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Office of the Federal Auditor General

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AUDIT FOR THE BENEFIT OF CITIZENS

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PERFORMANCE AUDIT MANUAL

SECOND EDITION, 2025

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HOW TO USE THIS MANUAL

Overview of the performance audit process

The information in this performance audit manual provides the audit team with a methodology for completing an audit. This manual is based on ISSAI 300. For further guidance, refer to the INTOSAI standard ISSAI 3000 as well as INTOSAI guidance GUID 3910 and GUID 3920. The audit working papers are standardised, and the manual provides the method of documenting and referencing information to ensure consistency.

- **Chapter 1. Introduction** – Outlines the decision made by OFAG to adopt the General Auditing Standards for performance auditing and the purpose and limitations of this manual.
- **Chapter 2. Introduction to Performance Audit** – provides a definition of performance audit, discusses the key concepts of economy, efficiency and effectiveness, and outlines some of the benefits of performance audit. It also introduces the performance auditing process that will be used throughout chapters 3 to 6, and discusses the three approaches to performance audit.
- **Chapter 3. The Planning Process** –As noted in the ISSAIs, planning has two main parts i.e., selecting audit topics and design (planning) of an individual audit.
- **Chapter 4. Conducting the Audit** – As noted in the ISSAIs, this phase relates firstly to obtaining sufficient and appropriate audit evidence and secondly to using the evidence to answer the audit objective and audit questions.
- **Chapter 5. Deciding and Reporting on Audit** – The ISSAIs note that the reporting phase relates to the process of drafting the report, reviewing and deciding on the report (i.e., clearing the report internally and externally), and then publishing and distributing the report.
- **Chapter 6. Follow-up** – The ISSAIs note that the follow-up phase involves the follow-up of performance audit reports to determine the impact of the audit.
- **Chapter 7. Communication** – - deciding and reporting on performance audit results.
- **Chapter 8. Quality Control** – discusses quality control procedures to be performed at every step of the performance audit process (i.e., how auditors ensure that the work performed at that phase has been properly completed in accordance with the ISSAIs)

At each stage of audit process, references to the related working papers can be found. Explanatory notes and illustrations included in these working papers are clearly indicated. These notes should be removed from completed working papers as they are only intended as guidance for the user.

1. INTRODUCTION

1.1 ADOPTION OF THE GENERAL AUDITING STANDARDS

The Office of The Federal Auditor General (OFAG) adopted the General Auditing Guidelines for performance auditing issued by the International Organization for Supreme Audit Institutions (INTOSAI), as authoritative standards for performance auditing. The General Auditing Guidelines are part of the INTOSAI Framework of Professional Pronouncements (IFPP) and provides an institutionalised framework of professional standards and other pronouncements to Supreme Audit Institutions (SAIs). This framework includes a series of ISSAIs that apply to performance and other types of audits which are supposed to be complied with by the auditors.[1]

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. Thus, the OFAG Performance Audit Manual apply to all officers in OFAG directly or indirectly involved in performance auditing, in their work related to performance auditing. For performance auditors, Chapter 3 – 9 related to the audit process are the most important in the daily work with performance audit engagements. The fundamental 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. By adopting the General Auditing Guidelines, OFAG has committed to comply with all ISSAIs relevant to the audit, within the framework of the mandate, national legislation and regulations. The OFAG Manual explicitly reflects the conflicts that may exist between the ISSAIs and the mandate, national legislation and regulations. OFAG is committed to take reasonable initiatives to try to overcome any limitations in the compliance with ISSAIs. OFAG will also in the reporting or other information on the institutional level, in line with principle 3 in INTOSAI-P 20, inform main stakeholders on how OFAG complies with the adopted standards.

1.2 PURPOSE AND SCOPE OF MANUAL

This manual includes all the requirements contained in the performance audit standards.[2] It details the performance audit processes and provides practical guidance on conducting performance audits in line with INTOSAI P1, P10, P12, P20; ISSAIs 100; 130,140; 300 and 3000; and GUID 3910 and 3920 which are part of the INTOSAI Framework of Professional Pronouncements (IFPP). OFAG must comply with the requirement of the INTOSAI Framework of Professional Pronouncements. Compliance with this manual will result in compliance with the ISSAIs relevant to performance audit. The manual will help strengthen the capacity of OFAG to plan, conduct, report and follow up performance audits. The manual does so by:

- Explaining the nature of performance audit in the public sector and the strategic considerations in implementing the performance audit standards in Offices of the Auditor General (OFAGs).
- Providing guidance and illustrations on the process, tools and working papers that could be used in conducting a performance audit.
- Assisting users to achieve the highest possible level of quality in performance audit.

[1] ISSAI 100:10
[2] ISSAI 3000, GUID3910 and GUID 3920

- Promoting the highest possible level of professional competence in OFAG employees.
- Allowing others outside OFAG to gain a better perspective and understanding of the practices and professionalism of the Office.

It is not the intent of this manual to duplicate the content of the ISSAIs for performance audits. Rather, it assumes that auditors are familiar with those standards, and that what they require is practical advice on how to apply them during each phase of the performance auditing process. Most sections in the manual begin with the full text of the relevant bolded requirements in the fundamental principles for public sector auditing, principles for performance auditing, ISSAIs and the GUIDs. The rest of the section then provides guidance on how to apply those standards during that step of the performance auditing process.

These requirements are used in AFROSAI-E quality assurance reviews of performance auditing and consistent with the criteria for performance auditing in the SAI Performance Measurement Framework (PMF) developed by IDI. The references to PMF SAI-3, 12, 13 and 14 are references to dimensions in the performance audit indicators in this framework. The main text is also systematically referenced to INTOSAI-P 1 – 50 and ISSAI 100, 130, 140 and 300; references to ISSAI 3000, GUID 3910 and GUID 3920.

1.3 LIMITATIONS OF THE MANUAL

While the manual deals with every phase in the performance auditing process and provides guidance with respect to all ISSAIs relevant to performance audit, it must be remembered that each performance audit is unique. It is not possible to include, in a manual, material describing the work that is required to be performed on every possible performance audit that OFAG may wish to perform. While supporting guidelines can provide an additional level of detail, no matter how extensive the manual and guidelines are, they would still need to be supported by training courses and on-the-job training and experience.

2. DESCRIPTION OF PERFORMANCE AUDITING

2.1 WHAT IS A PERFORMANCE AUDIT?

Performance Audit as define by ISSAI 300
The Fundamental Principles of Performance Auditing as stated in ISSAI 300, define a performance audit carried out by a SAI as "*an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement*."[3]

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:[4]

- 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.

The main objectives for performance auditing include the following[5]:

- Performance auditing constructively promotes economical, effective and efficient *governance* in the public sector. It also contributes to accountability and transparency.
- Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether the taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specific objectives from being achieved. Performance auditing focuses areas where value can be added 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, a SAI is free to decide, within its mandate, what, when and how to audit, and should not be restrained from publishing its findings.

Performance audits are concerned with the way in which entities use their resources to achieve their objectives. They are a way for Parliament and the other intended users to obtain an insight into how

[3] ISSAI 300:9
[4] ISSAI 100:10
[5] ISSAI 300:12; ISSAI 3000:18; and GUID 3910 para 10-16

well government programmes are being managed, and whether value for money is being achieved. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. The subject matter need not be limited to specific programmes, entities or funds. Performance audits can include audits of various activities, such as service delivery by responsible parties and assessments of the achievement of outputs, outcomes and impacts. The audit can look at the effect government policy and regulations can have on the responsible parties and the intended users of government services. The main questions are whether the government is "doing the right thing" and doing this "in the right and least expensive way."

2.2 ECONOMY, EFFICIENCY AND EFFECTIVENESS AND THEIR APPLICATION

As is evident from Section 2.2, performance audits are concerned with the audit of economy, efficiency and effectiveness also known as the 'three Es'. The three Es form the theoretical platform for the perspectives and types of problems addressed in performance auditing. INTOSAI defines the principles as follows:[6]

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

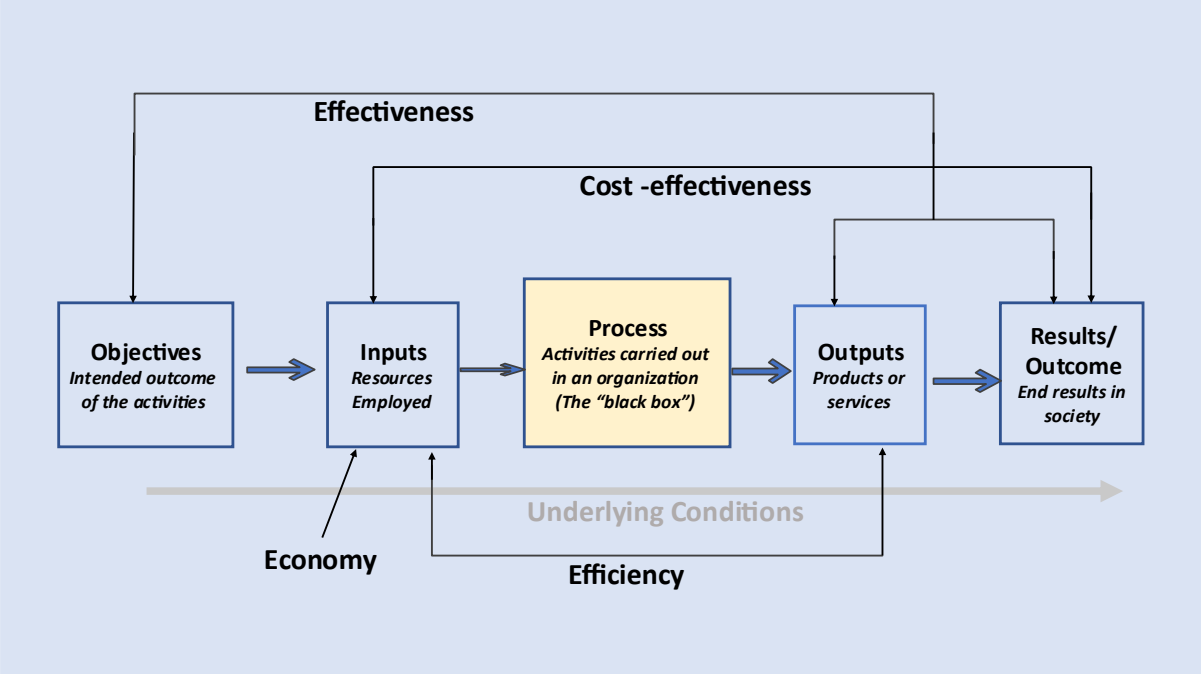
The concepts of the three Es draw attention to different aspects of government activities and programmes, and represent different purposes and perspectives in the audits. These concepts also encompass audits addressing environmental topics, equity or efficacy. Performance audit often include an analysis of the conditions 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.[7]

Rarely can a performance audit include all aspects of economy, efficiency and effectiveness as it may end up not being comprehensive. Thus, performance auditing can rarely provide sufficient evidence for statements on whether an undertaking is economical, efficient or effective in all respects. However, it is common that audits may cover aspects relating to more than one of the three Es. The concepts represent different perspectives in the audit even if they can be combined, and therefore leads to a focus on different questions. It is advisable not to examine aspects of economy or efficiency or effectiveness of activities in total isolation. For instance, if an audit focuses on economy without

[6] ISSAI 300:11; ISSAI 3000:18
[7] ISSAI 300:11; ISSAI 3000:19

considering at least briefly the outcome of a policy might end up recommending for cheap but ineffective interventions. Conversely, in an effectiveness audit, aspects of economy and efficiency may be considered since it may happen that the outcomes of the activity or programme may have had desired outcomes bit with the resources very costly.[8] The relationship among the three Es concepts is illustrated through and input-output model in Figure 1.

Figure 1: Economy, Efficiency and Effectiveness



Source: GUID 3910:37 and AFROSAI-E Performance Audit Handbook (September 2024 Version)

In figure 1:

a. Input refers to financial, human and material resources used by the audited entity.
b. Output refers to the products, capital goods and services which result from audited entities' activities.
c. Outcome refers to likely or achieved effects of outputs. Put in another way, outcomes are the desired results or benefits for which expenditures were being incurred. These can be short-term, mid-term or even long term. The long-term effects can also be referred to as **"**impacts**".**

In this section, the concepts of the three Es are each defined and discussed. Further, cost effectiveness is briefly discussed as illustrated in figure 1.

Economy: Keeping the cost low

Economy relates to inputs. Economy means minimising the cost of resources used for an activity, having regard to appropriate quality. The main question in the audit of economy is "Are the resources used available in due time, of appropriate quantity and quality, and at the best price?" Quality is an important concept on the input side (both in economy as well as in efficiency). In the case of the

[8] GUID 3910:47

construction of a school, for example, economy would involve acquiring materials and labour that meet the required quality at the lowest possible cost, and at the time they were required.[9]

Efficiency: Making the most out of the available resources

Efficiency relates to the utilization of the inputs to produce outputs. It assesses the relationship between inputs and outputs. It means maximising the output (goods or services produced) from a given level of input, or alternatively minimising the inputs required for a given level of output.

Auditing efficiency focuses the audit on whether the resources used have been put to optimal or satisfactory use, or whether the same or similar results in terms of quantity, quality and turn-around time could have been achieved with fewer resources. The main questions when auditing efficiency are "Are we getting the most output (in terms of quantity and quality) from our inputs?" or "Could the same output have been achieved with less input?"[10]

Considering that efficiency is a relative concept, an audit of efficiency would require some kind of comparison. Usually, measures of efficiency are partial as it is difficult to include the cost and the different dimensions of the outputs (volume, quality and timeliness) in the same measure. Audit of efficiency can be aimed at cost efficiency *(Volume of output against total cost of producing them)*, technical efficiency *(where processes can be streamlined to improve performance)*, allocative efficiency *(improving efficiency by allocating resources differently)*, scale or energy efficiency *(realizing same outputs with less input by sharing means or processes or merging)* or Labour efficiency *(measuring volume of outputs against the volume of labour used to produce them)*.[11]

In the case of the school, for example, efficiency would involve ensuring that the school was constructed using the least possible amounts of materials and labour (but that met the required quality), and was constructed on a timely basis. Efficiency oriented audits can also examine the process leading from input to output to expose shortcomings in these processes or in their implementation.

Effectiveness: Achieving the stipulated aims or objectives

Effectiveness relates to the outputs – it deals with the extent to which the policy or programme objectives were met in terms of the generated output. It is concerned with the relationship between objectives on the one hand and outcome on the other. Put another way, effectiveness is concerned with the relationship between objectives and outputs, and between objectives and outcomes. Given these two, it is also concerned with the link between outputs and outcomes.[12] Effectiveness consists of two parts:

(a) To what extent are the objectives of the programme or policy met? This can be answered by a result -oriented audit. Main focus of such audits is on the objectives (are they specific and measurable?) and on a comparison of the actual output and/or outcome to the objectives. It should be noted that measurement and comparison of outputs/outcomes against the objectives in a result-oriented approach audit may give an indication of effectiveness but

[9] GUID 3910:38
[10] GUID 3910:39
[11] GUID 3910:40-41
[12] GUID 3910:42

neither does it establish a causal relationship between the outputs/outcomes and the programme being audited nor provide information on the reasons for performance.[13]

(b) Can the achievement of the objectives be attributed to the output? This is a consideration of whether the output did, indeed, lead to the achievement of the outcomes. A useful instrument to such effectiveness audits is the change theory which describes how and why an initiative or programme is expected to work. Auditors need to analyse key documents or interview those responsible in order to identify the theory behind a programme or policy. In so doing they obtain a clear description and better understanding of the assumptions on the causal relationship between the output and intended outcome (objectives) of a policy or programme.[14]

The reason why (b) needs to be considered is because it is possible that the outcome was achieved through other activities and outputs. It is even possible that the desired results were achieved *despite* the audited entity's performance. In the case of the school, for example, auditing effectiveness would involve assessing the extent to which the finished school achieved the objectives for which it had been built, and whether it was, indeed, the new school that resulted in the achievement of the objectives. For greater clarity, it should be noted that effectiveness does *not* relate to how "effectively" the school was constructed – that is assessed through a consideration of economy and efficiency. As above, effectiveness relates to the extent to which the school led to the achieved the objectives for which it had been built.

The legislation under which an OFAG operates may give the OFAG the authority to directly audit effectiveness, or to audit the extent to which entities have policies and procedures in place to ensure effectiveness. These policies and procedures could include, for example, good management practices and procedures to ensure the correct and timely delivery of services and the achievement of objectives. Even if the OFAG has the authority to directly audit effectiveness, it may still wish to include, in the scope of its performance audit, an examination of the audited entity's policies and procedures to ensure effectiveness. The OFAG may want to do this to determine if the audited entity's policies and procedures did, indeed, contribute to the achievement of the desired outcomes. As above, it is possible that the desired results were achieved through other means and despite the audited entity's performance.

While performance audits deal with the extent to which the policy objectives were achieved, they normally do not question the objectives themselves. To do so could be seen as questioning government policy (i.e., the intentions and decisions of Parliament). For example, if one of the reasons for building the new school was to reduce class sizes in the region to no more than 20 students per class, the auditor would not question whether or not this was an appropriate policy for the government to have. What the auditor could comment on, though, was whether the new school achieved that objective, and whether building the new school was the most economical, efficient and effective way of achieving the objective. The auditor could also comment on whether there were any shortcomings in the laws or regulations that made it more difficult to achieve the objective (or that resulted in the objective not been achieved). In addition, the auditor could comment on any intended

[13] GUID 3910:43-44
[14] GUID 3910:44

or unintended consequences arising from the policy (e.g., the impact that the policy will have on future operating costs).

Cost-Effectiveness

Figure 2.1 has one additional relationship – cost-effectiveness. This combines the elements of efficiency and effectiveness to assess the relationship (ratio) between the outcome of the programme and the input required to achieve that outcome which is expressed as cost per unit of outcome achieved. Cost-effectiveness refers to the ability or potential of an audited entity, programme to achieve certain outcomes at a reasonable cost.[15] Using the illustration in the previous paragraph (reducing class sizes), cost-effectiveness could look at the cost (input) required to reduce maximum class sizes from, say, 30 students to 25 students and then from 25 students to 20 students.

Other Potential Es

There are numerous other Es that are sometimes considered as part of a performance audit. They include equity, environment, ethics, equality and electronics. None of these are really additional Es; rather, as illustrated below, they are matters that may be considered as part of the audit of economy, efficiency and/or effectiveness. The first two are described below.

Equity

Equity deals with the principle that everyone should be able to exercise their civil, political and social rights, and that everyone should benefit from government activities (e.g., that there should be no gender or regional disparities). Public policies of protection and social development often play a key role in building equity, and hence equity can usually be covered as an additional topic in performance audits or as part of auditing the effectiveness of the related objectives of policies or programme.[16] An examination of equity may involve an assessment of equality of access to services, distribution impacts and impact on disparities.[17]

Environment

Environment deals with such matters as the protection of the environment (air, water, etc.) and sustainable development. Environment is not really a further E, but is instead the potential subject matter of a performance audit.

2.3 BENEFITS OF PERFORMANCE AUDIT

As is evident from the discussion above, performance auditing deals with economy, efficiency and effectiveness. It follows logically from this that the main benefit of performance auditing is that it can lead to improvements in the economy, efficiency and effectiveness of government programmes. The focus on results and the achievement of objectives, and on a consideration of why the objectives were not achieved or were only achieved at great cost, could help identify government inefficiency and waste; and/or fraud and corruption. The findings and conclusions from performance audits can also lead to other audits that, in turn, will lead to further improvements. For example:

[15] GUID 3910:49
[16] GUID 3910:49
[17] GUID 3910 page 23

(a) In cases where fraud is possible, the OFAG could undertake a fraud/forensic audit of the related programme and activities.
(b) In cases where internal controls are poor, the auditor could undertake an audit of those controls and make recommendations to improve the controls.
(c) In cases where there is non-compliance with authorities, a compliance audit could be undertaken.

Performance audits can also help strengthen the cultural diversity, creativity and learning in an OFAG, leading auditors to focus on important social, political and economic matters. Performance audit has the potential to increase OFAG presence in the media because performance audits usually attract public interest. Besides increasing visibility of the OFAG, performance audit can increase an auditor´s motivation due to public exposure of his/her work. Because performance audits can identify potential improvements in public administration and help to reduce government expenditures, Parliament may be encouraged to put more resources into the OFAG.

2.4 COMPARISON BETWEEN FINANCIAL, COMPLIANCE AND PERFORMANCE AUDITS

The ISSAI 100:22 groups audits into three main types – financial, compliance and performance audits. This section provides a brief overview of a financial audit and a compliance audit and their similarities and differences to performance audit. Annex A then provides greater detail with respect to financial and compliance audits, introduces other types of audits, and provides more detail on how these other types of audits compare to performance audits.

Three Main Audit Types as Defined by ISSAI 100:22 and 4000:27
Financial audit: focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.[18] It reports on the financial statements and communicate in accordance with the auditor's findings and is usually synonymous with an audit of an entity's financial statements.
Compliance Audit: focuses on whether a particular subject matter complies with authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions, and information are, in all material respects, in compliance with the authorities that govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials.[19] Compliance audits may be conducted on their own with the objective of expressing an opinion (or reaching an overall conclusion) on an audited entity's compliance with authorities. They can also be conducted in relation with the audit of financial statements or in combination with performance auditing.[20]
Performance audit: focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those

[18] ISSAI 100:22
[19] ISSAI 100:22
[20] ISSAI 4000:27

criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.[21]

These three types of audits have several similarities and differences. Some concepts and requirements are used in all the types of public sector auditing although their meanings may differ. These include the different phases of an audit, concepts such as subject matter, materiality, ethical requirements and standards on quality management, Understanding of Internal Controls, Consideration of fraud of use of professional scepticism and right to access information. Table 1 compares the different dimensions of the three audit types that describe the fundamental differences between them.

[21] ISSAI 100:22

Table 1: Comparing characteristics of performance, compliance and financial auditing

Aspects	Performance auditing	Compliance auditing	Financial auditing
Purpose	Examine whether government undertakings, organisations, or activities operate in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement.	Assess whether activities, financial transactions, and information are, in all material respects, in compliance with the authorities which govern the audited entity.	Provide assurance on whether an entity's financial information is presented in accordance with the applicable financial reporting framework.
Focus/Scope	Analyse relations between results and the undertakings generating them. Can cover a broad range of activities and complex issues that are not pre-set.	Consider and identify whether there is material non-compliance with the used criteria.	Consider and identify whether there are material misstatements in financial statements either due to fraud or error.
Type of engagement	Direct reporting engagement.	Attestation or direct reporting engagement.	Attestation engagement.
Starting point	Stand-alone audits based on indications or risks of performance weaknesses or problems.	Regular or stand-alone audits based on indications or risks of non-compliance.	Auditing financial statements on an annual basis.
Academic basis and relevant experience	Economics, political science, sociology etc. Experience of professional investigations or evaluations and familiarity with methods applied in social science as well as other relevant methods/skills.	Accountancy, law, and sector relevant knowledge. Professional audit skills.	Accountancy and law. Professional audit skills.
Methods	A mix of methods designed to achieve the objective of each audit.	Vary depending on the character and subject matter of the audit.	A combination of verifying reliance on internal control and substantive procedures (analytical approach and test of details).
Audit criteria	Significant and reasonable criteria based on professional judgement from an open-ended set of potentially relevant criteria. Unique criteria for each audit, developed from legitimate sources and logical reasoning.	A closed set of absolute criteria for the subject matter based on laws and regulations or propriety (general principles governing sound financial management and conduct of public officials).	Applicable financial reporting and regulatory framework (a closed set of standardised absolute criteria).
Evaluation technique	Use significant and reasonable criteria to assess the design, implementation, and results of activities. The room for improvement defines a	Gap analysis, in which identified deviations from criteria are sufficient to define them as	Gap analysis, where identified deviations from criteria are sufficient to define them as

	performance problem. Deviations from criteria are not sufficient to establish problems.	problems. Professional judgement needed to assess their materiality.	problems. Professional judgement needed to assess their materiality.
Form of providing assurance	Explain how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the findings result in the conclusions.	Standardised statement, applying principles for limited or reasonable assurance.	Standardised statement, applying principles for reasonable assurance
Reports	Special reports published throughout the year. Varying size and content, depending on objectives, but often with similarities in the overall structure.	Vary depending on the character and subject matter of the audit.	Standardized auditors report combined with other non-standardized reports
Purpose of documentation	To document the audit process and substantiate the audit evidence presented in the report.	To provide a clear understanding of the work performed, evidence obtained, and conclusions reached	Document design and performance of procedures enabling the auditor to collect evidence to draw conclusions on which to base an audit opinion.
Inspired by paragraph 8 of the appendix to GUID 3910, although significantly elaborated and includes compliance auditing in the comparison.			

Often, there is confusion in distinguishing performance auditing and compliance auditing due to the following:

- Performance audits can use legislation and regulations as sources of *criteria for good performance*. Nevertheless, is the focus on compliance with the rule but on whether the expected results are achieved.
- Compliance can also be important in assessing performance, for example, when there are procedural requirements for the purpose of *protecting the rights of stakeholders*. Compliance with such requirements may be of great importance for performance, even when they pose limitations for government entities in trying to achieve the intended results.
- Compliance can be interpreted as one of many *cross-cutting requirements* or objectives in government, making it a possible topic of performance audits to deeper analyse shortcomings in compliance and what causes entities to face such problems – something that would not be required in a compliance audit.
- Some audits are labelled as performance audits but use the same evaluation technique as in compliance and financial audits such as performing gap analysis limited to identifying deviations from chosen criteria. This can lead to reports of a similar nature as direct reporting compliance audits, even if the sources of criteria are not laws and regulations. On the other hand, such audits do not live up to the requirements for performance audits unless, in some way, they also include an analysis of the causes of problems and, if relevant, provide recommendations addressing the causes of problems.[22]

The ISSAIs require the auditor to assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. 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. The auditor needs to make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives.[23]

Many of the principles reducing the risk for fraud and corruption in government operations are equally important for, or clearly related to, what is required of public organisations to operate economically, efficiently and effectively. Performance auditing is appropriate for analysing the functioning of administrative and management systems in order to better prevent fraud and corruption, but in general less well designed to identify /or investigate individual cases. Performance auditors should usually report any suspicions of fraud and corruption to management for consideration on whether to make further investigations or report to the appropriate authorities.

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 should consider to what extent it is relevant to consider the risk for fraud and corruption in the audit, for example:

[22] ISSAI 100:22; ISSAI 300:40; ISSAI 3000:121 and 127
[23] ISSAI 3000:73-74

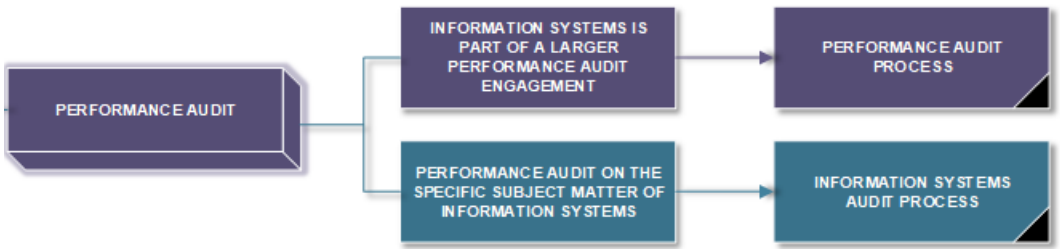
- To select *audit topics* that addresses systems where fraud and corruption is known or perceived to be;
- To define *audit questions* targeting factors or systems likely to explain poor performance as well as enabling fraud and corruption.
- If relevant to the audit objective, to *collect data* directly providing evidence that fraud and corruption are likely to be a cause to poor performance.
- To *consider in the analysis* if fraud and corruption may be underlying reasons for observed performance problems, even if no direct evidence have been obtained; without evidence the suspicions cannot be presented in the report, but the risks can explicitly or implicitly be considered in the analysis.
- In *developing recommendations*, to consider how the performance can be improved at the same time as the recommended measures are designed to have a preventive effect on fraud and corruption.
- To *separately report observations or suspicions* of fraud and corruption to appropriate authorities or regularity auditors as appropriate, regardless of whether the information has been used in the performance audit report or not.

2.5 PERFORMANCE AUDIT AND INFORMATION SYSTEMS AUDIT

According to Guide 5100, an Information Systems (IS) audit examines the controls of IT-driven information systems to identify deviations based on the type of audit engagement i.e., financial, compliance, or performance audits. IS auditing involves collecting and evaluating evidence to determine whether an information system maintains data integrity, safeguards assets, supports organizational goals effectively, and utilizes resources efficiently.

A performance audit of the specific subject matter of information systems or as part of a larger engagement may entail drawing assurance that IT resources allow organisational goals to be achieved efficiently and effectively. This may include assessing whether the relevant general and application controls effectively prevent, detect and correct instances of excess, extravagance and inefficiency in the use and management of information systems. Performance audits incorporate IS audits to assess the efficiency and effectiveness of IT-enabled services. Figure 2 show how performance auditing can be conducted in collaboration with information systems auditing.

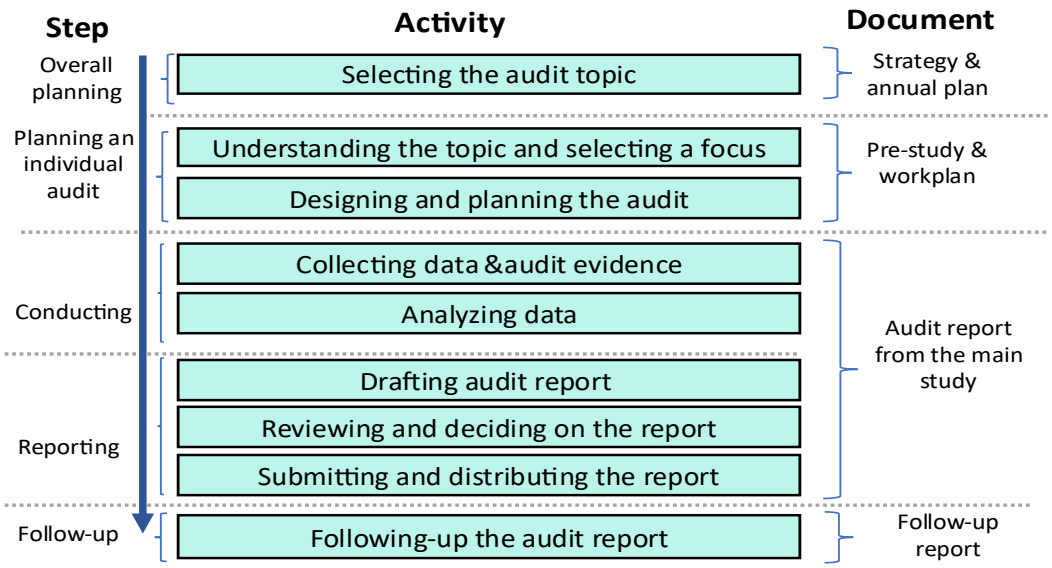
Figure 2: Performance auditing and Information systems auditing



2.6 PERFORMANCE AUDIT PROCESS

The performance audit process can be divided into 4 main steps: overall planning and planning and individual audit (designing an audit), conducting, reporting and follow-up. Overall planning and planning (designing of an audit) will be described in chapter 3 while the other steps will be covered in chapters 4,5 and 6. According to ISSAI 300:35, these steps may be iterative. The 4 main steps in performance auditing process and their activities are presented in Figure 3.

Figure 3: Steps and main activities in performance auditing



Source: AFROSAI-E Performance Audit Handbook (September 2024 Version) and ISSAI 300:35

Overall planning involves the development of a strategy, annual plans and often the identification of audit topics. Planning of the individual audit engagement is mainly carried out during the designing of an individual phase and is documented in a pre-study memorandum and workplan. The audit is then conducted in a main study and results in an audit report. After some time, the auditors may follow up on how the audited entities have addressed observations and recommendations in the audit and report this to parliament. Figure 2.4 presents the performance audit process at a glance.

Figure 4: Performance Audit Process at a glance



Source: Performance Audit ISSAI implementation Handbook (2023)

2.7 APPROACHES TO PERFORMANCE AUDIT

According to ISSAI 300:26 and ISSAI 3000:40, auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design. The audit approach determines the nature of the performance audit and is an important link between the audit objective(s), audit questions, audit criteria and the work to be performed. (Note: All these concepts are discussed in Part 2 of Chapter 3). The different approaches to conducting performance audit are described as follows:[24]

A result-oriented approach	assesses whether outcome or output objectives have been achieved as intended, or whether the audited entity's programmes and services are operating as intended. It therefore directly deals with effectiveness, and with economy and efficiency.[25]
A problem-oriented approach	examines, verifies and analyses the causes of particular problems or deviations from criteria. The starting point is a problem or a "known" deviation from what should or could be. The auditor then analyses the causes of the problem and makes recommendations to solve it. It therefore may not allow conclusions against economy, efficiency or effectiveness, but can be used to identify causes of deviations from economy, efficiency and effectiveness.[26]
A system-oriented approach	involves the examination of the proper functioning of management systems, such as the financial management systems. The auditor frequently considers elementary principles of good management and considers such matters as the objective of the system, the roles and responsibilities of those involved in managing the system, and the related authorities (laws, regulations, rules, policies, etc.). As for a problem-oriented approach, it may not allow conclusions against economy, efficiency or effectiveness, but can be used to identify causes of deviations from economy, efficiency and effectiveness. [27]

The audit objective and audit questions could dictate the approach that is required. For example, if the auditor wants to be able to conclude as to whether economy, efficiency and effectiveness had been achieved, a result-oriented approach would be the most appropriate approach to use. If the auditor wished to use a problem-oriented approach or a system-oriented approach, the wording of the audit objective and audit questions would need to be amended.

Regardless of the approach taken, all planning steps described in Part 2 of Chapter 3 would need to be followed. What would be different would be the wording of the audit objective(s), audit questions and audit criteria, and the nature, timing and extent of the resulting audit procedures. The findings, conclusions and recommendations resulting from those procedures would then also be different.

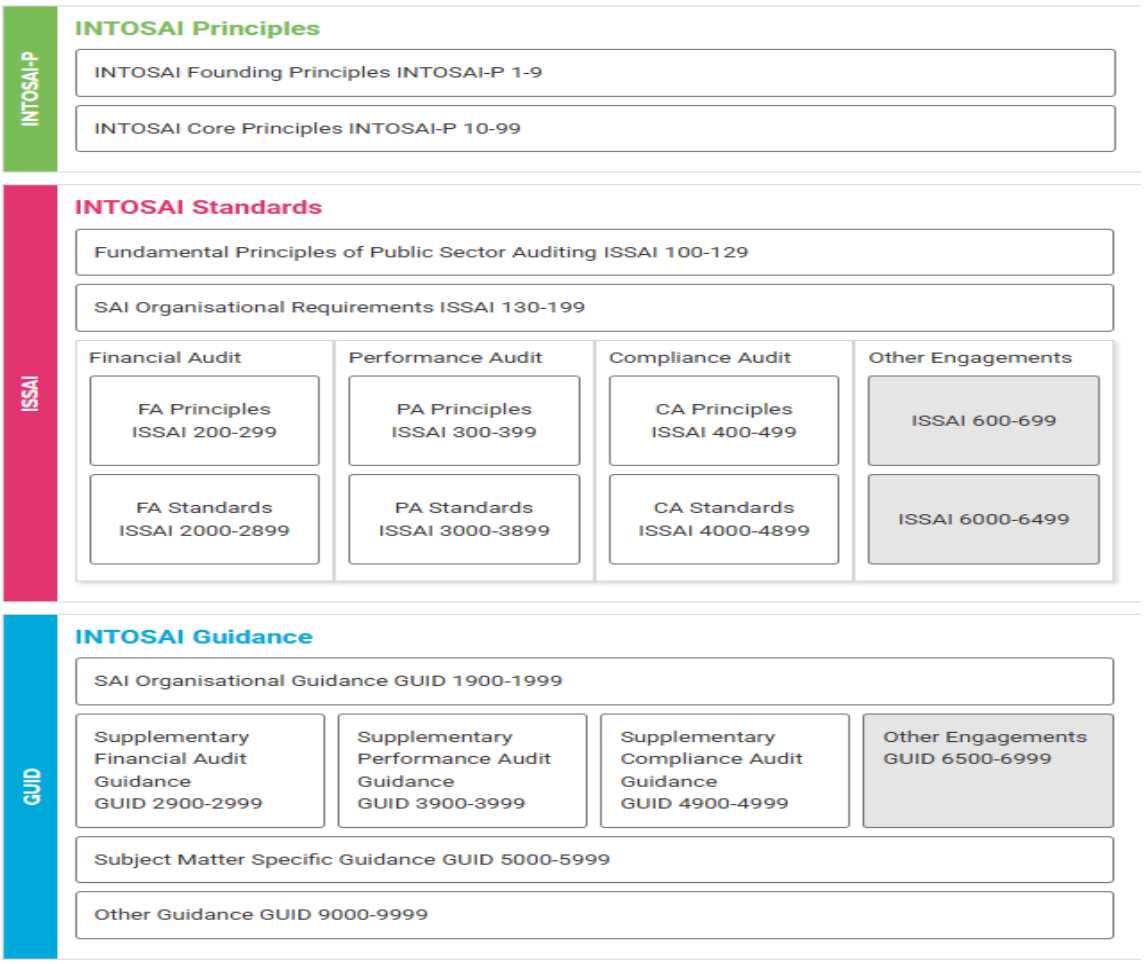
2.8 INTOSAI FRAMEWORK OF PROFESSIONAL PRONOUNCEMENTS (IFPP)

The International Framework of Professional Pronouncements (IFPP) provides an institutionalised framework of internationally recognized professional principles and standards that promote excellence in the application of methodology, and support the effective functioning of Supreme Audit

[24] GUID 3910:50-54
[25] GUID 3910:51
[26] GUID 3910:52
[27] GUID 3910:54

Institutions in the public interest. At present, the framework includes INTOSAI principles (INTOSAI-Ps), a series of International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI Guidance (GUIDs). Detailed framework is provided in figure 5.

