change based on recommendations in the report (to the extent that this can be foreseen at the planning stage).

When published, all performance audits should in principle reflect the current situation regarding performance problems and actions taken to address them. It is not possible, however, to bring all data up to date, and the auditors need to define the period covered by the audit. Don't cover a longer period than is really needed to meet the audit objective, and consider whether all the evidence, or only a part thereof, is needed for a few years back. For data where the development over time is important, at least three years need to be covered to establish a trend. If some statistics are available for a longer period, it may be wise to allow some of the evidence to cover a longer period if it adds value to the analysis. The availability of data and changes, such as major reforms launched by government, should be taken into account when defining the time coverage for the audit.

Often the purpose is to assess the performance of certain government services or activities in general in the country. This does not mean that data can or need to be collected from all locations. Instead, the auditors make a selection of locations to visit and then corroborate the information about the cases with information from head office that is relevant for the whole country in order to conclude on the general performance. What the auditors want to conclude or issue an opinion on is a matter of the geographical scope of the audit. Where data is collected to do this, it is a matter of data-collection method. Some audits are restricted to concluding on performance in a specific region – which then constitutes the geographical scope.

Even in such cases, data may be needed from other regions for the purpose of comparison.⁷⁵

• Audit questions and sub-questions

Users of working paper WP12 should normally not formulate more than four to six main audit questions to be answered in the audit, broken down into sub-questions, possibly even sub-sub-questions.⁷⁶ Answering the audit questions should lead to the fulfilment of the audit objective. You can do this by using the technique of developing a question tree (with the same logic of illustrating cause-effect relationships as the problem tree) or the similar technique of issue analysis. Whenever possible, use the first audit question to verify the main audit problem. Address most of the other audit questions on the causes of the main audit problem within the control of the audited entities. When it is not possible, not necessary (because the problem is already sufficiently verified by other actors) or not reasonable to verify the main audit problem, formulate audit questions addressing to the factors causing the assumed main problem.

The audit questions are thematically related through their relation to the audit objective. The questions should be open (not presume any particular answer), not overlap (as far as possibly mutually exclusive) and cover the audit objective. If all main causes of the audit problem will not be covered in the audit, this must be explained in the report and the implication thereof must be carefully considered in all analyses.⁷⁷

⁷⁵ ISSAI 300:17, 19; ISSAI 3000:30; INTOISAI Guidance 3200:35-37.

⁷⁶ ISSAI 3000:36-37.

⁷⁷ ISSAI 300:25, 37 and 3000:36-73.

• Audit criteria

As far as possible, identify potential audit criteria suitable to the circumstances during the pre-study. Audit criteria are audit-specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. Performance auditors measure or evaluate the subject matter to determine the extent to which established criteria have or have not been met.

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). The audit criteria need to provide an appropriate and reasonable basis for assessing against audit objectives. Audit criteria have to be relevant, understandable, complete, reliable, and objective in the context of

the subject matter, the audit objective(s) and/or the audit questions.⁷⁸ Be explicit in indicating the source of criteria in the work plan as well as in the audit report. Remain critical in the analyses, and always consider during the execution of the audit whether the criteria used would also mean good performance.

Audit criteria should be discussed with the audited entity, but it is the NAC that independently takes the decision on what criteria to use. When the audited entities disagree with the audit criteria, the auditor will weigh the facts and arguments presented by the audited entities against other relevant facts and arguments.⁷⁹

The audit report is never stronger than the legitimacy of the criteria used. Criteria with a weak legitimacy base must be agreed with the audited entity, such as criteria invented by the auditors themselves. Examples of sources of criteria are listed in the box below.

EXAMPLES OF SOURCES OF PERFORMANCE AUDIT CRITERIA	
Laws and regulations	Corresponding performance in the private sector
Laws and regulations	Benchmarks – same ministry, different years; different ministries, same activity
Decisions by the legislature or the executive	Planning documents, contracts and budgets from the ministry
Detailed procedures for a function or activity	Standards, procedures and measures set by the audited entity
Standards from research, literature, professional and/or international organisations	Standards set by the auditors, possibly after consultation with experts (necessary to agree with the audited entity)
International benchmarks of good performance	Identification of what could be (given better conditions)
ISSAI 100:27, 30; and ISSAI 300:27, 37	

⁷⁸ ISSAI 300:27 and 3000:47-48.

⁷⁹ ISSAI 300:27 and 3000:49-50.

• Strategy and methods for data collection and analysis

The auditors need to plan the audit for the purpose of obtaining sufficient and appropriate audit evidence to satisfy the audit objective and 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, the audit objective and the audit questions.

As a user of working paper WP12, elaborate on the audit strategy and how each audit question is going to be answered using a combination of different types of studies, techniques and methods for collecting and analysing data. The more elaborated and appropriate the ideas and knowledge you have about this at an early stage, the easier it will be to conduct the audit. On the other hand, as the knowledge increases during the audit it is likely that the auditors will realise that they have made some mistakes during the planning stage. The auditors and managers must then be prepared to drop some methods they planned to use, and add others. Significant changes in the work plan should always be approved by performance audit management, and when appropriate, decided by top management.

For each audit question, consider how to combine different studies, the data that is expected to be available and methods and sources for data to answer the audit question. The methods chosen should be those which best allow 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. Avoid using single sources as evidence unless they are highly valid and reliable.

Make a professional judgement as to whether it is appropriate to collect some of the audit evidence on a sample basis. Carefully consider the purpose, population and how to select cases in case studies based on clear logic (i.e. the best cases, typical

cases or a selection expected to show a variation in performance or in the conditions for the operations) or if only case examples are needed as support for other evidence. Consider the need for surveys based on statistical sampling, enabling population estimates of variables. The auditors must ensure congruence between the audit question and sampling approach; an exact definition of the population or populations; that the sample is representative for the population; proper establishment of the sample size (considering the population size and the confidence level); and that the results are properly analysed.⁸⁰ Normally, this requires the involvement of an expert.

It is important for the auditor to establish an appropriate strategy for the audit by combining study designs, methods and techniques in the audit to suit the context, objective(s), questions, criteria and the auditor's skills and resources, as well as the availability of data.⁸¹ Corroborate data from different sources. Be smart and make detailed assessments of the need for information, both before and during the audit, consider the costs and reasonableness of collecting data and avoid over-collection. Plan in order to limit data collection to the data necessary to answer the audit questions and develop conclusions and recommendations.⁸²

• Expected results of audit

Users of working paper WP12 should also briefly outline the performance problems for which the team expects to find sufficient and appropriate audit evidence in the audit. The team should also try to briefly describe how the audit will contribute to improved performance. This includes to preliminary define who the expected users of the audit report will be, those who can initiate change and improved performance as well as other users.

⁸⁰ See ISSAI 300:37 and 3000:101 on considering different methods.

⁸¹ INTOSAI Guidance 3200:50.

⁸² ISSAI 300:37.

• Audit design matrix

When the methodological design of the audit has been elaborated on, summarise it in an audit design matrix structured according to the audit questions and sub-questions, as in the matrix below. The audit design matrix should normally be used in all work plans.

Audit question and sub-questions	Audit criteria	Data collection and analysis			Anticipated findings	Risks to the execution
		Audit evidence needed	Methods for data collection	Methods for analyses		
Audit question 1						
Sub-question 1.1						
Sub-question 1.1						
Audit question 2						

• Administrative planning

The SAI should only carry out audits where the SAI is competent to perform the work. The risks for quality which arise from carrying out the audit should be considered.⁸³ According to ISSAI 3000:52, the auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. The audit risk needs to be brought down to an acceptably low level in order to enable the auditors to provide the necessary level of assurance. See further on confidence and assurance in performance auditing in section 5.4.4.

In selecting the members of the audit team, the competence of the team as a whole and the performance audit manager should be assessed in relation to the work to be performed. When appropriate, the need to involve

other experts should be considered. Opportunities for professional development of the team members should also be considered. Each team member and the responsible performance audit manager, including the head of the unit, must consider whether the decisions on how to design the main study will change any statements made in the Code of ethics declaration in WP14 signed before starting the pre-study. If so, this must be reported to management. If any changes are made to the audit team, new team members have to sign a Code of ethics declaration at this stage.⁸⁴

The administrative planning should include a timed activity plan and a budget using the templates in working paper WP12. It is important to make realistic plans that can be implemented.

The administrative plan should also cover the following (see further WP12):

- Supervision and monitoring of progress made with the main study;
- Risks to the implementation of the audit and the NAC's reputation; and
- Communication with the audited entity and other main stakeholders.

⁸³ ISSAI 140, element 3, page 8; and ISSAI 300:21 and 28.

⁸⁴ ISSAI 100:36; and ISSAI 130:39 (a).

6.3 Quality control review and documentation of the pre-study

Quality control review and decision on the pre-study memorandum and work plan

According to ISSAI 140, element 5, all audit work should be subject to review.

In the NAC, the team leader is responsible for preparing the draft pre-study memorandum and work plan. This includes reviewing the overall quality of the draft as well as all contributions by team members. The draft should also be reviewed by performance audit management and possibly be subject to peer review by colleagues within the NAC. Before quality control review and a decision by top management, all performance audits should be subject to independent quality control review. Managers and independent reviewers should use working paper WP13 Quality control checklist – pre-study as guidance for and documentation of the review. This does not mean that all reviewers necessarily review against all criteria, and it does not exclude other issues or concerns to be raised by the reviewers. It is important, however, to document what has been reviewed.

When the review process has been completed and after one or several rounds of reviews, the acceptance of working paper WP12 Pre-study memorandum and work plan should be confirmed by the team leader, performance audit manager and independent reviewer on the front page of the working paper where the decision of top management is also documented. The working paper provide opportunities to not recommend any

main study, as well as declare differences of opinions related to the final version of the working paper. This is important information to the decision maker.

Documentation of the pre-study

Proper documentation of the audit process and audit evidence is a general requirement, which may also allow some data collected during the pre-study to be used as evidence in the main study. The documentation should be organised according to the principles and structures presented in section 7.6.⁸⁵

The requirements regarding documentation of the audit process are the same for the pre-study as for the main study. The data collected and used in the pre-study memorandum and work plan should also be presented with references to the source (when appropriate) and documented in the audit file. Unless the pre-study is to be published as a separate report, there is no need for systematic cross references between the audit file and the pre-study memorandum and work plan. Interview notes, questionnaires and documents requested through formal letters should always be included in the file. Other collected data that turns out to be irrelevant for the pre-study and an upcoming main study does not have to be included in the audit file.

⁸⁵ ISSAI 300:34 and 3000:86-88.