Figure 5: INTOSAI Framework of Professional Pronouncements (IFPP)



Source: www.issai.org

ISSAIs aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their national laws and regulations and mandate.[28]The following ISSAIs are the most important for performance auditing.

[28] ISSAI 300:1

Table 2: INTOSAI Framework for Professional Pronouncements relevant for Performance Audit

INTOSAI PRINCIPLES (INTOSAI-P)		
Number	**Name**	**Content**
Founding principles and prerequisites for the functioning of SAIs		
INTOSAI-P 1	The Lima Declaration (1977)	The founding principles, calling for independent government auditing, and establishes goals for achieving this.
INTOSAI-P 10	Mexico Declaration on SAI independence (2007)	Sets out eight core principles of SAI independence that flow from the Lima Declaration.
INTOSAI-P 12	Values and Benefits of SAIs - making a difference to the lives of citizens (2013)	Twelve principles based on three objectives for how SAIs make a difference in the lives of citizens: strengthening the accountability, integrity and transparency of government and public sector entities; demonstrating ongoing relevance to citizens, parliament and other stakeholders; being a model organisation through leading by example.
IINTOSAI-P 20	Principles of Transparency & Accountability (2013)	Principles about the availability of information about the SAI, transparency in work processes and products, open communication with the media and others and being visible in the public arena.
INTOSAI Standards (ISSAI)		
Number	**Name**	**Content**
Fundamental principles of public-sector auditing		
ISSAI 100	Fundamental Principles of Public Sector Auditing (2019)	Sets out 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 refer to the ISSAIs.
SAI Organisational requirements		
ISSAI 130	Code of Ethics (2019)	A statement of the values and principles guiding the daily work of auditors; ethical requirements embodied in the key words: Integrity, Independence and Objectivity, Confidentiality and Competence.

ISSAI 140	Quality Management for SAIs (2025)	Assists SAIs to establish and maintain a system of quality control, covering leadership, ethical requirements, what work that can be accepted, human resources, engagement performance and monitoring of the quality control system.
Principles and standards for performance auditing		
ISSAI 300	Performance Audit Principles (2019)	Provides the framework for performance auditing, general principles for performance audit engagements and principles related to the audit process. Can be used to develop national standards.
ISSAI 3000	Performance Audit Standard (2019)	Covers central concepts as well as the audit process. Can be adopted as a SAI standard for performance auditing.
INTOSAI GUIDANCE (GUID)		
Number	**Name**	**Content**
Guidance for performance auditing		
GUID 3910	Central Concepts for Performance Auditing (2019)	Provides guidelines on central concepts contained in the Performance Audit Standard (ISSAI 3000).
GUID 3920	The Performance Auditing Process (2019)	Provides guidelines on the audit process contained in the Performance Audit Standard (ISSAI 3000).
GUID 5270	Guideline for the Audit of Corruption Prevention (2019)	Provides guidelines on conducting the audit of anti-corruption policies and procedures in government organizations within scope of their mandate.
N/A	Guidance on Supreme Audit Institutions' Engagement with Stakeholders	Provides guidance on how SAIs should engage stakeholders in the audit process

The INTOSAI principles, standards, and guidance are available on www.issai.org. In addition to the standards and guidance listed above, the website provides subject matter-specific guidance that may be relevant in performance auditing, for example, regarding public procurement, corruption prevention and environmental audits. Guidance relevant to performance auditing is also available on the following websites:

- INTOSAI Performance Audit Subcommittee www.intosaipas.org
- INTOSAI Capacity Building Committee www.intosaicbc.org
- AFROSAI-E www.afrosai-e.org.za
- INTOSAI Development Initiative www.IDI.no
- INTOSAI Working Group on Environmental Audit www.environmental-auditing.org. And
- Canadian Audit and Accountability Foundation http://www.caaf-fcar.ca.

OFAG recommends performance auditors to also use the materials and facilities available at AFROSA-E website. The following AFROSAI-E guidance materials can be downloaded by registered users from the website at http://afrosai-e.org.za/performance-audit. The purpose of the AFROSAI-E guidance materials is to assist SAIs in implementing ISSAIs.

Guidance for performance auditing developed by AFROSAI-E
• Performance Audit Handbook (2024) • Performance Audit Template Manual (2016) • Quality Assurance Handbook (2013) • Toolkit for SAIs communication with and reporting to PAC (2012) • Guideline on performance audit report writing (2012) • Guideline on performance audit of environmental topics (2011) • Guideline on performance audit of public procurement (2011) • Guideline on performance audit of maintenance of assets (2010) • Guideline on performance audit of waiting time (2008)

Performance auditors should report to Performance Audit Management to become registered as users on the AFROSAI-E website. Through the AFROSAI-E website, registered users can access methodological guidance for performance auditing provided by the courtesy of SAI U.K., and guidance as well as a data base with performance audit reports from a number of English-speaking SAIs, provided by the courtesy of the Canadian Comprehensive Audit Foundation (CCAF-FCVI). AFROSAI-E provides guidance on the institutional level relevant for performance auditing, regarding the institutional capacity building framework (2011), strategic planning (2009), annual planning (2011), communication (2010) and human resources management (2012).

2.9 QUALITY MANAGEMENT

ISSAI 100 requires SAIs to adopt a quality management framework as per ISSAI 140 effective as of 01.01.2025. Further, ISSAI 100:38 states that *auditors should perform the audit in accordance with professional standards on quality control. A SAI's quality control policies and procedures should comply with professional standards, the aim being to ensure that audits are conducted at a consistently high level. Quality control procedures should cover matters such as the direction, review and supervision of*

the audit process and the need for consultation to reach decisions on difficult or contentious matters. Auditors can find further information in ISSAI 140 Quality Management for SAIs.

The quality management has to be addressed at two levels: at OFAG institutional level and at audit engagement level for each audit engagement undertaken by OFAG.

2.9.1 Quality Management at OFAG Institutional Level

ISSAI 140 effective as of 01.01.2025 describes eight components of the SAI's system of quality management. These include: Risk assessment process; Governance and Leadership; Relevant ethical requirements; Acceptance, initiation, and continuance of engagements; performing engagement; resources; information and communication; and monitoring and remediation.[29] In line with the standards, OFAG will develop the Quality Assurance Policy which will address the eight components explained as follows:

Risk assessment

Risk assessment is crucial in a quality management system (QMS) for performance audit functions within Supreme Audit Institutions (SAIs). It involves identifying, evaluating, and prioritizing potential risks that could affect the achievement of audit objectives and the overall quality of performance audits. By proactively addressing these risks, SAIs can enhance the effectiveness and reliability of their performance audits and ensure they contribute to good governance, accountability, and transparency.

The OFAG must design and implement a risk assessment process that sets quality objectives and identifies risks for conducting performance audits.[30] This will enable OFAG to prioritise audit efforts by identifying areas of high-risk errors, fraud and inefficiencies. It will enable OFAG allocate its performance audit resources (personnel, budget and time) to areas that require the most attention for ensuring efficient and effective audit engagements. Identifying and addressing risks throughout the audit process will enable OFAG to improve quality of audit evidence, findings and conclusions. Proactive risk management can help OFAG prevent potential negative outcomes such as inaccurate audit findings, reputational damage, or failure to achieve performance audit objectives.

Key components of risk assessment in OFAG quality management system for performance audit must include the following:

- Risk identification where potential risks affecting OFAG performance audit function are identified. These risks would stem from various sources such as the audited entity, the audit process, external and internal factors.
- Risk analysis where OFAG analyses the identified risks to determine their likelihood of occurrence and potential impact there by prioritizing them and determining their appropriate responses.
- Risk evaluation where OFAG assesses the severity of each risk based on their likelihood and potential impact in order to determine risks that require immediate attention and those that can be managed with less intensive measures.

[29] ISSAI 140:8
[30] ISSAI 140:22

- Risk response where OFAG develops and implements appropriate risk responses based on the risk evaluation results. The responses could be categorised into preventive measures, detective controls or corrective actions.
- Monitoring and review to ensure that the identified risks and responses are still relevant and effective. OFAG must do this in an ongoing basis considering that risk management is not a one-time event.

OFAG must pay attention to the following specific consideration for performance audit when conducting the risk assessment:

- Risk assessment forms a critical part of the audit planning process and helps auditors select appropriate audit topics, scope and methodology.
- Potential risks of bias, manipulation and lack of access to information may affect the reliability and validity of audit evidence.
- To mitigate the risk of relying on inaccurate or misleading information, auditors should exercise professional skepticism throughout the audit process.
- The risk assessment process should be documented and the findings and responses should be communicated to relevant stakeholders including management and the audit teams.

Governance and leadership

Effective governance and strong leadership are crucial for a successful quality management system (QMS) in Supreme Audit Institutions (SAIs). OFAG needs to create an environment that demonstrates commitment to quality through its culture, with clear policies, procedures, and leadership commitment to ensure high-quality performance audit outputs while recognizing its role in serving public interest. This involves integrating quality into the OFAG strategy, organizational culture, and daily operations including those of the performance audit function.

This responsibility is OFAG wide rather than at the individual audit level, with the Auditor General assigned the responsibility and accountability for the system of quality management. This should ensure the “the tone at the top” enforces a commitment to quality and ethics across the whole office. Systems and policies should be in place to reward commitment to quality.

OFAG must take into consideration the following key aspects of governance and leadership in its quality management system for the performance audits:

- Leadership Commitment: OFAG senior management for performance audits must demonstrate a strong commitment to quality by establishing clear performance audit quality objectives, promoting a quality-oriented culture among the performance auditors and providing necessary resources.
- Strategic Integration: Quality should be embedded within OFAG’s overall performance audit strategy, ensuring that quality considerations are integrated into all aspects of its performance audit operations.
- Policies and Procedures: OFAG’s policies and procedures including those of performance audit must be well defined for quality management, covering areas of risk assessment, human resources, ethical requirements and monitoring.

- Independence and Accountability: OFAG must ensure maintenance of independence and accountability while implementing its performance audit quality management system.
- Capacity Building: OFAG must invest in training and development programs for performance audit staff in order to enhance their understanding and application of the quality management standards and principles.
- Continuous Improvement: OFAG should establish mechanisms for ongoing monitoring, evaluation and improvements in its performance audit quality management system, adapting to changing circumstances and the best practices.
- Transparency and Reporting: OFAG should ensure transparency in the audit process and reporting on performance audit quality management activities to stakeholders.
- Communication and Consultation: OFAG must ensure effective communication and consultation with stakeholders, including auditees and the public in order to enhance the effectiveness of performance audit impacts

Relevant ethical requirements

Relevant ethical requirements in the QMS of OFAG as outlined in ISSAI 130 and ISSAI 150 are critical for maintaining public trust and ensuring the reliability of performance audits. In accordance with ISSAI 130:9, relevant ethical requirements call for the following:

- **Integrity:** OFAG performance auditors must act with honesty, reliability, in good faith and in the interest of the public in all their activities.
- **Independence and Objectivity:** OFAG performance auditors must act in an independent and objective manner to be free from circumstances or influences that compromise, or may be seen as compromising and to be free from impartiality, bias or prejudice. Thus, performance auditors are required to make judgements based on the evidence and its analysis.
- **Confidentiality and Transparency:** OFAG performance auditors must appropriately protect information, balancing this with the need for transparency and accountability.
- **Competence:** OFAG performance auditors must acquire and maintain knowledge and skills appropriate for the role and act in accordance with applicable standards, and with due care.[31]
- **Professional behaviour:** OFAG performance auditors must comply with applicable laws, regulations and conventions, and to avoid any conduct that may discredit the SAI.

Ethical Risk Controls and mitigation procedures outlined in the OFAG QMS policy and code of ethics will be applicable to the performance auditors based on the size of OFAG client portfolio and scalability of the standard requirements. [32]

Acceptance and continuance of engagement

The ISSAI 140 places additional emphasis on procedures addressing client acceptance and continuance of existing business relationships. OFAG's QMS policy that is aligned with ISSAI 140 must include procedures put in place for acceptance and continuous of engagements taking into account the Ethiopian context.[33] OFAG performance audit strategy must include an assessment of the integrity and

[31] ISSAI 150
[32] ISSAI 100:35
[33] ISSAI 140:40

ethical values of the client and its management, OFAG performance audit function's ability to perform the audit engagement within legal and professional requirements as well as continuous monitoring engagements for potential risks. The following key aspects of acceptance and continuance should be considered in the OFAG performance audit strategy and operational plan:

- **Clients' integrity and ethical values**: In order to assess potential risks, OFAG performance auditors must obtain information on its clients' integrity including their management and key stakeholders.
- **Capacity and competence**: An evaluation of OFAG performance audit function's ability to perform the audit engagements in accordance with professional standards and relevant legal and regulatory requirements must be done. This includes assessing the availability of the necessary expertise, resources and infrastructure.
- **Engagement risk assessment**: OFAG performance audit function should assess the risk associated with each engagement and including the complexity of the subject matter under audit, potential for fraud and error and impact on the OFAG reputation.
- **Continuous monitoring**: OFAG performance function must ensure ongoing monitoring of the engagements in order to identify and address any issues that may arise during the audit process, such as changes in the client's circumstances or emerging risks.
- **Documentation**: OFAG performance audit function must document its decisions regarding acceptance and continuous including the rationale for the decision and any relevant information obtained.

Performing Engagements[34]

OFAG's QMS must systematically ensure that performance audit engagements are conducted to the highest standards, adhering to established policies, procedures and relevant professional standards. This must encompass various aspects of the performance audit process including planning, execution, reporting and follow-up, while maintain independence objectivity and ethical conduct.

Performance audit engagement teams must understand their responsibility for ensuring a quality audit. Less experienced members should be appropriately supervised and reviewed. The ISSAI 140 specifically references the need for the audit engagement supervisor to be sufficiently and appropriately involved throughout the engagement. Audit teams should ensure professional scepticism and judgment are exercised by engagement teams. If an engagement team has insufficient time to perform necessary procedures, or team members are not experienced to challenge management or identify misstatements, then detection risk increases, and audit quality will be compromised.

For audits to be effective and maintain public trust, they must be performed in a such a way to ensure that audit reports issued are appropriate in the circumstance s and that OFAG and its personnel fulfil their responsibilities in accordance with applicable legal and professional standards. The system of quality management should ensure that teams can consult on contentious matters, difference of opinion with the engagement team are addressed and any issues raised by the engagement quality reviewer are brought to the attention of OFAG management and resolved.

[34] ISSAI 140:41

Resources[35]

Resources in a QMS for a SAI encompass human, technological, financial and intellectual assets. The OFAG must ensure that appropriate resources for performance audits are available in a timely manner. OFAG need to pay attention to the following regarding each category of resources for performance audits:

Human resources

- Competence and expertise: OFAG need ensure that performance auditors possess the necessary knowledge, skills and experience to conduct the audits in accordance with the ISSAIs and relevant national legislations. OFAG should ensure more experienced auditors to work on areas of a complex nature requiring additional judgment and ensuring sufficient review by senior team members or allowing adequate time to do sufficient testing and analysis of the issues. Consideration should be made to use independent experts where OFAG does not have appropriate personnel, or if OFAG requires additional specialist technological resources.

- Training and development: OFAG must ensure that performance auditors undergo continuous professional development in order to maintain and enhance their competence. This includes training on new auditing standards, methodology and technologies.

- Staff levels: OFAG must ensure adequate performance audit staffing levels to be able to conduct the audits efficiently and effectively with all the necessary quality control and assurance activities implemented.

Technological resources

- IT infrastructure: OFAG should invest in appropriate IT infrastructure, including hardware, software, and network capabilities to support the performance audit operations, data management and communication.
- Audit software and tools: In order to improve quality, OFAG performance auditors must have access to relevant audit software, data analytics tools and other technological solutions.
- Cybersecurity measures: OFAG must ensure protecting sensitive audit data and systems from cyber threats with appropriate cybersecurity measures and protocols.

Financial resources

- Budget allocation: OFAG must ensure an adequate budget allocation to the performance audit function in order to support implementation of the audits, staff training, IT infrastructure and implementation of quality control and assurance procedures.
- Resource allocation: OFAG must ensure strategically allocating adequate financial resources for performance audits in order to effectively implement and maintain the performance audit quality management system.

[35] ISSAI 140:42

Intellectual resources

- Audit Methodology and guidance: To ensure consistency and quality performance audit engagements, OFAG must develop and maintain comprehensive performance audit methodology, provide guidance and quality control procedures.
- Knowledge management system: In order to maintain effective performance audit operations, OFAG must establish a system for knowledge sharing, documentation and access to relevant information for its performance auditors.

Information and communication

Information and communication are required to enable other components of the system of quality management to operate. This involves obtaining, generating and using information and communicating the information within OFAG, for example, communicating policies to personnel, communication of information obtained during an audit with an engagement quality review, or communication between group and component auditors. It also includes external communications such as Parliament. The ISSAI 140 considers information and communication to be pervasive to all components of the system of quality management as without it, the system cannot operate.[36]

Monitoring and remediation process

The OFAG must put in place a process for monitoring the system of quality management's effectiveness and ensure deficiencies are identified in a timely manner, allowing corrective actions to be implemented. This process is a continuous cycle which OFAG is specifically required to undertake.[37] African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) developed an Institutional Capacity Building Framework (ICBF) as a tool for: SAI's general self-assessment; identifying areas of improvement and how they can be achieved within an institutional perspective; benchmarking with other SAIs among others.

The ICBF is often used in quality assurance reviews conducted by OFAGs who are members of AFROSAI-E. While not authoritative, the tool can be used to assist in the performance auditing process, particularly in the area of quality control as required by ISSAI 140 (Quality Control for SAIs).
The ICBF tool contains five domains which cover, but not limited to, the requirements in ISSAI 140.

The five domains of the ICBF are:

a) Independence and legal framework
b) Organization and management
c) Human resources
d) Audit standards and methodology
e) Communication and stakeholder management

Further reference can be made in the AFROSAI-E Performance Handbook digital version of September 2024.

[36] ISSAI 140:44
[37] ISSAI 140: 67

2.9.2 Quality Management at OFAG performance audit engagement level

To manage quality at OFAG performance audit engagement level the following are considered:

- Assigning the overall responsibility for managing and achieving quality audits to appropriate individuals. OFAG assigns this responsibility to the performance audit directors who signs and authorise audit reports on behalf of OFAG. The responsibility includes supervision and coaching teams to properly conduct the performance audits.
- Integrate different review mechanisms in the audit process. OFAG will ensure that complex and high-risk audit engagements are intensively reviewed. Performance audit reports are reviewed at three levels (first level by Audit Managers, second level by Audit Directors, third level Deputy Auditor General and finally on overall the Auditor General.
- OFAG has in its working papers quality review checklists that promote consistency of the reviews and enhance their quality. The quality review checklists ensure that the performance audits are conducted based on the prescribed methodology and in accordance with the relevant ISSAIs.
- In order to increase awareness of the results of internal monitoring and existing assessments, OFAG provide teams with the reports. This also helps OFAG ensure that applicable remedial actions are implemented by the teams to address the existing deficiencies at engagement level
- OFAG encourages performance audit teams to conduct consultations within the engagement teams or outside where need arises.
- When there is need for specialised skills in field other than auditing and accounting, collective competencies of the engagement teams are supplemented by experts based on drafted TORs.
- OFAG has in place mechanisms for resolving differences that may arise within the performance audit engagement teams or those with the engagement quality reviewers prior to conclusion of the engagement.
- OFAG ensures maintenance of right levels of competence for conducting performance audit through appropriate professional qualifications and continuous professional development.
- OFAG has integrated quality targets in engagement teams' performance measurements
- OFAG performance engagement teams engage different stakeholders in various stages of the audit engagement to contribute to high quality audit impact

2.10 CONFIDENCE AND ASSURANCE

As in all audits, the users of performance audit reports will wish to be confident about the reliability of the information which they use for taking decisions. Consequently, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports. The level of assurance that a performance audit report provides should be communicated in a transparent way. Performance auditors are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entity's achievement of economy, efficiency and effectiveness. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

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

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

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

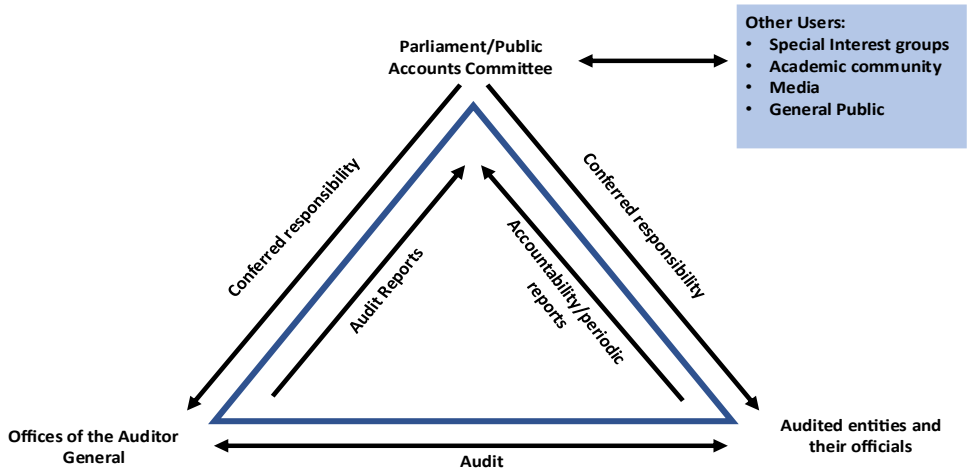
2.11 PUBLIC ACCOUNTABILITY SYSTEM IN WHICH OFAG OPERATES

Public accountability means that those in charge of a government programme or ministry are held responsible for the economical, efficient and effective running of that programme or ministry, that resources are used with due regard for economy, efficiency and effectiveness, and that all relevant authorities (laws, regulations, rules, policies, etc.) have been complied with. In modern democratic governments, parliamentarians entrust public entity officials in the executive branch of government manage expenditures, revenues or borrowings.

There are two widely used systems of accountability in the world – the Westminster system and the Cour des Comptes (Court of Audit) system. These help in identifying intended users of the audit report as required by ISSAI 3000:25 where the auditor has to explicitly identify the intended users and the responsible parties and, throughout the audit, to consider the implication of their roles in order to conduct the audit accordingly. [38] OFAG operates within what is commonly referred to as the Westminster system of accountability, based on the system originating from the United Kingdom. This is a system where public sector audits involve at least three separate parties – the auditor, a responsible party and the intended users. Figure 6 demonstrates the typical relationship in the Westminster system between Parliament with its PAC, the OFAG, and the audited entity and its officials.

[38] ISSAI 3000:25

Figure 6: The Westminster system of accountability and oversight in government



The system is basically described as follows:

(a) Parliament confers responsibility on the entity and its officials to efficiently and effectively manage funds and to efficiently and effectively deliver services. The accountability mechanisms put in place include periodic reporting.

(b) The OFAG's responsibility in this process is to provide a report on the financial information presented by the audited entity to Parliament. The OFAG can usually also report on the economy, efficiency and effectiveness with which the allocated resources have been used, and on compliance with authorities.

(c) The OFAG's reports are the first step in oversight. Representing Parliament, the PAC is the main stakeholder of the OFAG'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 the audited entity's officials are followed up. Effective oversight in a Westminster system relies heavily on a well-functioning relationship between the OFAG and the PAC.

Each party is discussed as follows in line with the accountability system:

The Auditor

This manual also uses the term "Office of the Federal Auditor General" (OFAG) instead of the term "Supreme Audit Institution" (SAI). That is because the manual may be used by regional and city OFAGs as well as the Office of the Federal Auditor General (OFAG) – the SAI of Ethiopia. The OFAG is a part of the legislative branch of government. Its function is to provide an independent assessment of the extent to which entities and entity officials have performed their functions. This includes examining whether public funds are spent economically, efficiently and effectively, and in compliance with the relevant authorities. OFAG carries out its functions by conducting various types of and issuing reports to Parliament and to the audited entities. These reports may contain recommendations to improve the audited entity's performance and thereby better achieve economy, efficiency and effectiveness.

The Responsible Party

This manual uses the term "entity" as a generic term for the responsible party – be it a ministry, agency, state-owned enterprise or other similar government-owned organization, and the divisions, units, programmes, etc. within each of them. When the responsible party has been selected for audit, the generic term "audited entity" is then used. For the subject of a specific performance audit, the "audited entity" may be an entire ministry, a collection of ministries or subsets within a particular ministry or ministries. Officials from the audited entity would then be the individuals within each of those entities who are directly responsible for ensuring that value for money is received for all expenditures, and that all relevant government authorities (laws, regulations, rules, policies, etc.) are complied with. Entities are normally established by legislation. That legislation normally specifies:

(a) The entity's purpose – the reason why it was created and the objectives it is to achieve.
(b) The programmes that the entity is to carry out to achieve its objectives.
(c) The authorities under which the entity is to operate.

The legislation may also specify the organizational structure and the responsibilities of senior entity officials. These responsibilities may include submitting annual reports to Parliament on the entity's activities and on the extent to which the entity has achieved its objectives. Each ministry, agency or state-owned enterprise is usually provided with a certain amount of funding (an appropriation) to carry out its activities. The entity officials are the ones directly responsible for ensuring that value for money is received for all expenditures, and that all relevant authorities (laws, regulations, rules, policies, etc.) are complied with.

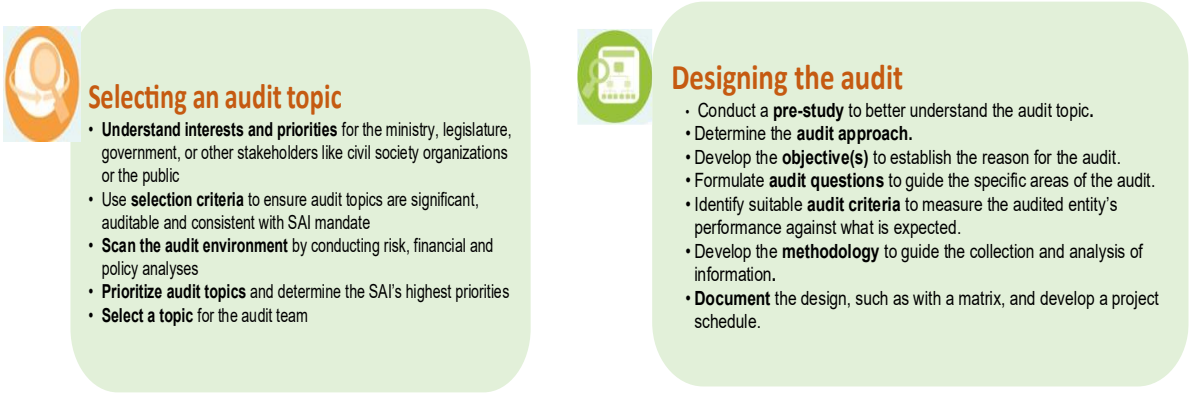
Intended Users

The intended users of the OFAG's report may be individuals, organizations, or classes thereof for whom the OFAG prepares the audit report. They can include Parliament, the executive, the entity responsible for the programme being audited, third parties concerned by the audit report (e.g., special interest groups and the academic community), the media and the general public.

In Ethiopia, as in most other countries, the primary user of an OFAG's report is Parliament. One of Parliament's roles is to ensure public accountability. It passes the legislation under which the ministries, agencies, state-owned enterprises, etc. operate, and approves their annual appropriation. Under the Ethiopian system of government, the OFAGs do not have the power to force entities to implement its recommendations – that power rests with Parliament. Parliament is the ultimate body that can ensure that public accountability is achieved. While an OFAG can report deficiencies, and can make recommendations to deal with those deficiencies, only Parliament has the authority to require officials from the audited entity to implement those recommendations.

Parliament normally performs this function by referring the reports it receives from the OFAG to a committee that, in this manual, is referred to as the Public Accounts Committee (PAC). The PAC holds hearings on the OFAG's report and then issues its own report. That report may call for the audited entity to implement the OFAG's recommendations, or to implement any additional recommendations that the PAC may choose to make.

3. THE PLANNING PROCESS



3.1 PART 1: SELECTING AUDIT TOPICS - OVERALL PLANNING

3.1.1 Requirements in the standards and expectations

Requirements according to ISSAI 3000

- 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 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, auditable, 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

The first step in the performance auditing process is the selection of performance audit topics also known as subject matter, that is "what to audit". For ease of wording and for consistency with the ISSAIs, the term "audit topic" or "topic" is used throughout the following material and the remainder of the manual to describe the subject matter to be audited. The "audit topic" could be an entire ministry, a subset of a ministry (department, division, directorate, etc.) or a particular programme, undertaking, project or activity conducted by the ministry. An audit topic could also be a theme or specific activity that cuts across numerous ministries.

OFAG performance auditors should select audit topics through a strategic planning process by analysing potential topics and conducting research to identify risks and performance issues. Performance auditing should be directed towards areas where an external, independent audit may support the oversight function in promoting accountability and economy, efficiency and effectiveness in the use of public resources. As such the selected audit topics should be significant, auditable and consistent with the OFAG's mandate, and aim to maximise the expected impact of the audit to public finance and administration, the audited entity and/or the general public while taking into account audit capacities, such as human resources and professional skills.[39]

[39] ISSAI 300:36; ISSAI 3000:89-91.

OFAG performance auditors should contribute to this process in their respective fields of expertise. They may share the knowledge from previous audits and information from the strategic planning process that may be relevant for auditor's subsequent work. In this process, auditors should consider materiality of the audit topics in terms of being sufficiently significant as well as auditable and in keeping with the OFAG's mandate.[40]

Performance audit topics should be chosen without outside pressure. The OFAG must maintain its political neutrality. The OFAG's independence does not preclude the parliament, its committees or the government from proposing matters for audit. Nevertheless, to maintain its independence, the OFAG must be able to decline any such request and, if accepted, decide how to plan, conduct, and report the audit.[41]

It is important that the head of the OFAG takes into account that performance auditing is different, demanding and time-consuming. The head of the OFAG needs to communicate a clear vision of the purpose for performance auditing and the desired outcomes to be achieved. Performance auditing requires a personal commitment from the head of the OFAG, and it is also important to get management actively involved and professionally trained.[42]

Strategic planning for performance audit is embedded within the OFAG's overall strategic plan. It covers a five-year period and is reviewed periodically to reflect changing needs and circumstances.

3.1.2 Objectives of Strategic Audit Planning for performance audit

The objectives of strategic planning for performance audit in OFAG include:

Objectives of a performance audit strategic plan	
Provide a firm basis for the OFAG management to give strategic direction for future audit coverage.	Communicate the SAI's performance audit priorities to audited entities and the legislature
Understand the risks facing audited entries and take their risks into account in audit topic selection	Produce a work programme that can be achieved with the available resources; and
Identify areas of audits and select performance audit topics with the potential to improve public sector accountability and administration.	Provide a basis for SAI accountability

3.1.3 Responsibilities for Selecting Performance Audit Topics

OFAG uses a mixed approach of top-down and bottom up in its performance audit strategic planning process.[43]

Top-Down Approach

The top-down approach is done in two stages:

[40] ISSAI 300:36.
[41] INTOSAI-P 10:3 and 10:6
[42] GUID 3910 Appendix para 18
[43] GUID 3920:11

(a) Senior OFAG management makes the initial selection and provides a list of selected topics to the performance audit directorates.
(b) The performance audit directorates take this information and refine the list of topics. The updated list of topics is then sent back to senior OFAG management for its review and approval. During the review and approval process, senior OFAG management may make further changes to the list of topics.

Bottom-Up Approach

The audit topic selection process involves having fewer senior staff make the initial decisions. As an up-front, the senior OFAG management provide the desired themes that it wishes to reflect in its performance audit reports for a given year. The directorates then take those themes into account when making an initial selection of audit topics. The list of proposed topics is then forwarded to senior OFAG management for its review and approval. During the review and approval process, senior OFAG management may make changes to the list of topics.

The final decision as to which topics are to be included in the strategic performance audit plan rests with senior OFAG management. And this is how it should be – the Auditor General is the one who is ultimately responsible to Parliament for the OFAG's performance audit reports and for how the OFAG's resources are utilised.

Decision to use mixed approach

The decision to use the mixed approach allows the OFAG to benefit from the advantages of both approaches. The top-down approach is consistent with the fact that, the Auditor General is the one who is ultimately responsible for the OFAG's performance audit reports and how the OFAG's resources are spent. As such, it is critical that the Auditor General "own" the report. Given these facts, it makes sense that the Auditor General and other members of senior management be very involved in the selection process. In addition, Senior OFAG management may have regular contact with parliamentarians and senior entity officials, and may therefore best be able to determine which audit topics would be of most interest to these users of the report.

The bottom-up approach is used considering that less senior staff are often the ones with the greatest knowledge of the entities and their programmes and activities, and therefore are often the ones most capable of performing the detailed assessments of the criteria outlined in Section 3.4. Usually, the less senior staff are the ones who have the time required to acquire the needed knowledge. While the primary person who must "own" the performance audit report is the Auditor General, the more involved the less senior staff are in the selection process the more sense of ownership they may have in the topic.

3.1.4 Period to be Covered by the Performance Audit Strategic Plan

The OFAG often selects audit topics for more than one future year. Attempting to select performance audit topics more than three years in advance is normally not advisable, particularly if there is a high probability of there being significant changes within the entities subject to audit. The selection of performance audit topics would then be updated every year to reflect developments that have taken

place since the previous selection exercise was performed, and to add a new year of proposed topics to the list.

The performance audit strategic planning process conducted each year does not involve starting from scratch – it involves updating what had been done in the previous year to reflect, among other things, new information and other developments that have taken place since the strategic planning exercise was last performed.

3.1.5 Development of the performance audit strategy

Strategic planning for performance audits in OFAG involves the following activities:

No.	Activity	Working Papers	Responsible
A.1	External strategic scanning	- WP 1: Area Watching and Sector Risk Assessment Plan - WP 2: Sector risk assessment introductory letter - WP 3 Area Watching Report - WP 4: Sector assessment report - WP 5: Proposal for audit topics - WP 8 –Quality control of the sector assessment - WP 10: Overall risk assessment report	ARD PA Directors Top Management
A.2	Internal strategic scanning	- WP 9: Overview of the internal factors	PA Directors
A.3	Scoring and prioritization of topics	- WP 6: Scoring proposed audit topics - WP 7: Prioritisation of audit topics	
A.4	Drafting a strategy for performance auditing	- WP 10: Overall risk assessment report	PA Directors
A.5	Deciding on a strategy for performance auditing		Top Management

I. External Strategic Scanning – Strategic Sector Assessment

OFAG can use a selection of different tools to provide input to the selection of topics while conducting a strategic sector assessment. The following paragraphs identify a number of tools, some or all of which may be used including Area watching, scanning public environment, General survey, discussion with PAC and other parliamentarians, discussions with officials from the audited entity, consideration of citizens views, consideration of other stakeholders' views and discussions and assessments form within OFAG. The tools have been grouped under the following non-mutually exclusive categories.

It should be noted that these activities do not all need to be performed at the same time. Other than general survey work (which is usually done once every few years) the work could be done on a continuous basis throughout the year. In order to have an organized way of strategic scanning auditors are advised to compile an area watching or sector risk assessment plan – *working paper for sector risk assessment plan WP1* for the areas /sectors assigned to them. A sector risk assessment

introductory letter, *working paper WP 2* should be drafted and sent to the audited entity. The results from the area watching can be documented in *working paper for results from area watching WP 3.* The external strategic scanning also known as strategic sector scanning involves the following steps:

Step 1: Overview of the government sector. Obtain an overview of the areas covered by the performance audit mandate and group them into main sectors (possibly in accordance with the responsibilities of the Ministries, Departments and Agencies). Remember to cover responsibilities for cross cutting issues, municipalities and state-owned enterprises as appropriate. This will enable OFAG to identify the" universe" of the audit topics that would be considered.