7 EXECUTING THE AUDIT

The international standard for performance auditing (ISSAI 3000) requires:

- The auditor shall obtain sufficient and appropriate audit evidence in order to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI's mandate. ISSAI 3000:106
- The auditor shall analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) and audit questions as needed. ISSAI 3000:112
- The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. ISSAI 3000:52
- The auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. ISSAI 3000:68
- The auditor shall be willing to innovate throughout the audit process. ISSAI 3000:77
- The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter with the goal of delivering as much added value as possible. ISSAI 3000:83
- The auditor shall document the audit in a sufficiently complete and detailed manner. ISSAI 3000:86

The execution of the audit engagement is structured into the following 13 activities.

ACTIVITY	RESPONSIBLE
C1 Sending engagement letter to audited entities and appending a document presenting the audit objective, audit questions and draft assessment criteria	Top management
C2 Holding introductory meeting with audited entities	PA management
C3 Considering possible comments on the work plan from the audited entity (criteria, methodology, etc.) and revise it when needed	Team leader PA management
C4 Deciding on revised work plan, whenever needed, during the audit	Top management
C5 Collecting and analysing data	Team Leader
C6 Maintaining regular contact with the audited entity, including discussing preliminary findings	PA management
C7 Assessing the evidence and preliminary findings	Team leader
C8 Developing a synopsis and agreeing it with management	Team leader
C9 Drafting the audit report	Team leader
C10 Managing the project	Team leader
C11 Holding progress meetings with the team	Team leader PA management
C12 Reviewing the lessons learned from own work	Team leader Team members
C13 C13 Documenting the audit process and evidence	Team leader

7.1 Introducing the main study to the audited entity

The audited entities should also be introduced to the main study using working paper WP15 Engagement letter (main study). This is despite the fact that contact with the audited entity had already been established during the pre-study. The letter should be signed by top management and the audited entity should be informed about the NAC's decision to launch the main study with an explanation of its purpose and key aspects of the audit. This should include information on the audit objective, audit questions, scope, criteria, the need for data and the methods for data collection and analysis.⁸⁶

The key aspects in general and the criteria in particular should be discussed with the audited entity. It is important to establish common ground for the normative basis for the audit at an early stage. While defining and communicating criteria during the planning phase may enhance their reliability and general acceptance, it is not always possible in audits covering complex issues to set criteria in advance; instead they will be defined during the audit process.⁸⁷ At the entry meeting the NAC should be represented by someone from top management or performance audit management and, if practical, the full core audit team.

⁸⁶ ISSAI 300:29 and 3000:55.

⁸⁷ ISSAI 300:27; ISSAI 3000:45-46 and 49.

The purpose of the entry meeting is to present the forthcoming audit. It is also important to request top management of the audited entities to appoint a contact person and agree on the role of the contact person in the audit process. The agreement should include the

need for auditors keep the contact person informed of progress made with the audit, while it is up to the audit entity to decide who else needs to be informed in each situation.

The auditors should inform the audited entity about (compare working paper WP15 Engagement letter (main study)):

- the purpose of the main study;
- draft audit criteria - alternatively you can discuss the criteria and more technical or practical issues at a separate meeting;
- time schedule for the main study;
- members of the audit team;
- methods that will be used in the audit;
- the information that will be requested from the audited entity; and
- the need to appoint or confirm the contact person.

The audited entity can provide comments on the draft audit criteria during the entry meeting, in a separate meeting or in writing. The meetings, and in particular comments and discussions on the criteria, should be documented using working paper WP8. If appropriate, the NAC should make the necessary adjustment to the audit criteria at its own discretion. It is important to search for a common understanding of the audit. Other comments from the audited entity on the design and plan for the audit should also be taken into consideration to the extent deemed appropriate. The consideration of comments in the minutes or other written comments from the audited entities or stakeholders should be documented using working paper WP30.

The entry meeting might be followed by a meeting between the audit team and the appointed contact person and other relevant officers to discuss the more operational issues of the audit. Throughout the audit, the contact person is expected to assist the audit team with required contacts and information, such as the necessary documents, and help to set up to appointments for interviews, etc. The team leader, on the other hand, is responsible for keeping the contact person informed about the progress of the audit. The contact person must be consulted before the audit team visits the audited entity's regional or local offices.

7.2 Collecting data and audit evidence

Collection, examination and evaluation of audit evidence are key elements at this stage of the audit. According to INTOSAI Guidance 3200:49, audit evidence can be categorised as:

- **testimonial evidence** that is obtained through enquiries, interviews or questionnaires, focus groups or reference groups.
- **documentary evidence** that consists of all sorts of written documents, e.g. reports, research papers, records, statistical data, etc.
- **physical evidence** that is obtained through direct observation of people or events, or inspection of objects such as properties, buildings, etc.
- **analytical evidence**, that is computation, comparisons, separation of information into components and rational arguments.

According to ISSAI 300:38 and 3000:101, performance auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusion in response to the audit objectives and questions and issue recommendations.

Evidence should be sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable and appropriate (quality), i.e. 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 entity to confirm their validity.⁸⁸ When analysing evidence that has been collected, these concepts will be used to assess the quality of the audit evidence.⁸⁹

Testimonial evidence

Testimonial evidence is crucial in any audit since it assists the auditors to gain sufficient knowledge on the area from people involved and also to confirm information from the written documentation or field studies in selected cases. Consider how to use the following:

Interviews: Interviews should normally be conducted with different levels of management, operational staff, clients as well as other stakeholders in order to get a balanced picture of the situation. Interviews should be properly planned and formalised in the form of an interview guide. The interviewer should be familiar with the subject to be discussed and the areas to be covered. The structure of an interview depends on its objective. In the pre-study, the questions will typically be broader and the questions might be more open ended, the objective being to identify and partly verify that deficiencies exist and problems, lack of goal attainment, etc. within the area of audit and also to formulate possible audit problems. In the main study, the focus will shift to go deeper into the identified deficiencies and verify the reasons behind them as well as possible solutions. The typical interview is held in the context of a meeting. Sometimes telephone interviews provide an alternative that can save both time and costs, especially if the questions are relatively simple and standardised. Compile the results of the interviews and document them in a way that facilitates analysis and quality control.

⁸⁸ ISSAI 100:49.

⁸⁹ See INTOSAI Guidance 3200:74-77.

Focus groups, seminars and reference groups:

Focus groups, a selection of a few individuals, such as experts in the field, representatives from governments bodies and local communities, brought together to discuss specific topics, are primarily used to collect qualitative data that can provide insights into the values and opinions of individuals involved in the process or activity under audit. Focus groups can bring about beneficial discussions among the participants and new and different perspectives that would not have emerged had the participants been interviewed separately. Seminars, on the other hand, have the advantage of bringing together a large number of people representing a wide range of knowledge and perspectives. Reference groups may be composed of people drawn from within or outside the NAC and are usually made up of experts such as academic researchers. The group usually meets on a few occasions during the audit. The reference group may be used for collecting data and for quality control purposes. Focus groups, seminars and reference groups might involve both cost of time and money for the audited entity and the participants. It should be used with a clear purpose and be well prepared.

Questionnaires: A questionnaire provides a systematic collection of information from a defined population (could be government bodies, local communities, organisations, businesses or individuals), and may be administered to a sample of units in the population. Questionnaires are mainly used to gather facts that are not available in any documents and that are important as a reference to substantiate a finding, and can also be used when you want to collect opinions. It is important that the questions are correctly formulated and easy to understand. It is strongly advisable to pilot a draft questionnaire before sending out a finalised version to all the intended respondents. Use experts and actual respondents for your pilot.

Documentary evidence

Documentary evidence is an essential source of information. There are various types of documents the audit team should consider:

Policy statements and legislations: The audit team should gather policy documents, operating guidelines, manuals, ministerial directives, decisions on delegation, etc. relevant to the audit, and examine the background leading to their promulgation. The auditors should also consider changes that have been made to legislation and the document trail leading to the need for change, such as submissions, press clips, complaints, case histories and speeches.

Audited entity budget statements: Audited entity budget statements include the entity overview and provide financial information as well as information about the objectives and performance of the entity.

Management reports, reviews and minutes: Entities usually generate a number of internal documents for senior management that summarise current issues and/or propose courses of action. The auditors should locate and analyse such documents. Ways of identifying reports include interviews and examination of minutes from management meetings.

Existing statistics: Auditors should as far as possible use already compiled statistics. Statistics constitute data from databases already collected and compiled by others for their own purposes. The advantage is that it is faster and cheaper to use these statistics rather than to compile own statistics. The disadvantage is that the statistics compiled by others are not always collected and compiled according to the audit's needs. The statistics could also have flaws.

File reviews: A good source of documentary evidence is examination of files. Files, which may prove useful for review, include those on:

- cases of operational matters related to the audit, e.g. individual grants or contracts;
- strategic and operational planning;
- management control;
- executive meeting minutes;
- complaints and disputes; and
- reviews and audits.

To get an overview of existing files when collecting evidence, auditors should obtain a list of files from the audited entities' registry. Information from file reviews can be summarised and recorded systematically in the auditor's own words in working papers. It is important that the audit team realises that not all relevant papers are contained on files that are registered. There may be other relevant documents of which the team is unaware.

External evaluations, reports and literature: When conducting an audit, the auditors should read previous evaluations and reports available in the audit area. Sometimes these have data that can be utilised in the audit. Such secondary data must be used with caution. It is also wise to consult academic researches and other literature concerning the audit area. Alone this type of data may not provide audit evidence, but it could provide the theoretical framework or points of reference necessary to elaborate on other audit evidence.

Existing databases: Many organisations have compiled databases, both manual and computerised. In many countries there is a government bureau of statistics and there may be commercial databases that are run, for example, by banks, which may be used to collect data. These databases may enable the auditor to use data that has already been collected and compiled.

Internet: The Internet is increasingly becoming an important source of information. Many of the above

sources of data can easily be searched from the internet, as more and more public entities make their documents and information available on the net. Also, a lot of supporting information (for example news articles and research) can easily be found.

SAI sources: The auditor should not overlook evidence that had been collected in previous audits or through information collected to support strategic planning for the auditee.

Physical evidence

Sometimes it is useful to confirm the verbal information or documentary information collected with different types of physical evidence. It can also be the other way around. Auditors may be able to use physical evidence to show that descriptions in official documents are not fully appropriate, or use it to confront interviewees at the head office with factual information from field visits. Consider how to use the following:

Observation: Observation gives the audit team an opportunity to understand the reality behind inspection reports and other official documents. It may provide a clearer bottom-up view of essential problems, which can be compared to the picture given in official reports or by the executive level of the organisation. It also offers an opportunity to study relationships and processes between staff and management. There are different ways of using this method. The auditor may choose to visit workplaces, schools or hospitals. Another alternative is to accompany inspectors or other officials in their day-to-day work. A further possibility is to sit in the reception hall of, for example, the local clinic to observe how patients are treated. Sitting in (without participating) on meetings at the audited entity may also provide useful information. An inherent risk of observing people is that the auditor's presence may alter the people's behaviour, and as a consequence the evidence collected will be less valid.

Inspecting physical objects: A wide range of information can be collected by inspecting physical objects, such as buildings and other facilities, roads and other types of infrastructure. A camera is useful to take photos and so-doing document the inspections. Inspection is mainly intended to physically study a few objects in order to provide detailed examples of what has been observed. When the observation of a physical condition is critical to achieving the audit objectives, it should be corroborated. This may be achieved by having two or more auditors make the observation, if possible accompanied by representatives of the audited entity. Systematically documented physical inspections of a larger number of objects can also be made to develop audit evidence.

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.⁹⁰

Different study designs' data provides opportunities for different types of analyses and development of analytical evidence. Examples are outcome-oriented studies, process-based studies, comparative investigations, case studies and surveys. Statistical analysis is also a method for developing analytical evidence. See the Performance Audit Handbook sections 6.3.1, 7.1.2 and 7.2.

7.3 Analysing data

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 obtaining audit findings. Based on the findings, the auditor should exercise professional judgement to reach a conclusion. Audit findings and conclusions are the results of analysis in response to the audit objectives and should provide answers to the audit questions.

Performance auditing involves a series of analytical processes that evolve gradually through mutual interaction, allowing the audit questions and methods employed to develop in depth and sophistication. This involves 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 performance 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 to work systematically and with due care and objectivity.⁹¹

Data analysis is an activity that permeates all stages of a study. Data analysis should:

- begin during the design of a study;
- continue as detailed plans are made to collect data from different sources;
- become the focus of attention after it is collected; and
- be completed only during the report writing and reviewing stages.

⁹⁰ INTOSAI Guidance 3200:49.

⁹¹ ISSAI 300:38; ISSAI 3000:112-115.

When analysing the data, the audit team should start revisiting the audit objective and the audit questions. This will help to organise the data and bring the analysis in line with the audit questions. In interpreting the

information, the auditors should attempt to put the information in perspective by comparing the results to audit criteria or to what is generally expected.⁹²

7.3.1 QUANTITATIVE AND QUALITATIVE ANALYSIS

Performance auditors should make use of quantitative analysis (analysing numbers) and qualitative analysis (analysing texts, statements or existing statistics and databases).

Quantitative analysis is often equated with statistical analysis. The kind of statistical analysis most frequently used in performance auditing is descriptive statistics. More advanced forms of statistical analysis, such as regression analysis or variance analysis, are not described in this Manual, but can be valuable tools for auditors who are acquainted with statistical theory and methods. The auditor can use descriptive statistics to describe the audit object or to present findings arising from the audit. Descriptive statistical information can be used to present the size of the audit object's personnel, resources, operations, finances, etc. If the sample on which the auditors have gathered information is chosen with statistical methods, numerical conclusion about the whole population can be drawn.

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.

Qualitative analysis is used to describe a wide range of methods for structuring, comparing and describing qualitative data, often in the form of text. Qualitative analysis is commonly used when deriving analytical evidence from certain sources of data, such as interviews and documents. Qualitative analysis entails systemising the data, comparing it to find patterns in the data, like similarities or differences, and in that way extracting the main points.

When analysing data and information from interviews or documents, the first step is to structure the data and divide the text or what has been said into different categories or topics. Usually the audit questions and sub-questions mean that a basic structure for analysing the documents has already been established. The audit questions are what one wants to answer with the collected information. The next step is then to compile the text (whether it has been obtained from documents or interviews) into these categories.

When performing this type of analysis, it is useful to use working paper WP16 Content Analysis that permits recording of the analysis. The working paper consists of a matrix where, for example, audit questions and sub-questions can be recorded in the columns and different interviews or reviewed documents in the rows. Keywords indicating the relevant evidence can then be recorded in the cells to get an overview for analysis of similar threads and differences.

Written information in documents can sometimes be transformed into quantitative data. One can, for example, go through documents to see how many of them include a positive statement about a certain issue, or one can go through the interview material to see how many have made similar statements. A calculation can then be made, expressing the percentage of investigated documents or interviews that include a particular type of statement (see the Performance Audit Handbook, section 7.2 for more detailed information on quantitative and qualitative analysis).

⁹² ISSAI 3000:114.

7.3.2 CORROBORATING DATA

Usually, performance 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 to doing a jigsaw puzzle where the pieces are the different elements of information and analysis.

It is important that the auditor works systematically and carefully in interpreting the data collected. The audit team should be receptive to alternative views and arguments and seek data from different sources and stakeholders.⁹³ By combining multiple data sources,

methods and analyses, auditors seek to overcome the bias that can come from using a single source of information. A finding that is confirmed by different types of data is generally much stronger. For example, oral evidence usually needs to be corroborated if it is to be used as evidence rather than as mere background information. Information from a single interview is rarely sufficient as evidence. Also, when an observation of a physical condition is critical to achieving the audit objectives, it should be corroborated with other information.

Performance audit teams should also ensure that findings in different parts of the audit, based on different kinds of evidence, are consistent. When evidence from one source appears inconsistent with that obtained from another, the reliability of each remains in doubt until further work has been done to resolve or explain the inconsistency. When evidence from different sources and findings in related parts of the audit are consistent, it gives assurance that is higher than that attached to the individual parts.

7.4 Drafting the report

At the end of each performance audit, the SAI publishes a written report communicating the results of the audit to the audited entity, Parliament, government and other stakeholders. The published reports are the products on which the SAI's performance audit function is judged by its stakeholders. Errors could be potentially damaging to the credibility of the particular report and to the SAI as such. It is therefore crucial that a great deal of attention be given to the accuracy, logic and clarity of the report.

According to ISSAI 300:39 and 3000:116, performance auditors should provide audit reports which are comprehensive (i.e. include all information needed in light of the objectives and sufficiently detailed to provide an understanding of the subject matter, the scope of the audit, the finding, and the conclusions)

and convincing (i.e. logically structured, presenting a clear relationship between audit objectives, criteria, findings, conclusions and recommendations). The reports should also be timely, reader friendly and balanced.

The sources of audit evidence and other important information should be indicated in the report and, when appropriate, also how the information has been collected.

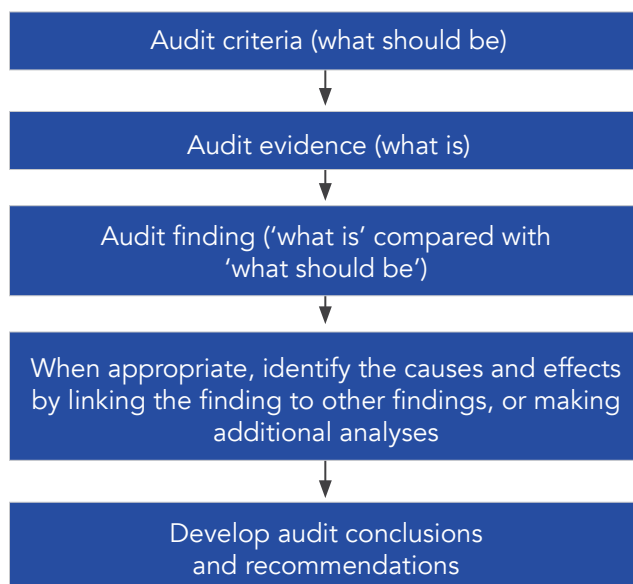
Writing the report is largely an analytic process, and the audit will be facilitated by a continuous report writing process. The report writing should start early, with the development of a synopsis of the report. Also, the introductory sections about the audited entities and the methodology used for the audit can be documented early in the audit process.

⁹³ ISSAI 3000:72.

7.4.1 DEVELOPING AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Figure 7.1:

Using audit evidence to develop findings, conclusions and recommendations⁹⁴



Findings

Findings are the specific evidence gathered by the auditor to evaluate using criteria in order to satisfy the audit objectives. The findings are developed in order to be able to answer the audit questions and conclude on the audit objective.

According to the standards, all audit findings must be supported by sufficient appropriate evidence. Also findings must be based on relevant facts and sound, logical reasoning. It is necessary to consider the context and all relevant arguments, pros and cons, and different perspectives before conclusions can be drawn. The need for precision is to be weighed against what is reasonable, economical and relevant to the purpose. The audit findings should clearly conclude against the audit questions and should be put into perspective. Congruence should be ensured between the audit objective, audit questions, findings and conclusions.⁹⁵

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.

It is important for the audit team to assess whether the finding is significant and to determine the causes of the findings. In the NAC's approach to performance auditing, the causes of the main audit problem is a crucial element of the audit already at the planning stage. The auditors should also identify criteria to evaluate each main cause in its own right, enabling them to present different causes as separate findings. The main audit problem is per definition a consequence

⁹⁴ Based on previous versions of ISSAI 3000, which in turn referred to ASOSAI guidelines on performance audit. 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.

⁹⁵ ISSAI 300:38; ISSAI 3000:106, 115 and 124.

of the causes analysed in the audit. Sometimes it may be appropriate to perform further analyses of the consequences of some findings.

It is common that auditors make a large number of observations in an audit that can be used to assess performance using the criteria. Often, several of these observations are related to each other, for example a number of different weaknesses regarding planning and a number of other weaknesses in the working methods. As performance audit is a direct reporting engagement, auditors should try to report on what the audited entities actually do, and assess that with the criteria. Rather than reporting weaknesses one by one, it is usually better to develop main findings on a higher level – findings that are supported by several observed weaknesses. This also makes the report more focused to material areas, more interesting to readers and easier to remember the main messages. Presenting main findings on a higher level can also create a foundation for developing recommendations that are likely to significantly contribute to addressing the weaknesses or problems identified by the audit, rather than just mirroring the detailed observed weaknesses (eg. They have not...They should!).

Audit teams should, when possible, try to quantify the effects. For example, the cost of expensive processes, expensive inputs or unproductive facilities can be estimated. Also, the effect of inefficient processes such as idle resources or poor management may become apparent in terms of time delays or wasted physical resources. When the effects cannot be quantified the team could give examples of the effects of lack of control, poor decisions or lack of concern for service.

Use working paper WP18 Findings matrix, to provide an overview of the preliminary findings of the audit. While the report should include elaborated narrative text about the findings, only key words should be included in the matrix. The findings matrix helps to make the findings explicit and enables the team and reviewers to determine whether each finding is based on criteria and sufficient appropriate audit evidence, with the sources of the evidence made explicit.