Step 2: Review the sectors. 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 for Sector assessment report WP 4*. 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, ongoing or planned other studies; and
- Special considerations or limitations in the audit mandate.

Based on information on the issues/problems or risks for poor performance in the sector identify proposed topics using *working paper for proposal for audit topic WP 5.*



Area Watching

Area watching entails 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 and previous reports relating to performance and compliance audits, listening to the experience of financial and compliance 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. Area watching should be a continuous process that ensures that the OAG is always in possession of updated information about what happens in society and areas that may require further examination.



Scanning the public environment

The public sector environment should be scanned each year and relevant sources of information should be inspected. These sources could include: PAC reports and resolutions.; Parliamentary speeches and speeches from the president, prime minister or other senior government officials.; National budgets and guidelines; Other policy documents affecting the entity; Documents dealing with global developments that may have an impact on Ethiopia in general and the entity under consideration in particular; and Media reports.



Discussions with PAC and other Parliamentarians

In addition to reviewing PAC reports and parliamentary speeches, the OAG could meet directly with the PAC and other parliamentarians to obtain a better understanding of the areas that most interest them, and their concerns with specific government entities.



Discussion with officials from the entity

In addition to reviewing the documents listed under "General Survey Work" above, the OAG could meet directly with officials from the entity. These individuals could be an excellent source of information about the entity, the entity's future plans, and the entity's major strengths and areas of weakness. They may have their own concerns about how well certain programmes and activities are working, and may have specific suggestions as to where they believe the OAG could provide the most assistance.

When obtaining feedback from officials from the entity, care needs to be taken to ensure that the officials are providing honest assessments and information. The officials may try to direct the OAG to areas that are performing well, and away from areas where there are known problems.



General Survey Work

Involves an update of the knowledge of the specific entity and its programmes, activities, etc. It is aimed at providing an understanding of the organization's objectives, its main activities and the level and nature of resources used in carrying out its functions. Information is assembled and evaluated on the background, objectives, activities, plans, resources, procedures and controls in the entities or areas concerned with am aim is to: Identify and review those areas absorbing a significant level of resources; Identify potential risks to achieving good value for money; and Highlight areas for continuing audit attention. The OAG could review:

- The legislation under which the entity was created and under which it carries out its activities
- Annual reports (including financial statements) issued by the entity.
- Other entity documents that provide an assessmentof its performance
- Media reports, academic papers or other publications dealing with the entity.
- Audit opinions and management letters issued by the OAG's financial auditors.
- Previous performance audit reports and PAC reports.
- Internal audit reports.
- Reports dealing with similar entities, programmes and activities issued by other Ethiopian OAGs or OAGs from other countries.

Unless the entity undergoes a significant change to its mandate and/or operations, general survey could be done once every few years.



Considering views of citizens

It is important to consider the interests of the general public. Citizens are the source of ideas for performance auditing, a source of demand for performance auditing and users of performance audit reports. OAGs should maintain relevant information outlining the views of the general public on entity programmes, activities, projects, etc.
These views can often be found through a review of media reports and other publications dealing with the entity.



Considering the views of other stakeholders

Other external stakeholders could include, for example, the academic community. Academics often have expert knowledge in specific areas and may provide a more objective view than entity officials. Another potential group of external stakeholders would be non-government organizations. They may have conducted their own research through surveys and case studies and may have a range of relevant contacts.

Discussions and assessments within OAG



Internal discussions to debate and assess the risks associated with possible audit topics should take place within the OAG. Performance auditors responsible for one entity could engage with other performance, financial and compliance auditors within the OAG to identify possible audit topics.

Step four: Assess selected undertakings in more detail. Identifying the criteria to be used to evaluate possible proposed audit topics using working paper *Working paper for scoring of proposed audit topics WP 6.* These are the factors the auditor will consider when deciding which audit topics identified in *(Step 1)* are to be selected. Further, detail the assessment of selected main services/functions of interest for performance auditing, using the *working paper the Sector assessment report WP 4* Indicate:

i. The name of the government undertaking;
ii. Whether there are any limitations in the audit mandate;
iii. How material (financial, social, political) the government undertaking is;
iv. 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?
v. The auditability of the government undertaking; and
vi. The potential for change and improved performance.

Step five: Provide quality control. Use *working paper WP 8* Checklist for quality control of sector risk assessment

II. Internal strategic scanning for performance audits

Internal strategic scanning for performance audits scanning involves the following steps:

Step one: consider internal factors. Consider how the situation in OFAG influences the capacity for and direction of performance auditing:

- Overall strategy of the OFAG and directives for the strategic planning;
- Challenges in performance auditing and compliance with ISSAIs and OFAG policy
- Available financial resources and number and competence of staff;
- Plans to increase financial resources and changes in number and competence of staff;
- Strength 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 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.

Step four: Develop working paper. A *working paper for internal scanning WP 9* should be compiled presenting the results of the internal scanning conducted on the performance audit function.

When a matter that is considered significant enough to constitute a potential audit topic is identified, the audit team could create a file dealing with the matter. The file would contain pertinent government announcements, newspaper and magazine clippings, interview notes, etc. All such files

could then be re-examined as part of the process of selecting audit topics.

III. Scoring and prioritisation of audit topics

OFAG uses criteria listed in ISSAI 3000:89-91 for selecting audit topics which groups them into two main categories – significance and auditability. Significance includes such factors as materiality and the risk of there being important economy, efficiency and effectiveness issues. It also relates to the potential impact that the audit can have on an entity's performance and on the users of the entity's programmes and activities. Auditability defines whether the topic is suitable for audit with regards to OFAG mandate, relevant audit approaches and methodology and audit criteria available and whether the information required is likely to be available and can be obtained efficiently.[44]

a. Significance of the topic

When deciding on the significance of the topic, the auditor could consider the following factors:

Materiality of the Topic

Materiality has both quantitative (financial) and qualitative (social and political) aspects. The financial materiality (the monetary amounts involved in the topic) could be based on the annual actual or budgeted revenues and expenditures. In the case of a one-time programme, project or activity, financial materiality could be based on the total (lifetime) budgeted or actual revenues and expenditures of the particular programme or activity. In general, the larger the amounts involved, or the greater the difference between the actual and budgeted amounts, the more likely the topic should be selected for audit.

Assessing social and political materiality considers factors such as:

- The importance of the topic relative to the entity's mandate: Programmes, activities, etc. that are central to the entity's mandate (and whose success or failure could therefore have a major impact on the overall performance of the entity) should be given greater weight than those that are less critical.
- The Importance of the Topic Relative to Overall Government Objectives: This would be a factor to take into account when assessing political and to a lesser extent social materiality. Some topics may be directly related to fundamental government policies, and many ministries may be involved in implementing those policies.
- The number of users of the topic and the impact it has (or will have) on them: Topics that significantly affect a large number of users should be given more weight than those that will only have a limited impact on a small number of users.
- The "Profile" of the topic: Some programmes or activities are high profile – they are highlighted by the government and/or receive considerable parliamentary and media attention. Reports dealing with topics that are high profile are often more likely to receive parliamentary and media attention and get acted upon, and therefore high-profile topics often should be given more weight than low profile topics.

[44] ISSAI 3000:94, GUID 3920:15

- The Expected Number of Users and the Expected Level of public interest in the Topic: Reports that are expected to have a large number of users and that are expected to have a lot of parliamentary and public interest have a better chance of making a difference than those that are expected to garner little public interest.
- Specific Requests from PAC Members and Other Parliamentarians and/or from Officials from the Entities and Other Intended Users. This would be a factor to take into account when assessing political materiality. While the decision as to which topics to select should be made without undue outside pressure, requests from Parliament and other users should be considered.

Risk to the principles of economy, efficiency and effectiveness

Risks to the 3Es relates to the likelihood and impact of that something would go wrong with the performance of the entity in terms of economy, efficiency and effectiveness.[45] The greater the risk to performance in terms of economy, efficiency, and effectiveness or public trust; the more important the problems tend to be. Factors that may indicate higher risk or uncertainty regarding the economy, efficiency, or effectiveness include:

- Large, complex topics usually have a greater risk of deviations from economy, efficiency and effectiveness, compliance with authority deviations, and/or other monetary deviations/errors than small, simple topics.
- Financial or budgetary amounts that are substantial or significant changes to the budget
- Some types of topics, such as large capital projects and large IT projects, or activities dealing with environmental issues, are traditionally more prone to risk than other programmes.
- New entity programmes and/or programmes created on an urgent basis may be more prone to risk than well-established and stable entity programmes.
- Topics that operate under large, complex management structures tend to be more prone to risk than topics that operate under simple management structures.
- Topics where there is no reliable, independent and up-to-date information on how well the topic has been performing may be high risk. In general, programmes and activities that are assessed regularly by entity officials or by others tend to perform better than ones where there are no periodic assessments.
- Previous performance audits or other types of audits may have revealed problems in how well a certain topic is being carried out.

Potential for change

Performance audits should normally be carried out where the audit is likely to contribute to change that otherwise would not have occurred over a reasonable period of time. Assessing potential for changes considers the following factors:

- The Potential for Significant Audit Findings and Recommendations: Auditors should select topics whose reportable matters can lead to making recommendations to improve the situation.
- The Expected Impact That the Audit Could Have on Future Entity Operations: Audits that have a good chance of significantly improving the economy, efficiency and effectiveness of government operations, significantly improving compliance with authorities, significantly strengthening

[45] GUID 3920:12-14

internal controls and/or significantly reducing fraud and corruption should be given more weight than those where the audit is expected to only have a limited impact.

- The relative benefit of auditing the topic during the period covered by the Performance Audit Strategic Plan, as opposed to some future period: the assessment should consider how recently the topic was audited in the past. And whether it is likely that the auditor will be able to come up with more significant findings and recommendations if the audit was delayed for a year or two. While it is essential that audit reports be timely, and while auditing a topic now may result in very useful recommendations to improve performance in the near future, there may be cases where, postponing the audit by a year or two may increase the potential impact that the audit could have.
- The Existence of Other Audit Work Dealing with the Same or Similar Topic: Performance audits may only add value and make improvements in government operations and accountability if they deal with matters that are not covered by other audits. If the same or a very similar topic is being dealt with in another audit, there may be little benefit in conducting a performance audit of the topic.

Further considerations when assessing significance:

- Auditors need to keep in mind that some of the above factors overlap. For example, topics with large expenditures often have a greater risk of deviations from economy, efficiency and effectiveness, compliance with authority deviations and/or other monetary deviations/errors. Similarly, high risk topics often have the greatest chance for significant audit findings and are areas where the OFAG's recommendations could have a significant impact on future operations. Care should be taken to ensure that all related factors are fully considered, but are not given more weight than deserved.
- Auditors need to be careful to base the assessments on all the sources, and not purely on past audits. If an audit of the same or a very closely-related topic was conducted in the past few years and generated a lot of audit findings and recommendations, that does not necessarily mean that the same topic should be selected again. Greater added value can often be achieved by auditing policy fields or subjects that have not previously been covered by audits or other reviews.

b. Auditability

When deciding on the auditability of the topic, the auditor could consider the following factors:

- The Mandate Under Which the OFAG Operates: The topic needs to be within the OFAG's mandate.
- The Complexity of the Topic: Large complex programmes are more difficult to audit than smaller and simpler programmes. There is therefore a greater risk that the OFAG will not be able to complete the audit within the required time period and budget, or perhaps not at all. There is also a greater risk that the OFAG will reach incorrect conclusions and/or make inappropriate recommendations.
- Whether the OFAG Has the Skills Required to Conduct the Audit: The OFAG should not attempt to conduct an audit for which its staff does not have the required skills unless it can acquire the required skills by, for example, engaging outside experts.
- Whether the OFAG Will Be Able to Identify Appropriate Audit Objective(s), Audit Questions and Audit Criteria: Auditors need to be able to identify an audit objective, audit questions and criteria

to be used to assess the economy, efficiency and effectiveness of the topic. The more difficult these are to identify, the less auditable the topic will be.

- Whether the OFAG will be able to obtain sufficient and appropriate audit evidence to support the conclusions reached: Performance audits are, like every other type of audit, assurance engagements, and the OFAG needs to obtain sufficient and appropriate audit evidence to support is conclusions. The more difficult it will be to obtain the required evidence, the less auditable the topic will be.
- The risk of damage to the OFAG's reputation: Some of the above factors (most notably reaching incorrect conclusions and making inappropriate recommendations) could cause damage to the OFAG's reputation.
- The expected cost of the audit: Audits need to be conducted with value for money in mind and huge, expensive audits (in terms of the person-months required and the out-of-pocket expenditures) that would likely not have much impact should usually be given less weight than those that can be performed relatively inexpensively and yet have a large impact.
- The existence of other audit work dealing with the topic: The existence of other work dealing with the topic will reduce the potential significance of the audit. The existence of other work dealing with the topic will, though, also make the topic more auditable, and thereby offset the impact of some or all the above factors. For example, many large capital projects are funded, in whole or in part, by international financial institutions, and the terms of the loan or grant agreement may call for a financial audit, compliance audit and/or an audit of internal control to be conducted. In these cases, the auditor would likely already have a good understanding of the project and the risks associated with its success or failure. It would also likely have audited some of the expenditures. As such, it may be possible to conduct a performance audit of the capital project relatively easily and inexpensively.

Further Considerations when assessing auditability:

- Some of the matters, such as whether the OFAG will be able to identify appropriate audit objective(s), audit questions and audit criteria, and whether the OFAG will be able to obtain sufficient and appropriate audit evidence to support the conclusions reached, might actually be reasons for selecting a particular topic, as well as for not selecting it. The inability to identify the objective/desired impact of the particular topic, the inability to identify criteria to assess the topic, and/or the absence of information required to assess how well a topic has operated, could be audit findings in themselves.

- Some of the matters noted above could be so severe that the topic should automatically be excluded from further consideration. If, for example, the OFAG does not have auditors with the required skills, the audit should not be undertaken. Similarly, if the topic is so complex that there is a very high risk of reaching incorrect conclusions and damaging the OFAG's reputation, the OFAG should seriously consider whether it is worth while attempting to undertake the audit.

Scoring and prioritising of audit topics involves the following steps

Step 1: score topics. Score the proposed audit topics using the selection criteria, with cooperation between the responsible PA Manager and those who developed the proposal, using *working paper WP 6*

The ISSAIs require that prioritisation of audit topics consider the need for a material topic and risks of performance problems (problems related to the three Es), the need for an auditable topic (considering the SAI's capacities to carry out a high-quality audit, but also the timeliness, other work in progress and the political sensitivity) and the need for potential for change (the audit needs to be likely to contribute to the improvement of the functioning of government and its entities). The selection criteria used for scoring and prioritising of audit topics are explained as follows:

Audit mandate	•Whether the topic falls within the manadate of the OFAG
Materiality	•Financial, social, and political relevance, significance or importance of the subject matter. Legislative or public interest, taking into consideration requests for audits.
Risk for problems 3Es (performance problems)	•Inherent risks, identified risks, or observed indications of performance problems. Whether there are significant risks of not meeting the government objectives i.e risks of not meeting the proinciples of economy, efficiency or effectiveness in the government
Auditability	•Access to the required resources and skills, timeliness (for example, considering previous audit work, other studies or major work planned or in progress, or other developments likely to affect an audit). Reputational risks and political sensitivity.
Potential for change.	•Room for improvement and possible impact. Willingness to change weighed against the interest of transparency. whether the audit will lead to improvements regarding the performance issues and better services to citizen, improve public accountability, there are factors limiting potential for change or there is interest for change from the audited entity

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 WP7* assess based on professional judgement and considering the scoring of the selection criteria in *WP6*. The auditor then selects the highest-rated topics which it is capable of conducting.

Step four: get feedback and include topics in the plan. Discuss suggested prioritisation between management and performance auditors before finalising it and include relevant parts of it in the annual plans.

IV. Drafting the OFAG performance audit strategy

Drafting the OFAG's performance audit strategy involves an analysis of the External and internal scanning. The followings steps are carried out:

Step one: draft a strategy. Analyse the results of the internal and external 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 – *Working paper overall risk assessment WP 10.* The analysis must also consider the internal assessment of capacity and resources for performance audit, to ensure that OFAG can deliver performance audit reports of a high quality.

Potential content of a performance audit strategy

1. A brief summary of OFAG's current strengths and challenges regarding performance audit operations

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 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 the cooperation with 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 and reporting on the objectives and strategic directions.

Step two: get feedback. Review and discuss the draft strategy, getting feedback from:

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

Step three: decision. Decision on the strategy by Top Management by Approving the performance audit strategic plan.

Step four: internal dissemination. Disseminate the strategy and discuss its implication with all performance auditors.

Step five: make publicly available. Make the strategy available/accessible to stakeholders and the general public through sensitization, launching ceremony, posting on the AOG website and distribution to key stakeholders.

3.1.6 Annual planning in OFAG's performance auditing

ID	Activity	Working Papers	Responsible
A.6	Annual external scanning	- WP 1: Area Watching and Sector Risk Assessment Plan - WP 2: Sector risk assessment introductory letter - WP 3 Area Watching Report - WP 4: Sector assessment report - WP 5: Proposal for audit topics - WP 8 –Quality control check list for the sector assessment - WP 10: Overall risk assessment report	Auditors Team leaders PA Managers PA Directors
A.7	Annual internal scanning	- WP 9: Overview of the internal factors	PA Directors
A.8	Scoring and prioritisation of topics	- WP 6: Scoring proposed audit topics - WP 7: Prioritisation of audit topics	
A.9	Drafting annual plans for performance auditing	- WP 10: Overall risk assessment report	PA Directors
A.10	Deciding on annual plans for performance auditing		PA Directors Top Management

An annual performance audit plan for all performance audit activities to be carried out during the year is prepared based on the strategic plan. Development of the annual plan is the responsibility of the Directors of the performance audit section (s). The plan should comprise a detailed approach for the expected nature, timing, responsible officers and extent of the audits. Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of audit, that potential problems are identified and that the work is completed expeditiously.

The annual plan incorporates the performance audit function work plans for ongoing audits and the new audits that will be carried out during the year. It focuses on strategic priorities, on significant matters listed in memos from area watching or general surveys, on pre-study reports and on follow-up of work done the previous year. The aim of the annual plan is to determine the annual programme of performance audit work and the staff and other resources needed to deliver the programme. The annual plan should be based on a sound knowledge of the audit field and a considered view of prospective changes to ongoing operations.

Annual planning also assists in proper assignment of work to team members and coordination of work performed by different audit teams. This is a basis for development of a detailed work programme that identifies the specific audit tasks to be undertaken. An annual plan would entail departmental objectives, intended outputs and outcomes, areas to be audited, time frames and resource allocation for each audit.

The process involved in the strategic planning is repeated when developing the OFAG's performance audit annual plan. This would normally involve:

- Annual external scanning: Auditors update the area and risk assessment reports to reflect the current status.
- Annual internal scanning: Auditors update the internal assessment report to reflect the current status.
- Scoring and prioritisation of topics.
- Drafting annual planning documents for performance auditing.
- Deciding on the annual plan for performance auditing.

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

Planning document	**General content**
OFAG annual operational plan	This document should contain a section that describes the annual plans, resource requirements and targets for performance auditing function
Annual Performance audit function Plan	This should contain the audit areas to be audited during the year, resource requirements, timing and other activities for strengthening the function
Plans for each performance audit team	This should contain the areas to be audited by the teams and the resource requirements
Overall Risk Assessment reports	This document will present the prioritised areas for performance audits to be conducted
Updated sector risk assessment reports	This should contain an up-to-date information on specific sectors.

i. Annual external scanning – Area watching

The objective of area watching and annual risk assessments is to agree in OFAG which risk areas should be prioritized for performance auditing. It is also to ensure that performance audit projects that can add most value are selected by OFAG. Risk assessments should be performed for all audit work conducted by OFAG to ensure that the audit is economical, efficient and effective.

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

The starting point for area watching and risk assessments is to identify the sectors and allocate responsibility to assess the risk in the different sectors. The number and selection criteria of sectors to be watched can be adjusted according to the available resources for performance auditing. The

sectors could follow the Ministries or the programs of the budget. PA Directors can assign individuals or teams responsibilities for area watching 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 of developing the general knowledge of sectors and sub-sectors to ensure that OFAG 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 and problems of economy, efficiency and effectiveness. Its purpose is to identify possible audit areas for further scrutiny. Performance audit staff must *during the whole year* ensure to watch their area and build up sector expertise through various activities and sources. Thus, performance auditors must:

- Be informed about the general policies and priorities of the area by reading the annual budget speech of the Minister of Finance, state of the nation by the President and long-term government plans (such as the MGDS and sector strategies).
- Be informed on the work of Parliament and the committee in relation to that area (www.parliament.gov.mw), such as transcripts of debates, hearings and white papers
- Keep track of the work of the ministry and departments in relation to that area, for instance by reading their strategies and action plans, annual reports and output reporting in the budget document and the annual Monitoring and Evaluation reports issued by the Department of Economic Planning and Development in the Ministry of Finance
- Keep track of the work of the regularity auditors of the sector, by reading the annual report of the Auditor General on the accounts and relevant management letters to the auditee
- Keep in contact with academic milieus in the area and read relevant reports and publications
- Be informed about the activity and publications of any interest organizations in the area
- Read the major donor plans and reports in the area, such as the World Bank country report
- Participate in relevant external seminars and lectures held by interest organizations, government, donors or academia
- Follow the news on that area, for instance by creating regular searches on internet

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, listening to radio and television broadcasts, and reading newspapers and journals, discussions with colleagues, specialists and stakeholders (citizens and Civil Society Organizations). Some documents are always needed for producing risk assessments. The directors for performance auditing are responsible for ensuring availability of these documents either in electronic, print paper or both forms. The documents will among others include: Budgets, performance report, National Development Plan and its progress reports, State of the nation address, economic reports legislative laws and policies. It is recommended that SAIs have the competence to engage stakeholders in selecting performance audit topics and portfolio based on criteria that are significant and auditable[46]. This should be done through audit-specific discussions/dialogue sessions with CSOs. The idea is for citizens and CSOs to participate in the selection of audit topics.
Conducting annual external scanning involves the following steps:

[46] According to INTOSAI - Guidance on Supreme Audit Institutions' Engagement with Stakeholders, Table 4

Step 1. Planning area watching: Performance auditors assigned for each sector group must work out a plan for the area watching activities that are going to take place using *working paper WP 1: Sector Risk Assessment Plan* which will lead up to the compilation of a Sector Risk Assessment report – *Working Paper WP 4: Sector Risk Assessment Report*. The plan should be short and it is advisable to have a table with the following columns: Objective, expected result or output, activity, start date, end date, responsible person and budget.

***Step 2. Updating or further detailing strategic sector assessments*.** The strategy and strategic sector assessments made must be considered in OFAG'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 to make more detailed assessments of some sub-sectors, in order to find ideas for audits. This can be combined with development of proposals for audit topics in the sector or sub-sector. Where need arises, 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 considerations of problems and risks.

***Step 3. Developing proposals for audit topics*.** This step involves determining the specific audit topics (ministries, programmes, activities, projects, etc.) that could be the subject of a performance audit during the period covered by the strategic planning process. The intent at this stage is not to narrow the choices down too much – doing so could eliminate very worthwhile audit topics from further consideration. At the same time, though, having too many potential audit topics could make the prioritization of potential audit topics a very time-consuming exercise. The audit topics that should be excluded from further consideration during the period covered by the strategic planning exercise would normally include:

(a) Topics that had been the subject of a performance audit in the previous year or two. However, follow-up audits of those performance audits would likely need to be performed during the years covered by the strategic plan.
(b) Programmes or activities that had taken place or been completed more than, say, two years previously. This is because audit reports dealing with matters that took place many years ago will often not be of much interest to the PAC, the media or other intended users. They also may not be of much use in helping officials from the audited entity to improve their performance. As such, when determining potential audit topics, it is normally advisable to select relatively current topics and relatively current time periods.
(c) Very small ministries, programmes or activities – those whose expenditures are very small and whose activities have little impact on the general public.

Auditors should take note that proposal for audit topics is not restricted to an entire entity programme or activity. A topic could be proposed in relation to some of the components of the programme, project or activity. Topics that would require less consideration of all the 3Es could also be proposed. Auditors could also propose audit topics that concern specific locations where the programme is implemented. Auditing only a portion of an entity programme would help focus the audit on those areas expected to be the most significant, and permit more audits to be conducted with the available number of auditors and the skills of those auditors.

OFAG may strategically choices to influence the selection of topics, such as the type of performance audit, policy spheres, and their relationship with reforms within the public sector. Applying a thematic approach may be helpful for initial performance audit work as it enables SAIs to learn in a structured way. It creates possibilities to recognise similar public administration problems and use experiences from one area for new audits in another area. This, in turn, may have positive impacts on the efficiency of production and may provide opportunities for focused capacity building.[47]

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 *Working paper WP 5 Proposal for audit topic,* and include the following information:

- A brief background of the audit area and the indications on or risks for poor performance
- A brief assessment of the audit topic using the five selection criteria
  1. Within OFAG audit mandate;
  2. Materiality of the subject matter (financial, social and political);
  3. Risks for performance problems;
  4. Auditability;
  5. Potential for adding value and promote change;
- A recommendation to carry out a pre-study or not.

ii. Annual internal scanning

Annual internal scanning is conducted with an aim to update and provide the current status of the performance auditing in OFAG with regards to capacities and capabilities. The process follows the same steps outlined in the strategic internal scanning in *paragraph 3.2.5 ii* Performance auditors must update *working paper WP 9: Overview of internal factors* to reflect the status for the year being assessed.

iii. Scoring and prioritization of audit topics

The process of scoring and prioritisation of audit topics during the annual planning is conducted in the same was as it is done during the strategic planning process. Thus, auditors should score the proposed audit topics based on the selection criteria earlier discussed using *working paper WP 6* and prioritise them accordingly using *working paper WP 7.*

iv. Drafting annual planning documents for performance auditing

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.

[47] GUID 3910 Appendix para 49

Potential content of annual plans for performance auditing

There may be different annual plans in OFAG on different levels. The different plans should be consistent and may together include:

1. A brief summary of OFAG's current strengths and challenges regarding performance auditing operations

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
  - Flexibility for meeting other needs for audits that may arise (for example based on request from Parliament or observations made by top management).
- Number of follow-ups of 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 the cooperation with 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 and reporting on the objectives and strategic directions.

Step two: get feedback. Review and discuss the draft annual plans, getting feedback from:

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

Step three: decision. Decision on the annual operational plan for the OFAG by Top Management, and other annuals plans (consistent with the OFAG operational plan) on the appropriate levels.

Step four: internal dissemination. Disseminate and discuss the annual plans with all performance auditors.
Step five: make publicly available. Make the annual plan available/accessible for stakeholders. OFAG's annual plans are made available to other stakeholders through the website

3.2 PART 2: DESIGN OF AN INDIVIDUAL AUDIT - PLANNING THE AUDIT

This part looks at how the auditor designs an audit plan for one of the audit topics that has been selected for audit. For a performance audit, this stage is also referred to as the pre-study stage.

3.2.1 Requirements in the standards and expectations

Requirements according to ISSAI 300 and ISSAI 3000

- Auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner. *ISSAI 300:48*
- 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 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 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 assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. ** *ISSAI 3000:73*
- The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval. *** *ISSAI 3000:104*
- The auditor shall document the audit in a sufficiently complete and detailed manner. *ISSAI 3000:86*

** This involves planning, organising, securing, managing, leading, and controlling resources to achieve specific goals. ISSAI 3000:97*

*** 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*

**** The SAI's senior and operational management, as well as the audit team, need to be fully aware of the overall audit design. ISSAI 3000:105*

High-quality audits require the auditors to develop a good understanding of the area to be audited and its performance related issues. Auditors also need to decide on an appropriate overall audit design, identify the need for information, develop a strategy, and design empirical studies and methods enabling them to establish findings, conclusions, and recommendations.

The objective of the audit design phase for an individual audit is to develop a plan 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. In order to timely and efficiently carry out audits in accordance with the overall audit design good project management is also

needed.[48] The audit design phase can also be used to refine the decisions made at the strategic and annual planning phase. This could result in the scope of the audit being expanded or contracted, or cancelled altogether.

According to ISSAI 100, all public-sector audits have the same basic elements: the three parties to the audit (the auditor, responsible party, and intended users), the criteria for assessing the subject matter, and the resulting subject matter information. These elements should be identified in each audit. Throughout the planning process, the needs and interests of the intended users should be kept in mind. This could influence the selection of the audit objectives, audit questions and audit criteria, and the level of audit effort devoted to each. Keeping needs and interests in mind will help ensure that the audit meets the needs and interests of the intended users and that the audit report is useful and understandable. This should, however, in no way undermine the auditor's independence and objective attitude, who remains responsible for a well-balanced audit approach pursuing the public interest.[49]

The pre-study is an exploratory phase in which the auditors learn about the topic and the area of audit and examine different ideas on how to focus a main study. The result should be a realistic and well-thought-out plan for conducting a main study on the specified topic. The resulting plan should not be seen as unalterable. If insights obtained during the main study make it reasonable to adapt the plan, this should be allowed. The audit plan and significant changes to it should be approved by management. This includes approving the design of the audit, the team composition, the budget, and the activity plan. The approved work plan will guide the team in conducting the audit and provide a basis for management to regularly monitor progress.

3.2.2 Purpose of the pre-study

The purpose of the design phase is to establish whether the conditions for an audit exist and, if so, to propose a detailed audit work plan for management's consideration on whether or not to proceed with the 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 on 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 that is possible to collect, 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:

[48] ISSAI 300:37
[49] ISSAI 300:28

- 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 shall 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 OFAG).

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 OFAG, even if the audited entities should be informed about key aspects.

Planning for an individual audit involves the following activities:

ID	Activities	Working papers	Responsible
B.1	Assigning responsibility for the pre-study to team members	WP 11 Team Task Allocation Agreement	Team Leader
B.2	Developing a plan for the pre-study	WP 12 Plan for the pre-study	Team leader
B.3	Conducting quality control review and deciding on the plan for the pre-study	WP 13 Quality control checklist - Plan for the pre-study	PA Directors Top management
B.4	Completing the Code of ethics declaration	WP 14 Code of ethics declaration	All team members PA Directors and Top management
B.5	Sending introductory letter to the audited entity	WP 15 Introductory letter (pre-study)	Top management
B.6	Having an entry meeting with the audited entity	WP 16 Minutes from meetings or interviews	PA Directors Team leader
B.7	Collecting and analysing data	WP 17 Interview guide WP 16 Minutes from meetings or interviews WP 18 Letter requesting initial information WP 19 letter requesting for interviews WP 23 Document Tracking Sheet WP 24 Data Analysis – Pre-study WP 25 Document review	Team leader
B.8	Regularly reviewing progress made with the pre-study	WP 20 Progress report	Team leader PA Directors Top management

B.9	Discussing a tentative focus of the audit with OFAG management	WP 16 Minutes from meetings or interviews	Team leader PA Directors Top management
B.10	Developing a pre-study memorandum and work plan	WP 21 Pre-study memorandum and work plan	Team leader
B.11	Conducting quality control review of the pre-study memorandum and work plan	WP 22 Quality control checklist - pre-study	PA Directors Independent reviewer Top management
B.12	Revising the pre-study memorandum and work plan and submission thereof to PA Management	WP 21 Pre-study memorandum and work plan	Team leader PA Directors
B.13	Deciding whether or not to approve the pre-study memorandum and work plan	WP 21 Pre-study memorandum and work plan	Top management
B.14	Completing the documentation of the pre-study process and collected data in the audit file	N/A	Team leader
B.15	Completing the Code of ethics declaration for the Main study	WP 14 Code of ethics declaration	All team members PA Directors

3.2.3 Planning the pre-study

Activities involved in the planning phase of the pre-study include the following:

a. Deciding on the audit topics

In OFAG, the topics for pre-studies are usually obtained from the prioritises list prepared during the annual planning in working paper WP 9 but occasionally top management may decide ad hoc topics to be tackled.

b. Appoint audit teams

To start the work, PA 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.[50] According to GUID3920:57, usually the most experienced or the highest-ranking auditor, may be appointed team leader. It also provides that as part of good practice to seek opportunities for staff development as part of the audit work, a less experienced auditor could be selected as team leader while ensuring support and coaching from a more experienced auditor. Basically, factors to consider in appointing the team leader include the following:

- Skills and experience in leading teams and managing performance audit projects;

[50] GUID 3920:57.

- Sound knowledge on the subject matter being audited, 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; and
- Compliance with the ethical requirements in each performance audit engagement.

At this stage, management should 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-study[51], and are able and committed to follow the adopted standards, ISSAI 130 Code of Ethics[52] as well as national ethical standards and requirements. The team leader should develop *Working Paper WP11: Team Task Allocation Agreement* for the allocation of responsibilities to the team members.

PA 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 PA 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.

c. Developing a plan for the pre-study

It is important to have a plan for the work during the pre-study and this should include:

- Background of the audit area and brief motivation for the pre-study, in terms of the materiality of the subject matter, risks for performance problems, auditability, potential for adding value and promoting change;
- The topic for the audit, further detailing the objective, issues and audited entities to be investigated;
- Methods to collect information;
- Audit team and its competence, possibly complimented by specific expertise from PA 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.).

[51]ISSAI 300:63.
[52]ISSAI 100:38.

Working paper *WP 12 Plan for the pre-study* should be used to develop a brief plan of the pre-study. The pre-study plan should be brief and not long 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 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. The plan for the pre-study is prepared by the Team Leader and subject to quality control review by PA Management, using working paper *WP13 Quality control checklist – Plan for the pre-study* and referring to this review on the front page of working paper WP 11. Based on this review, Top Management will decide whether or not to start a pre-study, and document the decision on the front page of working paper *WP11*.

3.2.4 Conducting the pre-study

Once OFAG has decided to start a pre-study by approving the pre-study plan, the Top Management of the audited entity should be informed about 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 *WP15 Introductory letter (pre-study)*. This letter could include, among other things, the possible matters to discuss during the entry meeting and call for an arrangement of an entry meeting which will be an introductory meeting involving the audit team and the relevant officials from the audited entity. During the entry meeting, the audit team and officials from the audited entity could introduce themselves to each other, and discuss the audit work to be performed and the timing of that work. More specifically, the discussion could involve:

(a) The objective and scope of the pre-study as well as issues to covered during the pre-study
(b) The timing of each phase of the audit and the dates where input from officials from the audited entity would be particularly useful.
(c) The process by which the members of the audit team and the officials from the audited entity will interact with each other. This could involve both parties identifying a key contact person that the other could use, and a commitment by both parties to keep the other party informed of all important matters and developments.

During the meeting, the auditors could provide officials from the audited entity with a list of documents, etc. that they will require to plan and conduct the audit.

i. Understanding of the topic and identifying performance issues

Requirements from ISSAI 100 and ISSAI 3000
- Auditors should obtain an understanding of the nature of the entity/programme to be audited. *ISSAI 100/45* - The auditor shall acquire substantive and methodological knowledge during the planning phase. *ISSAI 3000:98*

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

- The audited entity's mandate and overall objectives, its organizational structure, and the units within the audited entity responsible for overseeing the specific topic being audited. If more

than one government ministry, etc. is involved in the topic, this knowledge would need to extend to all relevant entities;

- The relevant government undertakings related to audit topic;
- The role, responsibility, processes and activities for government entities that have an influence on the achievement of the overall objectives;
- The expected users of the topic (those who the topic is intended to serve) and the impact that the topic could have on them;
- Any other key stakeholders involved in the topic. These could include any international financial institutions funding some of the topic.;
- Details of each process within the topic;
- The potential and observed risks to performance 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 WP 12);
- The requirements, standards and other information that is available that may be considered to use as audit criteria in a main study. This will also include the relevant authorities (laws, regulations, rules, policies, etc.).;
- Any loan/grant agreements with international financial institutions and the requirements contained in those agreements;
- The type of contracts used by the audited entity and the general contents of those contracts;
- 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.

ii. 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.[53] Use working paper *WP16: Minutes from meetings or interviews, WP18: Request for initial information, WP19: Letter requesting for interviews and WP17: Interview Guide* for data collection. Track requested documents for review using *WP23: Document Tracking Sheet* and *WP24 (Data analysis – pre-study)* for analysis as appropriate.

Review of relevant documents: Performance auditors should familiarize themselves with relevant documents in order to develop an understanding of the audit area and risks to performance. The sources of the information could include:

[53] GUID3920:47.