Audit conclusions

Performance audit reports are not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness at 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. Whether economy, efficiency and effectiveness have been achieved may be conveyed 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.⁹⁶

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”). It is necessary to consider the context and all relevant arguments, pros and cons, and different perspectives before conclusions can be drawn. The need for precision should be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management is recommended.⁹⁷

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 criteria and sufficient appropriate evidence, since they should flow logically from the findings. Based on good arguments it also provides an opportunity for auditors to indicate overall problems behind the findings or make overall conclusions based on the findings, for example on the need for radical change. Conclusions might include identifying a general topic or certain pattern in the findings. An overall underlying problem and an explanation of the findings may also be identified.

⁹⁶ ISSAI 300:21-23. See also ISSAI 100:31-33.
⁹⁷ ISSAI 300:38 and 3000:115.

Audit recommendations

If relevant and allowed by the SAI's mandate, performance auditors should seek to provide constructive recommendations that are likely to contribute significantly towards addressing the weaknesses or problems identified by the audit. The recommendations must follow logically or analytically from the facts and arguments presented.

The recommendations should:⁹⁸

- Be clear and presented in a logical and reasonable fashion;
- be well founded, practical and add value;
- be linked to the audit objective, findings and conclusions;
- address the causes of problems and/or weaknesses;
- be phrased in such a way as to avoid truisms or simply inverting the audit conclusions;
- not encroach on the management's responsibilities;
- be clear as to who or 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 that have the 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. Performance 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 prioritisation within the same entity/sector.

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 towards improving the operations, it may be possible to conclude that the intended effects cannot be attained 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 changing the objectives or increasing the allocation of resources, is a policy decision for the government or Parliament to make.

The auditors should avoid making recommendations too specific, as it poses the risk of taking over the management responsibility for the actions taken, and on the other hand avoid recommendations that are too general to provide direction or ideas on 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 what can be realistically done.

⁹⁸ ISSAI 300:16 and 40; ISSAI 3000:126-128.

One technique is to recommend what should be done, and as a complement in more detail discuss how this can be done, possibly indicating different alternative options. Questions that may be considered in developing good recommendations are the following:

- 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 on, convincing the audited entity 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?

7.4.2 THE WRITING PROCESS

The process of writing the performance audit report can be broken down into four stages, namely:

- Developing a synopsis;
- Carrying out an audience analysis;
- Drafting the report; and
- Revising the draft report.

Developing a synopsis

Before starting to write the report, the audit team should organise its work by preparing a synopsis. A synopsis is an outline or skeleton of the report. The synopsis sets out the main structure and lists in the form of keywords or short sentences, with the intended content under each heading. It is a tool for defining the structure of the report. The synopsis encourages a professional approach to writing, clarifies the team's organising principles and facilitates the actual writing

of the report. The synopsis should be developed early in the audit and it can be useful to have a look at the audit questions and sub-questions to develop the structure.

The aim of the synopsis is to delineate the structure and broad content of the report and provide management with the opportunity to comment on the general direction, conclusions, etc. at an early stage.

In the synopsis, the audit team should:

- sketch out a logical structure of the report;
- indicate the findings, together with supporting evidence and conclusions to be included in the different sections;
- indicate areas for recommendations;
- indicate tentative tables, charts or other graphical representation of information; and
- indicate necessary appendices.

A logically organised synopsis helps the team to decide what to keep, what to develop and what to reject before writing any pages. In short, the team should know what message it wants to deliver to the stakeholders. When compiling the synopsis, the problem-tree technique as well as the input-output model could be used as tools for structuring the analytical process.

The synopsis should be agreed with performance audit management and top management before the detailed drafting starts. This will save time by reducing

the need for revision and amendment at later stages of the drafting process. Often a preliminary version of the synopsis can be produced at an early stage of the audit, enabling the auditors to start drafting some sections early in the process.

Carrying out an audience analysis

For the performance audit report to communicate well and achieve its intended purposes, it is important to perform an audience analysis. Identifying and knowing the audience will help the audit team to decide on the structure and tone of the report

Some questions that may help the audit team to perform the audience analysis are as follows:

- What kind of information are the readers interested in?
- What are the reader's likely attitudes towards the message?
- Will the decision-makers address the problem?
- Are the readers familiar with the subject matter?
- How do the readers view the NAC's credibility, expertise and authority?

In performance audits the main audience includes Parliament, the government and the audited entities. The civil society organisations and media are also important as they serve as a link between the NAC and the general public.

Developing a draft report

Once a synopsis has been produced and the readers have been identified, the audit team should start drafting the report in accordance with the structure in working paper WP19 Audit report, or as agreed with performance audit management. The structure may need to be changed during the drafting process.

The report should be objective and balanced in the sense of presenting performance as it is. Weaknesses in systems and controls and examples of poor performance should be disclosed in the report, but it should be balanced and effective management and good performance should not be left out.

When drafting, it will be useful to bear in mind "the qualities of a good performance audit report", as described in section 8.2.

The team leader is responsible for drafting the report, but preferably assigns responsibilities for drafting different sections to different team members. It is imperative that the team regularly discusses the content of the full report and how different sections are related. The whole draft report must be reviewed by the team leader before submission to performance audit management.

To shorten the production time, it is wise to start writing as soon as possible. Examples of parts that may be written at an early stage of the audit are the introduction, the methods and the description of the audit object. Also, it is important to remember that writing is a continuous process; it might be necessary to read and rewrite the different parts several times to ensure good readability.

Revising the draft report

After writing and compiling a first draft, the team should revise the document. When revising, the team should aim for clarity and conciseness.

Consequently, the auditors should ensure that:

- the overall report is logically organised and structured;
- the headings of chapters and sections are appropriate;
- the sentences are not so long as to be incomprehensible and not too short as to be monotonous;
- all irrelevant words and information not based on evidence are eliminated;
- specific terms and examples of what the team intends to communicate are included;
- the style of writing is adapted to the intended readers;
- the words are concrete, professional and commonly known; and
- the spelling is correct and the punctuation is appropriate.

The audit team can make use of peers to help revise the draft. This might highlight areas where the presentation is weak. The team must also cross-reference the report – its findings, conclusions and recommendations, supporting evidence, tables and charts, etc. – with the relevant working papers to check that everything

therein can be justified. After revision of the draft report, the team leader should present the draft report to management for review. The management may, in turn, also let other persons or functions review the draft report and the audit file.

7.5 Managing the audit engagement

According to ISSAI 100:48, auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner. SAIs should apply sound management practices, including timely execution of

the audit in line with the work plan, and management should regularly monitor progress (with major decisions on changing the plan explained and documented) and follow up on lessons learned by the end of the audit.⁹⁹

7.5.1 SUPERVISING AND MONITORING THE PROGRESS OF THE AUDIT

According to ISSAI 3000:96, the organisation of the audit should in general satisfy the requirements of good project management. Performance audits are costly and time consuming and are planned and partly carried out under uncertainty. Also, the quality of performance

audit reports is crucial for achieving the objectives of the NAC and maintaining its credibility in society. This underlines the importance of performance audit managers in the NAC regularly monitoring progress made with the audits.

⁹⁹ ISSAI 140, element 5; and INTOSAI Principles 20:6. See also 300:37 and 3000:96 on requirements of good project management.

The SAI shall according to ISSAI 3000:66 ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process. In executing the audit, it is important that the role of different levels of management is clear.

ISSAI 140 highlights that supervision should ensure that:

- all members of the audit team have a clear and consistent understanding of the work plan and how it should be implemented;
- the audit is conducted in accordance with the adopted standards and the policies and practices of the NAC;
- the work plan and action steps specified in that plan are followed, unless a variation is authorised by the appropriate manager; and
- the audit team achieves the stated audit objectives.

The performance audit managers within the NAC should ensure that a realistic activity plan for each individual audit is developed. It is important to make sure that the plan is updated whenever the need arises. A realistic activity plan offers incentives to the auditors to meet planned milestones and is an important tool for managers to monitor what the team has achieved and to provide the support the team may need. As the audit progresses, knowledge of the audit topic and the problems increase. It is therefore necessary that the audit design and methodology are regularly discussed between the audit team and management, and updated when necessary.

The performance audit manager should organise regular review meetings six times in an audit process with the team audit (in pre-studies as well as main studies). In the meeting the team should report on achievements, challenges to audit methodology and quality, and progress made with the audit in relation to the work plan and the budget. The discussions should also deal in depth with the substance of the audit in terms of data collected, analyses made, drafts developed and the relation to stakeholders and the development of the risks to the audit. Strategies in how to deal with deviations from the plan or expectations should be discussed. If necessary, proposals to revise

the work plan may be addressed to top management. Such decisions should be recorded in the Main audit file for the audit engagement. The result of progress meetings should be documented in working paper WP17 Audit progress report.

Performance audit management should inform top management of the progress made with the audit and recommendations for corrective action if needed. The manager must also ensure that the audit reports meet the reporting standards.

ISSAI 300:28 and 3000:52 also states that the audit risks should be actively managed by both the auditors and the management. Audit risks refer to the risks of providing incorrect or incomplete findings conclusions and recommendations, but also the risk that the audit provides unbalanced information or does not add value for users. The audit risk must be brought down to a sufficiently low level so that the auditors can provide the level of assurance needed by the users of the report. Important aspects of risks include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to and quality of information or obtaining wrong information. The auditors should actively manage risks by including in the planning documents the possible risks in the

coming audit work and how these will be dealt with (see working paper WP12 and the Performance Audit Handbook, section 7.4.2).

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.

Monitoring and supervision, whether within the audit team or at higher levels, are but one aspect of the management role. To achieve good results, it is imperative that management also plays a proactive, supportive and visionary role in the audit work.

7.5.2 COMMUNICATING DURING THE MAIN STUDY

According to ISSAI 300:29 and 3000:55, performance auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define content, process and recipients of communication for each audit.

The auditors should identify the responsible parties and other key stakeholders and take the initiative in establishing effective two-way communication. The auditors should aim at establishing a constructive process of interaction. Having regular contacts with the audited entity is useful for several purposes. First of all, since performance audits are not performed on a regular basis at the same entities, pre-established channels

of communication may not exist. It is thus necessary to establish this in order to have some assistance in getting access to the right documents, identifying the key players to talk to, notifying the different entities and offices that auditors will visit them, etc. Secondly it is important to keep the audited entity updated on the progress and the preliminary findings of the audit. Also, the need for balanced reports requires an active effort to gain insight into the point of view of various stakeholders. Thirdly, it is useful to be able to test ideas and possible approaches to the audit of the audited entity. Also, since the audit criteria are unique for every performance audit, it is necessary to conduct an extensive exchange of views with the audited entity.