Relevant documents to be reviewed by performance auditors
• Legislation, regulations and policies; • Ministerial statements, government submissions, and decisions. • 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 on 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 from for example government, academic and international institutions and non-government actors; • Current developments in the audit area, e.g., on-going or planned reforms; and • On-going or recently completed studies in the area of audit.

Interviews or discussions: The above knowledge would, of course, be augmented by discussions with officials from the audited entity. It could also be augmented by discussions with key stakeholders (the intended users) and with outside experts. These would include:

Key stakeholders that could be interviewed during the pre-study
• Managers at different levels in entities responsible for the government undertaking – in order to let them explain how they operate and what challenges they meet as well as 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; • Individuals or organisations with an expert knowledge of the topic for audit, such as professional organisations, academic institutions, research organisations, non-governmental organizations, to get external opinions on how the responsible entities operates and perform; • Whenever possible, the audit team should consider interviewing other stakeholders with a relation to the government undertaking, such as other government entities and non-governmental and private sector organisations; and • Citizens, clients or other recipients of government services, to get 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.

Site visits, Site visits, walk through *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 aiming at developing the auditors understanding of the topic and the problems in the area and plan 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.

iii. Identifying and structuring performance issues related to the audit topic

One of the most critical tasks for auditors during the pre-study is to identify performance issues related to the topic, the root causes and their consequences. In order to understand the audit topic and the risks to performance in the audit area, the information collected on the processes, systems and risks should be compiled and analysed. Performance auditors should look for common themes or performance issues/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. These will be referred to as the results of the pre-study. It is also important to understand the relationship between different problems or indications on problems in the area.

The preliminary findings, also known as results of the pre-study, need to be sufficiently explained in terms of the performance problems involved and the sources on which the information is based on. At this planning stage, however, there are no strict requirements in terms of the 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.

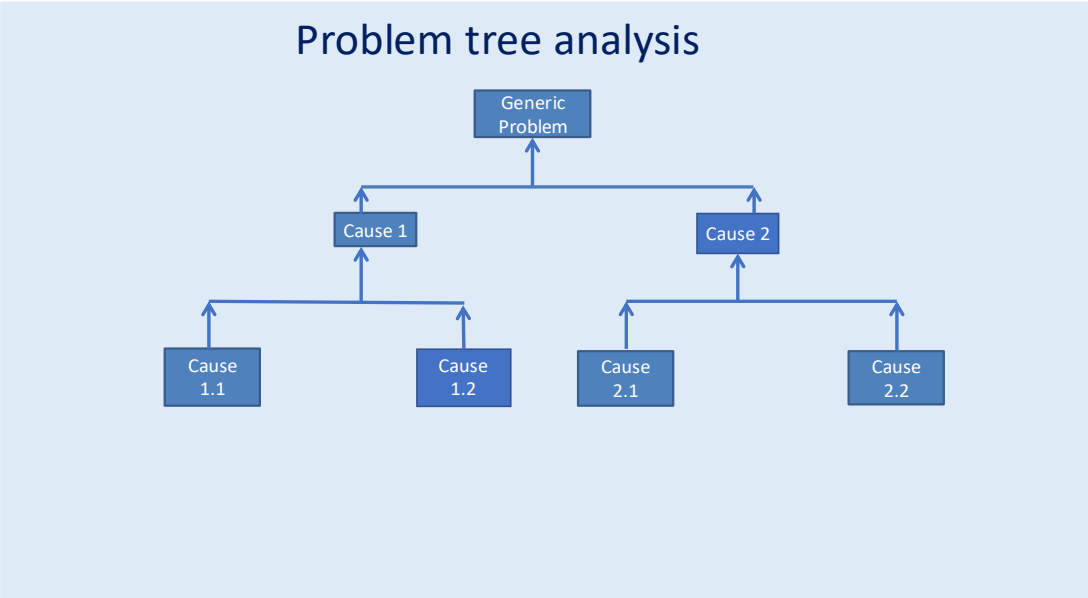
The audit team can use brain storming to list observations and indications of problems and discuss how they are related to each other. Brain storming can be combined with using the techniques such as problem tree analysis, issue analysis, mind mapping or the input/output-model as tools to identify and structure performance issues/problems and their causes. Issue analysis and problem tree analysis tools are more consistent with principles and knowledge in social sciences and provide some guidance to the user without creating clear limitations. Other tools have a relatively high degree of structure, with the risk of limiting the auditors' analysis by forcing it into the structure, for example, the fishbone diagram and the Five Whys, which both emerged from industrial production.

Problem tree analysis

The problem tree analysis is usually associated with the problem-oriented approach to conducting performance audits. Problem tree analysis is a valuable tool in performance audits, helping auditors to systematically identify and analyze the root causes of performance issues. It provides a visual representation of the problem, its causes, and its consequences, facilitating a deeper understanding of the underlying issues and potential solutions. Problems are defined hierarchically according to how they influence each other in cause-and-effect relationships. To do this, auditors will need to make reasonable and logical assumptions on likely reasons for performance problems. Usually there is a societal problem also known as an overall problem, which is caused by a number of performance related problems. SAIs do not audit societal problems in general, but performance problems within the responsibility of the public organizations. It is advisable to that the auditors should try to identify

all significant factors contributing to the main performance problems as these are the factors that cannot be directly influenced by the government and thus are not suitable as the main focus of the audit. This broader understanding of how external factors influence the general problem may be important when assessing the performance of the audited entities. Example of a problem tree is presented in figure 7.

Figure 7: Example of problem tree



The different factors linked in the problem tree can be described in terms of problems and potential causes and consequences. Any factor in the tree can be called a "problem". You will find the consequences (effects) as you go upwards in the tree. As you go downwards in the tree, you will find the causes. To develop a tree downwards, the auditors can use the question "why?" and use available information and logic to try to find the reasonable answer. – Continuing to ask the question "why" can give a very detailed problem tree. In developing the tree, you may also go upward asking "so what?". It may be tempting for auditors to select the top problem and include all potential causes in the audit. Doing so generally means a more relevant audit, but it is also an audit that is more difficult to conduct with many explanatory factors to study and analyse. Covering many different government interventions may make the audit too complex. To facilitate the choice of what audit problem to focus on, auditors should consider what factors government can control and are directly responsible for.

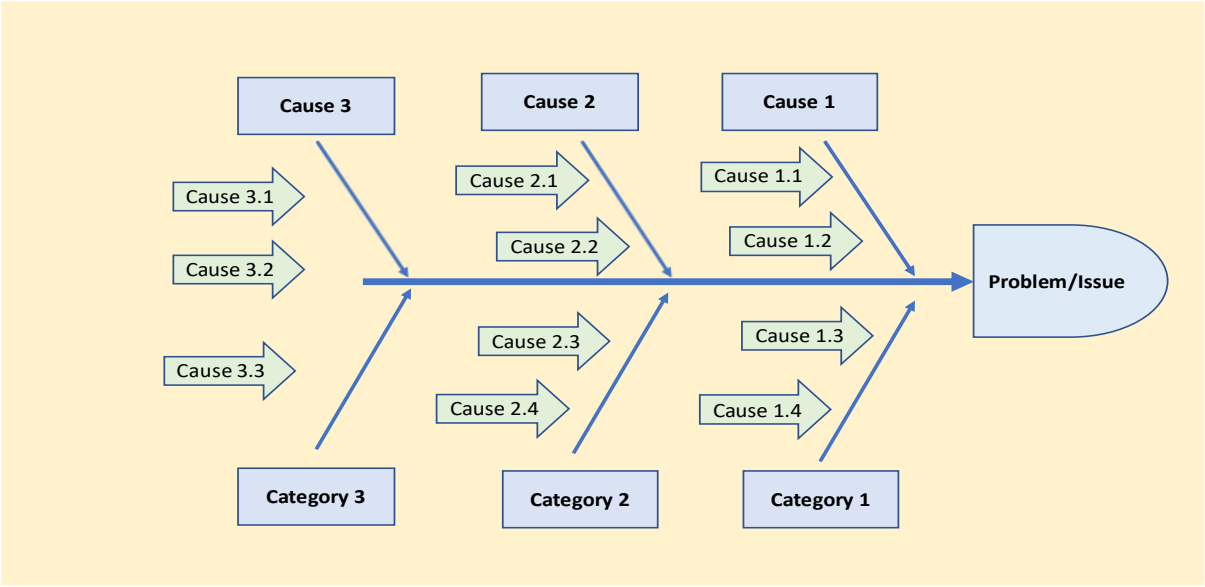
Identifying potential audit problems using a problem tree requires coherent and logical reasoning as well as some collection of information and data. Notably, the standards do not have any strict requirements for the evidence in a pre-study, and proving causal assumptions is not a requirement. Auditors have collected and documented sufficient information when they are able to convince themselves and SAI management that there are convincing indications that material performance problems exist. They should also have a good enough understanding of the likely causes of the problems to plan a high-quality main study. Once this is accomplished, it does not necessarily add much value to collect more data or make more analysis in the pre-study. At the end of the pre study, the team and SAI management should be reasonably confident that their understanding of the system

is good enough to focus on the main study. The need to underpin assumptions with audit evidence and arguments is significantly lower than during the main study and in the audit report.
Sometimes, the topic selected by management is so specific that it can also be suitable to use as the audit problem. In such cases, the auditors should not take the audit problem for granted. Instead, they should search for observations that confirm or falsify that the initial ideas are reasonable. It is also recommended that the auditors, to some extent, consider whether there are alternative audit problems in the area that may be better to focus on.

Issue analysis and fish bone (Ishikawa) analysis

In performance audits, both issue analysis and fishbone analysis are used to understand the root causes of performance problems. Issue analysis is a broader process of identifying, defining, and analyzing performance issues, while the fishbone diagram (also known as Ishikawa diagram) is a specific tool used within issue analysis to visually organize and analyze potential causes of a problem. Issue analysis is a tool that is based on the logic of breaking down questions step by step into components and clarifying what questions need to be asked to answer a question on a higher level. Issue analysis involves determining the performance issue that needs to be addressed; clearly articulating the issue including scope, impact and criteria for success; analysing the causes and contributing factors to the performance issue using analytical tools including the fish bone diagram; and based on the analysis, determine the root causes of the issue and develop recommendations for improvement. The fish bone analysis helps to systematically identify and categorise potential causes of the performance issue making it easier to find the root cause. In the fish bone analysis, the head represents the specific identified issue. The fins represent the main categories of the potential causes of the performance issue which are to be determined through a brainstorming process. Each category is further broken into further branches of causes which are analysed further to identify potential root causes that can be subjected to further audit. issue analysis and fishbone analysis are valuable tools in performance audits. Issue analysis provides the overall framework for understanding the audit objectives and scope, while fishbone diagrams are a specific tool within issue analysis for identifying and analyzing the causes of performance problems. By combining these tools, auditors can conduct thorough and effective performance audits, leading to meaningful recommendations for improvement. Example if fish bone analysis is presented in figure 8.

Figure 8: Example of fish bone analysis (issue analysis or Ishkawa analysis)



iv. Selection of the focus for the audit

Requirements according to ISSAI 3000
• 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 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, auditable, 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

OFAG's main approach is to focus the audits on areas or government undertakings where there are reasons to believe that there are material performance issues. During the planning phase, the auditors narrow down the selected topic and recommend a performance audit issue as the main focus of the audit.[54] The formulation of the audit issue/problem is either derived 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 performance issue/problem and analyse the causes to it. 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 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, OFAG needs to decide whether or not to also analyse the causes to these problems.

[54] The process of selecting an audit problem will not be relevant in case Top Management has decided on an audit topic not related to indications or perceptions of problems in a certain area.

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 OFAG. 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.[55]

Auditors should consider ***materiality*** at all stages of the audit process.[56] 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.[57]

According to ISSAI 140, an SAI should establish a quality management system to ensure that the SAI is able to carry out its audit work with sufficient quality. This requires that the SAI has the necessary independence, is competent to perform the work, and has the capabilities, including time and resources, to do so. These are some of the main aspects when considering the criterion of ***auditability*** in the selection of audit problems. The relevant audit skills and methodology must be available. The auditability can also be affected by other recent audits or other studies, the current development in the area, the political sensitivity, and the risk the audit may pose to the ’s reputation. If the timing of an audit is not right, for example, because the programme has just started or gone through major changes, it can be a good idea to wait a few years before once again considering carrying out an audit. In other words, it is not sufficient that the problem is important; it must also be practically auditable. 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.

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

[55] ISSAI 300:9-10 and 36, ISSAI 3000:17-18 and 90-91.
[56] ISSAI 300:33; ISSAI 3000:83
[57] ISSAI 300:33.

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.

According to ISSAI 3000:17–18, performance auditing aims to lead to improvement. This is why the *potential for change* is the fourth major criterion used in the AFROSAI-E region for selecting audit problems. The objective is to contribute to a more economical, efficient, and effective public sector. Trying to solve problems by just allocating more resources will usually not improve the efficiency or effectiveness of the organisations involved. When selecting the audit problem, to avoid wasting resources, the SAI also needs to consider the interest in taking action on the report once it has been published. If there are reasons to believe that an audit will not attract interest in parliament, among citizens, in media, or within the audited entities, it is possible that the resources can be put to better use in another audit. Finally, it should be noted that although it is important to design audits in line with the SAIs *mandate* and carefully evaluate the materiality, risk, auditability, and potential for change in different alternatives, resources spent on optimising selection should be balanced against the need to save resources for carrying out the main study.

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

- **Within OFAG'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. risks of 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 OFAG;
  - Security risk;
  - 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.

Working paper *WP21 Pre-study memorandum & work plan* should be used to develop the pre-study memorandum, unless otherwise decided by PA Management. The working paper provides guidance as to what should be included in the different sections and an overview is presented in the box below:

The structure for the pre-study memorandum (see further w*orking paper WP21*)

1. **Introduction**

A brief background and overview putting the audit topic into context as well as the motivation for selecting the topic.

2. **Design of the pre-study**

A brief outline of how the study was carried out and the issues covered, the methods and sources of information used.

3. **Description of the audit area**

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.

4. **Results of the pre-study**

A brief description of observations or indications on performance problems and causes to them in the audit area (preliminary findings).

5. **Recommend if a main study should be carried out, and select a focus for the audit (an audit problem)**

Application of selection criteria (mandate, materiality, risk for the 3 Es, auditability, potential for change) to main alternative audit issues/problems. Recommendation to management on whether or not to carry out a main study, and if so, which one

Once the auditors have drafted a recommendation to management on the selection of a focus for the audit, a meeting with Top Management and PA Management should be arranged. The purpose of the meeting is to discuss the auditors' analysis and recommendation, 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.

3.2.5 Developing an overall audit design – Workplan for the main study

Requirements according to the ISSAI 100, ISSAI 300 and ISSAI 3000

- Auditors should ensure that the terms of the audit have been clearly established. *ISSAI 100:44*
- The auditor shall identify the subject matter of a performance audit. * *ISSAI 3000:29*
- Auditors should set a clearly-defined audit objective(s) that relates to the principles of economy, efficiency and effectiveness. *ISSAI 300:25 and 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 criteria**, 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*

** The subject atter relates to the question "what is audited" and is defined by the audit objective, questions, and scope. The subject matter of a performance audit may be specific programmes, undertakings, systems, entities, or funds and may comprise activities (with their outputs, outcomes, and impacts) or existing situations, including causes and consequences. ISSAI 300:19 and ISSAI 3000:30*

*** 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*

The purpose of an overall audit design also known as a main study work plan is to plan and describe how the audit of the selected performance issue will be carried out during the main study. The workplan 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 carried out in an economic, efficient and effective way, in a timely manner and in accordance with the principles of good project management.[58]The plan also provides a basis for management to monitor the main study throughout the process. At this stage, 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.[59]

The planning of the main study should consider:[60]

- 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 timeframes and milestones, and the main control points of the audit.

Performance audits must be carried out thoroughly, with the aim of collecting relevant, valid, reliable, and sufficient evidence to enable anyone else to arrive at the same conclusions as the performance audit report. This calls for exercising sound judgment when deciding the audit objective, the scope of the audit, the audit questions and criteria, the data collection and analysis strategy, the methods to be used, the issues to be reported and the overall audit conclusion.[61]

[58] ISSAI 300:37; ISSAI 3000:96.
[59] ISSAI 300:15-20; ISSAI 3000:25 and 29
[60] ISSAI 300:37; ISSAI 3000:96, 98 and 101
[61] ISSAI 300:37; ISSAI 3000:101-102

As performance audits can address many topics and questions within a topic, it is impossible to use any standardised audit design. What is standardised in performance auditing is what to include in an overall audit design, and partly how, while the content of the plan needs to be tailor-made for each audit. The overall audit design further specifies and narrows down the audit. By communicating the overall audit design, together with the design and methods for empirical studies, the auditors live up to the requirement of communicating key aspects of the audit to the audited entity. Notification will usually take the form of a written engagement letter and regular communication during the audit.[62]However, as shown below, the standards clearly require the auditors to discuss the criteria with the audited entities. Working paper WP 21 provides then structure of the main study work plan as follows:

THE STRUCTURE FOR THE WORK PLAN (SEE FURTHER W*ORKING PAPER WP21*)

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 PA manager, PA Director
- 7.2. Timed activity plan and planned completion
- 7.3. Need for resources
- 7.4. Supervision and monitoring progress of the audit
- 7.5. Risks for the implementation of the audit and the OFAGs reputation
- 7.6 Communication with the audited entities and other main stakeholders

i. Audit Objective

The auditor should set a clearly defined audit objective(s) that relates to the principles of economy, efficiency, and/or effectiveness. The objective(s) should be articulated in sufficient detail to clarify the questions that will be answered and to allow logical development of the audit design. If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure they are thematically related, complementary, not overlapping, and collectively exhaustive in addressing the overall audit question. A well-defined audit objective(s) relates to government undertakings, systems, operations, programmes, activities, or organisations related to the subject matter.

The formulation of audit questions is an iterative process in which the questions are repeatedly specified and refined, and account is taken of known relevant information on the subject as well as feasibility. The objective determines the approach and design of the audit.[63] The audit objective determines the approach and design of the engagement. It could simply be to describe the situation. However, normative audit objectives (are things as they ought to be?) and analytical audit objectives

[62] ISSAI 300:29; ISSAI 3000:55 and 57
[63] ISSAI 3000:35-38; ISSAI 300:25

(why are things not as they ought to be?) are more likely to add value.[64] The audit objective answers the "why" question while the "scope" answers the "what", "where", "when", and "who" questions. The rest of the design phase then answers the "how" question.

Example of audit objectives
To assess whether the Traffic Police has put in place measures to plan, implement and follow up traffic inspections based on factors contributing to road accidents

ii. Audit scope

Requirements from ISSAI 100 and ISSAI 3000
• Auditors should ensure that the terms of the audit have been clearly established. *ISSAI 100:46* • The auditor shall identify the subject matter of a performance audit. *ISSAI 3000:29-31*

The audit objective(s), questions, and scope are interrelated and must be considered together. The audit scope is the boundary of the audit and is directly tied to the audit objectives. It defines the subject matter that the auditor will assess and report on. The auditors need to further specify and possibly limit what they are going to audit. Scoping the audit involves answering the questions:

"Who?": Auditors are required to define who is responsible for management of the government undertaking to be audited (the audited entity or auditee), but also other parties responsible for provide information or to initiate change based on recommendations in the report (to the extent this can be foreseen at the planning stage).

"What?" The auditors need to define the issues that will be covered in the audit.

"When?": The auditors need to define the period covered by the audit. Don't cover a longer period than what is really needed to meet the audit objective, and consider if it is all the evidence, or only a part of it, that 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 let some of the evidence 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.

"Where?": 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 the head office, that is relevant for the whole country in order to conclude on the general performance. What the auditors want to conclude on is a matter of the geographical scope of the audit. Where data is collected to do this, it is a matter of methods for data collection. Some audits are restricted to conclude on the 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.[65] Scoping the audit in terms of geography should not be confused with how to collect data in the audit.

[64] ISSAI 300:25.
[65] ISSAI 300:17, 19; ISSAI 3000:30; GUID3920:35-37.

Aspect	Question	Description
The audited entities	Who?	The entities to be covered in the audit
The audit object	What?	The activities, programmes, or processes that will be audited
Time coverage	When?	Time period is to be covered in the audit. A series of year can be covered to examine the developments over time
Geographical coverage	Where?	The geographical area that the auditors want to analyse and make conclusion about is usually not the same as where the information is collected.

iii. Audit Questions/Issues and sub-questions/issues

Requirement from ISSAI 3000 and GUID 3920

- An audit objective(s) can be thought of as audit questions about the subject matter on which the auditor seeks to obtain answers, based on the audit evidence obtained. *ISSAI 3000:38*
- Audit questions help structure the audit. *GUID 3920:31*
- Audit questions to be thematically related, complementary, not overlapping and collectively exhaustive in addressing the audit objective(s). The aim is to cover all aspects of the audit objective by specific audit questions. *GUID 3920:32*
- The formulation of audit questions is an iterative process in which the auditor repeatedly specifies and refines the questions, taking account of known and new information on the subject as well as the feasibility of obtaining answers. *GUID 3920:34*

Auditors need to identify audit questions that need to be answered to meet the audit objectives. The audit questions are derived from the objective. Audit questions and sub-questions should be thematically related, complementary, not overlapping, and collectively exhaustive in addressing the audit objective (or overall audit question). All terms employed in the questions should be clearly defined. The formulation of audit questions is an iterative process in which questions are repeatedly specified and refined, accounting for known information on the subject and feasibility.[66] The audit questions define and structure the audit.[67] They are stated in a neutral form, even though the auditors normally expect to find problems related to them. Other terms that can be used for the audit question are “audit issue” or “line of enquiry”.

The purpose of formulating audit questions is to better define and structure the audit. Put another way, audit questions can systematically direct attention to what the auditor needs to know to conclude on the audit objective. The questions will guide the auditors, as they will try to answer the questions by collecting data about the factual situation, comparing this with audit criteria, and/or making it plausible that the conditions contribute to the main performance problems. With the coverage defined in the audit scope, all aspects of the audit objective should be covered by audit questions.

Formulation of the audit questions should consider the principles of economy, efficiency and effectiveness. While using economy, efficiency and effectiveness is a useful way of breaking down the

[66] ISSAI 300:25; ISSAI 3000:38
[67] GUID 3920:31

audit objective, it does have a significant disadvantage – auditors usually structure their audits around the various processes (components) of a topic. Each of these processes may have economy, efficiency and effectiveness elements, which would make it difficult for auditors to aggregate findings and reach conclusions on each of economy, efficiency and effectiveness. It is often best to base the audit questions on the various processes (components) of a topic.

It is usually recommended not to use more than 4-6 audit questions to maintain clear focus. Even fewer questions are quite feasible. It is better to use a few overall questions and further detail them into sub-questions or even sub-sub-questions. Techniques like question tree or issue analysis can be used to development main and sub-audit questions. Another method of formulating audit questions that can be used is known as situation-Complication-Cause-Consequence technique.[68]

iv. Audit Criteria

Requirements from ISSAI 300 and ISSAI 3000
• Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness. *ISSAI 300:27* • The auditor shall establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness. *ISSAI 3000:45-48* • The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity. *ISSAI 3000:49*

The audit criteria follow logically from the audit objectives and audit questions. They are the benchmarks used to evaluate the performance of the audited activities - subject matter (i.e., the standards used to determine whether a topic meets or exceeds expectations). They therefore provide the basis for assessing the evidence, reaching findings and developing conclusions on the audit questions and audit objective. Criteria help the auditor to answer questions such as:

(a) What should I have expected to see if the topic had been performed properly?
(b) What should officials from the audited entity have done to ensure economy, efficiency and effectiveness?
(c) What results should there have been?

The audit criteria can be qualitative or quantitative and may be general or specific. They focus on what is expected according to sound principles, scientific knowledge, and best practice, on what could be (given better conditions), or on what should be according to laws, regulations, or objectives.
Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency, and effectiveness of operations can be evaluated. The criteria provide a basis for evaluating the evidence, developing audit findings related to the main performance problems and the reasons for them, and reaching conclusions on the audit objectives. They also form an important element in discussions within the audit team, with SAI management and in communication with the audited entities.

[68] AFROSAI-E Digital Performance Audit Handbook page 86-87

In the context of the subject matter, the audit objective(s), and/or the audit questions, audit criteria must be: *Relevant* – need to relate to the audit objective and audit questions, and assist the auditor in reaching conclusions at the audit question and audit objective level. *Understandable* – needs to be clear understanding as to what each criterion requires; they should not be open to interpretation. *Complete* – need to fully deal with all aspects of the related audit questions (which in turn need to deal with all aspects of the audit objective). *Measurable* – needs to be worded in such a way that it is possible to conclude if it has been achieved or not, ideally with a "yes/no" response. *Reliable* – Ideally the auditor should be able to reach the same conclusion with respect to a particular criterion every time he/she performs the relevant audit procedures. *Reasonable and attainable* – The auditor cannot expect perfection. It is not appropriate for the auditor to expect officials from the audited entity to perform to higher standards than would normally be possible in similar situations. *Objective* – The criteria should be neutral (i.e., not biased).[69] Mutually exclusive – Each criterion should not overlap other criteria. Auditors must ensure that the criteria are SMART (specific, measurable, attainable, realistic and time-bound).

Auditors may use many different sources to identify audit criteria including:

- The laws, regulations, etc. governing the audited entity in general.
- The laws, regulations, etc. governing the specific topic.
- Other legislative decisions affecting the topic.
- The standards, desired results, etc. as stipulated in the documentation requesting approval for the topic and its budget.
- The requirements contained in any loan/grant agreements with international financial institutions.
- The standards stipulated in contracts between the audited entity and any third parties engaged to help carry out the topic. For a capital project, for example, this could be a contract between the audited entity and the contractor.
- Key performance indicators set by the government or by the audited entity in general, or contained in the documentation for the particular audit topic.
- The standards of performance established for individuals within the audited entity.
- Professional standards. There may be, for example, generally recognised standards established by a relevant industry association.
- Criteria, standards, performance indicators, etc. used previously on similar audits by the OFAG or by another SAIs.
- Criteria, standards, performance indicators, etc. used by different public sector or private sector entities carrying out the same or similar activities.
- Internationally accepted standards or best practices.
- Academic research papers.
- The views of independent experts.

Hopefully the criteria can be established, in whole or in large part, by reference to the relevant authorities and the performance criteria or standards set for the specific audit topic. If that is the case, there will be limited room for officials from the audited entity to disagree with the criteria. If, though,

[69] ISSAI 3000:48; GUID 3910:56-60

the criteria are established based on performance criteria or standards set by the audited entity, the auditor needs to be cautious. Meeting those standards does not necessarily equal good performance and the auditor should be aware that the audited entity may set unreasonably low standards in order to be sure to meet them.

Discussing the criteria with officials from the audited entity

The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria.[70] Defining and communicating the criteria during the planning phase may enhance their reliability and general acceptance. Discussing the audit criteria with the audited entity ensures a shared and common understanding of what quantitative and qualitative criteria will be used as benchmarks when evaluating the subject matter. This is particularly important when the audit criteria are not defined directly by laws or other authoritative documents, or the audit criteria have to be developed and refined throughout the course of the audit work.[71]

The ISSAIs state that this discussion can take place during the audit design phase or during the conducting phase. Given the significant impact that audit criteria have on the remainder of the audit design process and the work to be performed during the conducting phase, though, it would be best to discuss the criteria with officials from the audited entity during the audit design phase.

While setting criteria is ultimately the auditor's responsibility, the auditor should attempt to obtain agreement from officials of the audited entity with respect to the criteria, and to obtain that agreement in writing. If officials from the audited entity do not agree with the criteria, they may not agree with the conclusions reached during the conducting phase of the audit.

Amending the criteria, scope, audit questions and audit objective(s) at a later date

The formulation of the audit criteria, (and the audit questions and even the audit objective) and the formulation of the scope of the audit are iterative processes in which the auditor repeatedly reconsiders the criteria, questions, objective and scope as the audit progresses. The main reasons for doing so are:

(a) The auditor may want to change the scope of the audit to have the subject matter better reflect the needs and interests of the responsible parties and the intended users. This, in turn, may require changes to the audit objective, audit questions and audit criteria.

(b) The auditor may discover that it may not be possible to reach conclusions on the audit criteria, audit questions and audit objective as they were worded during the audit design phase.

If any amendment occurs, the audit objective, audit questions, scope and audit criteria should be communicated to the audited entity at the audit design phase, changing them during the course of an audit may raise questions as to the professionalism, objectivity and fairness of the audit. This should therefore only be done in very rare cases.

v. Developing strategy 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

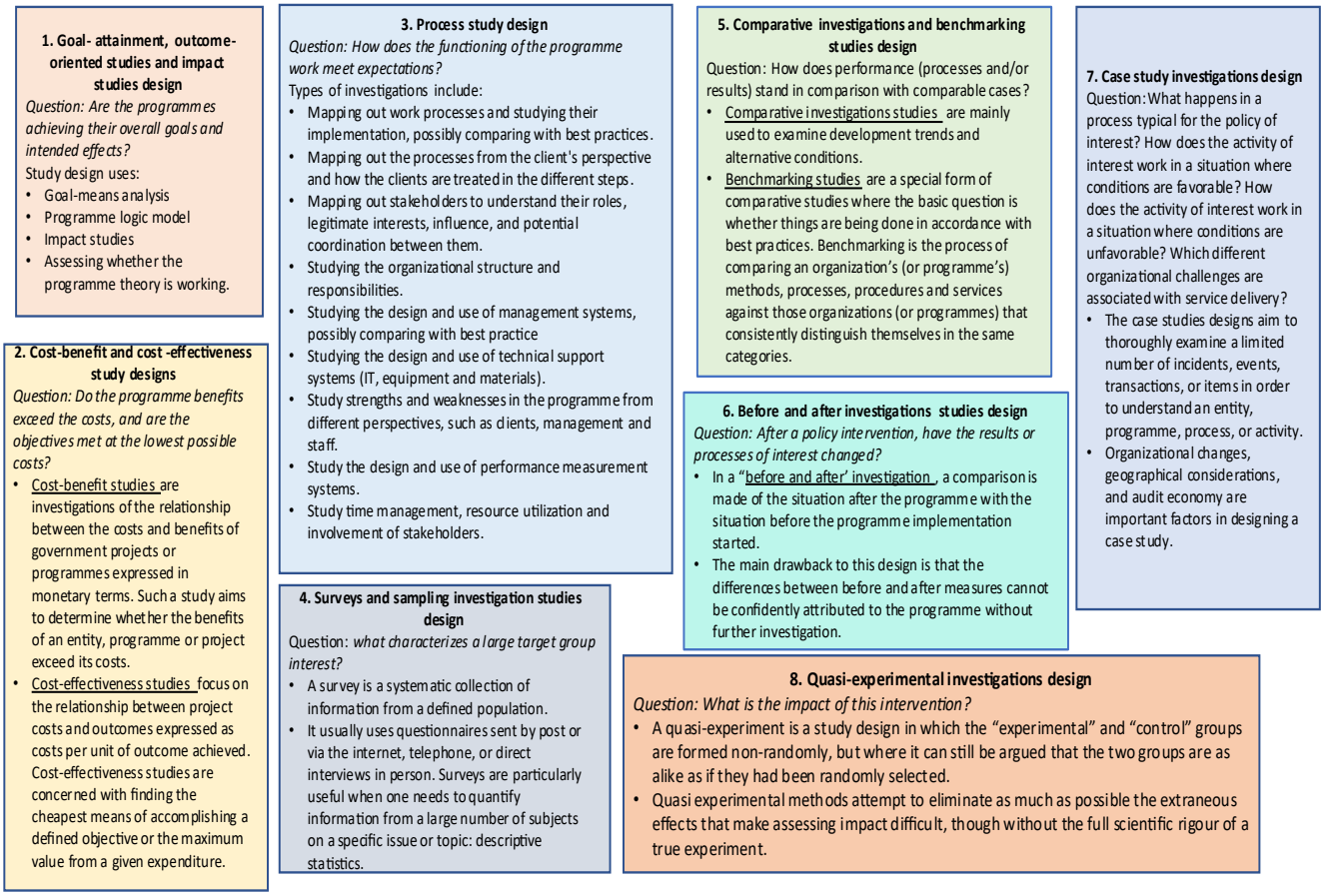
[70] GUID 3910:60
[71] ISSAI 300:27; ISSAI 3000:49-51

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.

Auditors using *working paper WP21* should elaborate on the audit strategy, 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. It is important for auditors to establish an appropriate strategy, combining different methods in a way that enables them to answer the audit questions and meet the audit objective. 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 PA 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.

The following eight study designs may be considered in the design of a performance audit to establish a strategy guiding data collection and data analysis[72]



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.[73] 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.[74]

Auditors need to 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 a 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 to 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

[72] AFROSAI-E Performance Audit Handbook Digital page 93-99
[73] GUID3920:50
[74] ISSAI 300:37

population size and the confidence level); and that the results are properly analysed.[75] Normally, this requires the involvement of an expert.

vi. Choosing methods to gather audit evidence

Requirements from ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should perform audit procedures that provide sufficient appropriate audit evidence to support the audit report. *ISSAI 100:51* • Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations. *ISSAI 300:38* • 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*

Performance auditors need to determine the methods to be used to gather sufficient and appropriate audit evidence to reduce risk with respect to each audit criterion to an acceptably low level. This step involves systematically focussing on what the auditor needs to know to answer the audit questions and address the audit criteria, and from where and how the auditor can obtain the information. Performance audits can draw upon a large variety of data-gathering techniques such as surveys, interviews, observations and the collection of administrative data and documents. Statistical sampling methods and surveys might allow for estimates to be made for the whole population and case studies combined with other evidence provide an opportunity for in-depth analysis. These data-gathering techniques can be grouped in numerous different ways. For example, they can be grouped based on the nature of evidence to be obtained, such as those illustrated below.

Link Between Types of Audit Evidence and Different Methods

Audit Evidence	Methods of data collection
Testimonial evidence	Interviews, Surveys, Questionnaires, Focus group discussions, reference groups
Documentary evidence	Document reviews, file reviews, using existing statistics, using existing database
Physical evidence	Observations, inspections, experiments
Analytical evidence	Quantitative data collection methods, data envelopment analysis, regression analysis, computations, comparisons, separation of information into components, and rational arguments

vii. Expected results/ anticipated findings

Performance auditors should briefly outline in working paper *WP 21* the performance issues for which the team anticipates to find for which they are to provide sufficient and appropriate audit evidence during the audit as well as the challenges they assume the audit will lead to. 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 report will be - who can initiate improved performance – but potentially also other users.

[75] See ISSAI 300:37 and 3000:101 on considering different methods.

viii. Audit design matrix

Auditors must ensure that all parts of the audit design need to be linked to each other.[76] This means that the audit objective, scope, audit questions, sub-questions and audit criteria must be congruent to each other. They must also be properly linked to the strategy and methods of data collection and analysis. It should be noted that this step and several of the steps that follow (developing an audit programme, budgeting the audit, staffing the audit and scheduling the work) are interrelated. For example:

- The methods to gather audit evidence and the specific procedures in the audit programme need to reflect the knowledge and experience of the staff assigned to do the work. There is no point, for example, designing complicated data analysis procedures or detailed surveys if the staff assigned to do the work are unfamiliar with those procedures.
- The budget needs to reflect the procedures to be performed and the knowledge and experience of those assigned to perform the work. Some audit procedures require more time than others, and less experienced staff will often need more time (and more supervision) to do the work.
- The scheduling of the audit needs to reflect the availability of the staff who are to be assigned to perform the work (or vice versa).

After elaborating 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.

Table 3: Audit design matrix

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 1.2						
Audit question 2						
Sub-question 2.1						
Sub-question 2.2						

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

ix. Developing an administrative plan

Requirements according to ISSAI 3000
• 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*

[76] GUID 3920:51-55

- The SAI shall ensure that, the audit team collectively has the necessary professional competence* to perform the audit. *ISSAI 3000:63*
- 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 plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. *ISSAI 3000:55*

OFAG should only carry out audits where it is competent to perform the work. The risks for quality which arise from carrying out the audit should be considered.[77] 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.

a. Selecting the audit team members

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000

- Auditors should possess or have access to the necessary skills. *ISSAI 100:41*
- 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 300:30*
- The SAI shall ensure that, the audit team collectively has the necessary professional competence to perform the audit. *ISSAI 3000:63-65*

The relevant professional competence a team needs to carry out a performance audit includes 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.[78] 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. OFAG management needs to ensure that the audit team, collectively, has the knowledge, skills and expertise necessary to successfully complete the audit. This includes:

- A sound knowledge of auditing – the audit standards and the procedures to be used on the audit.
- An understanding of and practical experience with respect to the type of audit being conducted and the procedures to be performed.
- An understanding of the audited entity's operations and the authorities under which it operates.
- The ability and experience to exercise the required level of professional judgement.
- The required writing and communication skills.