Some main communication points during the main study are the following:

- To communicate and inform the audited entity formally before starting a main study;
- To inform the top management at the audited entity about the audit in an engagement letter and by conducting an entry meeting. The key audit aspects that the auditor needs to communicate to the audited entity include; the audit subject matter and the entities to be included in the audit, the audit objective, questions, criteria and time period to be audited.¹⁰⁰ The information should also cover the methods for data collection and analyses that will be used. The audit criteria must be discussed with the audited entity (ISSAI 3000:49), usually during the entry meeting. At the entry meeting the NAC should normally be represented by Deputy auditor General, the director together with the audit team;
- To keep the contact person appointed by the audited entity regularly informed about the progress of the audit, and to request assistance from the contact person in finding documents and arranging appropriate interviews;
- To conduct meetings with senior managers or other government officials during the course of the audit as necessary. When appropriate, also organise focus group meetings where various stakeholders and experts are invited to discuss preliminary findings, conclusions and recommendations to get the necessary feedback;

¹⁰⁰ ISSAI 300:29 and 3000:57.

- To communicate evidence, findings and conclusions to the audited entities to get some input on whether they are actually correct. Recommendations should be discussed with the audited entities according to INTOSAI Principles 20:3;
- To give the audited entity or the authorities concerned the opportunity to comment on the audit findings, conclusions and recommendations before the report is published. This involves arranging an exit meeting; and
- To inform the audited entities about the procedures and timetable for publication of the final audit report.

A sound dialogue throughout the audit process with the audited entity involved is pivotal in achieving real improvements in governance and may increase the impact of the audit. In this context, the auditor can maintain constructive interactions with the audited entity by sharing preliminary audit findings, arguments and perspectives as they are developed and assessed throughout the audit.¹⁰¹ Audit teams may also informally discuss ideas on preliminary findings, conclusions and recommendations with other key stakeholders. During the course of the audit the audit team can also informally discuss potential solutions with the audited entities and other stakeholder, with appropriate consideration of the need for confidentiality.

Throughout the audit, it is important to maintain productive relations with the audited entities. The NAC should seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them. Good relationships with audit entities and other stakeholders can help the NAC to maintain a free and frank flow of information in so far as confidentiality requirements permit and to conduct discussions in an atmosphere of mutual respect and understanding.¹⁰²

7.5.3 REVIEWING THE LESSONS LEARNED IN THE AUDIT

To create an environment that is stimulating, encourages proper use of professional judgement and promotes quality improvements, ISSAI 140¹⁰³ emphasises that all work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development.

The experiences gained in completing performance audits are invaluable as a basis for further development of the performance audit practice. Successes, mistakes and failures in practical performance auditing are a very important source for learning. A review or evaluation of how the audit was implemented, in terms of whether

it was completed in time and within budget and what lessons can be learned for future audits, is an important element of good project management. Working paper WP24 Evaluation - Lessons learned should be used in this regard.

This should be done immediately after finalising the report while memories are still fresh. The audit team should draft a memorandum, summarising the experiences from the audit and identifying weaknesses in planning and implementing the audit, as well as what went well.

¹⁰¹ ISSAI 3000:58.

¹⁰² ISSAI 300:29.

¹⁰³ ISSAI 140, element 4.

Working paper WP24 can be used for this purpose. This can include:

- comparison to determine whether the actual work done corresponds to the planning documents;
- analysing the time spent compared to the time budgeted in the planned timing of activities and completion of the audit compared to the plan;
- experiences of using different methods, what went well and what the challenges were;
- experiences from writing the report;
- experiences of the allocation of work and cooperation within the team and communication with management during the process; and
- whether there were challenges, how they were handled and what actions were taken to address them.

Experiences gained by the audit team should be available and communicated to the rest of the performance audit department. This should be done in the form of seminars, internal memos, postings on the website, etc.

In addition to the internal follow-up by the audit team, the NAC may also follow up on the usefulness of completed audits and the views of the audited entities and other stakeholders.

7.6 Documenting in the audit file

Requirements on documentation

SAI should maintain appropriate documentation and files. According to ISSAI 300:34 and 3000:86-88, 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.

The standards further emphasises that the auditors should in all audits safeguard audit documentation to adequately record the preparation, procedures and findings of the audit. It is important to establish a system for documenting the actions taken and the communications that have taken place as well as the audit evidence and analyses performed 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 SAI's quality control procedures as well as enable internal or external quality assurance reviews.

Working papers are all relevant documents collected and generated during a performance audit. Working papers serve as a 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 details of audit planning, results of the fieldwork and audit evidence to support all audit findings, conclusions and recommendations in the report. ISSAI 300:34 also emphasises that the audit 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 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 auditors should adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers and should retain the working papers

for a period sufficient to meet the needs of the legal and professional requirements of record retention.

ISSAI 300:34 also points to the fact that maintaining adequate documentation is not only part of safeguarding quality but also of the SAI and individual auditors' professional development as it can provide good practices for similar audits.

Documentation in the NAC

In the NAC, the team leader is responsible for maintaining the electronic and hard copy files for the

audit engagement. The team leader should normally review all working papers before entering them into the file. The team leader should also ensure that all team members get access to the key documents in the audit as well as the documents they directly need to complete the tasks assigned to them.

The documentation, both the hard copy and the electronic documentation, should follow the structure in the box below.

STRUCTURE FOR DOCUMENTATION IN FILES FOR AUDIT ENGAGEMENTS	
B	Planning Audit
B1	Project management
B2	Formal meetings and correspondence
B3	Collected data & analysis
B4	Draft Pre-study memorandums and work plans, including reviews and comments
B5	Final Pre-study memorandum and work plan
C	Executing the audit
C1	Project management
C2	Formal meetings and correspondence
C3	Collected data & analysis
C4	Project management Formal meetings and correspondence Collected data & analysis
C5	First complete draft of the report, handed over to management for review
D	Deciding and reporting
D1	Project management
D2	Formal meetings and correspondence
D3	Collected data & analysis
D4	Project management Formal meetings and correspondence Collected data & analysis
D5	Decision and final report
D6	Processing in Parliament
E	Follow-up of the report
E1	Project management
E2	Formal meetings and correspondence
E3	Collected data & analysis
E4	Draft follow-up reports, including review and comments
E5	Final follow-up reports (possibly from different years)

The documentation should cover, but not be limited to the following:

- An index for the information included in the file;
- A project journal showing the important actions, communication and decisions taken during the audit;
- Declarations that there is no conflict of interest on the part of the auditors and acknowledgement of their understanding of the requirements in the code of ethics (WP14)
- The pre-study memorandum and approved work plan (WP 12);
- Minutes of meetings with the audited entity, in particular the entry and exit meeting, including information on the purpose, time and place of the meeting and the names, positions and organisations for those who participated (WP 11);
- Sent and received letters (several working papers);
- Interview forms and typed notes from interviews (WP 11, WP 10);
- Written documents, statistics;
- Registration forms from file reviews, observations or inspections;
- Answers in questionnaires;
- Minutes of progress meetings, documenting major decisions about the audit and when appropriate changing original plans (WP17);
- Minutes of meetings with focus groups and reference groups (WP 11);
- Special analysis made in separate working papers;
- Documentation of reviews of draft pre-study memorandums, work plans and reports (WP 6, WP13, WP20);
- Drafts of the report with the comments received and changes made documented, including how differences of opinion with external stakeholders or within the NAC have 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 was used for different main findings and where this evidence is available in the file. Also, the working papers should be cross-referenced to facilitate supervisory review.

DECIDING AND REPORTING ON THE AUDIT

The international standard for performance auditing (ISSAI 3000) requires:

- The auditor shall give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. ISSAI 3000:129
- The auditor shall record the examination of the audited entity's comments in working papers, including the reasons for making changes to the audit report or for rejecting comments received. ISSAI 3000:130
- The auditor shall provide audit reports, which are a) comprehensive¹, b) convincing², c) timely³, d) reader friendly⁴, and e) balanced⁵. ISSAI 3000:116
- The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way⁶. ISSAI 3000:32
- The auditor shall identify the audit criteria and their sources in the audit report. ISSAI 3000:122
- The auditor shall ensure that the audit findings clearly conclude against the audit objective(s) and/or questions, or explain why this was not possible⁷. ISSAI 3000:124
- The auditor shall provide constructive recommendations⁸ that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI's mandate. ISSAI 3000:126
- The SAI shall make its audit reports widely accessible taking into consideration regulations on confidential information. ISSAI 3000:133

¹ Comprehensive: Include all the information and arguments needed to address the audit objective(s) and audit questions, and provide an understanding of the subject matter and the audit findings and conclusions. ISSAI 3000:117

² Convincing: Logically structured with clear links between the audit objective(s), questions, criteria, findings, conclusions and recommendations; address all relevant arguments, and be accurate. ISSAI 3000:118

³ Timely: Issued on time to make the information available for users. ISSAI 3000:119

⁴ Reader friendly: When possible, simple, clear and unambiguous language, use of illustrations and being concise to be clear and better convey the message. ISSAI 3000:120

⁵ Balanced: Impartial in content and tone, unbiased presentation of audit evidence, avoiding exaggeration and explaining causes and the consequences of the problems in the report. ISSAI 3000:121

⁶ The auditor needs to transparently communicate the audit objective(s), scope, methodology and data gathered and any significant limitations in the report so that users will not be misled. ISSAI 3000:34

⁷ Audit findings have to be put into perspective, and congruence ensured between the audit objective(s), audit questions, audit findings and conclusions. ISSAI 3000:125

⁸ Constructive recommendations: Be well founded, add value, be practical and linked to the audit objective(s), audit findings and conclusions; avoid truisms, address the causes of problems, address those responsible to implement them without encroaching on the management's responsibilities; follow logically or analytically from the facts and arguments presented with explanation of how it would contribute to better performance. ISSAI 3000:127-128

The execution of the audit engagement is structured into the following 12 activities.

ACTIVITY		RESPONSIBLE
D1	Peer review of draft report	Team leader
D2	Expert review of draft report	Team leader PA management
D3	Management reviews of draft report	PA management Top management
D4	Independent quality control review of draft report	Independent reviewer
D5	Considering and possibly incorporating comments and views from reviews of draft reports	Team leader PA management Top management
D6	Requesting comments on draft report from audited entities (and possibly other key stakeholders) and holding exit meeting	PA management Top management
D7	Finally considering received comments and opinions, completing the final report and developing an outline of follow-up procedures	Team leader PA management Top management
D8	Deciding on the audit report, after having resolved any internal differences of opinion, and signing the submission letter	Top management
D9	Formally submitting the audit report to relevant authorities	Top management
D10	Developing and issuing a press release, and when appropriate arrange a press conference	PR Officer PA management Top management
D11	Disseminating the audit report to relevant stakeholders, media and AFROSAI-E	Team leader
D12	Assisting with deliberations on the audit report in relevant parliamentary committees and providing support in drafting committee reports to the legislature	Team leader PA management Top management

8.1 Requirements of a good report

Performance audit reports should address economy, efficiency and/or effectiveness, but may vary considerably in scope and nature. The reports are the main tool for the NAC to reach the objectives of performance auditing – to promote good governance, accountability and transparency as well as serve as basis for learning and improvements. Performance auditors should strive

to provide audit reports which are comprehensive, convincing, timely, reader friendly and balanced. As a whole, the reports should be constructive, contribute to better knowledge and highlight any necessary improvements.¹⁰⁴

¹⁰⁴ ISSAI 300:39 and 3000:116.

Comprehensive 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. Due to the diverse topics possible in a performance audit, the content and structure of the audit report will vary

Typically, for reasons of transparency and accountability, the minimum content of a performance audit report includes the:¹⁰⁵

- subject matter;
- audit objective(s) and/or audit questions;
- audit criteria and its sources;
- audit-specific methods of data gathering and analysis applied;
- time period covered;
- sources of data;
- limitations to the data used,
- audit findings; and
- conclusions and recommendations, if any.

ISSAI 3000 also requires the auditor to identify the audit criteria and their sources in the audit report, since the intended users' confidence in the audit findings and conclusions depends largely on the audit criteria. The auditor shall also ensure that the audit findings clearly conclude against the audit objective(s) and/or questions, or explain why this was not possible. The audit findings have to be put into perspective, and congruence has to be ensured between the audit objective(s), audit questions, audit findings and conclusions. Conclusions are the statements deduced by the auditor from the audit findings.¹⁰⁶

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.

Convincing reports

A report is convincing if it is logically structured and presents a clear relationship between the audit objective, audit questions, audit criteria, findings, conclusions and recommendations. All relevant arguments should be addressed.¹⁰⁷

The conclusions and recommendations should follow logically or analytically from the facts and arguments presented. Facts should be presented separated 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.

¹⁰⁵ ISSAI 3000:117.

¹⁰⁶ ISSAI 300:39; ISSAI 3000:112 and 122-125. ISSAI 300:39 and 3000:112 clarifies that audit questions may consider reformulating the audit questions to fit the evidence obtained and thus arrive at a position where the questions can be answered. Reasons may be increased knowledge and the availability of data.

¹⁰⁷ ISSAI 300:39; ISSAI 3000:118.

The report should only include information that is relevant to 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.

It also needs to present the audit findings persuasively, address all relevant arguments to the discussion, and be accurate. Accuracy requires that the audit evidence presented and all the audit findings and conclusions are correctly portrayed. Accuracy assures readers that what is reported is credible and reliable.¹⁰⁸ For the report to be accurate, the evidence provided needs 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 could damage the reputation of the NAC.

Timely reports¹⁰⁹

Being timely requires that an audit report needs to be issued on time in order to make the information available for use by management, government, the legislature and other interested parties.

In the NAC, performance audit reports should normally be completed within 12 months from the commencement of the pre-study.

Reader-friendly reports

To be reader friendly, the auditor needs to use simple language in the audit report to the extent permitted by the subject matter. Other qualities of a reader-friendly

audit report include the use of clear and unambiguous language, illustrations and conciseness to ensure that the audit report is no longer than needed, which improves clarity and helps to better convey the message.¹¹⁰ Reports should be easy to read and understand, avoiding jargon and with technical and unfamiliar terms being clearly defined. Auditors must bear in mind that one of their objectives is to be persuasive; this can be best done by avoiding language that generates defensiveness and opposition.

Information that the reader really needs should be included, while redundant information should be 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.

Balanced reports

Being balanced means that the audit report needs to be impartial in content and tone. All audit evidence needs to be presented in an unbiased manner. The auditor needs to be aware of the risk of exaggeration and overemphasis of deficient performance.¹¹¹ All relevant findings, arguments and evidence should be included. Facts must not be suppressed and the auditors must not exaggerate minor shortcomings. Different perspectives and viewpoints should be represented. Explanations must always be sought from audited entities and critically evaluated. Explanations or opinions of an audited entity may be relevant enough to include in the report even when the auditors disagree with it. Such statements should be presented in a factual manner, i.e. stating that it represents the opinion of management of the audited entity.

¹⁰⁸ ISSAI 3000:118.

¹⁰⁹ See INTOSAI Principles 20:8; ISSAI 300:39 and 3000:119.

¹¹⁰ ISSAI 300:39 and 3000:120.

¹¹¹ ISSAI 300:39 and 3000:121.

The auditor should explain causes and the consequences of the problems in the audit report because it will allow the reader to better understand the significance of the problem. This will in turn encourage corrective action and lead to improvements by the audited entity. 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. 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

The report should be constructive and contribute to better knowledge and highlight improvements needed.¹¹² 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 7.4.1 on developing recommendations.

8.2 Reviewing and deciding on the audit report

After receiving the draft report, performance audit management should review the quality of the draft and working papers. To meet the ISSAI standard of issuing reports timeously¹¹³ it is important to secure a swift review process. The purpose of this review is to ensure that the audit meets the INTOSAI auditing standards and the NAC's policy. Also the audited

entities should be able to comment on the draft report. Once comments have been reviewed and the draft report amended and changed as appropriate, top management formally decides on issuing the report.

8.2.1 QUALITY CONTROL REVIEW OF DRAFT REPORTS

According to ISSAI 40, a SAI should establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all its work. This means that quality control must be built into the whole audit process, from planning and selection of audit problems to follow-up of completed audits (see chapter 5). Quality control review of draft reports forms an important part of the SAI's quality control system.

When the draft has been developed by the audit team, it could go through a peer review, meaning that other colleagues will review and comment on the draft report. This will provide an opportunity for the audit team to have their judgement tested against the collective experience and wisdom of their colleagues. These reviewers could be other experienced performance

auditors, internal experts on the area or sometimes also regularity auditors.

If possible, it can be useful to ask subject matter experts to review the draft report before it is published. These should be selected from among renowned experts in the field (professors at higher learning institutions, retired civil servants or other experts who have no vested interest in the audited entity). This can provide assurance of the quality of the draft report and also increase the credibility of the report externally.

The draft report should then be reviewed by the performance audit management to ensure that the quality of the audit report is appropriate. All performance audits should also be subject to an independent

¹¹² ISSAI 300:39.

¹¹³ See INTOSAI Principles 20:8; ISSAI 300:39 and 3000:116.

quality control review by sufficiently experienced staff not involved in the audit (neither as auditors nor as line managers).¹¹⁴ Matters raised in the independent review should be satisfactorily resolved before the report is issued.¹¹⁵

The reports should meet the quality requirements laid down in the standards. Line managers reviewing drafts and independent quality control reviewers should use working paper WP20 Quality control checklist – Audit report for their review. When all criteria in the working paper are not covered in the review, this should be documented in the working paper. The reviewers may also raise relevant concerns that are not explicitly mentioned as criteria in the checklist.

In between the different reviews, the auditors need to set aside time to consider the comments and opinions on the draft received through the different reviews and consider how to incorporate them into the draft audit report.

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 applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control.

Finally, the report is reviewed by top management before it is sent for comments to the audited entities.

8.2.2 SENDING A DRAFT REPORT TO THE AUDITED ENTITY

ISSAI 300:29 and 3000:129 requires the auditor to give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. Such comments contribute to the writing of a balanced audit report and help the auditor resolve any disagreements and correct any factual errors before an audit report is finalised. The audit report has to reflect the views of the auditor but also show the perspective of the audited entity. 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 recommendations should be subject to discussions and responses from the audited entities.¹¹⁶

When top management is satisfied that the draft report meets the international standards and other requirements of the NAC, the draft report is sent to the audited entities together with WP21 Letter draft requesting comments on draft report.

It is essential that the audited entities have the opportunity to check and verify the facts as well as to check and comment on the NAC's interpretations when formulating its conclusions and recommendations. The full draft report should be sent to the audited entity, including the descriptive parts, findings, conclusions and recommendations, for the audited entity to comment on.

¹¹⁴ AFROSAI-E *Quality Assurance Handbook*, appendix 6.1.

¹¹⁵ ISSAI 140, element 5, page 12.

¹¹⁶ INTOSAI Principles 20:3, page 5 (on discussing recommendations).

The purpose is to provide an opportunity for the audited entities to:

- review and correct factual errors, when appropriate based on supporting evidence provided to the NAC;
- get other comments and views from the audited entity on the drafted descriptive chapters, audit findings, conclusions and recommendations;
- comment on the feasibility of drafted recommendations; and
- provide additional information to the auditors for consideration of the need to modify parts of the draft in light of the additional information provided (based on an objective assessment of the evidence and comments provided)

According to ISSAI 300:29 and 3000:130, the auditor shall also record the examination of the audited entity's comments in working paper WP30, including the reasons for making changes to the audit report or for rejecting comments received. Such documentation provides transparency over why any changes to the draft audit report were or were not made, as well as the auditor's reasons for these decisions. Auditors should consider contradictory opinions with a view to making the final report as true and fair as possible.

An exit meeting with the audited entities should be requested, where the revised report, with the response from the audited entities incorporated, will be presented and discussed. The purpose of the meetings is to determine whether there are any remaining differences of opinion on factual information in the revised report, 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 an understanding of the viewpoints of different actors.

8.2.3 FINALISING AND AUTHORISING THE REPORT

Internal finalisation

The audit team should carefully consider comments on the draft expressed by the audited entities. In the NAC the considerations and changes made in draft reports, based on written comments presented by audited entities or other stakeholders, should be documented in working paper WP30.¹¹⁷ This includes comments documented in the minutes of exit meetings (or similar meetings) where the draft report was discussed. The team should verify data that has been contested and, if necessary, collect additional data. It might also be necessary to ensure, once again, that all findings and conclusions are based on sufficient and appropriate audit evidence. Where differences of opinion between the auditors and the audited entities cannot be satisfactorily resolved, performance auditors and managers should consider

whether this should be highlighted in the report. It is important to ensure that enough time is planned for the internal finalisation in order not to compromise the quality of the report.

According to ISSAI 40, element 5, page 12, differences of opinions within the SAI on a report should be clearly documented. After the team has amended the report it should be reviewed by the performance audit management and top management before final approval. The team leader and managers should recommend whether or not to issue the report by signing the front page of working paper WP19 Performance audit report before submitting the final version to top management for decision. Comments or differences of

¹¹⁷ ISSAI 300:29.

opinions related to the final version of the draft report should be documented on WP19. This is important information to the decision maker.