[77] ISSAI 140, element 3; ISSAI 300:21 and 28
[78] ISSAI 3000:63-65

It essential to have a competency framework that outline the knowledge, skills, training and experience that staff at various levels should possess. To ensure that there are performance auditors with the necessary professional competence, among other things the OFAG needs to:

- Hire individuals with the appropriate education and experience.
- Provide ongoing professional development in the form of courses (classroom, on-line, etc.) and on-the-job training.
- Ensure that auditors obtain sufficient practical audit work before taking on more senior responsibilities.

The OFAG management also needs to ensure that all team members are independent of the audited entity (i.e., that there are no conflicts of interest) by signing a code of ethics declaration form. 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.[79]

Performance auditing is a team effort. It is not good practice to conclude a performance audit singlehandedly since the issues involved are complex.[80] The normal size of the team is usually 2–4 auditors. If the team is too large, it is normally less efficient since more auditors need to learn about the topic and take part in numerous team discussions. An exception is when some auditors play a limited role in an audit by only carrying out a specific task, for example, collecting certain data in the provinces.

OFAG management needs to allocate the tasks among the audit team in a way that gets the best possible match between the requirements of the work and the skills, experience and capabilities of team members. Normally one person (who is usually the most experienced and/or highest-ranking auditor) is assigned as the team leader. The team leader then ensures high quality and timely production of the output by the audit team. Among other things, this means:

(a) Ensuring that all team members understand:
    (i) The meaning of the audit questions and audit criteria in the same way;
    (ii) The work assigned to them; and
    (iii) The nature of responsibilities required of them by the applicable auditing standards.
(b) Monitoring progress against the budget and schedule.
(c) Keeping senior OFAG management informed of the progress being made, and any emerging findings, conclusions and recommendations.

When appropriate, the need to involve other experts should be considered. Outside experts could be employed to perform some of the audit work when the OFAG needs (or wishes) to augment the technical knowledge and skills of the audit team. Opportunities for professional development of the team members should also be considered. If outside experts are used, the OFAG will need to ensure that:

[79] ISSAI 100:36; ISSAI 130:39 (a)
[80] GUID 3910:79

- They are independent of the audited entity and the specific topic being audited. OFAG often does this by requiring the experts to sign the same code of ethics documents as it requires its own staff to sign.
- They are competent to do the work. This is often accomplished by including specific requirements with respect to knowledge, skills and experience in the terms of reference for the assignment, and then ensuring that the expert meets the requirements.
- They maintain the confidentiality of the information gathered and, even after the audit report has been issued, they do not disclose anything that is not in the report. OFAG often does this by requiring the experts to sign confidentiality agreements.
- They have a clear understanding from the outset about the scope of the expert's work, and the timetable, deadline dates and budget for the completion of that work.
- They have a clear understanding that the expert works for the OFAG, and the specific person(s) to whom the expert reports. (Note: The OFAG, in turn, needs to take responsibility for the expert's work.)
- Adequate arrangements for liaison with the experts, including timing of interim reports and meetings at key stages

b. Developing a realistic activity plan and budget for the audit[81]

Good project management, among other things, means that the auditors must plan the length of the audit and outline the dates when different key activities will be carried out. All audits should be properly budgeted, both in terms of time and in terms of out-of-pocket expenditures. The administrative planning should include a timed activity plan and a budget using the templates in working paper *WP21*. The activity plan also needs to specify various milestones when management decisions must be made. It is important to make realistic plans that can be implemented. The budgeted time should include the estimated time required for everyone assigned to the audit (audit staff and any outside experts) to perform the work. It should also include the time required to supervise the audit and to review the working paper files. The budgeted out-of-pocket expenditures should include such items as travel and per diems for out-of-town work and the costs associated with engaging outside experts.

c. Supervision and monitoring the progress of the main study[82]

In order to facilitate supervision and monitoring of the main study, a schedule/activity plan for the audit should be prepared. Scheduling the work involves assigning start and end dates to each activity to be performed and for the audit as a whole. The schedule should contain milestone dates for each remaining phase of the audit (conducting and reporting) and for each activity within each phase of the audit. For example, there could be milestone dates set for each major section (group of procedures) within the audit programme. The schedule should be detailed enough for OFAG management to be able to easily determine if an audit is running ahead of schedule or behind schedule. The work of the team should be supervised by the PA managers who to some extent will be required to accompany the team in the field visits. It is important that this supervision is used to further develop the

[81] GUID 3920:59
[82] GUID 3910:82-84

professional skills of the auditors through on-the-job training and guidance. [83]The teams should also have regular progress meetings with the senior manager for the audit, and top management should regularly be informed about the use of resources and the progress of the audit, often by a senior manager. Teams will be required to report on the progress of their work on weekly basis using *working paper WP 20: Audit progress report*

d. Risks for the implementation of the audit and the OFAG's reputation

Requirements from ISSAI 300 and ISSAI 3000
• 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 300:28* • 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 3000:52-54* • The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. *ISSAI 3000:73* • Auditors should exercise professional scepticism, but also be receptive and willing to innovate. *ISSAI 3000:31* • 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 needs to activity manage risk to avoid developing incorrect or incomplete findings, conclusions and recommendations, providing unbalanced information, or failing to add value. Actively managing audit risk includes anticipating the possible or known risks of the work envisaged, developing audit approaches to address those risks during audit planning and the selection of methods, and documenting how those risks will be handled. Actively managing audit risk also includes considering whether the audit team has sufficient and appropriate competence to conduct the audit, adequate access to accurate, reliable, and relevant good-quality information, consideration of any new information, and consideration of alternative perspectives.[84] OFAG reputational risks should also be considered which may relate to the way the performance issues are articulated and formulation of the audit questions. Managing audit risk will further be discussed in annex A.

e. Communication with the audited entity and other main stakeholders.

Requirements according to ISSAI 300 and ISSAI 3000
• 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 300:29 • The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. ISSAI 3000:55

[83] GUID 3920:60
[84] GUID 3920:61-62

- The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI. ISSAI 3000:59-62

Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process, and communication recipients for each audit. Planning communication involves deciding how to present information before starting the main study and communicating during the main study. Thus, the main study work plan should include the type and frequency of meetings that will be held with the audited entity. It should include a schedule as when the audited entities will be provided with an opportunity to discuss the audit criteria, review and comment on a draft report and discuss differences of opinion, if any, with the OFAG before the report is issued. It is important to hold an entry meeting to inform the audited entity's management about the planned audit. A contact person should be provided to ensure smooth communication throughout the audit. Before commencing the main study OFAG should communicate with the audited entity by sending an audit engagement letter (template provided in working paper WP 26).[85]

3.2.6 Review and approval of pre-study memo, main study work plan by OFAG management

Requirement according to ISSAI 3000

- The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval. ISSAI 3000:104

Once the team and team leader finalize drafting the pre-study memorandum and main study work plan, the performance audit managers need to review it and document the feedback using *working paper WP 22: Quality control checklist for pre-study memo and main study workplan.* When the review processes are completed, after one set or more reviews, the acceptance of working paper WP21 Pre-study memorandum and work plan, possibly with comments, should be confirmed by the Team Leader, PA Manager, PA Director and independent reviewer on the front page of working paper, where also the decision of Top Management is documented.[86]

3.2.7 Documenting the design phase

Requirements according to ISSAI 300 and ISSAI 3000

- 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 300:34*
- The auditor shall document the audit in a sufficiently complete and detailed manner. *ISSAI 3000:86-88*

[85] GUID 3920:63-67
[86] GUID 3920:56

Proper documentation of the audit process and audit evidence is a general requirement which may also enable some data collected during the pre-study to be used as evidence in the main study.[87] The requirements on documentation of the audit process are the same in the pre-study as in 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 will 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 a coming main study, does not have to be included in the audit file.

3.2.8 Managing audit risk at designing individual audit phase

Requirements according to ISSAI100; ISSAI 300 and ISSAI 3000
• Auditors should manage the risks of providing a report that is inappropriate in the circumstances of the audit. *ISSAI 100:40* • Auditors should conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings. *ISSAI 100:46* • Auditors should identify and assess the risks of fraud relevant to the audit objectives. *ISSAI 100:47* • 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 300:28* • 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 assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. *ISSAI 3000:73* • Auditors should maintain appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit. *ISSAI 100: 37* • Auditors should exercise professional scepticism, but also be receptive and willing to innovate. *ISSAI 300:31* • 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*

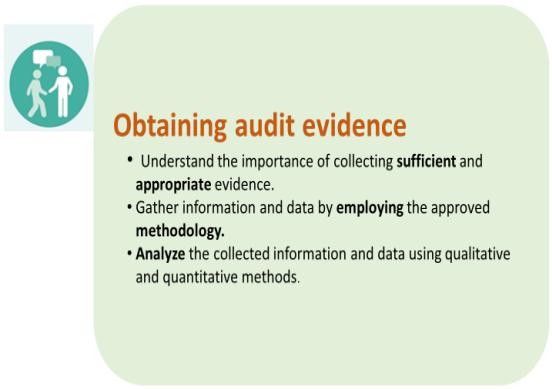
The ISSAIs require auditors to actively manage risk to avoid developing incorrect or incomplete findings, conclusions, and recommendations, providing unbalanced information, or failing to add value. Actively managing risk involves risk identification, risk assessment, developing and implementing strategies to prevent and mitigate the risk, monitoring audit risk throughout the audit and making adjustments as needed to ensure that sufficient and appropriate evidence has been obtained and that the audit report is balanced, complete, etc.

[87] ISSAI 300:34; ISSAI 3000:86-88.

At the design phase, if the audit topic is considered to be particularly risky, OFAG need to take the following steps to deal with the risks associated with designing and individual audit:

- Establishing a different staff mix. More senior staff/or staff with more knowledge and experience in the area considered to be of high risk could be assigned to those audits;
- Outside experts could be engaged as part of the audit team;
- Adjusting the design and strategy to use more procedures or better-quality procedures that are more direct to deal with the risk;
- Increasing the planned level of ongoing communication with officials from the audited entity;
- Increasing the planned communication with the intended users such as PAC. This could help ensure, among other things, that the audit provides sufficient value that the additional time likely required to complete it is justified; and
- Increasing internal quality control procedures like more supervision of the design process, increased review of the key planni9ng decisions and planning documents and having more senior management take on an increased role in the audit design process.

4. CONDUCTING THE AUDIT





Requirements according to ISSAI 100, ISSA1 300 and ISSAI 3000
• Auditors should perform audit procedures that provide sufficient and appropriate evidence to support the audit report. *ISSAI 100:49* • Auditors should obtain sufficient appropriate audit evidence to establish reach conclusions in response to the audit objective and questions and issue recommendations. *ISSAI 300:38* • 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 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 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*

Once the planning has been completed and the audit plan approved, the conducting phase can commence. This phase is also referred to as the main study stage which is the execution phase in performance audit. The objective of the conducting phase is to provide the auditor with necessary evidence and information to produce a fair, unbiased and informative report that adds to public accountability and leads to improvement in value for money. The conducting phase involves two parts

– obtaining sufficient and appropriate audit evidence, and using the evidence to answer the audit objective(s) and audit questions (i.e., to reach findings and conclusions). Obtaining sufficient and appropriate audit evidence involves collecting data and audit evidence and assessing the sufficiency and appropriateness of the evidence collected. Reaching findings and conclusions involves analysing data to develop findings, determining the cause and effect of the finding and developing conclusions and recommendations.

It should be noted that the completion of the two parts of the conducting phase is often an iterative process. That is because, as the auditor analyses the data to develop findings, the auditor may discover that more data and audit evidence is required to fully develop the finding and to reach a conclusion. The auditor will then gather this further data and audit evidence and re-assesses the sufficiency and appropriateness of that evidence to support the finding and conclusion. Throughout all steps in the conducting phase, the needs and interests of the intended users need to be kept in mind. This is particularly important in the second part of the conducting phase (reaching findings and conclusions) as the needs and interests of the intended users could affect the auditor's assessment as to which deviations from the audit criteria are significant enough to affect the conclusions and to be included in the audit report. Keeping the users' needs and interests in mind will help ensure that the audit meets these needs and that the audit report is useful and understandable.

The conducting phase involves the following activities:

ID	Activities	Working papers	Responsible
C.1	Sending engagement letter to audited entities and appending a document presenting the audit objective, audit questions and draft assessment criteria	WP26 Engagement letter (main study)	Top management
C.2	Holding introductory meeting with audited entities	WP16 Minutes from meetings or interviews	PA manager PA Director
C.3	Considering possible comments on the work plan from the audited entity (criteria, methodology etc.) and revise it when needed	WP27 – Considerations comments	Team leader PA manager
C.4	Deciding on revised work plan, whenever needed, during the audit	WP21 Pre-study memorandum and work plan	Top management
C.5	Assigning tasks to team members	WP11 Team Task Allocation Agreement	Team Leader
C.6	Collecting and analysing data	WP16 Minutes from meetings or interviews WP19 Letter requesting interview WP17 Interview guide WP 25 Document review WP28 Content analysis	Team leader
C.7	Maintaining regular contact with the audited entity, including discussing preliminary findings	WP16 Minutes from meetings or interviews	PA manager
C.8	Assessing the evidence and preliminary findings	WP29 Findings matrix WP30 Fact sheet	Team leader
C.9	Developing a synopsis and agreeing it with management		Team leader

C.10	Drafting the audit report	WP31 Performance audit report	Team leader
C.11	Managing the project	WP20 Audit progress report	Team leader
C.12	Holding progress meetings with the team	WP16 Minutes from meetings or interviews	Team leader PA manager
C.13	Reviewing the lessons learned from own work	WP33 Evaluation-Lessons learned	Team leader
C.14	Documenting the audit process and evidence		Team leader

4.1 ENGAGEMENT LETTER AND INTRODUCTORY MEETING WITH THE AUDITED ENTITY

The audited entities should also be introduced to the main study using working paper *WP26 Engagement letter* (main study). This is despite the fact that contacts with the audited entity have already been established during the pre-study. The letter should be signed by Top Management and inform the audited entity about the decision of OFAG 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.[88]

The key aspects in general and the criteria in particular should be discussed with the audited entity. It is important to establish a 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. At the entry meeting OFAG should be represented by a representative from Top Management or PA Management and, if practical, the full core audit team.

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 to keep the contact person informed of progress made with the audit, while it is up to the audit entity to decide who else need to be informed in each situation. The auditors should inform the audited entity about (compare working paper WP26 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 WP16*. If appropriate, OFAG should make the

[88] ISSAI 300:29; ISSAI 3000:55

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 stake holders should be documented using working paper WP27 Considerations of comments.

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 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.

4.2 COLLECTING DATA AND AUDIT EVIDENCE

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should perform audit procedures that provide sufficient appropriate audit evidence to support the audit report. *ISSAI 100:51* • Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations. *ISSAI 300:38* • 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 3000:106-111*

Collecting data and audit evidence is normally done by performing the work contained in the audit plan and reflected in the audit programme. Data is the primary observation, which is transformed into information when compiled. Information that is analysed and relevant to the audit objective and questions can be used as audit evidence. The audit evidence, in turn, is evaluated using criteria for the auditors to develop audit "findings", establishing main performance issues and their causes.

According to GUID 3920:49, audit evidence can be categorised as:

THE LINK BETWEEN TYPES OF AUDIT EVIDENCE AND DIFFERENT METHODS	
Audit evidence	**Methods of data collection**
Testimonial evidence	Interviews
	Questionnaires
	Focus groups
	Reference groups
Documentary evidence	Document review
	File reviews
	Using existing statistics
	Using existing databases
Physical evidence	Observation of people
	Inspection of objects or processes

	Experiments, e.g. level of computer data security
Analytical evidence	Quantitative data collection methods, for example, descriptive statistics, Data Envelopment Analysis, regression analysis
	Qualitative data collection methods, for example, process tracking, case studies, and content analysis based on interviews or texts
	Computations, comparisons, separation of information into components, and rational arguments
Source: Inspired by GUID 3920:49. OFAG (adopted from AFROSAI-E PA Handbook of Sept, 2024) has added the link between analytical evidence and descriptive statistics and qualitative data collection methods, respectively.	

When examining the source, the auditor can consider the risk of bias depending on the answers to the questions below and to minimise bias use of different data sources is recommended:

- Who is saying it? (What perspective and knowledge does the sender have?)
- What is being said? (Is the content credible, objective, and facts, correct?)
- Who is the target audience? (Can the content be used for your purpose?)
- What is the purpose of saying it? (Presenting facts, marketing, or opinions?)
- When is it being said? (In relation to the time the content refers to?)

According to ISSAI 300:38 and ISSAI 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 both 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.[89]When analysing evidence that has been collected, these concepts will be used to assess the quality of the audit evidence.[90]

4.2.1 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:

a. *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, problems, lack of goal attainment etc. within the area of audit and also formulate possible audit problems. In the main study, the focus will shift to go deeper into the identified deficiencies and verify the reasons behind it and possible

[89] ISSAI 100:53
[90] GUID 3920:74-77

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. Use working paper WP16 for documenting interview minutes and WP 17: interview guide.

b. *Focus groups, seminars and reference groups: Focus groups*, a selection of a few individuals, such as experts in the field, representatives from governments bodies, 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 if the participants were to be 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 OFAG 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 both 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. *Use working paper WP16* for documenting interview minutes and *WP 17: interview guide.*

c. *Questionnaires:* A questionnaire provides a systematic collection of information from a defined population (could be government bodies, local communities, organisations, businesses or individuals), and it might 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.

4.2.2 Documentary evidence

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

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

b) Audited entity budget statements: Audited entity budget statements include the entity overview, provides financial information as well as information about the objectives and performance of the entity.

c) 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.

d) *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 rather than to compile own statistics. The disadvantage is that the statistics compiled by others are not always collected and compiled according to the audits needs. The statistics could also have flaws.

e) *File reviews:* A good source of documentary evidence is examination of files, which may prove useful for review. The files may include:
   - 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 all relevant papers may not be contained on files that are registered. There may be other relevant documents of which the team is unaware.

f) *External evaluations, reports and literature:* When conducting an audit, the auditors should read previous evaluations and reports written in the 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 literatures 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.

g) *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.

h) *Internet:* 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 (news articles, research e.g.) can easily be found.

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

Use *WP23 Document tracking sheet* to track the requested documents from the auditee and WP 25 to document the reviews.

4.2.3 Physical evidence

Sometimes it is useful to confirm the verbal information and/or the information collected through documents with different types of physical evidence. It can also be the other way round. Auditors may

be able to use physical evidence to show that descriptions in official documents are not fully appropriate, or used to confront interviewees at the head office with factual information from field visits. Consider how to use the following:

a) *Observation:* Observations give 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.

b) *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 in that way document the inspections. Inspection of physical objects is mainly intended to physically study a few objects in order to provide detailed examples of what has been observed. When the observation for 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 observations, 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.

Auditors should develop a *working paper* to record the physical evidence. It may be in form of a checklist.

4.2.4 Analytical evidence

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

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 development of analytical evidence.

[91]GUID 3920:49

4.3 ASSESSING THE SUFFICIENCY AND APPROPRIATENESS OF THE EVIDENCE

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should manage the risks of providing a report that is inappropriate in the circumstances of the audit. *ISSAI 100:42* • Auditors should perform audit procedures that provide sufficient appropriate audit evidence to support the audit report. *ISSAI 100:51* • Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations. *ISSAI 300:38* • 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 3000:68-72* • The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. *ISSAI 3000:73-74* • 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 3000:106-111*

The auditor is required to assesses whether he/she has obtained sufficient and appropriate audit evidence to be able to establish and support findings and conclusions in response to the criteria, audit questions and audit objective(s), and to make recommendations. Having sufficient and appropriate audit evidence means reducing the risk of obtaining incorrect or incomplete conclusion, providing unbalanced information or failing to add value to an acceptably low level. *Sufficiency* is a measure of quantity. Evidence is sufficient if there is enough to convince a knowledgeable person that the findings, conclusions and recommendations are reasonable and adequately supported. *Appropriateness* is a measure of quality. Evidence is appropriate if it is[92]:

(a) Relevant (i.e., it relates to and is important to the audit criterion, questions and audit objective(s) for which the evidence is designed to provide assurance).
(b) Valid (i.e., it is a meaningful or reasonable basis for measuring what is being evaluated).
(c) Reliable (i.e., it is supported by other evidence or produces the same result when tested repeatedly).

It should be noted that the evidence needs to be both sufficient and appropriate. Increasing sample sizes (sufficiency), for example, will not compensate for the fact that that the test being performed is not relevant to the audit criterion (i.e., not appropriate). Assessing the sufficiency and appropriateness of audit evidence can require a great deal of professional judgement. That is because:

- Audit objectives, audit questions and audit criteria vary widely, and what is sufficient and appropriate for one audit may not be enough for another audit.
- Audit risks may differ significantly from one audit topic to the next. In high-risk situations, more evidence and/or better-quality evidence will be needed than in low-risk situations.

[92] GUID 3920:74

- The evidence is rarely conclusive – it is usually not possible to reach yes/no or right/wrong conclusions. More typically, audit evidence is persuasive – it points towards the conclusion. This means that the evidence can be open to interpretation and different points of view. A lot of professional judgement may be needed to resolve the different interpretations and different points of view.
- There be conflicting audit evidence – different procedures may lead to different conclusions. Professional judgement may be needed to resolve the conflict.

When assessing the sufficiency and appropriateness of audit evidence, the auditor needs to consider[93]:

a. *The strength of the procedures being performed* - evidence may take many forms – interviews, surveys, physical inspections, samples, etc. These procedures are normally not considered to be equally strong. For instance:
   i. Documentary evidence is normally considered to be more reliable than oral evidence.
   ii. Evidence (be it oral, documentary, etc.) obtained from knowledgeable, credible and unbiased third parties is normally considered more reliable than evidence obtained from officials from the audited entity who are directly involved in the audit topic.
   iii. Evidence obtained through the auditor's direct observation, computation and inspection is usually considered more reliable than evidence obtained indirectly.
   iv. Evidence developed directly by the auditor is usually considered more reliable than evidence obtained from reports, etc. prepared by officials from the audited entity.
   v. Oral/testimonial evidence is normally more reliable when it is corroborated in writing, It is based on many interviews instead of just one or a few, and the persons providing the evidence are independent of the topic being audited, are knowledgeable about the topic, and are able to speak freely.
   vi. Evidence obtained from the audited entity's financial management and accounting systems is normally more reliable when the internal controls over those systems are good than when internal controls are poor.

In addition, the nature and extent of each procedure can affect the amount of assurance that is being provided by that procedure. For example: [94]

i. For sampling, more assurance can be obtained from:
   - Larger sample sizes than from smaller sample sizes.
   - Samples where greater care is taken to ensure that the sample is representative of the population from which it was taken.

ii. For analytical procedures, more assurance can be obtained from:
   - More sophisticated comparisons such as predictive analysis or regression analysis than from simple comparisons.
   - Procedures performed on very disaggregated data (e.g., monthly amounts for each individual location) than on highly aggregated data (e.g., annual expenditures for the topic as a whole)

[93] GUID 3920:75
[94] GUID 3920:76

iii. For data analysis, more assurance can be obtained from more detailed searches for unusual payments, duplicate payments, etc.

b. *The number of sources/procedures being used-* Evidence that is obtained from more than one source or procedure is normally considered stronger than evidence that is obtained from only one source or procedure. That is because different officials from the audited entity, experts, and interested parties may have different perspectives and arguments to put forward.

c. *The results of specific procedures-* When considering methods to gather audit evidence and developing the audit programme, the auditor will have made assumptions concerning how much assurance could be derived from each method and each procedure.

d. *Different points of view-* Discrepancies involving hard facts can normally be resolved relatively easily. Different points of view can be more difficult to resolve.

e. Conflicting audit evidence. where the different sources of audit evidence leading to different conclusions. conflicting audit evidence may arise due to legitimate reasons; however, they may also arise due to problems with the audit work carried out by the OFAG.

4.4 REACHING FINDINGS AND CONCLUSIONS

Requirements according to ISSAI 100 and ISSAI 3000
• Auditors should evaluate the audit evidence and draw conclusions. *ISSAI 100:50* • 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 ensure that the audit findings clearly conclude against the audit objective(s) and/or questions, or explain why this was not possible. *ISSAI 3000:124* • The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. *ISSAI 3000:32*

An audit finding is the result of the auditor's comparison of the actual situation to the related criterion. If the auditor finds that the actual result does not meet the criterion, the auditor has a matter that should potentially be reported to Parliament. Audit findings should, to the extent possible, be based on hard evidence. The evidence should be relevant, valid (e.g., objective, meaningful, reasonable, accurate and unbiased) and reliable (e.g., supportable). If this is the case, there should not be room for disagreement with the findings. Audit findings should be presented in the report in a fair and balanced manner, using a tone that is consistent with the seriousness of the matter. In addition, if officials from the audited entity have already commenced actions to deal with the matter, that fact should be reported. The audit finding should include the following 4Cs:

- Sufficient background information for the reader to understand the matter at hand.
- The relevant *criterion* (what the auditor should have seen).
- The *condition* in terms of what the auditor actually saw and the difference between the two (if not obvious). This would be the deviation from the audit criteria –a deviation from economy, efficiency or effectiveness, a compliance with authority deviation, or other monetary deviation/error.
- The likely *cause* of the matter.
- The effect or *consequence* of the matter.

There are five analytical steps to developing findings and reaching audit conclusions:

(a) Set the audit criteria. The criterion is a statement of what should be.
(b) Obtain audit evidence to determine what the actual situation is.
(c) Analyse the audit evidence. This involves comparing the actual situation to the criterion. This is the "finding".
(d) Determine the cause and effect of the finding.
(e) Develop conclusions according to the criterion and to the related audit question and audit objective.

Step (a) was discussed as part of the audit design phase while step (b) was discussed during the first part of the conducting phase. The remaining three steps are discussed as follows:

4.4.1 Analysing Data to Develop Findings

A finding is the result of the auditor's comparison of the actual situation (the level of performance, the amounts recorded, the extent to which authorities were complied with, etc.) with the relevant criterion (the level of performance that should have been, the amount that should have been recorded, the authorities that should have been complied with, etc.). If the auditor finds that the actual result does not meet the criterion used (i.e., there is a deviation from the audit criteria) the auditor has a matter that should potentially be reported to Parliament. Deviations from the audit criteria can be deviations from economy, efficiency or effectiveness, compliance with authority deviations, or other monetary deviations/errors. When assessing whether deviations have occurred, the auditor needs to remember that the criteria should be reasonable and attainable – the auditor cannot expect perfection. Instead, when setting the criteria, the auditor should have considered what a reasonable person would expect, taking into account the audited entity's circumstances.

All audit findings and conclusions must be supported by sufficient appropriate evidence. This should be placed in context, and all relevant arguments, pros and cons and different perspectives should be considered before conclusions can be drawn. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objective and the audit questions. The auditor should evaluate the evidence with a view to obtain audit findings. Based on the findings, the auditor should exercise professional judgement to reach a conclusion. 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 involve combining and comparing data from different sources, drawing preliminary conclusions and compiling findings in order to build hypotheses that can be tested, if necessary, against additional data. The whole process is closely linked to that of drafting the 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 for them to work systematically and with due care and objectivity.[95]

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

1. Begin during the design of a study;
2. Continue as detailed plans are made to collect data from different sources;
3. Become the focus of attention after it is collected; and

[95] ISSAI 300:38, ISSAI 3000:112-115

4. Be completed only during the report writing and reviewing stages.

When analysing the data, the audit team should start by 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.[96]

i. 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).

a) *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 from the audit. Descriptive statistical information can be used to present the size of the audit objects personnel, resources, operations, finances, etc. If the sample on which the auditors have gathered 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.

b) *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 systemizing 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, divide the text or what has been said into different categories or topics. Usually, the audit questions and sub-questions means 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 *WP28* 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 for reviewed documents in the rows. Key words indicating the relevant evidence can then be recorded in the cells to get an overview of 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.

[96] ISSAI 3000:14

A calculation can then be made, expressing the percentage of investigated documents or interviews that include a particular type of statement (see the AFROSAI-E *Performance Audit Handbook*, Section 7.2 for more detailed information on Quantitative and Qualitative analysis).

Auditors should develop *working papers* for conducting comprehensive analysis of quantitative and qualitative data. They may also use computer-assisted audit techniques such as ACL involves a detailed review of data looking for unusual patterns or trends.

ii. 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 with 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.[97] 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. When three or more sources are used to verify and substantiate a finding is called triangulation.

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.

4.4.2 Determining Cause and Effect of a Finding

Determining the Cause of the Deviation: The auditor needs to identify the cause of the deviation. This can assist in developing recommendations. That is because recommendations should be designed to eliminate the cause of a deviation and hence prevent its reoccurrence. Causes must be supported by evidence, as opposed to being the auditor's or officials from the audited entity's "best guess".

[97] ISSAOI 3000:72

Potential causes should be discussed with officials from the audited entity at the earliest possible opportunity. The officials may be aware of the matter that the auditor has identified, and may be able to provide an explanation as to how it came about. Discussing potential causes with officials from the audited entity could help avoid the situation where the auditor identifies an incorrect cause, and then spends time developing inappropriate recommendations to deal with it.

Determining the Effect of the Deviation: The effect is the impact that the deviation has on the audited entity's performance – it is the difference between the actual situation and what would have been the situation if the deviation had not occurred and the criterion had been met. It is important to determine the effect as it answers the "So what?" question – why the reader should be interested in the matter. 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 effects of lack of control, poor decisions or lack of concern for service.

4.4.3 Developing Conclusions

Audit conclusions are logical inferences about a matter based on the results of the auditor's work. 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 either through an *overall view on aspects of economy, efficiency and effectiveness*, when the audit objectives, the subject matter, the evidence obtained and the findings reached allow for such conclusions, or by providing specific information in the report on different points, including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the *specific conclusions*.[98]

Conclusions are statements inferred by the auditor from the findings, and must flow logically from the findings. They are logical inferences about the existence of deviations from the audit criteria (deviations from economy, efficiency or effectiveness, compliance with authority deviations, or other monetary deviations/errors) based on the results of the audit work. Conclusions are not simply restatements of the findings, but represent the auditor's opinion concerning those findings. The conclusions could include, for example, the auditor's views with respect to the causes of the deviations found. The strength of the auditor's conclusions depends on the persuasiveness of the evidence supporting the findings, and the convincingness of the logic used to formulate the conclusion. If the relationship among audit objectives, questions, criteria, findings (including cause and effect) and conclusions is clear and straightforward, the conclusions will be hard to refute.

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

[98] ISSAI 300:21-23; ISSAI 100:31-33; 100:31-33

persuasive ("points towards the conclusion that ...") rather than conclusive ("right/wrong"). The need for precision should be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management is recommended.[99]

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

The strength of the auditors' conclusion depends on the persuasiveness of the evidence supporting the findings and the convincingness of the logic used to formulate the conclusion. If the relationship among audit objectives, questions, criteria, findings (including cause and effect) and conclusions is clear, the conclusions will be hard to refute.

4.4.4 Developing Recommendations

Requirement according to ISSAI 300 and ISSAI 3000
• 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 300:40* • The auditor shall provide constructive recommendations 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*

Recommendations follow directly from the auditor's conclusions. They are the auditor's proposals to correct deviations that have occurred in the past and to prevent them for recurring in the future. Their aim is to improve economy, efficiency and effectiveness. Recommendations are designed to prompt corrective action in cases where such action can cost-effectively be taken. It is important that the relationship among audit objectives, questions, criteria, findings, conclusions and recommendations is clear. Recommendations must follow logically or analytically from the facts and arguments presented. The recommendations should[100]:

- 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;

[99] ISSAI 300:38; ISSAI 3000:115
[100] ISSAI 300:16 and 40; ISSAI 3000:126-128

- 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 the 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 program 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 directions or ideas for how the problems can be solved or reduced. While there are arguments for focusing recommendations on what needs to be improved, such recommendations may not be convincing without indicating what I can be realistically done.

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

- What needs to be done and why?
- Where does it need to be done?
- Who is responsible for doing it?
- What example(s) on how this can be done can be elaborated 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?

4.4.5 Findings Matrix and Fact Sheet

Requirements according to ISSAI 3000
• 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*

Use working paper *WP29 Findings matrix*, to give an overview of the preliminary findings, conclusions and recommendations 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. The findings matrix can include columns containing:

a) The criterion to which the situation found relates.
b) The situation found.
c) The finding. This is the difference between (a) and (b).
d) The cause of the finding.
e) The effect of the finding.
f) The auditor's conclusion.
g) The auditor's recommendations and the expected benefits that would result from the recommendation (if not obvious).

Table 4: Findings matrix

Audit Objective						
Audit Question/sub-question						
Finding					Conclusion	Recommendation
Condition (Situation Found)	Criteria	Evidence and analysis	Causes	Effect		

Use *working paper WP 30* Fact Sheet to capture in writing the agreement or disagreement of the officials from the audited entity with respect to the audit observations on which the audit report would be based. A fact sheet can also be used to assist in the initial discussions with officials from the audited entity. It also assists OFAG management in their monitoring of work progress. It serves as minutes of the meeting with officials from the audited entity. It should be noted that the auditor does not need to document every single "fact" in the fact sheet – such a process would be extremely time consuming and many of the "facts" will be obvious and beyond dispute. What should be included in the fact sheet and discussed with officials from the audited entity are:

- Critical facts that will most likely find their way into the report.
- Facts on which the auditor is not certain about and/or would like additional input. This could include, for example, ensuring that there is no additional evidence dealing with the fact of which the auditor is not aware.

4.4.6 Developing a draft report

Once a synopsis has been produced (based on the findings matrix and the fact sheets) and the readers have been identified, the audit team should start drafting the report in accordance with the structure in working paper WP31 Audit report, or as agreed with PA 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 keep 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.

4.4.7 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 organized 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 by conducting peer review workshops or meetings. 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 can in their turn also let other persons or functions review the draft report and the audit file. *Use working paper WP 32* to review the draft report.

4.5 DOCUMENTATION

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached. *ISSAI 100:42* • 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 300:34* • The auditor shall document the audit in a sufficiently complete and detailed manner. *ISSAI 3000:86-88*

OFAG is required to maintain appropriate documentation and files. According to ISSAI 300:34 and ISSAI 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.

ISSAI 300:34 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 analysis 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 emphasizes 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 SAIs and the individual auditors' professional development as it can provide good practices for similar audits.
Performance audit team leaders in OFAG have the responsibility of maintaining both the electronic and hard copy files for audit engagements (Project and communication files). The team leader is expected to review all the working papers before filing. The team leader should ensure that all team

members get access to the key documents of the audit and 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	**Designing the audit**	**D**	**Deciding and reporting**
B 1	Project management	D 1	Project management
B 2	Formal meetings and correspondence	D 2	Formal meetings and correspondence
B 3	Collected data & analysis	D 3	Collected data & analysis
B 4	Draft Pre-study memos & Work plans, including reviews and comments	D 4	Draft reports, including reviews and comments
B 5	Final Pre-study memo & work plan	D 5	Decision and final report
C	**Conducting the audit**	**E**	**Follow-up of the report**
C 1	Project management	E 1	Project management
C 2	Formal meetings and correspondence	E 2	Formal meetings and correspondence
C 3	Collected data & analysis	E 3	Collected data & analysis
C 4	Partial drafts and comments from management	E 4	Draft follow-up reports, including review and comments
C 5	First complete draft of the report, handed over to management for review	E 5	Final follow-up reports

The documentation should cover, but not be limited to:

PA project phase	Project file folder	Documents to be filed
Designing the audit	Project management	• Approved Plan for the pre-study • Quality Control checklist for plan for pre-study • Code of ethics • Minutes of progress meetings, documenting major decisions about the audit and when appropriate changing original plans; • Task allocation
	Formal meetings and correspondence	• Introductory meeting minutes WP 16 • Introductory Letter • Minutes of the meetings • Sent and received letters
	Collected data and analysis	• Interview guides • Interview minutes • Document review WP

		• Physical inspection checklist • Content analysis • Questionnaires and answers
	Draft Pre-study memos & Work plans, including reviews and comments	• Pre-study memo and workplan • Quality control checklist for pre-study memo and workplan
	Final Pre-study memo & work plan	• The pre-study memorandum and approved work plan;
Conducting the audit	Project management	• Task allocation • Code of ethics • Progress reports • Minutes of progress reporting meetings • Main study workplan (audit design matrix) • Considerations for comments
	Formal meetings and correspondence	• Sent and received letters • Engagement letter • Main study entry minutes • Agreed assessment criteria • Issuance and dissemination letters
	Collected data & analysis	• Interview guides • Interview minutes • Document review WP • Physical inspection checklist • Content analysis • Questionnaires and answers • Special analysis made in separate working papers; • Scanned or soft copy documents from the audited entity
	Partial drafts and comments from management	• Fact sheets • Findings matrix
	First complete draft of the report, handed over to management for review	• Draft main study report
Deciding and reporting	Project management	• Progress reports • Minutes of progress reporting meetings • Evaluation of lessons learnt

	Formal meetings and correspondence	• Request for comments letter • Exit meeting minutes • Issuance letter • Submission letter • Sent and received letters • Report distribution records
	Collected data & analysis	• Additional collected evidence
	Draft reports, including reviews and comments	• Quality control checklist for main study report
	Decision and final report	• Approved main study report
Follow-up of the report	Project management	• Task allocation • Budgets • Approved Follow-up audit plans • Consideration for comments
	Formal meetings and correspondence	• Letters for follow-up audits • Comments from the audited entity • Sent and received letters
	Collected data & analysis	• Interview guides • Interview minutes • Document review WP • Physical inspection checklist • Content analysis • Questionnaires and answers • Special analysis made in separate working papers; • Scanned or soft copy documents from the audited entity
	Draft follow-up reports, including review and comments	• Fact sheets • Findings matrix • Draft follow-up report • Quality control check list
	Final follow-up reports	Approved follow-up audit report

4.6 SUPERVISING AND MONITORING PROGRESS OF THE AUDIT

Requirements according to ISSAI 3000
• 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 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*

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 planned and partly carried out, under uncertainty. Also, the quality of performance audit reports is crucial for achieving the objectives of OFAG and maintaining its credibility in society. This underlines the importance of performance audit managers in OFAG to regularly monitor the progress of the audits. According to ISSAI 3000:66, it is required that 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 OFAG;
- 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 OFAG 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 needs arise. A realistic activity plan gives incentives to the auditors to meet planned milestones and is an important tool for managers to monitor what the team has achieved and provide the support the team may need. As the audit proceeds, the knowledge of the audit topic and the problems increases. It is therefore necessary that the audit design and methodology is regularly discussed between the audit team and management, and updated when necessary. The PA Manager should organise regular review meetings monthly 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,
- Progress of the audit in relation to the work plan and the budget. The discussions should also go into depth of
- Substance of the audit in terms of data collected, analysis made, drafts developed, relation to stakeholders and the development of the risks to the audit.
- Strategies for how to handle deviations to the plan or expectations.

If necessary, proposals to revise the work plan may be addressed to Top Management. Such decisions should be recorded in the file. The result of progress meetings should be documented in working paper *WP20 Audit progress report*. PA Management should inform Top Management on the progress of the

audit, with recommendations for corrective action if needed. The manager must also ensure that the audit reports meet the reporting standards.

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, is only 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. Management needs to ensure the key following areas:

- Monitoring Progress Relative to Time Schedule
- Monitoring Audit Cost
- Monitoring Audit Quality

Ongoing monitoring suggest required changes to the audit plan and audit programme. If the monitoring exercise indicates that the work is progressing slower than expected, OFAG management may be able to assign a later completion date. If this is not possible because, say, the tabling date is fixed or the assigned staff have other commitments, more or better qualified auditors could be added to the audit team, and/or the volume of the planned amount of work could be reduced. The latter could be done by, for example, deleting criteria, auditing fewer locations, or reducing the period of time to be covered by the audit. If the monitoring exercise indicates that the audit is over budget, either an increased budget could be provided or the volume of the planned work could be reduced. If the monitoring exercise indicates that the work is not of the required quality, the work performed to date may need to be redone and/or additional procedures added to the audit programme. Consideration should also be given to assigning better qualified staff, or increasing the supervision and review that is being performed.

4.7 MANAGING RISK DURING CONDUCTING PHASE

Requirements according to ISSAI 300 and ISSAI 3000
• 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 300:28* • Auditors should exercise professional scepticism, but also be receptive and willing to innovate. *ISSAI 300:31* • 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 assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. *ISSAI 3000:73*

ISSAI 300:28 and 3000:52 require 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 ADM in working paper WP21).

One of the key risks that needs to be managed during the conducting phase is to ensure that sufficient and appropriate audit evidence is obtained. As the audit progresses, the auditor may discover that risks are different than expected and/or that planned procedures cannot be performed, or produce less assurance than planned. The auditor needs to ensure that the audit plan is amended to obtain the required assurance. The auditor needs to ensure that his/her analysis of data results are the correct interpretation of the findings (including cause and effect), and results in conclusions and recommendations that are appropriate, balanced and add value.
Auditor manage audit risk when conducting the audit by ensuring good audit planning; establishing a different staff mix; adjusting the audit strategy to use more methods or better-quality methods that more directly deal with the areas of risk; Increasing the planned level of communication with the intended users; and Increasing quality control procedures.

Another risk that needs to be managed carefully is the risk of fraud. If the risk of fraud is significant, the auditor should obtain a good understanding of the relevant internal controls, and then examine whether there are any signs of irregularities that could hamper performance. The auditor needs to make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives.

4.8 LIAISON WITH OFFICIALS FROM THE AUDITED ENTITY

Requirements according to ISSAI 300 and ISSAI 3000
• 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 300:29* • The auditor shall plan for and maintain effective and proper communication of key aspects 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*

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*, to brief them on the audit objective, scope, audit questions, criteria and methods of data collection for the audit before the start of data collection.[101]The

[101] ISSAI 300:29; ISSAI 3910:65

audit criteria must be discussed with the audited entity, usually during the entry meeting; at the entry meeting the OFAG should normally be represented by performance audit management 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 the assistance from the contact person in finding documents and arrange 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 necessary feedback;
- 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-P 20, principle 3. Use a *fact sheet working paper WP 30;*
- 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[102].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. OFAG 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 OFAG 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.[103]

OFAG should ensure that that the conducting phase begins with sending an engagement letter and having an introductory meeting. Officials from the audited entity should be advised of any changes in the audit plan that could affect them. The conducting phase should end with a "clearance meeting" during which the findings and conclusions and the other results of the conducting phase are discussed. The findings matrix and fact sheets can be used as a basis for that discussion.

[102] ISSAI 3000:58
[103] ISSAI 3000:60

All formal meetings and interviews with officials from the audited entity should be documented. When liaising with officials from the audited entity (and with any intended users as well), the auditor needs to ensure that the communication does not compromise the independence and impartiality of the OFAG.

4.9 QUALITY CONTROL OF THE CONDUCTING PHASE

Requirements according to ISSAI 300 and ISSAI 3000
• 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 300:32* • 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*

To help ensure quality and that the conducting phase is completed in accordance with the ISSAIs, the work should be properly documented, and the working papers reviewed by OFAG management. This should be done during and at the end of the conducting phase. Among other things, OFAG management should ensure that all findings, conclusions and recommendations are fully supported by the audit evidence. Fieldwork needs to be properly supervised, with progress monitored. Management should use *working paper WP 32* to review the draft audit report that is produced at the end of the conducting phase. There should be regular liaison with officials from the audited entity. This includes discussing the findings (including cause and effect), conclusions and recommendations.

4.10 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 40[104] 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 that can be learned for future audits, is an important element in good project management. *Working paper WP33 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, identify weaknesses in planning and implementing the audit as well as what went well. Working paper WP*31* can be used for this purpose. This can include:

[104] ISSAI 140, element 5

- Comparison to determine whether the actual work done corresponds to the planning documents;
- Analysing the time spent compared with 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 the communication with management during the process;
- Experiences with the auditees; and
- If 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, OFAG may also follow-up on the usefulness of completed audits and the views of the audited entities and other stakeholders.

5. CONCLUDING ON FINDINGS AND REPORTING ON AUDIT



Writing the reporting

- Establish a report structure that will **effectively communicate** the audit results.
- **Draft** the report in accordance with SAI guidance.
- **Review and decide** on the report
- Obtain the **audit entity's comments** on the draft report.
- After receiving SAI management approval, finalize and **publish** the report.
- **Communicate** the audit results to the relevant parties.

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should establish effective communication throughout the audit process. *ISSAI 100:43* • 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 300:29* • Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced *ISSAI 300:39* • The auditor shall provide audit reports, which are a) comprehensive, b) convincing, c) timely, d) reader friendly, and e) balanced. *ISSAI 3000:116* • 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 communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. *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 possible. *ISSAI 3000:124* • The auditor shall provide constructive recommendations 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 3000:13* • The auditor shall plan for and maintain effective and proper communication of key aspects 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* 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*

5.1 ACTIVITIES IN DECIDING AND REPORTING PHASE

There are three basic parts to the reporting process: Drafting the report; Reviewing and deciding on the report; and Publishing and distributing the report. The objective of the reporting phase is to provide Parliament and its Public Accounts Committee (PAC) and the other intended users with reports containing independent information, advice and assurance as to whether the topic that was audited was operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there was room for improvement. Reports are also springboards for action. The purpose of an audit report is to:

(a) Communicate the results of an audit to the intended users.
(b) Make the results less susceptible to misunderstanding.
(c) Make the results available to the public in order to create transparency.
(d) Facilitate follow-up to determine whether appropriate corrective actions have been taken.

ID	Activities	Working papers	Responsible
D.1	Peer review of draft report	WP32 Quality control checklist - Audit report	Team leader
D.2	Expert review of draft report		Team leader
D.3	Management reviews of draft report	WP32 Quality control checklist - Audit report	PA management
D.4	Independent quality control review of draft report	WP32 Quality control checklist - Audit report	PA management
D.5	Considering and possibly incorporating comments and views from reviews of draft reports	WP27 – Considerations of comments	Top management
D.6	Requesting comments on draft report from audited entities (and possibly other key stakeholders) and holding exit meeting	WP34 Letter requesting comments on draft report WP16 Minutes from meetings or interviews	Independent reviewer

D.7	Finally considering received comments and opinions, completing the final report and developing an outline of follow-up procedures	WP27 – Considerations of comments	Team leader
D.8	Deciding on the audit report, after having resolved any internal differences of opinion, and signing the submission letter	WP31 Performance audit report WP35 Submission letter	PA management
D.9	Formally submitting the audit report to relevant authorities	WP31 Performance audit report WP35 Submission letter WP36 Issue letter to client	Top management
D.10	Developing and issuing a press release, and when appropriate arrange a press conference		PA management
D.11	Disseminating the audit report to relevant stakeholders, media and AFROSAI-E	WP36 Distribution of the audit report	Top management
D.12	Assisting with deliberations on the audit report in relevant parliamentary committees and providing support in drafting committee reports to the legislature	WP16 Minutes from meetings or interviews	Team leader

5.1.1 Drafting the report

Once the conducting phase has been completed, the auditor moves on to the reporting phase. It should be noted that the reporting phase may overlap the conducting phase to some extent – auditors often start drafting the report before the conducting phase has ended. The main advantage of doing so is to shorten the period between the end of the conducting phase and the tabling of the report. Examples of parts of the report that may be written at an early stage of the audit are the background material, the standards and methodology, and the description of the audit objective(s), audit questions and audit criteria. In addition, as findings are developed, conclusions are reached and recommendations are developed, auditors may start to put these in the initial draft. It is advisable not to spend too much time developing a report until all potential findings (including cause and effect), conclusions and recommendations are discussed with officials from the audited entity. As such, it is normally good to wait at least until after the finding's matrix has been discussed with officials from the audited entity before spending too much time drafting the report. When drafting the report, the auditor should do the following:

a. Revisit some of the key planning decisions made at the audit design phase

It is often good practice to revisit some of the key planning decisions made at the audit design phase, and some of the key documents prepared during the audit design and conducting phases. For example, the auditor could revisit:

- The reasons for selecting the audit topic in the first place. There may have been some expected significant findings, and the auditor may have expected to be able to make some significant

recommendations to deal with those findings. These would have been recorded in the audit design matrix and other documents during the audit design phase.

- The extent to which the matters in (a) were identified during the conducting phase, and could be reflected in the audit report. Matters identified during the conducting phase that could potentially be included in the audit report would be included in the findings matrix.
- Any other significant matters identified during the conducting phase and recorded in the findings matrix.

It should be noted that, at this point, all potential findings, conclusions and recommendations should have been discussed with officials from the audited entity during the conducting phase of the audit. These discussions could have taken place throughout the conducting phase and/or during a clearance meeting at the end of the conducting phase. Clearing the findings early will help ensure that all material and relevant facts are considered and that the facts are not in dispute. This, in turn, will help ensure that the presentation of the conclusions and recommendations drawn from the findings are fair, and that the report that will be produced is balanced and complete in coverage, content and tone. Material for discussion with officials from the audited entity should be documented in the *working papers WP29 findings matrix and WP30 fact sheet*[105].

b. Deciding which matters to include in the report

Having revisited the key planning decisions and the key documents prepared at the audit design and conducting phases (of which the findings matrix would be key), and considered the results of the discussions with officials from the audited entity in *working paper WP 27*[106], the auditor needs to decide which findings, conclusions and recommendations are to be included in the report. A long report may not only discourage Parliament, the PAC and the other intended users from reading the report, but may also make it difficult for them to appreciate the most critical matters. If, though, the OFAG is convinced that the intended users have the time and the interest to read the entire report, and have the capability to assess the relative importance of every finding, conclusion and recommendation, then all matters could be included in the report. Most Parliamentarians, PACs and other intended users, though, will not have the time or interest to read very long reports, or have the capability to assess the relative importance of every finding, conclusion and recommendation. In such cases, it is good practice to include in the report only those matters considered to be the most critical and that are expected to be of interest to Parliament and its PAC and to the other intended users.

c. Preparing the draft main study report

The following steps should be followed when preparing a draft main study report

Preparing a synopsis: A synopsis is an outline or skeleton of the report. The synopsis sets out the main structure of the report and lists, in the form of keywords or short sentences, the intended content under each heading. The synopsis 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. It provides OFAG management with the opportunity to comment on the general structure, etc. at an early stage. In the synopsis, the audit team should:

- Sketch out the structure to be followed using *working paper WP 31*.

[105] ISSAI 3000:129
[106] ISSAI 3000:130

- Indicate the specific sub-sections under which each finding, conclusion and recommendation is to be included.
- Indicate the tables, charts or other graphical representation of information the audit team intends to include.
- Indicate the intended annexes and the content of those annexes.

The synopsis should be agreed with OFAG performance audit management and top OFAG 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.

Developing the initial draft: The team leader is normally responsible for drafting the report, but it is often good practice to assign responsibility for drafting different sections to different team members. It is imperative, though, 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 OFAG performance audit management.

A performance audit report should contain the following contents among others that are included in working paper WP31:

Content	**Description**
Title	A title will help the reader to know the subject and to distinguish the report from statements and information issued by others.
Effective Date of Audit Report	This is not the date on which the report is submitted to Parliament. Instead, it is the date on which the evidence-gathering process was substantially completed. That is because the auditor normally does not need to consider events and transactions after that date.
Signature	The report should be signed by the Auditor General or his/her designate.
Background information	Readers need to be able to understand the context of the audit – exactly what was being audited. The background material could include: • A description of the topic covered by the audit. • The entity responsible for the topic, and the mandate of that entity relevant to the topic. • The main goals and objectives of the audit topic, how the topic functions, how it fits into the audited entity's mandate and operations, and the total expenditures involved.
Reason for the Audit/Motivation	This section would explain why the topic was selected. In doing so, it should explain why the topic should be of interest to the readers, and why they should read the report.
Audit Objective(s) and Audit Questions	The audit objective(s) should clearly explain the purpose of the audit (why it was conducted). Audit objectives are usually broken down into more precise audit questions in order to better define and structure the audit.
Scope of the Audit (Subject Matter)	This would include a description of the audit topic (the programme, activity, project, etc.) being audited, the ministries (or portions thereof) dealt with, the period of time covered by the audit and where the audit was conducted
Criteria Used and Their Sources	these are the standards used to determine whether an audit topic meets or exceeds expectations. They provide a context for understanding the results of the audit. The auditor needs to include, in the audit report, the sources used for each criterion.
Standards/Methodology Used	Auditors should clearly indicate the auditing standards used, and should summarise the evidence-gathering techniques used to achieve the audit objective and audit questions. E.g., *We conducted this performance audit from [Month/Year] to [Month/Year] in accordance with the International Standards of Supreme Audit Institutions [relevant to performance audits].*

	Those standards require 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Sources of Data and Any Limitations to the Data Used	Auditors should clearly indicate from where they obtained the data and other information used during the audit, and any limitations thereon.
Audit Findings	A finding is the result of the auditor's comparison of the actual situation to the related criterion. If the auditor finds that the actual result does not meet the criterion, the auditor has a matter that should potentially be reported to Parliament.
Conclusions Reached	Conclusions are logical inferences about a matter based on the results of the auditor's work. The strength of the auditors' conclusion depends on the persuasiveness of the evidence supporting the findings and the convincingness of the logic used to formulate the conclusion.
Recommendations Made	These are the auditor's proposals to correct deviations or errors that have occurred or to prevent them from occurring in the future, and thereby help to improve economy, efficiency and effectiveness, improve compliance with authorities, and reduce monetary deviations/errors.
Management Comments	These are comments from the audited entity on the report.

5.1.2 Reviewing and deciding on the 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 timely[107], 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. Also, the audited entities should be able to comment on the draft report[108]. Once comments have been reviewed and the draft report amended and changed as appropriate, Top Management formally decide on issuing the report to the audited entity.

i. Review of the Initial Draft (and Subsequent Drafts)

The initial draft (and all subsequent drafts), should go through the OFAG's internal review process. For the first draft, the review would normally include an assessment of:

- The overall tone and balance of the report, and the tone and balance of each finding, conclusion and recommendation.
- The extent to which the conclusions and recommendations flow logically from the findings (including cause and effect).
- Whether the report contains matters that are not of sufficient significance to be included in a report to Parliament.
- Whether the matters considered to be the most significant are sufficiently identified and have been given the prominence they deserve.

The internal review process (*Using working paper WP 32*) would, as a minimum, include involvement by the senior OFAG staff assigned to the audit. It also could involve the use of an engagement quality control reviewer or an internal review group. In either case, the individuals selected should be experienced auditors who are independent of the audit. Where need arise, a panel of outside could

[107] INTOSAI P-20:8; ISSAI 300:39; ISSAI 3000:116.
[108] ISSAI 3000:129

also be used to review the initial draft and all subsequent drafts but they have to sign confidentiality agreements.

ii. Send the Draft Report to the Audited Entity

The ISSAIs require the OFAG to give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before issuing the audit report. They also require the auditor to record the examination of the audited entity's comments in the working papers. The documentation needs to include the reasons for making changes to the report or for rejecting the comments received. Use *working paper WP27* to document consideration of comments obtained from the audited entity. Giving officials from the audited entity an opportunity to comment on the draft report will further ensure that:

(a) The findings (including cause and effect) are factually correct and that the conclusions and recommendations flow logically from the findings.
(b) The report is complete, balanced and objective.

According to proclamation 982/2016 the audited entities have to provide OFAG with responses on the report within 15 days.

iii. Arrange an Exit Meeting to Discuss the Draft Report

After giving officials from the audited entity sufficient time to review the report, a meeting can be arranged to discuss the draft report with them. Given that fact sheets and findings matrices were used during the conducting phase to clear facts and findings with officials from the audited entity, at this point there should be no disagreement with the facts or the findings. Comments by officials from the audited entity on the initial draft will usually involve a discussion on the tone and balance of the report and the wording of the conclusions and the recommendations. The officials may, for example, agree with the finding, but consider it less serious a matter than the wording of the finding or the conclusion may imply. The officials may also believe that the recommendation is too severe in relation to the finding, and that the costs of implementing the recommendation would far exceed its benefits.

In rare cases there may be disagreement with the findings that cannot be resolved. This could occur, for example, when officials from the audited entity believe that the methodology used by the auditors was not appropriate, and the results are biased as a result. Where such differences of opinion cannot be satisfactorily resolved, and where the OFAG continues to believe that its findings are appropriate and fully supported, the report should contain a discussion of the disagreement.

Sometimes the draft report will need to be discussed with several different individuals and ministries. For example:

(a) Comments on recommendations should come from the officials who have the authority to implement the recommendation. These may not be the same individuals who are directly involved in the audit topic and who are most knowledgeable about the finding.
(b) Further to (a), some recommendations, such as those requiring changes to legislation, may not be implementable by officials in any ministry – they may need to be implemented by Parliament. In these cases, the comments should come from the senior officials in the ministry who would be taking the lead in proposing the legislation.
(c) Comments may need to be provided from officials from several ministries. This could be the case, for example, where a central agency needs to be involved in implementing the recommendation.

During all discussions with officials from the audited entity, the auditor needs to exercise professional scepticism – the officials (particularly those directly involved in the audit topic) will not be independent and may not provide objective comments.

iv. Review the Comments Provided by Officials from the Audited Entity

Assuming there is no disagreement with the findings (including cause and effect), the comments from the officials from the audited entity normally deal with whether they agree or disagree with the conclusions reached and the recommendations made. If officials from the audited entity disagree with the conclusions and recommendations, they will normally state why. If they agree with the recommendation, they may promise to implement it, and may provide an action plan and a timeline for doing so. When the OFAG receives the comments from officials from the audited entity, it should ensure that the comments are: *Factually correct and fair:* This means that: Officials from the audited entity have not attempted to distort the facts as a way of expressing disagreement with the findings, conclusions and recommendations. Any reservations or disagreements that officials from the audited entity may have with the findings, conclusions and recommendations are potentially justifiable from the entity's perspective. *Complete:* This means that they address all aspects of the matter on which they are commenting. *Relevant:* This means that officials from the audited entity have responded to the actual issues raised in the report, as opposed to trying to divert attention to other matters. *Sufficient*: This means that, if dealing with a recommendation, the audited entity's proposed course of action will solve the problems identified in the report in their entirety, and will lead to the speedy and full implementation of the recommendations.

v. Update the Draft for Comments Received

Having completed the review of the comments received from officials from the audited entity, report will then be updated for those comments. At this stage, senior OFAG management may get more involved in improving the wording of the report. If officials from the audited entity have provided new information, the auditor may need to audit the further information and, if necessary, amend the report to reflect it. Should the OFAG have decided not to amend the report for some of the comments received from officials from the audited entity, the reasons for not amending the report should be documented. The process of amending drafts, holding discussions and amending drafts may go through several iterations until the report is finalised.

vi. Clearing the Report with Third Parties

There may also be a need to clear the report with third parties – other individuals or organizations directly mentioned in the report or whose reputation could be affected by it. This would be particularly important if the report makes mention of actions taken by or views held by those individuals or organizations. The ISSAIs do not require the OFAG to clear the report with third parties but stress that it is good practice to do so. Doing so will help to ensure the completeness and accuracy of the report, and thus prevent the potential loss of credibility that the entire report could suffer (and the potential legal liability to which the OFAG could be exposed) if a third party later claimed that he/she had been misquoted, slandered, etc. Unless the third party is referred to throughout the report, it is normally sufficient to send the extracts of the report to the third party instead of the entire report. When sending extracts, though, the OFAG needs to ensure that sufficient material is sent for the third party to understand the context in which its actions or views are being presented.

5.1.3 Publishing and Distributing the Audit Report

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should establish effective communication throughout the audit process. *ISSAI 100:43* • Auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI. *ISSAI 300:41* • The SAI shall make its audit reports widely accessible taking into consideration regulations on confidential information. *ISSAI 3000:133*

Auditors should seek to make their reports as widely accessible as possible. This can promote the credibility of the OFAG and the audit function, and can encourage parliamentarians to take action on the recommendations contained in the report. Usually when a report is presented to Parliament, it is a public document. If this is the case, the OFAG is normally free to distribute the report to the media, put the report on its website, or take other actions to ensure that the report is widely accessible. There may be some information that the OFAG does not want to disclose in a widely distributed report because of its sensitive or confidential nature. Rather than restrict the distribution of the entire report, the OFAG could:

(a) Issue the report without the sensitive or confidential information. The report would note that certain information has been omitted and give the reasons for the omission. The report would then be widely distributed.

(b) Issue a second report with the sensitive or confidential information. This report would be distributed only to those parties with the necessary clearance, and who are responsible for acting on the auditor's recommendations.

5.2 ATTRIBUTES OF A GOOD PERFORMANCE AUDIT REPORT

Requirements according to ISSAI 300 and ISSAI 3000
• Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced. *ISSAI 300:39* • The auditor shall provide audit reports, which are a) comprehensive, b) convincing, c) timely, d) reader friendly, and e) balanced. *ISSAI 3000:116*

When drafting the audit report, there is one key fact that auditors need to keep in mind – audit reports will not achieve anything unless they are read and understood. To be read and understood, audit reports need to get their essential messages across clearly and simply. When structuring and wording performance audit reports to be submitted to Parliament, the auditor needs to keep in mind that these reports will be read by individuals who almost certainly do not know, do not wish to know and/or do not have the time to know the details and complexities that may surround the subjects being examined. The reports need to be written in a way that reflects the needs, capabilities and time of parliamentarians and other intended users. While the above paragraph may indicate that "reader-friendly" is the most important attribute, the auditor needs to ensure that all attributes are achieved. In particular, the auditor needs to ensure that his/her effort to produce a report that is reader-friendly (and convincing) does not result in an unbalanced report. There are five attributes of a good performance audit report – comprehensive, convincing, timely, reader-friendly and balanced. Each is discussed below.

Comprehensive: the report needs to include all the information and arguments required to address the audit objectives, audit questions, and criteria. There needs to be a sufficient level of detail for the reader to be able to understand the purpose of the audit, the scope of the audit, the nature and extent of the work performed, and the findings, conclusions and recommendations. The report being comprehensive does not mean that every finding, conclusion and recommendation needs to be included in the report – only those matters considered to be the most critical and that are expected to be of interest to the users of the report would normally be included. Readers also need to know if there were any significant limitations in the audit objectives, scope, etc. so they can reasonably interpret the findings, conclusions and recommendations.

Convincing: Many officials from the audited entity and other users of the report may be opposed to change – they want to maintain the status quo and need to be convinced that change is necessary. To be convincing, the report needs to be logically structured. In particular, it needs to present a clear relationship among the audit objectives, audit questions, criteria, findings, conclusions and recommendations. To be convincing, the report also needs to present the findings persuasively. One way of doing so is to consider the points of view of the users of the report and keep those points of view in mind when drafting the report. While the report needs to be convincing and persuasive, it also needs to be accurate and balanced. Not including all relevant information and/or not including the information accurately in an effort to make the point more persuasively can, if discovered, cast doubt on the validity of the entire report.

Timely: Audit reports dealing with matters that took place many years ago will often not be of much interest to Parliament and its PAC, the media or other intended users. They also may not be of much use in helping officials from the audited entity to improve their performance. As such, when selecting audit topics and then when setting the scope of the audit, it is normally advisable to select relatively current topics and relatively current time periods. The advantages of selecting relatively current topics and time periods can be lost if there are significant delays in the completion of the audit, or significant delays in issuing the report after it has been drafted. Significant delays such as these can result in the report being out of date as soon as it is tabled.

Reader Friendly: Making the report user-friendly (easier to read) will increase the chances that the intended users will read and understand the report. This, in turn, increases the chances that the audited entity will act on the report. To be reader friendly, the report should: Be Written with the Users' Needs and Interests in Mind; Follow a Logical, Clear and Consistent Report Structure; Be Concise; Use Executive Summaries and Annexes; Start with the Most Significant Matters; Highlight the Key Messages: Use Simple, Direct and Unambiguous Language; Use Photos, Tables, Charts, Diagrams and Graphs; Use Examples; and Be Visually Appealing.

Balanced: In addition to being accurate, the report needs to be balanced. This means that the presentation of the report needs to be impartial in content and tone, with evidence presented objectively and in a fair and unbiased manner. Minor deficiencies should not be exaggerated or overemphasised in an effort to stress the importance of implementing the recommendation. To be balanced, a report also needs to:

(a) Be complete. The auditor needs to include all relevant information and not just information that supports his/her point of view.
(b) Point out areas where the audited entity has performed well; not just areas where it has done poorly.
(c) Present different perspectives and viewpoints in cases where different interpretations of the evidence can legitimately be made.

The OFAG needs to ensure that its report does not appear to compromise its independence, objectivity and impartiality. Issuing a balanced report is one way of doing so.

5.3 MANAGING RISK AT REPORTING PHASE

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should manage risk of providing a report that is inappropriate in the circumstances of the audit. *ISSAI 100:40* • 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 300:28* • 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 risk at reporting phase is that the auditor will issue a report that is not factually accurate and is incomplete or does not add value. Minimising such risks would require having detailed discussions with officials from the audited entity during the process of reviewing and deciding on the report, ensuring the report contains all the attributes of a good report and ensuring adequate quality control during the drafting and publishing process. Managing risk is further elaborated in Annex A of this manual.

6. FOLLOW-UP



Following up on audit results

- Determine **progress** on the audit findings and recommendations.
- Assess if the problems found were **addressed**.
- Determine financial and non -financial **benefits**.
- Identify areas for **future audits**.

Requirements according to ISSAI 300 and ISSAI 3000
• Auditors should follow up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action. *ISSAI 300:42* • 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*

6.1 PURPOSE OF FOLLOW-UP ON AUDIT FINDINGS AND RECOMMENDATIONS

Following up on the implementation of the audit recommendations and the lessons learned are elements of good project management. The auditor's recommendations are designed to make improvements but it is the actions taken on those recommendations, and not the recommendations themselves, that lead to improvements. Therefore, the auditor needs to ensure that actions are taken. Officials from the audited entity may promise, in their written response to a recommendation contained in an audit report or in a PAC report, to implement the recommendation, and may provide an action plan to do so. The purposes of a follow-up audit are to assess:

(a) The extent to which officials from the audited entity have taken the actions they promised to take in response to the OFAG's recommendations.

(b) The impact that the audit and the actions taken by officials from the audited entity has had on the economy, efficiency and effectiveness of the audited entity's operations.

In addition, follow up on audit recommendations made by Public Accounts Committee and OFAG may serve four main reasons:

- Increasing the effectiveness of audit reports – the prime reason for following up on audit reports is to increase the probability that recommendations will be implemented or other actions taken to address the underlying performance problems
- Assisting the government and the legislature – follow-up may be valuable in guiding the actions of the legislature

- Evaluation of OFAG performance – follow-up activities provide a basis for assessing and evaluating SAI performance
- Creating incentives for learning and development – follow-up activities may contribute to better knowledge and improved practices within the OFAG.

According to ISSAI 300:42 and ISSAI 3000:136, auditors should follow up on previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective actions. Auditors need to remember that this is a follow-up of a previous audit and not a new audit.

6.2 ACTIVITIES OF FOLLOW UP ON AUDIT FINDINGS AND RECOMMENDATIONS

The follow up of the audit findings and recommendations is structured in the following four activities.

ID	Activities	Working papers	Responsible
E.1	Sending a letter to the audited entity to enquire about the status of the changes required	WP37 Letter on follow-up on audit reports	PA management
E.2	Assessing the action plan and response of the audited entity and recording the follow up work conducted in an internal memo including a recommendation	WP38 Follow-up internal memorandum; Follow up tracking template	Team leader
E.3	Informing the audited entity on whether or not the follow up has been concluded, e.g., depending on whether satisfactory improvements have been made	WP39 Letter - Result of follow-up	PA management
E.4	Compiling the result from all follow-up activities in a report to Parliament	WP40 Consolidated follow-up report to Parliament	Team leader

According to the standards, follow-up refers to the auditor's examination of corrective action taken by the audited entities or another responsible party on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work. It also encourages the audited entities and other users of reports to take the audit report seriously and provides the auditors with useful lessons and performance indicators. Follow-up should focus on whether the audited entities have adequately addressed the problems and remedied the underlying situation after a reasonable period of time[109].

When conducting a follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach. Follow-up results may be reported individually or as a consolidated report,

[109] ISSAI 3000:137 and 139

which may, in turn, include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added by performance auditing over a given time period or subject area.[110] While it is generally recommended to follow up on the recommendations made, different methods may be used to do so, for example:

- Arrange a meeting with the audited entity after a certain time has elapsed to find out what actions have been taken to improve its performance and to check which recommendations have been implemented.
- Request the audited entity to inform the OFAG in writing about what actions it has taken to address the problems presented in the audit report.
- Ask questions and make observations during the entity's annual audit to determine what actions have been taken.
- Carry out limited field visits to collect and analyse data on whether identified problems have been appropriately addressed or not.
- Carry out a follow-up audit, resulting in a new performance audit report.

The methods to use depend on the priorities made by the OFAG in the strategic and annual planning of performance auditing and the availability of resources. They are also influenced by the importance of the identified problems, the actions expected to be implemented, and the external interest in information on the actions taken.

Many recommendations cannot be implemented immediately; sometimes they can take several years. This is particularly the case when changes to laws or regulations are required, when implementing the recommendation requires organizational changes, and/or when implementing the recommendation requires changes to be made by more than one ministry. As such, it may take several years before the OFAG and the PAC can determine if a particular recommendation was implemented, and if the implementation had the intended impact on the economy, efficiency and effectiveness of the audited entity's operations.

6.2.1 Action plan and response from audited entity

To help ensure that the audited entity takes each recommendation seriously, the OFAG should request the officials from the audited entity to submit a detailed action plan that outlines the steps that they intend to take to implement the recommendation and achieve the desired impacts. *Use working paper WP 37* to enquire about the status of the changes required. Ideally this action plan will include:

(a) A deadline date for completing the action plan and achieving the impact.
(b) Specific interim steps to be taken or targets to be achieved, and the timeline for completing each step/achieving each target.
(c) If applicable, interim impacts to be achieved.

6.2.2 Follow up review or audit

The extent to which follow-up work is done is a matter of OFAG policy. A policy may require OFAG to conduct full follow-up audits of all recommendations in all audit reports. IT may also require OFAG to

[110] ISSAI 300:42

conduct a "desk review" first and to only conduct a follow up audit of the most significant recommendations and/or those recommendations where, based on the desk review, the entity is behind in its action plans.

Desk Reviews: With a desk review, *using working paper WP37*, the auditor may request to meet with officials from the audited entity to obtain feedback on the actions that have been taken with respect to the recommendations, and their assessment as to the impact that this has had on the audited entity's operations. Such an approach, of course, is not an audit and it would not be appropriate for the auditor to issue a follow-up report after such an informal review unless the report made it very clear that an audit had not been performed and that the OFAG is providing no (or at most limited) assurance with respect to the comments obtained from officials from the audited entity. The information that has been provided by officials from the audited entity during the desk review should be documented using a follow-up tracking template in *working paper WP38*.

Follow-up audit: If the OFAG intends to issue a follow-up report, a follow-up audit is normally required. Follow-up is an audit and hence all the ISSAIs for designing, conducting and reporting an individual performance audit shown in Part 2 of Chapter 3, in Chapter 4 and in Chapter 5 respectively apply to follow-up audits. The discussions with the officials from the audited entity during the design phase, and then later the conclusions reached from the audit should be documented using a follow-up tracking template in *working paper WP38*. A follow-up audit is more than simply determining whether a recommendation has been implemented. The focus of the follow-up should be on determining whether the audited entity has adequately addressed the problems and remedied the underlying conditions, and assessing the resulting impact on the audited entity's operations. Auditors should not expand the audit objective or the scope of the audit to consider matters not examined during the initial audit or to consider issues that were not considered during the initial audit. Additional areas or issues should be the subject of a new audit.

6.2.3 Impacts from Audit

The focus of the follow-up should be on determining whether the audited entity has adequately addressed the problems and remedied the underlying conditions, and assessing the resulting impacts on the audited entity's operations. The actions taken by officials from the audited entity in response to the audit recommendations may have resulted in several impacts. These can include:

- *Increased economy and efficiency.* These could include savings in expenditure, increased revenue or other (wider) economic benefits. They can arise from, for example, identifying ways to procure items for less (economy), or identifying ways to produce more outputs for the same expenditure or to reduce waste (efficiency). Similarly, improvements in management information that flow from the OFAG's recommendations may lead to the audited entity recovering more costs or increasing revenue.
- *Increased effectiveness.* This could include, for example, the achievement of desired objectives that had not previously been achieved.
- *Increased client satisfaction.* This could include, for example, reduced wait times.
- *Other (wider) impacts.* These could include improved compliance with authorities, improved internal controls (including improvements to prevent and detect fraud), improved management procedures such as planning, setting objectives and allocating resources, improved service delivery, and improved evaluation and appraisal systems.

It should be noted that not all observed impacts may be directly due to the audit. When taking actions in response to an audit report, the audited entity may take actions in addition to those directly required to be taken in response to a recommendation, and these additional actions may have contributed to the impact.