In the case of differences of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team's perspective is given sufficient consideration and that the SAI's policy is consistent.¹¹⁸ It is also important to develop consistent policies and procedures that are communicated to all staff, which can be used to resolve differences of opinion between supervisors and audit teams.¹¹⁹

Deciding on the audit report

According to ISSAI 40, element 5, page 12, the SAI should establish procedures for authorising audit reports.

When the draft report has been subject to quality control and review, and the appropriate changes have been made, the decision to issue the report is taken by the Auditor General.

The decision to issue the report should be documented on the final version of the audit report in working paper WP19. This includes providing brief information on how differences of opinion within the NAC, if any, have been resolved before issuing the report.¹²⁰ Working paper WP22 Submission letter is used to address the report to the legislature and/or those responsible for management of the government undertaking and those responsible for taking action for improvement. In line with the requirements in INTOSAI Principles 20:3, the submission letters include a statement on the standards for performance auditing adopted by the NAC. See the statement in section 5.4.4 and WP22.

It is imperative that everyone within the NAC make an effort in their daily work to live up to this demanding assurance we give our stakeholders.

8.3 Submission and distribution of the report

According to ISSAI 300:41 and 3000:133, 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.¹²¹

Once the performance audit report has been authorised by top management, it should without unnecessary delays be submitted to the intended users identified in the audit, normally including the audited entities, President and National Assembly. The reports are

hand delivered as hard copies. The audit team drafts a submission letter using working paper WP22 for signature. Performance audit reports become public documents after it has been discussed in parliament, there after it is uploaded in NAC official Website. As mentioned above, however, it is customary for the NAC to provide the audited entity with a copy of the report shortly before it is released.

Comprehensive reports and wide distribution of the reports are important to develop and maintain credibility of the performance audit practice. The policy of the NAC is to make performance audit reports publicly available and widely distributed, within the limits of the legislation.

¹¹⁸ ISSAI 300:32.

¹¹⁹ ISSAI 3000:80.

¹²⁰ ISSAI 140, element 5, page 12; and ISSAI 300:32.

¹²¹ ISSAI 3000:134.

Other stakeholders that usually should receive the reports are:

- parliamentarians
- other government entities or stakeholders concerned;
- the media
- civil society organisations;
- selected development partners;
- selected academic institutions;
- selected libraries; and
- local governments (when relevant).

When possible, performance audit reports should also be sent to other interested parties. Also, people who have contributed to the audit may be supplied with a copy. Once the report has been published, it should be posted on the NAC's website and sent to AFROSAI-E for posting on their website.

To spread the audit report's message and avoid misinterpretations, the NAC should provide the media

with adequate and well-balanced information in the form of press releases or even press conferences when the report is released. A press release is a way for the NAC to supply information to journalists and a tool to lead journalists to focus on relevant issues in the report. A press release is often drafted when an audit report is about to be published. The content, form and style of a press release are essential to make the media interested in covering the report.

Writing a press release on a performance audit report

- The press release should have a headline. The headline should be brief, correct and to the point, and should state the main message in the report.
- Start with the most important facts or news items. Start with the main point and conclusions, and then move on to further details and background information.
- The tone of the press release should be factual. Keep sentences short and the language comprehensible. Avoid technical language.
- Try to use phrases and quotes from the report which the journalists can use in their reports or articles.
- The more accessible you make the text in the press release, the more likely it is that the journalist will use your own words in the article or report.
- Keep the press release brief, not more than one page.
- Date the press release and include the names of persons who can be contacted for further information.

In some instances it can also be relevant to prepare and hold a press briefing on the performance audit report. Remember that the main purpose of performance audits is to create change/improvements; securing press coverage is not the main purpose. On the other hand, media is an important channel to inform the general public about the audit.

A distribution list should be prepared in order to calculate the need for copies of the report and actually distributing them. The report should also be sent electronically to AFROSAI-E for posting on their website for the purpose of regional networking, capacity building and constructing a database for future research.

8.4 Supporting the public accounts committee

The reports are then referred to the PAC for deliberations. Through the examination of performance audit reports, the PAC has the opportunity to challenge public officials on a variety of issues relating to the economy, efficiency and effectiveness of operations. PAC hearings and the process followed before during and after the hearing to produce the committee report have a crucial role in the effectiveness of the committee. It is important that the NAC offers the PAC assistance in dealing with performance audit reports to help them better understand the findings, conclusions and recommendations and support PAC in coming up with recommendations presented to Parliament.

A key factor in promoting an effective PAC hearing is that the chairperson and the members of the committee are properly briefed regarding the audit report. Briefing should include the subject of the audit report and the questions that could be asked of witnesses to elicit further information on the conclusions and recommendations made.

A close professional relationship should be established between the NAC and the PAC, which will provide benefits to both parties. The assistance to the PAC should be developed over time in cooperation with the committee.

Depending on the need and wishes of the PAC, the following assistance may be provided:

- The Auditor General prepares the briefs for the chairman and members of PAC in a visit before hearings.
- Chairman and members of the PAC are assisted in the development of questions to witnesses by the Auditors.
- The Auditor General represents the SAI at PAC hearings, He presents the Audit report and can be assisted by the team leader and possibly other team members;
- The SAI as a temporary measure may assist the clerk of the PAC in developing the PAC report, in case of lack of capacity;
- The SAI will comment on draft PAC reports if requested;
- Responding to other appropriate requests supporting the PAC in dealing with the audit report.

FOLLOW-UP THE AUDIT REPORT

The international standard for performance auditing (ISSAI 3000) requires:

- The auditor shall follow up, as appropriate, on previous audit findings and recommendations and the SAI shall report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions. ISSAI 3000:136
- The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period. ISSAI 3000:139

The follow-up of audit findings and recommendations is structured into the following four activities:

ACTIVITY		RESPONSIBLE
E1	Sending a letter to the audited entity to enquire about the status of the changes required	PA management
E2	Assessing the response of the audited entity and recording the follow up work conducted in an internal memo including a recommendation.	Team leader
E3	Informing the audited entity on whether or not the follow up has been concluded, e.g. depending on whether satisfactory improvements have been made	PA management
E4	Compiling the result from all follow-up activities in a report to Parliament	PA management

Follow-up refers to the situation where the SAI examines to what extent actions have been taken by the audited entity on the basis of the findings and recommendations in previous performance audit reports.

9.1 Purpose of follow-up

According to ISSAI 300:42 and 3000:136, auditors should follow up previous audit findings and recommendations, wherever possible. Follow-up 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.

More specifically, the purpose of follow-up of audit reports is as follows:

- 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 – following up may be valuable in guiding the actions of the legislature;
- evaluating the SAI’s performance – following up activity provides a basis for assessing and evaluating SAI performance; and
- creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice.

Follow-up of reports is not restricted to the implementation of recommendations but focuses primarily on whether the audited entity has adequately addressed the problem. Also, the PAC’s recommendations and the debate and decisions that may be made in Parliament because of an audit should be followed up.

When following up on reports, the auditor should adopt an unbiased and independent approach. The

focus should be to determine whether actions taken on findings and recommendations remedy the underlying conditions after sufficient time to allow an audited entity to implement the recommendations.

According to ISSAI 300:42 and 3000:139, the SAI should follow up after a “reasonable period of time”, allowing responsible parties who can initiate change to take appropriate initiatives.

9.2 Steps in follow-up of audit reports in the NAC

Plan for the follow-up

As part of the finalisation of the audit, the team conducting the audit should have made a preliminary plan for when it is appropriate to start to follow-up the audit. The follow-up of performance audit reports in the NAC should normally start after six months from the date of presentation of the Audit report, but exceptions can be made by performance audit management. The annual planning of performance auditing should also include a plan for how to follow up previous audits during the year.

The first task for a team assigned to follow up a particular audit is to review the preliminary plan and determine whether any changes are needed. This should be the basis for the follow-up work to be done on the particular audit.

The NAC uses the following steps in follow-up performance audits:

- Requesting information;
- Assessing the information received;
- Deciding on further action; and
- Reporting on follow-up activities.

Requesting information

It is necessary to collect information on what measures the audited entity has implemented to address the recommendations and the status of the situation on the area and whether the action has had the desired effect. This should be done through a letter to the audited entity, signed by the Auditor General or Deputy Auditor General. The letter should request audited entities to inform the NAC in writing of the actions that have been taken to address the observations and recommendations in the audit report and the PAC report, as well as the status of the implementation of actions and the improvements results achieved.

In the letter to the audited entity (using working paper WP25), the NAC should describe the recommendations in the report, and also the changes that were required by Parliament through its approval of the report. The letter summarises the main points of Parliament's consideration of the matter, and also presents any measures that the audited entity itself suggested in its responses to the report. In the letter the auditee is

invited to give an account of the measures that have been implemented to remedy the findings of the audit, and the effectiveness of these measures. This should be supported by some form of evidence to document the measures taken or the effect of the measures. Auditors must take into account the changes that may have taken place in the sector/area or in the government agency during the period that has passed - for example, in the form of changed framework conditions or measures implemented.

The first task for a team assigned to follow up a particular audit is to review the preliminary plan and determine whether any changes are needed. This should be the basis for the follow-up work to be done on the particular audit.

Assessing the information received

After receiving the reply, the auditors need to make a careful assessment on whether the audited entity's implementation of measures and the effectiveness of the measures are satisfactory enough to allow the case to be closed.

It might be necessary to collect additional information and evidence.

This can be done by:

- organising a meeting with the audited entity, with a request that its management present documentation on the implemented measures and their effects;
- making telephone calls to some stakeholders to enquire about the situation.
- making telephone calls to regional officials or operational public officials other than those at head office responding to the initial request;
- in some cases by conducting limited field visits to collect and analyse data on whether or not identified problems have been appropriately addressed; and
- obtaining additional information by requesting regularity auditors to collect evidence during their field work.

Examples of potential evidence for actions taken are as follows:

- copy of decisions taken;
- copy of studies or analysis made (for example, based on the entities' follow-up of results);
- statistics showing changes/improvements; and
- name, positions and contact information of persons who can confirm actions taken.

Deciding on further action

Based on the findings and the assessment made, the NAC must consider what further action is required to follow up the audit report on the observations and recommendations made by the PAC (if any).