6.3 DESIGNING THE FOLLOW-UP AUDIT

All the standards applicable to the design (planning) of an individual audit are applicable to follow-up audits. The following should be done when designing the follow up audit:

Understanding What is Audited: After the initial audit report has been issued, OFAG often monitor reactions to the report from officials from the audited entity, Parliament and the media. This information could be useful when conducting the follow-up audit. There may also have been some financial audits conducted between when the initial performance audit report was issued and when the follow-up is being planned. The financial auditors may have, as part of their audits, identified impacts from the performance audit. These could be taken into account when planning the follow-up audit. During the design of the follow-up audit itself, auditors can contact officials from the audited entity and ask them to describe the actions that have been taken with respect to the recommendations made in the initial report, and for their assessment as to the impact that this has had on the audited entity's operations. This can be done through meetings, phone calls or an exchange of correspondence. The Follow-Up Tracking Template can be used to assist in recording their responses.

Audit Objective and Scope of the Audit: The audit objective should be restricted to assessing the impacts of the audit. This would involve determining whether actions taken as a result of the OFAG's recommendations and any related PAC recommendations have remedied the underlying conditions, and led to improvements in economy, efficiency and effectiveness. Auditors should not expand the audit objective or the scope of the audit to consider matters not examined during the original audit or to consider issues that were not considered during the initial audit. Additional areas or issues should be the subject of a new audit.

Audit Questions and/or Criteria: The audit questions and criteria would normally deal with the extent to which the recommendations/action plans have been implemented and the desired impacts achieved; and the impact that the implementation of the recommendations/action plans has had. Some audit questions that could be used are:

(i) Is the audited entity now more efficient and effective as a result of the audit and, if so, by how much?
(ii) How much money has been saved as a result of the audit?
(iii) Have there been improvements in compliance with authorities, internal controls and/or the prevention or detection of fraud?

Materiality and Risk, Including the Risk of Fraud: Unless there are compelling reasons to the contrary, the basic planning parameters such as materiality and the assessments of risk, including the risk of fraud, should remain the same as they had been assessed at the end of the conducting phase of the initial audit. This would have been when the auditor determined if sufficient and appropriate audit evidence had been obtained.

Choosing Methods to Gather Audit Evidence and Audit Programme: The audit programme should only contain the procedures that are necessary to follow up of the recommendations and to assess the impact of the audit. The methods to gather audit evidence would be set accordingly.

Staffing the Audit: Ideally the follow-up should be conducted by the auditors who were responsible for the initial audit. This will help ensure that the auditors conducting the follow-up audit are fully familiar with the findings that led to the recommendations. If this is not possible, the staff used should be those with the most knowledge of the entity responsible for the topic being followed up.

6.4 CONDUCTING THE FOLLOW-UP

All the standards applicable to the conducting phase of an individual audit are applicable to follow-up audits, and the guidance in Chapter 4 is applicable. The auditors need to determine the extent to which each recommendation has been implemented, and the impact that the recommendation has had. The actual progress is then compared to what was in the entity's action plan or, if no plan was developed, what would be reasonable under the circumstances. *Working paper WP38 the Follow-Up tracking template* can be used to capture this information. When assessing the extent to which a recommendation has been implemented, it is important for the auditor to remember that the basic responsibility for taking action on audit recommendations rests with officials from the audited entity. These officials may have used a somewhat different approach to implement the recommendation. If the somewhat different approach resulted in the objective behind the recommendation being met, the auditor should consider the recommendation implemented.

Auditors also need to consider the possibility that recommendations may become redundant over time. The audited entity's organization may have changed, as may the environment in which it operates. The auditor should consider whether these changes have eliminated the need for the recommendation. At the start of the conducting phase, to the extent not done during the audit design phase, the auditors can ask officials from the audited entity to describe the actions that have been taken with respect to the recommendations, and for their assessment as to the impact that this has had. Auditors normally should not accept, at face value, a statement by officials from the audited entity that certain actions had been taken and that those actions have corrected the underlying conditions to which the recommendation was directed.

Normally auditors would perform additional procedures, such as verifying the receipt of monies owing and/or verifying that changes to policies and procedures had taken place. In some cases, it will be very easy to assess the extent to which the recommendation was implemented and the impact that this has had. In other cases, more work could be required. For example, if the recommendation involved changes to internal control or oversight procedures to ensure that a particular matter did not recur, the follow-up would require determining if the changes had been implemented. As a minimum, this would involve looking at policy documents, procedures manuals, etc. For the more significant recommendations, it could also involve ensuring that the change was actually taking place in practice.

Recommendations may take several years to implement. During the follow-up, officials from the audited entity may claim that a particular recommendation could not possibly have been implemented in the time period since the report was issued, and that they are still working on

implementing the recommendation. In such cases, the action plans developed by officials from the audited entity should include specific interim steps to be taken or interim targets to be achieved, and the timeline for completing each step/achieving each target. If the audited entity had provided such an action plan, the auditor could compare the progress to date to what had been outlined in the action plan. If the audited entity had not provided a timeline for doing so, the auditor would need to compare the progress to date to what could be considered reasonable. If virtually nothing had been done during the intervening period beyond, say, establishing a committee to investigate the matter, the auditor should seriously question the audited entity's commitment to implementing the recommendation.

6.5 REPORTING THE FOLLOW-UP

All the standards applicable to the reporting phase of an individual audit are applicable to follow-up audits, and the guidance in Chapter 5 is applicable. The follow-up report is essentially the same as any other performance audit report. As such, much of the guidance in Chapter 5 is applicable. One potential difference at the reporting phase is that the OFAG may decide to report all follow-up audits together in a consolidated follow-up report using working paper WP 40. The OFAG could then also provide a summary section or chapter in which it identifies some common trends and themes that may be of interest to Parliament and its PAC and to other intended users of the follow-up reports. Each finding in a follow-up report would normally contain:

(a) The finding from the original report, the recommendation that was made and the desired impact.
(b) The proposed actions to be taken by officials from the audited entity to implement the recommendation and achieve the impact.
(c) The extent to which the actions have been taken and, if applicable and determinable, the reason(s) for variances from what had been planned.
(d) For those actions that have been fully taken, the extent to which this has remedied the underlying conditions (i.e., the impact that this has had on the audited entity's performance).
(e) For at least the more important/critical recommendations that have not been fully implemented, the potential impact on economy, efficiency and effectiveness, compliance with authorities, etc.

In rare cases, the finding could also be that the original recommendation was no longer applicable, and the reasons why. The conclusion would then normally be:

- The extent to which the recommendation had been implemented.
- For implemented recommendations/action plans, an estimate of the impact that the actions taken by officials from the audited entity has had on the entity's performance (i.e., on economy, efficiency and effectiveness, compliance with authorities, etc.). The estimated impact could be compared to the desired impact. To the extent possible, the impact should be quantified.
- For recommendations/action plans that have not been fully implemented, an estimate of the impact that the actions taken to date by officials from the audited entity have had on the entity's performance, and an estimate of the potential additional benefits that could have been derived from fully implementing the recommendation (i.e., from taking all the actions required to implement the recommendation).

For recommendations that had not been fully implemented and where, as a result, the underlying condition had not been fully remedied, there would normally be a recommendation that officials from the audited entity fully implement the original recommendation. As this is a follow-up, auditors normally do not make new recommendations. In some cases, though, changed circumstances may mean that an outstanding recommendation is no longer precisely what is required. In these cases, the auditor could insert an amended recommendation in place of the original one. As with the initial report, officials from the audited entity should be provided with the opportunity to respond to the report and their comments should be included in the report. As with responses to the initial report, the auditor should ensure that the management responses are factually correct, fair, complete, relevant and sufficient.

6.6 NEED FOR FURTHER WORK AND SEQUENCING OF FOLLOW-UP AUDIT

The follow-up audit may identify areas to investigate in the future. For example, the follow-up audit may identify additional matters that were not included in the initial audit. These additional matters could be the subject of a future audit. Similarly, the audited entity may have taken actions that had not been contemplated when the initial recommendation was drafted, or that were not required to be taken in order to implement the recommendation. These actions could also be the subject of a future audit.

Considering that some recommendations, such as those involving changes to laws and regulations, may take many years, and may therefore legitimately not be implemented at the time of the follow-up. Other recommendations, though, may have been expected to have been fully implemented at the time of the scheduled follow-up. Auditors continue to follow up all recommendations until they are fully implemented. If officials from the audited entity know that auditors will only follow up a recommendation once, say, they may be less inclined to implement recommendations with which they do not agree. Knowing that the OFAG will continue to follow up the matter could provide officials from the audited entity with an additional incentive to implement the recommendation. On the other hand, endlessly following up a recommendation even after it is clear that officials from the audited entity have no intention of implementing it may not be the best use of an OFAG's limited resources. While this is a matter of OFAG policy, as a general rule the following should be considered:

(a) The motives of the audited entity. If the OFAG believes that the audited entity is simply trying to delay things until the OFAG stops following up the matter, then doing at least one more follow-up may convince officials from the audited entity that the auditors are not going to go away, and that they actually need to do something.

(b) The significance of the recommendation. If the OFAG considers the recommendation to be really significant, it should be followed up further.

(c) The time period that is apparently now required to implement the recommendation compared to what was estimated at the time of the initial audit. As above, sometimes officials from the audited entity claim that more time is required as a way of avoiding taking any action at all.

(d) The progress achieved to date. If there has been much less progress than originally envisaged or would appear reasonable under the circumstances, this could be a clear indication that officials from the audited entity really are not taking the recommendation seriously or are not intending to implement it at all.

(e) The desires of the PAC. The PAC may request the OFAG to continue to follow up some or all outstanding recommendations.

If the OFAG decides to stop following up a particular matter even though it knows that the recommendation has not been implemented and the desired results have not been achieved, the OFAG may wish to inform the PAC of this fact. The OFAG could advise the PAC of why it has made this decision and suggest actions that the PAC may wish to take on its own.

6.7 EVALUATING THE OFAG'S PERFORMANCE

One of the additional objectives of a follow-up audit may be to evaluate the OFAG's performance, thereby contributing to better knowledge and improved practices in the OFAG. Self-reviews by the audit team should be conducted to obtain lessons learnt from the follow-up. The auditors should also assess the accomplishment achieved through the follow-up audit.

6.7.1 Lessons Learned from the Follow-Up

The follow-up audit may have provided the OFAG with specific matters relating to its performance that are worthy of future consideration. Some of these matters could be:

The Failure to Take Promised Action: Officials from the audited entity may have stated that they agreed with the recommendation and were planning to take specific actions to implement it simply to get the OFAG off their backs and/or to make it appear to the PAC and other intended users that they were taking the recommendation seriously. The fact that the officials from the audited entity were not being truthful may be an indication that improvements in entity relations were required. For example, it could be an indication that:

(a) The officials did not believe they could openly discuss their disagreements with the auditors. Causes of this could be investigated.
(b) The OFAG had not adequately assessed the entity's support for the recommendation. The OFAG could consider how it could better assess the level of support, and how it could have better convinced the entity of the net benefits of the recommendation.

Achieving Objectives in a Way Not Envisaged by the Auditors: The entity may have achieved the objectives of a recommendation in a way that was not envisaged by the auditors. If this happens, the OFAG could consider:

(a) Why it had not identified those actions during the initial audit.
(b) Why the officials from the audited entity had not proposed amendments to the wording of the recommendations to reflect their intended actions.

Implemented Recommendation Did Not Achieve Objective: The entity may have implemented a recommendation but not achieved the objectives – there was no impact on economy, efficiency or effectiveness. The OFAG could consider:

(a) Why this occurred. It could have been due, for example, to a lack of understanding of the topic in general and/or the complexity of the matter with which the recommendation was designed to deal.

(b) Why officials from the audited entity had not appreciated that the recommendation would not achieve the objectives before implementing it. For example, the OFAG could consider if the officials had other reasons for implementing the recommendation.

6.7.2 Assessing Accomplishments

The OFAG may wish to include, in its follow-up report, an assessment of the "return" that has been derived from the audit. This would be a comparison of the benefits derived from the audit to the cost of performing the audit. The report could note, for example, that the audit has saved the government 50 birr for each birr spent on the audit. In doing so, of course, the OFAG must be careful not to attempt to take credit for savings or improvements that may not be directly attributable to the audit. When taking actions in response to an audit report, the audited entity may have taken actions in addition to those directly required to be taken to respond to the recommendation, and these additional actions may have contributed to the impact.

6.8 LIAISON WITH OFFICIALS FROM THE AUDITED ENTITY

Like any other audit, liaison with officials from the audited entity occurs at every phase of the follow-up audit process, and the guidance in Part 2 of Chapter 3 and in Chapters 4 and 5 is applicable to follow-up audits. One common difference from an initial performance audit is that, during a follow-up audit, the auditor may have much more liaison with officials from the audited entity during the design phase and at the start of the conducting phase. Auditors often contact officials from the audited entity during the audit design phase and/or at the start of the conducting phase to ask them to describe the actions that have been taken with respect to the recommendations, and for their assessment as to the impact that this has had.

6.9 QUALITY CONTROL

The follow-up audit follows the same phases as the initial audit – it will be designed, conducted and reported. As such, the relevant quality control procedures noted in Part 2 of Chapter 3 and in Chapters 4 and 5 would apply to each phase of the follow-up audit. This includes liaison with officials from the audited entity. A useful tool that auditors can use to ensure that all the required work at each phase of the audit has been properly performed is an audit completion checklist. This checklist would summarise the key procedures that need to be performed at the particular phase of the audit being covered by the checklist, and the audit supervisor and/or more senior OFAG staff would be required to sign off on the steps in the checklist. Since follow-up is an audit, the Design Phase Completion Checklist, the Conducting Phase Completion Checklist and the Reporting Phase Completion Checklist should be completed. In addition, a Follow-Up Phase Completion Checklist that contains some additional questions that are specifically applicable to the follow-up audit should be completed.

7. COMMUNICATION

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• Auditors should establish effective communication throughout the audit process. *ISSAI 100:43* • 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 300:29* • Auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI. *ISSAI 300:41* • The auditor shall plan for and maintain effective and proper communication of key aspects 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 make its audit reports widely accessible taking into consideration regulations on confidential information. *ISSAI 3000:133*

7.1 EFFECTIVE COMMUNICATION

Effective communication is crucial for successful performance audits. Auditors need to clearly communicate objectives, scope, methodologies, and findings to various stakeholders, including auditees and management. This includes using clear and concise language, providing timely updates, and actively seeking feedback. A good communication strategy can assist OFAG maintain effective and proper communication. OFAG has developed an *External Communication Strategy* document that can assist in the communication process. The Strategy deals with such matters as:

- The need for an external communication strategy.
- The key issues/considerations to take into account when developing and implementing an external communication strategy. These include, for example, the fact that there is often low interest in OFAG's work and reports due to lack of sufficient capacity among key relevant stakeholders (parliament and media) to comprehend audit reports and their importance.
- The aims and objectives of external communication.
- The target audiences. These include the parties discussed below.
- The key messages that must be conveyed to the target audience.
- A proposed communication mix that can be used to reach the target audience.

7.1.1 Benefits of effective communication in performance auditing

- *Improved understanding:* Clear communication helps stakeholders understand the audit objectives, scope, and methodologies, leading to better engagement and cooperation.
- *Enhanced credibility*: Effective communication ensures that audit recommendations are understood and implemented, maximizing the impact of the audit work.
- *Reduced resistance:* Open communication and feedback mechanisms can help address concerns and reduce resistance to change.

7.1.2 Key aspects of communication in performance auditing

- *Clarity and Conciseness:* Audit reports and communications should be written in plain language, avoiding technical jargon to ensure all stakeholders can understand the information.
- *Timeliness:* Providing updates on the audit's progress and any significant changes to the plan is essential for maintaining transparency and building trust with auditees.
- *Feedback and Engagement:* Actively seeking feedback from auditees throughout the audit process helps identify potential issues early and ensures a collaborative approach.
- *Multiple Channels:* Utilizing various communication channels like memos, emails, and face-to-face meetings can help reach different stakeholders effectively.
- *Professionalism and Respect:* Maintaining a professional and respectful tone in all communications fosters a positive working relationship with auditees.

7.2 EXTERNAL COMMUNICATION

Requirement according to ISSAI 300 and GUID 3910
• The SAI has identified its key stakeholder groups, established effective two-way communications with them and understand the needs and expectations of the relevant stakeholders in each audit. *ISSAI 300:29* • The auditor shall plan for and maintain effective and proper communication of key aspects 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* •

ISSAIs expect OFAG to communicate timely and widely on their activities and audit results their external stakeholders. The head of the OFAG should be prepared to promote the value of performance auditing to a number of stakeholders. The auditor needs to ensure that any communication with any of the stakeholders does not compromise the independence and impartiality of the OFAG. The stakeholders to be communicated in performance auditing include: audited entities; Users of the report like parliament and Public Accounts Committee; the media; citizens and Civil Society Organizations; academia; and other stakeholder deemed as users of the performance audit reports. A pre-requisite for developing effective communication with the external stakeholders, is that they have to be identified and their needs considered. This is needed both at an institutional level for performance auditing in OFAG and in each performance audit engagement.

7.2.1 Officials from the Audited Entity

Clear, proportionate and timely communication helps build up mutual respect, trust, good cooperation and constructive working relations with auditees. It is important to communicate with audited entities in a clear, proportionate and timely manner in order to:

- Ensure that auditors and audited entities understand matters relating to the performance audit and its context.
- Secure cooperation of the audited entities and build up constructive working relationship based on mutual respect and trust, while maintaining the auditors' independence and objectivity.

- Obtain information relevant to the performance audit, notably to understand the audited entity and its environment, and identify appropriate sources of criteria and evidence.
- Provide auditees with the outcome of the performance audit work in a timely manner and help them improve management under their responsibility by taking action on the conclusion and recommendations; and through this, enhance the impact of the performance audits.

The auditor should communicate with officials from the audited entity throughout the audit process including at strategic planning, annual planning, designing the individual audit, conducting the audit and reporting phases.

At *strategic and annual planning phase*, liaison with the audited entity should be done once a decision is made to conduct an external environment scanning through a sector risk assessment introductory letter *(working paper WP2).* they should also be communicated once a particular topic has been selected for inclusion in the strategic plan or annual operational plan informing them of the selected topics and the tentative schedule for the audit. This could be done informally, or through the use of a formal letter.

At *designing of the individual audit phase*, the audited entity should be communicated when commencing the phase with an introductory letter *(working paper WP15)* followed by an introductory entry meeting whose discussions should be documented in *working paper WP16* and shared with the audited entity. A letter requesting for initial information and interviews must be sent to the audited entity using *working paper WP18* and *working paper WP19.* According to the ISSAIs, OFAG may decide to also discuss the identified audit criteria with the audited entity at the end of this phase or at the beginning of the conducting phase.

At *conducting phase*, the audited entity should be communicated when commencing the phase with an engagement letter *(working paper WP26)* followed by a main study entry meeting[111]. Discussion in the entry meeting should be documented in working paper WP16 and the minutes should be shared with the audited entity. At his meeting, auditors are expected to present the audit objectives, questions, scope, the assessment criteria, audit schedule and plan for meetings which usually appended to the engagement letter. At this meeting a contact person should be provided the audited entity to facilitate smooth communication throughout the audit process. OFAG should also communicate evidence, findings and conclusions to the audited entity in order to obtain some input on whether they are correct. recommendations should be discussed with the audited entities according to INTOSAI-P 20, principle 3. Use a completed findings matrix *working paper WP 29* and *fact sheet working paper WP 30* to guide the discussions.

At *reporting phase*, OFAG should also provide an opportunity to the audited entity to comment on the audit findings, conclusions and recommendations before the report is published by sending the draft report *(working paper WP31)* with a letter requesting for comments *(working paper WP34).* Once this is done OFAG should arrange an exit meeting to discuss the report. The exit discussions/briefing should be documented in *working paper WP16* and be shared with the audited entity. At the end an issuance *letter (working paper WP36)* for the final report should be sent with the final report to the audited

[111] GUID 3920:63-67

entity and a submission letter *(working paper WP35)* should be sent to parliament with the final report to be tabled and made public.

Communication with officials from the audited entity does not need to end with the publishing of the report. Auditors could continue to communicate with officials from the audited entity when:

- Dealing with queries from the media and from parliamentarians/PAC members.
- The officials from the audited entity are implementing a recommendation. While the auditor must be careful not to get directly involved in the implementation of a recommendation itself, the auditor could, if asked, provide further clarifications of the matters behind the recommendation and the intent of the recommendation.

7.2.2 Parliament and Public Accounts Committee

Similar to the situation in many other countries that operate under the Westminster system of accountability, the Office of the Federal Auditor General (OFAG) does not have the right to force an entity to implement a recommendation – OFAG only has the right to recommend. Also, OFAG cannot draft new or amended laws, regulations, rules or policies. Only the House of Peoples' Representatives (referred to as "Parliament" in this manual) can force an entity to do something, and only Parliament can amend legislation. As such Parliament is the body to whom the Office of the Federal Auditor General (OFAG) is to report, and Parliament is the body that can ensure that action is taken on the OFAG's recommendations. Parliament and its PAC are usually the main intended users of the report. Parliaments refer OFAG reports to a committee referred to in this report as the Public Accounts Committee (PAC). (The committee may also be referred as a legislative oversight committee.) The PAC may then hold hearings on the report and issue its own report. Members of Parliament should be interested in improving economy, efficiency and effectiveness and public accountability. To assist parliamentarians in this process, OFAG can:

- Use its reports to provide independent information, advice and assurance to Parliament on the use of resources in audited entities.
- Seek Parliament's support for its recommendations, and thereby encourage entities to improve their operations.

Shortly after the report has been issued, the OFAG submit the final report to parliament for tabling and could meet with the PAC and other parliamentarians to discuss the report and answer any initial questions that they may have.

a. Role of Public Accounts Committees

The PAC is a committee of Parliament charged with mandate to provide oversight role on the management of public resources. One very important role often played by PAC is to receive and hold hearings on audit reports (including performance audit reports) prepared by the OFAG. Once the OFAG's report is tabled in Parliament, it is often forwarded to the PAC for further consideration. The PAC may hold hearings on the report to which the OFAG and officials from the audited entity responsible for the audited topic are invited. The hearing involves a discussion on the OFAG's performance audit report, with the objective of obtaining commitments from officials from the audited entity to implement the recommendations contained in the OFAG's report. The PAC issues its own report at the end of the hearing.

b. Provision of technical support by OFAG towards PAC hearing

It should be noted that OFAG cannot dictate to Parliament and its PAC how they should work, who the members of the PAC should be, or the nature of the reports the PAC should issue. As such, it is not possible to be prescriptive when describing the relationships between OFAG and Parliament and its PAC, and how PAC hearings should unfold. However, OFAG believes the following best practices would be useful and add value when working with parliamentarians and PAC. These include practices that OFAG can follow to help ensure that PAC hearings and any reports arising from the hearing are effective.

i. Prepare an Initial PAC Brief

Even if the reports are very well written, it may still be difficult for PAC members to fully understand the key issues contained in the report, what lines of questioning they should take, and what recommendations they should make at the end of the process. OFAG tables reports once a year as such, several performance audit reports may be tabled at the same time, and it may be difficult for PAC members to be able to determine which reports most deserve their attention. To help deal with the above matters, and for the other reasons noted below, it is normally good practice for the OFAG to guide the PAC in advance of the hearing. This process could include the following steps:

Shortly after tabling the report, the OFAG could prepare a PAC brief. This document could: Identify the performance audit reports that the Auditor General considers to be the most important; Provide a brief summary of each report to help clarify the issues raised in the report; and Suggest lines of questioning that the PAC could follow to be able to issue sound recommendations. Ideally, the summary of each performance audit report should be kept very short. It could:

- Explain why the subject is important and hence why the report should be of interest to the PAC. It should also make clear whether the report relates to previous Committee interests and summarise the overall view of performance achieved.
- Set out the key points of interest in the report. This should provide PAC members with an overall picture of the subject matter and the OFAG report.
- Set out the major areas that the PAC could probe and the key issues within each area.

Conduct an initial meeting with the PAC to help clarify matters further. This would take place upon tabling the report and issuing.

ii. Discussions with the PAC in Advance of Hearing on a Particular Performance Audit Report

Discussions between the PAC and the OFAG in advance of the hearing could be a useful way to help guide the hearing and for the OFAG to obtain the desired outcome. Ideally the discussions should take place shortly before the hearing itself. If there are delays after the discussions, a second round of discussions might be necessary. Among other things, the OFAG could:

- *Answer any questions that the PAC may have about the content of the report*: This would be particularly the case if the report contained matters of such a technical nature that even the simplest of prose could not fully explain the matter or its significance. Face-to-face meetings may be necessary to fully explain the matter and its significance to the PAC.

- *Suggest questions that the PAC members could ask to solicit the desired responses from officials from the audited entity:* Even if the report is well written and relatively easy for the PAC members to follow, they may still have difficulty determining the lines of questioning they should take and how to phrase questions to officials from the audited entity in a way that will elicit a positive response. OFAG officials could help the PAC by suggesting suitable questions and wording.

- *Update the PAC on developments that have taken place since the effective date of the report:* Since the reports are tabled only once a year, there may be many months between when the report was completed and when it was tabled. There may also be many months between when the report was tabled and when a PAC hearing on the report takes place. In cases such as these, events may have taken place that affect the findings, conclusions and recommendations. Officials from the audited entity may, for example, have already taken actions to deal with some or all of the recommendations contained in the report. The OFAG could update the PAC on the actions that have been taken. When updating the PAC on new developments, though, OFAG needs to ensure that what is being presented is factually accurate and will not be disputed by the officials. It is also not revealing confidential information.

- *Provide its point of view on matters where there is ongoing to be disagreement between OFAG and officials from the audited entity.* The OFAG may be aware of the audited entity's ongoing disagreement with some of the findings, conclusions and recommendations contained in its report. OFAG officials could use the meeting with the PAC to explain in some detail their views on any findings, conclusions and recommendations with which officials from the audited entity disagree. While OFAG officials could explain their views on matters with which officials from the audited entity disagree, the OFAG officials should not ask the PAC to conclude on the accuracy of a finding with which the audited entity disagrees. The PAC will likely not have the technical expertise to do so and, even if it did, would likely not have the time or the willingness to do so. Only in very rare situations, such as when the recommendation resulting from the finding is considered critical to the achievement of economy, efficiency and effectiveness and the objectives of the topic that was audited, should the OFAG consider making this request.

c. The Hearing

The hearing may involve the PAC members making opening remarks. The PAC may then ask the OFAG and officials from the audited entity making opening remarks. The opening remarks are then usually followed by the PAC members asking questions of the OFAG and officials from the audited entity. Officials from the audited entity may, at this time, introduce evidence of progress that they have made since the report was tabled, and the PAC may ask the OFAG officials to comment on that progress. Officials from the audited entity may also express, during the hearing, their disagreement with some of the findings, conclusions and recommendations contained in the report. It is also possible that PAC members may also express disagreement with some of the findings, conclusions and recommendations. PAC members are parliamentarians and they may feel inclined to criticise any recommendation that they believe could be unpopular among the general public. If PAC members do express these disagreements, OFAG officials need to ensure that they do not get drawn into a political debate that takes place between members of the PAC – political debates are for politicians. If the OFAG is requested by the PAC to express its own views on the discussion, the OFAG should simply explain the finding and the reasoning behind the conclusion and the recommendation.

d. Reporting

If the PAC hearing has been recorded, the PAC may issue a word-for-word transcript of the proceedings to the OFAG and to the audited entity. This is to ensure that the transcript has accurately captured what was said during the hearing. OFAG officials who attended the hearing could review the transcript to ensure that it accurately captures what was said. Regardless of whether the PAC issues its own transcript, the OFAG could prepare its own debriefing note on the hearing. This document could outline the key themes of the hearing and the possible conclusions and recommendations that could be contained in the PAC report. Such a note would be particularly useful if:

- It is likely that a long period of time will take place between the hearing and the issuance of any transcripts or subsequent reports.
- The OFAG is not involved in the drafting of the PAC report.

Once drafted, the debriefing note could be sent to the PAC for its consideration when preparing its own report. The PAC normally then issues its own report. This report could be addressed to the entity or to Parliament. Ideally, the PAC report would include, for each matter discussed:

- A summary of the matter and the discussion that took place.
- The PAC's conclusion on the matter.
- The PAC's recommendation.
- Further requirements with which officials from the audited entity and the OFAG need to comply.

Often the PAC recommendation may be the same as the one in the OFAG report, or is simply a statement that the entity should implement the OFAG's recommendation. The PAC could, though, augment an OFAG recommendation by adding deadline dates by which specific actions need to be taken, or it could issue a totally new recommendation. If the officials from the audited entity have not prepared a detailed action plan to deal with the recommendation, the PAC may call for them to submit such a plan. They may then call for the officials to report back to the PAC by a specified date describing the progress that has been made. There may also be a requirement for the OFAG to follow up any actions taken by the audited entity and to report its findings to the PAC. It would be ideal if the OFAG could be involved in the drafting of the PAC report. This would be particularly important if the PAC was intending to issue its own recommendations. OFAG officials could ensure that any such recommendations were well worded and consistent with the OFAG report and what was stated during the hearing. Regardless of whether the OFAG was involved in the drafting of the PAC report, it would be ideal if a draft copy of the report was submitted to the OFAG and to officials from the audited entity for their comments before being finalised.

7.2.3 The Media

The media play a critical role in effective national integrity systems which support good governance, transparency and accountability. The media are an important external oversight player due to their capacity to raise the profile of an issue and reach a broad audience. The media can reveal performance failures, fraud, corruption, highlight good practice and promote public accountability. Developing partnerships with media provides a direct path to communicating audit work and audit results with citizens. It also demonstrates transparency, which enhances SAI credibility and strengthens stakeholder relations and trust. OFAG can significantly benefit from collaborating with the media to enhance visibility, impact, and public accountability. By engaging with the media, OFAG can broaden

the reach of their audit findings, highlight key issues, and foster public understanding of their role in promoting good governance. This collaboration can also lead to increased public awareness and support for SAI recommendations, encouraging governments to take action and improve public resource management.

Furthermore, the benefits of OFAG engaging with the media include:

- The media can greatly increase the outreach of OFAG strategies for enhancing visibility of performance audit reports
- The media can draw attention to key findings and highlight the need to monitor public sector entities with audit recommendations, which trigger on going examinations by other stakeholders
- The media allow for additional insights on audit findings; either through interview or articles. OFAG can justify their opinions, be recognized for the comprehensive audit process they have taken and raise key issues that may go unnoticed in reports.
- The media can contribute to positioning OFAG in the spotlight, thereby strengthening the reputation for increased public legitimacy and the need to guarantee OFAG independence
- Media investigations can provide further evidence to enrich current audit exercises or trigger other audits in the short term

The media are a relevant source of information for legislators, audit entities, civil society, and the general public and can therefore be turned into an important partner to SAIs. For instance, parliamentarians often pay a great deal of attention to what is reported in the media – if the media consider something to be a significant matter and give it wide coverage, Parliamentarians often do the same. To help ensure that Parliament and the PAC give the report the attention it deserves, and to better ensure that public accountability is achieved, it is good practice to ensure that the media give the report a lot of coverage. At the same time, it is also good practice to ensure that what is presented by the media is factual, accurate, and does not exceed what is included in the report.

To help achieve this, the OFAG may make use of press releases to summarise the reports and their main messages. The OFAG may also make use of media lock-ups also known as press briefings, where the media are invited to meet with the Auditor General and the senior staff who were directly involved in the audit. The media could be provided with copies of the report and could ask questions of the Auditor General and the senior staff to help them better understand the findings, conclusions and recommendations.

This lock-up could take place shortly before the report is tabled, which would allow the media to commence reporting on the audit report immediately after it is tabled. Subsequent media coverage could be monitored to help ensure that what is being reported is a fair and accurate reflection of what is included in the report. While minor misrepresentations are common and should be accepted, if there are significant misrepresentations the OFAG may wish to publicly clarify the matter. Monitoring subsequent media coverage could also provide a useful “lessons learned” to assist in the drafting, distribution and communication of future audit reports.

In addition to using media houses, the OFAG report could be placed on the OFAG’s website where it would be available to everyone. In addition, the OFAG could consider including pertinent details about the report in leaflets, brochures, etc. The OFAG could also develop its own news articles and take part

in television interviews, talk shows, etc. As part of this process, the OFAG needs to ensure that the main messages being delivered, and the tone of those messages, are consistent with the main report.

7.2.4 Citizens and Other Stakeholders

INTOSAI-P 12 requires OFAG to deliver benefits and value to the citizens. According to INTOSAI-P 12, OFAG can effectively collaborate with citizens in performance auditing to enhance transparency, accountability, and the overall effectiveness of public resource management. This collaboration involves citizens and civil society organizations (CSOs) actively participating in the audit process, providing valuable insights, and contributing to the implementation of audit recommendations. By actively engaging with citizens and CSOs, OFAG can strengthen its role as independent oversight body. Benefits of OFAG communicating and collaborating with citizens include:

- *Improved audit quality:* Citizens and CSOs can offer unique perspectives and local knowledge, helping SAIs identify areas of mismanagement, inefficiency, and potential corruption that might be overlooked by traditional audit methods.
- *Increased transparency and accountability:* Citizen engagement foster a more transparent and accountable public sector, as citizens become active participants in oversight and hold government agencies accountable for their actions.
- *Enhanced public trust:* By involving citizens in the audit process, SAIs can build public trust and confidence in their work, demonstrating a commitment to public engagement and responsiveness.
- *Effective implementation of performance audit findings:* Citizens and CSOs can play a crucial role in monitoring the implementation of audit recommendations and advocating for necessary reforms, ensuring that audit findings translate into tangible improvements.

OFAG can use the following mechanisms in communicating and collaborating with citizens in performance auditing:

- *Participatory audits:* OFAG can directly involve citizens and CSOs in the audit process, allowing them to contribute information, provide feedback, and participate in the evaluation of public programs and services.
- *Citizen advisory boards:* OFAG can establish citizen advisory boards or committees to provide input on audit planning, execution, and follow-up, ensuring that citizen perspectives are integrated into the audit cycle.
- *Public hearing and consultations:* OFAG can organize public hearings and consultations to gather feedback from citizens on specific audit topics or to disseminate audit findings and recommendations.
- *Citizen reporting mechanisms*: OFAG can establish online platforms or other channels for citizens to report potential irregularities, fraud, or mismanagement, facilitating the early detection of issues and promoting accountability. This would help OFAG during the external environmental scanning in the planning phase.
- *Capacity building:* OFAG can provide training and support to citizens and CSOs to enhance their understanding of performance audit processes and enable them to effectively participate in the oversight of public resources.

8. QUALITY CONTROL

Requirements according to ISSAI 100; ISSAI 300 and ISSAI 3000
• SAIs should establish and maintain appropriate procedures for ethics and quality control. *ISSAI 100:35* • Auditors should perform the audit in accordance with professional standards on quality control. *ISSAI 100:38* • 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 300:32* • 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*

8.1 REQUIREMENTS FOR QUALITY CONTROL IN PERFORMANCE AUDITING

Quality control takes place while the audit is being conducted. OFAG should establish a quality control system to help ensure that the most appropriate audit topics are selected and that individual audits are efficiently and effectively designed, conducted, reported and followed up in accordance with the ISSAIs. Put simply, the objective is to ensure that audits are conducted at a consistently high level. The quality control system would include policies and procedures designed to provide the OFAG with reasonable assurance that the OFAG, and its personnel, comply with professional standards and applicable legal and regulatory requirements. Quality control needs to be built into the entire audit process, as opposed to being treated as an add-on to the process.

OFAG should ensure that all work carried out in performance auditing should be subject to review as a means of contributing to quality and promoting learning and personnel development, and the review process should be documented.[112] This includes review of the audit plan, working papers and the work of the team, and regular monitoring of progress by appropriate levels of management. The review should ensure that the applicable requirements are met and place emphasis on appropriate, balanced and fair reports that add value and address the audit questions. General quality control measures should be complemented by audit specific measures.[113] OFAG should recognize the importance of engagement quality control reviews in the performance audit wok and matters raised should be satisfactorily resolved before the report is issued.[114] OFAG should have a policy on whether and when to perform the reviews of the whole audit by experienced auditors not involved in the audit, prior to report issuance. OFAG should also ensure that procedures are in place for authorising reports to be issued. Thus, carrying out quality control reviews of draft reports including by different levels of management and possibly discussions with staff in the unit and/or external experts

[112] ISSAI 140
[113] ISSAI 300:32; 37
[114] ISSAI 140

8.2 QUALITY CONTROL REVIEWS AT THE VARIOUS PHASES

8.2.1 Quality control review at planning phase

Quality control reviews should be conducted at both strategic/ annual planning and designing individual performance audit phases.

At strategic and annual planning phase performance auditors conduct external and internal environment scanning and documents their work using working papers WP1: Area Watching and Sector Risk Assessment Plan; WP2: Sector risk assessment introductory letter; WP3 Area Watching Report; WP4: Sector assessment report; WP5: Proposal for audit topics; WP6: Scoring proposed audit topics; WP7: Prioritisation of audit topics. They present the results of their external environment scanning in a sector risk assessment report: working paper WP4 and those of internal scanning in working paper WP9 with a summary of the overall risk assessment report in working paper WP10. This work should be subjected to quality control reviews by the PA managers and PA directors using working paper WP8: Quality control checklist for sector risk assessment.

At designing the individual audit phase, a plan for a pre-study- *working paper WP12* is prepared by the Team Leader and subject to quality control review by PA Management, using working paper *WP13 Quality control checklist – Plan for the pre-study* and referring to this review on the front page of working paper WP12. Based on this review, Top Management will decide whether or not to start a pre-study, and document the decision on the front page of *working paper WP12*.

The Team Leader is also responsible to prepare 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 PA Management, and possibly be subjected to peer review by colleagues in OFAG. Before quality control review and decision by Top Management, all performance audits should be subject to independent quality control review. Managers and independent reviewers should use the working paper WP22 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 though, to document what has been reviewed. OFAG should ensure the following measures for quality control:

- Comprehensive research is needed to find indications of problems and design the audit.
- The audit objective, scope, questions, and criteria must be defined.
- Criteria need to be directly or indirectly linked to the results of the undertaking and used to evaluate performance (avoiding limiting the audit to only identifying gaps in relation to criteria).
- Various perspectives and study designs must be examined, and the strategy and methods for data collection and analysis must be assessed.
- Scientists and subject matter experts have to be consulted and perhaps engaged.
- The OFAG needs to ensure that the work plan proposals are critically examined, in particular, the context and motive for the audit, the overall audit design, the strategy and methods for data collection and analysis, and the administrative planning (competence, resources, activity planning, monitoring of progress, assessing risks, and planning communication).

When the review processes are completed, after one set or more reviews, the acceptance of working paper WP21 Pre-study memorandum and work plan, possibly with comments, should be confirmed by the Team Leader, PA Director and independent reviewer on the front page of working paper, where also the decision of Top Management is documented.

8.2.2 Quality control reviews at conducting the audit phase

The team leader is responsible for ensuring that the main study work is properly documented using the designated working papers. These working papers need to be subjected to quality control reviews by the PA managers and PA directors. This should be done during and at the end of the conducting phase. Among other things, OFAG PA management should ensure that all findings, conclusions and recommendations are fully supported by the audit evidence. The fieldwork needs to be properly supervised, with progress monitored. There should be regular liaison with officials from the audited entity. This includes discussing the findings (including cause and effect), conclusions and recommendations with them. Considering that drafting of the main study report is an iterative process between the conducting and reporting phases, at this stage the auditors may have drafted a synopsis for a main study report *working paper WP31.* PA management could use *working paper WP32*- quality control checklist for main study report. To conduct high quality audit during the main study OFAG should ensure the following measures:

- Provide the audited entities with a proper introduction.
- Involve the audited entities and find arguments from various stakeholders.
- Be creative in finding evidence and checking the quality and reliability of data, but be flexible and find smart solutions; less precise figures or estimates may be sufficient, even if no other conclusion should be drawn than what is permitted by the data.
- A well-functioning supervision and well-informed management, reviewing the quality of the report, and checking 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 audited entities.
- Carry out focus group meetings.

8.2.3 Quality control review at reporting phase

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 judgment 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.

OFAG can employ a panel of outside experts at various phases of the performance auditing process. If possible, it can be useful to ask subject matter expert to review the draft report before it is published. A panel of outside experts is most often used during the audit design (planning) stage, at the end of the conducting phase and during the reporting phase. These should be selected amongst renowned experts in the field (professors from higher learning institutions, retired civil servants or other experts that have got no vested interests with the audited entity). This can provide assurance of the quality of the draft report, and also increase the credibility of the report externally. These

individuals are experts in the areas subject to audit and can help to ensure the quality of the work conducted.

The draft report should then be reviewed by the PA Management, to ensure that the quality of the audit report is appropriate. All performance audits should also be subject to an independent quality control review by sufficiently experienced staff not involved in the audit (neither as auditors nor as line managers). Matters raised in the independent review should be satisfactorily resolved before the report is sent to the audited entity for comments and exit meeting.

The reports should fulfil the quality requirements laid down in the standards. Line managers reviewing drafts and independent quality control reviewers, should use working paper WP32 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 in 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 feedback received from quality control. If there is a difference 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.

To conduct high quality audit during the reporting phase, OFAG should ensure the following measures:

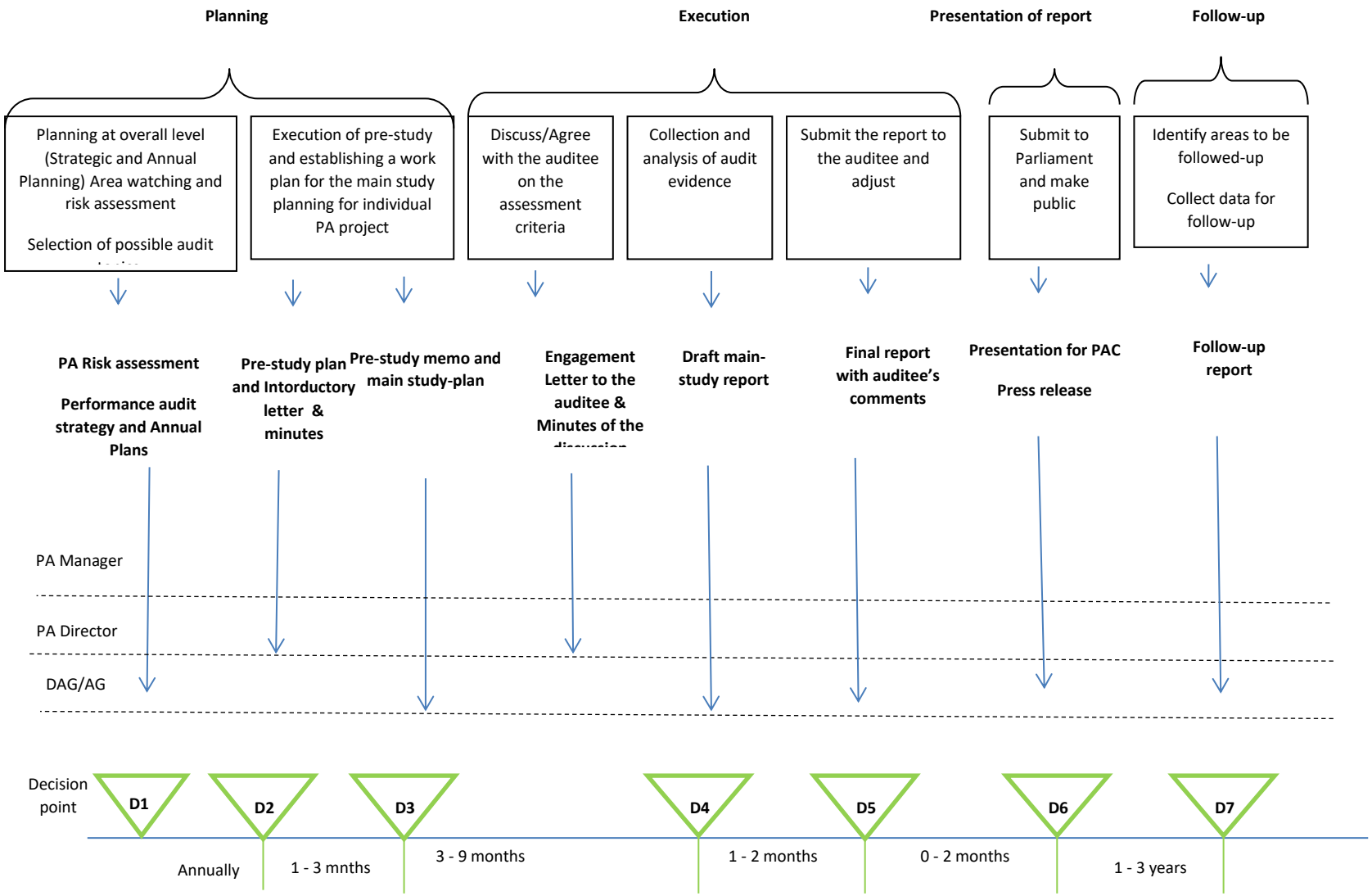
- Proper supervision, review and documentation of the work was performed.
- The draft reports and all changes to those reports should be reviewed by OFAG management. In addition, consideration should be given to having them reviewed by an engagement quality control reviewer or a group of reviewers.
- Senior OFAG management should have significant involvement in the finalization of the report. This should include ensuring that the report is not biased and is written using a tone that is consistent with the seriousness of the findings.
- There should be significant liaison with officials from the audited entity. This is particularly so when reviewing and deciding on the report.
- All draft reports, discussions with officials from the audited entity, etc. should be documented. Documentation and other quality control techniques are discussed below.
- Have experienced colleagues at the office to review drafts.
- Get critical external examination by scientists and subject matter experts.
- Conduct a proper clearance process with the audited entities.
- Submit a properly processed draft report to top management.
- Write a solid and reader-friendly report.
- Consider an exit conference with the audited entity to go through the report again.
- Before publication, managers should check whether the report meets the requirements of the standard.

Finally, the report is reviewed by Top Management for the final approval. The team leader and managers should confirm their acceptance of the final report by signing the front page of working paper WP31 Performance audit report, before submitting the final version to Top Management for decision.

8.2.4 Responsibility of quality control and decision-making points at each phase in OFAG

The figure 9 diagrammatically presents the phases, products, responsibilities of quality control, decision points and time periods for PA projects in OFAG. Note that there are seven major decision points in the PA project process where management must quality control and approve a performance audit product.

Figure 9: Quality control responsibility and decision-making points in OFAG



a) Top Management

The Federal Auditor-General provides high level leadership and control on all matters relating to performance auditing in OFAG, directly or by delegation to other officers. Quality in all performance audit work and all audit reports is paramount for OFAG – and ultimately the responsibility of the Federal Auditor-General. Top Management is also responsible for organising, co-ordinating, controlling and supervising all audit and administrative functions (including staff development and discipline) and the relations between different functions. They are responsible for setting and maintaining high professional auditing and administrative standards for performance auditing as well as the completeness, accuracy, presentation and issuance of performance audit reports. More specifically, the responsibility of Top Management includes but is not limited to:

1. Approve the overall strategy
2. Approve annual plan for performance auditing
3. 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 carry them out;
4. 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;
5. Approval of Performance Audit products[115] basing on evidence provided through performance audit management
6. Follow-up and support managers and performance auditors as needed, and at least quarterly review the progress of each performance audit;
7. Decide whether to publish an audit report or not;
8. Decide on how to market the report in media;
9. Interact with the PAC with up-to-date information regarding performance audit reports and related matters, based on the needs and agreements with PAC.
10. Coordinate performance auditing function with other functions of the OFAG;
11. Conduct quality control review of draft performance audit reports (before sending a draft for comments by the audited entity and before decision);

b) Performance Audit Management

The Performance Audit Management (PA 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 PA Management includes but is not limited to the following:

1. Introducing the pre-study to the auditee through an introductory letter (WP15)
2. Inform performance auditors about the relevant developments in OFAG and the public sector, as well as collecting information and concerns from them for consideration;
3. Has the lead responsibility for strategizing, coordinating, staffing, training and development of the performance audit function in OFAG.
4. Should review and approve the annual section plan(s) for performance audit and Report regularly on the progress and risks in the performance audit function to the top management.

[115] Performance audit products include pre-study plan, pre-study memo, main study work plan and draft main study report submitted to auditee for comments.

5. Is expected to attend Public Accounts Committee meetings, monitor the implementation of audit recommendations of PA reports and initiate follow-up projects of performance audits.
6. Should take lead responsibility to create awareness to stakeholders such as government, media and the parliament on performance auditing.
7. Propose audit topics and the composition of audit teams in consultation with team leaders
8. Lead teams on the Entry/Exit meeting;
9. At least monthly, monitor and report to Top Management the progress of each performance audit, proposing appropriate action to overcome challenges, delays and risks for cost overruns;
10. Conduct quality control review of working papers, audit files and performance audit products including pre-study plan, draft pre-studies and work plans as well as draft reports to verify all findings, observations, conclusions and recommendations made by the team before submission to the Top Management, including ensuring that the quality of the drafts and the documentation is of an appropriate standard
11. Take initiatives for the professional development of the function as a whole, as well as individual staff members, including carrying out performance appraisals and arrange in-house seminars. Initiate reviews and updates of the performance audit policies and procedures, and ensure development of audit tools, training materials and guidance;
12. 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;
13. 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 OFAG, ethical standards and code of conduct;
14. Assist staff as needed in their performance audit as well as in their professional development, taking initiatives for coaching and mentoring of staff, organise on the-job training and join inexperienced teams to the field at appropriate stages of the audit.

c) Team Leaders with The Audit Teams

Team Leaders assists 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, allocating responsibilities, supporting and supervising the audit team on a daily basis and draft a high-quality performance audit report. More specifically, the responsibility of the Team Leaders includes but is not limited to:

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 PA 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 PA Management.
4. Allocate tasks to team members and daily supervise and support Team Members in the execution of these tasks as needed. This includes to contribute to the professional development of team members through allocating challenging tasks under supervision and provide on-the-job training; it also includes to coordinate the tasks of different team members;
5. Lead the team and ensure proper collection of data and thorough analysis of the data; this includes to review draft working papers and ensure 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, ensuring that all findings, conclusions and recommendations are properly based on sufficient and relevant audit evidence and documented in the audit file;

7. Report difficulties in following agreed plans to the PA Management 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;
8. Maintain good team work within the team; and
9. 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 an 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 guidance of the Team Leader. Team members report to the Team Leader regarding the implementation of allocated audit tasks. In matters not related to audit tasks allocated to the team, staff members report to PA Management.

8.3 AUDIT TEAM POST-AUDIT SELF-REVIEWS

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 can be used on future audits, and is an important element of good project management. At the end of the audit (including at the end of a follow-up audit), the audit team could conduct a self-review of the audit. Such a review could look at what went well, what went less well, and how things could be improved in future for each phase of the audit process. The self-review could focus on matters such as:

(a) For the audit design (planning) phase, assessing whether:
   (i) The audit plan was well written.
   (ii) Adequate knowledge of the audited entity had been obtained.
   (iii) The selection of audit staff, timetable and budget were appropriate.
   (iv) Changes required to the plan at a later date could have been avoided by better planning.

(b) For the conducting phase:
   (i) Assessing whether the work had progressed as smoothly as it could have and, if not, what could have been done to improve the situation.
   (ii) Assessing whether different methods to gather audit evidence would have led to a more cost-effective audit.

(c) For the reporting phase, assessing whether the drafting and clearance of the report had gone as smoothly as it could have and, if not, what could have been done to improve the situation.

(d) For all stages:
   (i) If there were significant variations from the budget, determining the causes of those variations and, if applicable, what could be done to prevent them in the future.
   (ii) Considering if a different composition of the audit team (number of auditors and/or levels of those auditors) would have been preferable.

(iii) Assessing if there had been adequate liaison among audit team members, and between the audit team and OFAG management. This would include if there had been adequate supervision and review.
(iv) Assessing if there had been adequate liaison with officials from the audited entity.

Audit staff could be encouraged to identify one overriding lesson learnt from the audit (i.e., one thing in particular he/she would do differently the next time). To assist in this process, the audit team could obtain feedback from officials from the audited entity. This would not only include the officials' assessment as to the extent to which they were kept informed about the audit, but also the usefulness of the audit report with respect to improving their operations.

8.4 PEER REVIEWS

The internal reviews could be augmented by peer reviews conducted by another team within OFAG or another SAI. The benefit of a peer review conducted by another SAI is that the members of the review team will be more independent than an internal quality assurance unit, in the same way as external auditors are more independent than internal auditors. At the same time, as they are from another SAI, they will understand the role and responsibilities of the OFAG. Conducting peer reviews provides an opportunity for the OFAG to demonstrate its accountability to stakeholders – it is subjecting itself to an external review just it subjects the entities it audits to such a process.
To assist in the peer review process, the INTOSAI Development Initiative has
developed a "Performance Measurement Framework" that can be used during peer reviews of all types of audits. It contains six "domains" that can be included in the scope of the peer review. The review can cover all or some of them. The six domains are:

(a) Independence and Legal Framework.
(b) Internal Governance and Ethics.
(c) Audit Quality and Reporting.
(d) Financial Management, Assets and Support Services.
(e) Human Resources and Training.
(f) Communication and Stakeholder Management.

8.5 A PANEL OF SENIOR OFAG STAFF

Another method that OFAG management could use as a quality control technique is a panel of senior OFAG staff. While not experts in the topic subject to audit, they could, for example, review the key planning decisions and the resulting audit design matrix and organise a "challenge meeting" during which they ask questions of the audit team. Such an internal challenge meeting could be particularly useful when the OFAG has little experience with the audit topic, and is not using a panel of outside experts.

ANNEX A: MANGING PERFORMANCE AUDIT RISK

Performance audit risks

There are two very similar definitions of audit risk:

- The possibility that the auditor's findings, conclusions and recommendations may be improper or incomplete, as a result of factors such as the insufficiency or inappropriateness of evidence, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud.
- The possibility that the audit report may be inappropriate or the possibility of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.

The auditor needs to actively manage audit risk to reduce the risk of developing incorrect or incomplete findings, conclusions and recommendations, providing unbalanced information, or failing to add value to an acceptably low level. Actively managing risk involves:

- Identifying the risks.
- Assessing the risks.
- Developing and implementing strategies to prevent and mitigate the risks.
- Monitoring audit risk throughout the audit and making adjustments as needed to ensure that sufficient and appropriate evidence has been obtained and that the audit report is balanced, complete, etc.

Audit risk can be separated into two very general categories:

(a) The risks that exist in the topic being audited. These generally relate to:

- The inherent nature of the topic. This risk is often referred to as “inherent risk” – the chance that material deviations from the audit criteria will occur assuming no internal controls in place.
- The strength of the internal controls. This risk is often referred to as “control risk” – the chance that the internal controls will fail to prevent or detect material deviations from the audit criteria.
- The risk of fraud.

(b) The risks that relate to “an inadequate audit process”. This is the risk that the audit is not properly planned, conducted and reported. This risk could be due to, for example:

- The audit team collectively not having the knowledge and experience required to perform the work.
- Assigning work to an auditor who does not have the knowledge and experience required to do the work.
- Not providing the team with a sufficient budget to complete the audit.
- Not providing the staff with adequate supervision.
- Failing to properly review and approve key documents.

ISSAI Requirements and good practices to mitigate audit risks

According to ISSAI 300:28, audit risks are grouped into eight broad and non-mutually exclusive categories[116], as follows:

(a) Fraud risk and abuse of resources and irregular practices.
(b) Incorrect or incomplete conclusions.
(c) Providing unbalanced information and unable to put audit findings in perspective.
(d) Not adding value to users.
(e) Access to information and the quality of that information.
(f) Ability to conduct sufficient analysis.
(g) Failing to collect or address the most relevant arguments.
(h) Handling of substantial complexity and political sensitivity.

Of these eight categories the first (fraud risk and abuse of resources and irregular practices) primarily relates to the risks that exist in the topic being audited. The other seven primarily relate to the risk of an inadequate audit process. These risks can affect various phases of the audit process – the selection of audit topics and the designing, conducting and reporting of individual audits. What follows contains columns showing the phases of the audit to which the ways to manage the risks relate. Managing audit risk is not an "add on" – it is an integral part of the process of selecting audit topics and then designing, conducting, reporting and following up individual audits. Consistent with this, most of the ways to manage risk illustrated below are not procedures that need to be added to an audit programme to address specific risks; rather, they are general practices and procedures that are required by the ISSAIs and/or that represent good practices to help ensure that the audit is conducted efficiently and effectively.

1. Fraud risk and abuse of resources and irregular practices

Fraud is defined as an intentional act by one or more individuals among employees, management, those charged with governance, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Frauds include theft, false accounting, bribery and corruption, deception and collusion. The ISSAIs require auditors to maintain an attitude of professional scepticism. Professional scepticism means maintaining a professional distance from the audited entity and an alert and questioning attitude when assessing the sufficiency and appropriateness of the audit evidence.

Professional scepticism does not mean that the auditor assumes that officials from the audited entity are dishonest and all responses from them are incomplete or inaccurate. Rather, it calls for the auditor to compare the responses to other audit evidence that has been obtained. Professional scepticism also means considering the integrity of management, assessing the reliability of the sources of documents, remaining alert to instances of non-compliance with authorities, and the possibility of fraud.

At the audit design phase, the auditor identifies and assesses the risk of fraud relevant to the audit objective(s), and develops audit procedures in response to those risks. The auditor then remains alert to the possibility of fraud throughout the rest of the audit process. The auditor needs to make

[116] ISSAI 300:28

enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives.

If the risk of fraud is significant, the above process should include obtaining a good understanding of the relevant internal controls, and then examining whether there are any signs of irregularities that could hamper performance. The auditor needs to make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objective(s).
Professional scepticism is essential in this process as management and employees engaged in fraud will usually take steps to conceal the fraud. The following can assist in identifying, dealing with and reporting potential frauds.

Ways to Manage Risk	Selecting Topics	Design	Conduct	Report
(a) The OFAG should have clear policies on how to deal with serious irregularities. This would include who within the OFAG and within the audited entity should be notified, and the times when it would be appropriate to contact individuals outside the audited entity.	**X**	**X**	**X**	**X**
(b) When considering the auditability of a topic both during the selection of audit topics and during the design phase, if there is an indication of fraud or illegal acts, the audit team should consider whether the topic is still auditable. If it is not, the auditor could advise the appropriate officials from the audited entity of its reasons for not conducting the performance audit. A fraud audit or a compliance audit might be a more appropriate course of action.	**X**	**X**		
(c) Obtain an understanding of relevant internal controls and examine whether there are signs of irregularities that hamper performance. A good understanding of the internal controls will help the auditors to identify major weaknesses in the system that could lead to irregularities.		**X**	**X**	
(d) When designing and conducting the audit, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse. The audit team should determine the extent to which such acts would affect the audit results and ask for the assistance of specialists in complicated cases.		**X**	**X**	
(e) Auditors should verify whether the audited entity has taken appropriate actions to address recommendations from previous audits that are relevant to the audit objective(s) for the current audit. If serious systems weaknesses have been pointed out in earlier audit reports and if corrective action has not been taken to address these weaknesses, auditors will have to be extra vigilant to the risks of fraud.		**X**	**X**	

(f) Any financial irregularities identified during the audit design and conducting phase should be reported to the appropriate authorities concerned. In some cases, this will need to be done on an urgent basis to avoid someone inside the audited entity tampering with the evidence or causing further financial loss to the entity.		**X**	**X**	

2. Incorrect or incomplete conclusions

The auditor needs to reach conclusions against each audit criterion, each audit question and each audit objective. In addition, the auditor needs to ensure that he/she has the desired level of assurance with respect to each of those conclusions. The following can help ensure that audit conclusions are correct and complete, and that the auditor has obtained the required amount of assurance with respect to each conclusion.

Ways to Manage Risk	**Selecting Topics**	**Design**	**Conduct**	**Report**
(a) The OFAG needs to ensure that individual performance auditors possess adequate knowledge and experience to perform the tasks assigned to them.		**X**	**X**	**X**
(b) The OFAG needs to ensure that the audit team collectively possesses adequate knowledge of the subject matter and audit techniques to perform the audit.		**X**	**X**	**X**
(c) Should officials from the audited entity disagree with the audit criteria, the facts and arguments presented by the officials need to be weighed against what the other sources of the criteria would indicate. Experts in the field could be used to help resolve disputes.		**X**		
(d) During the conducting phase, the auditor needs to assess the sufficiency and appropriateness of the audit evidence to ensure that it is adequate to support each and every conclusion.			**X**	
(e) Officials from the audited entity should be provided with the expected audit conclusions during the conducting phase. A findings matrix can be used to assist in this process. The auditors should consider the comments received and perform additional work if necessary. They should then take into account the comments received and the results of the additional work performed when drafting the audit report.			**X**	**X**

(g) Performance audits should be subject to a system of quality control, incorporating processes for the supervision and monitoring of quality during the audit. Supervision of audit work in the field on a regular basis ensures that the basic work that emerges from an audit contains logical and well-reasoned audit findings and conclusions.		**X**	**X**	**X**
(h) Using an engagement quality control reviewer (or a group of reviewers) and engaging outside experts as advisers can provide further assurance that the conclusions are accurate and complete.			**X**	**X**
(i) Performance audits should also be subject to quality assurance reviews after the audit has been completed.		**X**	**X**	**X**

3. Providing unbalanced information and unable to put audit findings in perspective

Audit reports need to be balanced. This means the report needs to:

(a) Be complete. The auditor needs to include all relevant information and not just information that supports his/her point of view.

(b) Point out areas where the audited entity has performed well; not just areas where it has done poorly.

(c) Present different perspectives and viewpoints in cases where different interpretations of the evidence can legitimately be made.

An unbalanced report could be due to matters such as the following:

(a) Good practices and achievements of the audited entity are ignored and the report focuses only on shortcomings.

(b) Shortfalls are highlighted without explaining the challenges or constraints under which the audited entity operates.

(c) The audited entity's performance is assessed against perfection, instead of standards of acceptable performance.

The following can assist in ensuring that the report is balanced, with findings put in perspective.

Ways to Manage Risk	**Selecting Topics**	**Design**	**Conduct**	**Report**
(a) Criteria are set based on acceptable performance; not perfection. As a result, not every deviation or error found is necessarily a deficiency that needs to be reported.		**X**		
(b) When analysing data, information is put in perspective by comparing the results to acceptable criteria. In doing so, the auditor recognises that no entity system of internal controls will prevent and detect every deviation from economy, efficiency and			**X**	

effectiveness, every compliance with authority deviation and every other monetary deviation/error.				
(c) It is important that the auditors seek information from different sources, since each source may have different perspectives and arguments to put forward. Auditors must be able to see things from different perspectives and maintain an open and objective attitude to various views and arguments.		**X**	**X**	
(d) There should be active communication between the auditor and officials from the audited entity during all phases of the audit, beginning at the audit design phase when the criteria are being set. The communication should then continue throughout the audit, with the audited entity being given the opportunity to review draft reports and provide comments on them.		**X**	**X**	**X**
(e) If conflicts, contradictory opinions, etc. occur between the auditors and officials from the audited entity, efforts should be made to meet as soon as possible to resolve the different points of view.		**X**	**X**	**X**
(f) Officials from the audited entity should be provided with the expected audit findings, conclusions and recommendations during the conducting phase. A findings matrix can be used to assist in this process. The auditors should consider the comments received and perform additional work if necessary. They should then take into account the comments received and the results of the additional work performed when drafting the audit report.			**X**	**X**
(g) Officials from the audited entity should be provided with a copy of the draft audit report and given the opportunity to examine its content and comment on the audit findings, conclusions, and recommendations. The auditors should then take the comments received from the officials into account when updating the audit report.				**X**
(h) Performance audits should be subject to a system of quality control, incorporating processes for the supervision and monitoring of quality during the audit. Supervision of audit work in the field on a regular basis ensures that the basic work that emerges from an audit is balanced, and with the audit findings put in perspective.		**X**	**X**	**X**
(i) Using an engagement quality control reviewer (or a group of reviewers) and engaging outside experts as advisers can provide further assurance that the audit report is balanced, and with the audit findings put in perspective.				**X**
(j) Performance audits should also be subject to quality assurance reviews after the audit has been completed.		**X**	**X**	**X**

4. Not adding value to the users

Adding value is about providing new knowledge and perspectives. Performance audits can provide new information or knowledge by:

(a) Providing analytical insights (broader or deeper analysis or new perspectives).
(b) Making information accessible to various stakeholders.
(c) Improving the quality of findings or conclusions by having done additional research.
(d) Providing recommendations based on an analysis of audit findings.

The following can assist in ensuring that the audit report adds value.

Ways to Manage Risk	Selecting Topics	Design	Conduct	Report
(a) The OFAG needs to ensure that, when selecting audit topics, the significance of the topic is given appropriate weight. The selection process should aim to maximise the expected impact from the audits performed. A systematic strategic planning process to select audit topics will help ensure that the topic chosen for the audit will be significant and will add value.	**X**			
(b) When setting the audit objective(s), audit questions, criteria and the scope of the audit, the audit team needs to take into account the expected net impact of the audit. Ways to do this include considering the needs of the users and the expected conclusions and recommendations that could come out of the audit. An audit design matrix can be used for this purpose.		**X**		
(c) As the audit design phase and conducting phases unfold, the auditor will gain greater knowledge of the audit topic. This will enable deeper analysis and/or newer insights. This deeper analysis and new insights can be used to help refine the auditor's assessment as to whether the audit in general and certain lines of enquiry in particular are adding value.		**X**	**X**	
(e) The reports should be distributed as widely as possible. Wide distribution of the audit report adds value by making information accessible to Parliament and its PAC, and to the other intended uses.				**X**

5. Access to information and quality of information

At the audit progresses, some requested information may not be available and/or the auditor may have doubts about the quality of some of the information that has been provided. As the findings and conclusions are based on the evidence examined, it is essential that the auditors obtain sufficient (quantity) and appropriate (quality) audit evidence. The following can assist in ensuring that the auditor has access to sufficient and appropriate audit evidence.

Ways to Manage Risk	Selecting Topics	Design	Conduct	Report
(a) When selecting audit topics, one of the factors to consider is auditability. Then, at the start of the audit design phase, the auditor should reassess the strategic planning decisions, including the assessment of auditability. This would include assessing whether it is likely that sufficient and appropriate audit evidence exists and can be obtained efficiently.	X	X		
(b) When defining the audit objective(s), audit questions, criteria and the scope of the audit, the same auditability considerations could be made. Auditors could word the audit objective(s), audit questions and criteria, and set the audit scope, in a way that excludes matters and areas where information may not be available or may be of inadequate quality.		X		
(d) Audit evidence from different sources and different procedures is usually stronger, in total, than evidence from only one source and procedure. This, of course, is only the case if the evidence from all the different sources and procedures is corroborating and not conflicting. Conflicting audit evidence needs to be resolved before any assurance can be taken.		X	X	
(e) Some types of audit evidence are, by their very nature, stronger than other types of audit evidence. In general, for example, documentary evidence is normally considered to be more reliable than oral evidence, and evidence obtained from knowledgeable, credible and unbiased third parties is normally considered more reliable than evidence obtained from officials from the audited entity who are directly involved in the audit topic. The auditor needs to take the sources of the evidence and the nature of the evidence obtained into account when assessing the sufficiency and appropriateness of the evidence obtained.		X	X	
(f) During the audit design phase or during the entry meeting at the start of the conducting phase, officials from the audited entity could be provided with a list of documents required, and then given sufficient time to provide the documents. This could provide the auditor with insight into the location and availability of information.		X	X	
(g) The auditors are to have access to all required information. While auditors should ask for information tactfully and with due regard to the audited entity's ongoing operational responsibilities, they need to seriously question the integrity of officials from the audited entity if requested information is not made available on a timely basis.		X	X	

(h) Documents and information are more reliable if they are produced from a well-performing internal control system. Documents produced by weak systems should not be fully relied upon. In order to determine the reliability of the documents and information, the auditor should asses the strength of the related internal controls.		**X**	**X**	
(i) During the conducting phase, the auditor needs to assess if sufficient and appropriate audit evidence has been obtained. If information was not available or was of a lower quality than expected, the auditor should indicate how the shortfall in assurance was compensated for.			**X**	

6. Ability to conduct sufficient analysis

As noted at the start of the previous section, the auditor needs to have access to sufficient and appropriate audit evidence. What is also needed, of course, is for the auditor to be able to perform a sufficient analysis of the evidence. This may be hindered by, for example, a lack of expertise on the part of the auditor and/or vague criteria where it is difficult to determine whether a particular criterion has been achieved. The following can assist in ensuring that the auditor can conduct a sufficient analysis of the evidence.

Ways to Manage Risk	**Selecting Topics**	**Design**	**Conduct**	**Report**
(a) When selecting audit topics, one of the factors to consider is auditability. Then, at the start of the audit design phase, the auditor should reassess the strategic planning decisions, including the assessment of auditability. This would include assessing whether it is likely that there are relevant approaches, methodologies and criteria available, and whether the required information or evidence is likely to be available and can be obtained efficiently.	**X**	**X**		
(b) The OFAG needs to ensure that individual performance auditors possess adequate knowledge and experience to perform the tasks assigned to them.		**X**	**X**	**X**
(c) The OFAG needs to ensure that the audit team collectively possesses adequate knowledge of the subject matter and audit techniques to perform the audit. The OFAG may need to engage outside experts either as members of the audit team or as external advisers to assist in the work.		**X**	**X**	**X**

(e) Audit criteria need to be among other things, reasonable and attainable, understandable and measurable. The auditor cannot expect perfection and, if the criteria are vague or conflicting, it may be extremely difficult to determine whether the actual performance meets the criteria. To ensure that the criteria are appropriate, outside experts could, if required, be engaged as advisors to assist in the process of setting the criteria.		**X**		
(f) Further to the previous point, outside experts could also be engaged at the end of the conducting phase to assess whether the actual performance met the criteria.			**X**	

7. Failing to collect or address the most relevant arguments

At the audit design phase, the auditor will have identified the audit objective(s), audit questions and criteria, and the methods to gather the needed audit evidence. The auditor will also have identified expected findings and conclusions. As the audit progresses, the auditors may not cover all the criteria or properly focus the audit to obtain the expected findings and to reach the expected conclusions. They may also have difficulty defending their findings and conclusions against counter-arguments presented by officials from the audited entity. The following can assist in ensuring that the auditor deals with all the key issues and can counter the arguments against the audit findings and conclusions.

Ways to Manage Risk	**Selecting Topics**	**Design**	**Conduct**	**Report**
(a) All phases of the audit need to be performed with due care and with appropriate quality control procedures such as supervision and review.	X	X	X	X
(b) At the audit design phase, the methods to gather audit evidence and the audit procedures contained in the audit programme need to be clearly linked to the audit criteria (which in turn are linked to the audit questions and audit objective(s)). This process helps to identify the work that needs to be done, and helps to avoid getting caught up in extraneous details and a flood of data. This will all help the auditor to stay focussed on core audit issues.		X		
(c) When analysing data during the conducting phase, the auditor needs to keep the related audit criterion, audit question and audit objective in mind.			X	
(e) At the end of the conducting phase, the file reviewer should ensure that all procedures in the audit programme have been completed.			X	
(f) Also at the end of the conducting phase, the auditors should compare the findings and conclusions to those expected at the audit design phase. If some of the expected findings and conclusions are not included in the actual findings and conclusions, the auditors should consider whether this was due to the audit topic being performed better than expected, or if it was due to the necessary audit procedures not being performed.			X	

(g) Meetings should be held on a regular basis with officials from the audited entity throughout the audit. Criteria should be discussed, facts should be checked, and potential findings should be discussed with officials from the audited entity as soon as they arise. A clearance meeting can be held at the end of the conducting phase to discuss the expected findings, conclusions and recommendations. This process should help ensure that all potential disagreements and counter-arguments are discussed and resolved as early as possible in the audit process, and before the first draft of the report is prepared.		X	X	
(h) In preparation for the meetings in the previous point, the auditors should consider the possible counter-arguments that officials from the audited entity may make, and be prepared to deal with them. At the same time, though, auditors should be prepared to consider issues from different perspectives and to maintain an open and objective attitude to various views and arguments. They should therefore go into those meetings with an open mind and be receptive to comments made by officials from the audited entity.		X	X	

8. Handling of substantial complexity and political sensitivity

While the auditor needs to ensure that all audit topics are dealt with correctly, there may be a greater risk with respect to highly complex or politically sensitive topics. The following can assist in ensuring that the auditor deals appropriately with highly complex and politically sensitive audit topics.

Ways to Manage Risk	Selecting Topics	Design	Conduct	Report
(a) The OFAG needs to maintain both actual and perceived political neutrality. This will safeguard the OFAG from allegations that the performance audit report is politically motivated. These allegations would be most likely come when the report is on a politically sensitive issue. It is important that auditors maintain their independence from political influence, and that the OFAG establish quality control procedures to ensure that this is the case.	X	X	X	X
(b) When designing, conducting and reporting audits, the auditor is usually free to audit and then comment on, among other things, how well a government policy has been implemented, the costs of implementing the policy, and whether the objectives of the policy have been achieved. The auditor, though, should normally not comment on the policy itself.		X	X	X
(c) Three good practices that can help ensure that the OFAG correctly handles complex and politically sensitive issues are: (i) Wide consultation with different stakeholders during the entire audit process. (ii) Engaging outside experts to, among other things, handle complex issues and review the draft audit report. (iii) Providing opportunities for officials from the audited entity to respond to audit findings and conclusions. At the same time, though the auditors need to remember that this is their report, and these discussions should not compromise the independence or impartiality of the OFAG.	X	X	X	X



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AUDIT FOR THE BENEFIT OF CITIZENS