There are several alternatives.:

- To **stop the follow-up** - if the audited entity has taken reasonable actions to address findings and opportunities for improvements highlighted in the audit report and the PAC report. If the PAC has not yet deliberated on the report, the NAC should be prepared to also follow up on future observations and recommendations made by the committee.
- To stop the follow-up and reporting to Parliament, but **inform the public accounts committee that the committee may consider taking appropriate action** as the audited entities are not likely to take appropriate action.
- To stop reporting to Parliament, but **hand over the issue to regularity auditors for continued follow-up** during a number of years.
- To **follow-up and report to Parliament again next year** - if the audited entity has not taken appropriate action, but it seems likely they are going to make reasonable improvements in significant matters in the future.
- To decide to **carry out a follow-up audit**.

The audited entity should be informed in a letter on the decision whether to continue to followed up the audit or not, using working paper WP28. The fifth alternative above is a decision to start a follow-up audit on the area and with the same focus. This will be a new performance audit, which will eventually result in a new performance audit report to Parliament. This should be an exception to the rule, and needs to be prioritised against addressing new topics and priorities set in the overall planning. To start a whole new audit is costly, and must be weighed against the likelihood that it will cause the audited entities to take appropriate action.

Reporting on follow-up activities

The follow-up activities on each audit and the results thereof should be recorded in a follow-up report, normally being an internal memorandum (use working paper WP26). This working paper should include a summary of the main findings, conclusions and recommendations from the report, and also the recommendations from Parliament through its approval of the PAC report, if the audit report was tabled. Measures suggested by the audited entity itself in response to the report should also be presented. This should be followed by a summary of the investigation by the auditors in the follow-up, how the evidence was collected, what

measures were actually implemented by the audited entity, the main findings of the follow-up and whether the measures had the desired effect.

According to ISSAI 300:42 and ISSAI136, the follow-up of previous audit findings and recommendations should be reported appropriately in order to provide feedback to Parliament, if possible together with the conclusions and impacts of the corrective actions taken, where relevant. This should be reported as a consolidated report, where a summary of the follow-up for each audit should be presented. Working paper

WP27 may be used to develop the report on follow-ups to Parliament, including a matrix with a summary of the conclusions from the audits followed up.

Special characteristics of follow-up audits

If the audited entity has not taken appropriate action within a reasonable time and it does not seem likely that they will do so, the NAC can decide to start a follow-up audit with the same focus in the same area

A follow-up audit is a new performance audit, which differs from a regular performance audit in that:

- a pre-study will usually not be undertaken, as the area and problems are well known from the previous audit;
- the purpose is first and foremost to follow up on the previous audit report; and
- the audit objective, criteria, audit questions and scope will usually be based on the previous audit report.

If it is deemed appropriate to start a follow-up audit, a work plan specifying the necessary data collection, data analysis and reporting needs to be developed as well as an administrative plan. Planning is important for the follow-up audit, and takes a similar form as a main study work plan with the purpose of following up what had happened after the audit, and whether or not the recommendation had been implemented and the reasons for this. For the sake of efficiency, it should be considered if data for the follow-up audit can be collected by regularity auditors as part of their annual audits.

There is a need to define and plan the relevant aspects of the audit that will be followed up. The audit team should indicate the recommendation, projected impacts and other relevant issues that will be examined. The extent of the proposed follow-up should be described.

The scope of the follow-up audit should be determined based on an assessment of the following:

- Whether the original conclusions are still relevant;
- Corrective actions taken by the audited entity;
- Work by parties other than the audited entity that could influence the impact; and
- Relevant external factors and other issues.

Assessing the impact of the actions the audited entity has taken on the recommendations is often a core element of the follow-up audit. An impact is any outcome, positive or negative, intended or unintended, that has resulted from action taken in respect of findings documented in a report or the implementation of recommendations contained in a report. Positive impacts could be in the form of improved economy, higher efficiency and effectiveness, better quality of service, better planning, more efficient control and management, and improved accountability. Impacts may be qualitative or quantitative. In the latter case attempts should be made to measure the resource savings. In identifying impacts, the costs that are associated with achieving the impacts should be offset against net benefits. Significant impacts should be validated with the entity or other relevant bodies where possible.

The execution of follow-up audits will thereafter follow the normal procedures for a performance audit. Follow-up audits should be reported on in line with the general reporting principles of the NAC. Whether or not it is suitable to table the follow-up audit report in Parliament will depend on how the NAC assesses the significance of the findings and conclusions from the follow-up. If reported to Parliament, the title should normally be "Follow-up of..." followed by the name of the original audit.

Deficiencies and improvements identified in the follow-up audit should be communicated to the audited entity. Positive action in implementing the audit recommendations should also be highlighted, which is to the credit of both the audited entity and the NAC and is required in order to present a balanced and fair report.

AFROSAI-E INSTITUTIONAL CAPACITY BUILDING FRAMEWORK (ICBF)

INDEPENDENCE AND LEGAL FRAMEWORK	ORGANIZATION AND MANAGEMENT	HUMAN RESOURCES
<p>Independence of the SAI</p> <ul style="list-style-type: none"> • Appropriate and effective constitutional/statutory/ legal framework • Financial autonomy • Managerial and administrative autonomy • Appropriate human, material and monetary resources <p>Independence of the Head of SAI and members of collegial institutions</p> <ul style="list-style-type: none"> • Security of tenure • Legal immunity in the normal discharge of their duties <p>Sufficiently broad mandate</p> <ul style="list-style-type: none"> • A broad mandate and full discretion in the discharge of SAI functions • Direct submission of reports to Parliament • Access to information • Discretion in selection of audit issues • Freedom to decide on content, timing of audit reports and to publish and disseminate them <p>Effective follow up mechanism at the SAI on its recommendations</p> <p>SAls reporting on its own activities and use of resources</p> <p>Oversight and accountability</p> <p>The Parliament or an oversight body appoints the SAI's external auditors</p>	<p>Leadership and direction</p> <p>Strategic planning</p> <p>Annual operational planning</p> <p>Organization of the SAI</p> <ul style="list-style-type: none"> • Organisational development • Existence of a performance audit function • Existence of an IS audit function • Existence of an IT support function <p>Internal control system in line with International standards</p> <p>Use of resources</p> <ul style="list-style-type: none"> • A management information system (MIS) tracking key management information • A time recording system to enable reporting of staff costs • Code of ethics • and its monitoring 	<p>Human resource and professional development policy</p> <p>Including:</p> <ul style="list-style-type: none"> • Recruitment • Remuneration • Performance management system • Career development • Training • Staff welfare • Professional development • Job rotation • Retaining • Exit <p>Development plans</p> <p>Aligned with:</p> <ul style="list-style-type: none"> • Strategic plan • Annual operational plan <p>Management of personnel</p> <ul style="list-style-type: none"> • Recruitment • Development • Staff welfare • Performance appraisals • Retaining • Filling of vacant posts • Exit <p>Monitoring and evaluation mechanisms</p> <p>For:</p> <ul style="list-style-type: none"> • New entrants • Management development • On the job training • Secondments to other SAls • Audit/accounting qualifications • Coaching and mentoring process <p>Capacity to train its staff</p> <p>To:</p> <ul style="list-style-type: none"> • use information • develop knowledge • develop skill

AUDIT STANDARDS AND METHODOLOGY	COMMUNICATION AND STAKEHOLDER MANAGEMENT
<p>Annual audit plan</p> <p>Covering:</p> <ul style="list-style-type: none"> • Assessments of constraints • Current issues and stakeholder expectations • Risk assessments in place for prioritizing audit risk • Clear statement of audit coverage • Activity plans for regularity and performance audits • Addressing of backlogs <p>Audit manuals</p> <ul style="list-style-type: none"> • Aligned to international standards • Connected to a training program • Reviewed and updated regularly <p>Quality control measures and quality assurance</p> <ul style="list-style-type: none"> • SAI policy and procedures • Roles and responsibilities • Type of review specified and planned, including nature, scope and frequency • Implementation of a quality assurance handbook or guidance for full compliance to international standards • Quality assurance processes performed by others <p>Audit IT-techniques</p> <ul style="list-style-type: none"> • Electronic working papers • Computer assisted audit techniques (CAATs) <p>Implementation of the SAI communication strategy for the audit process with the auditees</p> <p>Communication</p> <p>With:</p> <ul style="list-style-type: none"> • Relevant experts • Professional bodies • Relevant journals • Internal audit • Other public sector audit institutions <p>SAI reporting</p> <p>Follow up on previous recommendations Standard structure of reports, user-friendly with materiality considerations</p>	<p>Communication policy and strategy covering internal and external communications</p> <p>Based on:</p> <ul style="list-style-type: none"> • Legal framework • Vision, mission and values • Stakeholder analysis • (including prioritization) • SWOT or similar analysis • Gap analysis considerations <p>Channels of communication</p> <p>Between:</p> <ul style="list-style-type: none"> • SAI and Parliament • PAC and Judiciary <p>Ad hoc meetings</p> <p>With:</p> <p>Ministry of Finance and oversight bodies</p> <p>Internal communication Including:</p> <ul style="list-style-type: none"> • Alignment of staff to SAI's vision, mission, goals and objectives • Implementation of effective information sharing practices <p>Via:</p> <ul style="list-style-type: none"> • Engagement with: • Media • The public • Academic institutions • International community and organizations • Use of effective information sharing practices <p>Audit performance and results</p> <ul style="list-style-type: none"> • Audit coverage of expenditure • Number of signed and issued or published performance audit reports • Number of/percentage of performance auditors in relation to total audit staff • Integration of IS audit in regularity and performance audit • Coverage of IS audit • Time for submission of the annual audit report to Parliament from the beginning of the year • Time for implementation of the recommendations • Key stakeholders view on the benefit of the audit

WORKING PAPERS

LIST OF WORKING PAPERS

- WP1 Sector assessment
- WP2 Proposal for audit topic
- WP3 Scoring of proposed audit topics
- WP4 Prioritisation of proposed audit topics
- WP5 Plan for the pre-study

- WP6 Quality control checklist - Plan for the pre-study
- WP7 Introductory letter (pre-study)
- WP8 Minutes from meetings or interviews
- WP9 Letter requesting initial information
- WP10 Letter requesting interview

- WP11 Interview guide
- WP12 Pre-study memorandum and work plan
- WP13 Quality control checklist - pre-study
- WP14 Code of ethics declaration
- WP15 Engagement letter (main study)

- WP16 Content analysis
- WP17 Audit progress report
- WP18 Findings matrix
- WP19 Performance audit report
- WP20 Quality control checklist - Audit report

- WP21 Letter requesting comments on draft report
- WP22 Submission letter
- WP23 Distribution of the audit report
- WP24 Evaluation-Lessons learned
- WP25 Letter on follow-up on audit reports

- WP26 Follow-up internal memorandum
- WP27 Consolidated follow-up report to Parliament
- WP28 Letter - Result of follow-up
- WP29 Overview of internal factors
- WP30 Considerations of comments

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