

INTOSAI



***Guidelines on Central  
Concepts for  
Performance Auditing***

INTOSAI PROFESSIONAL STANDARDS COMMITTEE

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PSC-SECRETARIAT

RIGSREVISIONEN • STORE KONGENSGADE 45 • P.O. BOX 9009 • 1022 COPENHAGEN K • DENMARK  
TEL.:+45 3392 8400 • FAX:+45 3311 0415 • E-MAIL: INFO@RIGSREVISIONEN.DK

# INTOSAI



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

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

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

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## INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public-sector auditing. The Fundamental Principles of Public-Sector Auditing (ISSAI 100) defines the purpose and authority of ISSAIs and the framework for public-sector auditing, amongst other things. The Fundamental Principles of Performance Auditing (ISSAI 300) builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of performance auditing.
2. ISSAI 3000 is the International Standard for Performance Auditing and should be read and understood in conjunction with ISSAI 100 and ISSAI 300. It provides the requirements for the professional practice of performance auditing followed by explanations in order to enhance the clarity and readability of the standard. ISSAI 3000 is the authoritative standard for performance auditing and consequently each requirement must be complied with if an SAI chooses to adopt it.
3. For each requirement set out in ISSAI 3000, supporting non-mandatory guidelines are provided in ISSAI 3100, on central concepts for performance auditing, and ISSAI 3200, on the performance auditing process.
4. ISSAI 3100 is intended to help the auditor interpret central concepts for performance auditing used in ISSAI 3000. Thus, the guidance provided in this document should make it easier to understand and implement the requirements in the standard for performance auditing.
5. ISSAI 3100 has two sections. The first one defines performance auditing and elaborates on the meaning of economy, efficiency and effectiveness. The second section deals with central concepts. Some of these concepts are audit-oriented, such as intended users and responsible parties, subject matter, confidence and assurance, audit objective(s), audit approach, audit criteria, audit risk, quality control, and materiality. Some concepts are focused on the auditor, such as the concept of independence and ethics, skills, supervision, professional judgment and scepticism. Other concepts are related to key tasks, such as communication and documentation.
6. ISSAI 3100 and ISSAI 3200 should be read together to get a deeper understanding of how the central concepts are considered throughout the audit process.

## DEFINITION OF PERFORMANCE AUDITING

### *Economy, efficiency and effectiveness*

7. Performance auditing carried out by SAIs is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.
8. The principles of economy, efficiency and effectiveness can be defined as follows:
  - a) The principle of economy means minimising the costs of resources. The resources used have to be available in due time, of appropriate quantity and quality, and at the best price.
  - b) The principle of efficiency means getting the most from the available resources. It is

concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

- c) The principle of effectiveness concerns meeting the objectives set and achieving the intended results.
9. Performance auditing promotes accountability by assisting those with governance and oversight responsibilities to improve performance. It does so by examining whether decisions by the legislature or the executive are economically, efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. Performance auditing promotes transparency by affording the legislature, the executive, taxpayers and other sources of finance, and those targeted by government policies and the media, an insight into the management and outcomes of different government activities. (For further guidelines on the three E's, see Audit Objective)

## CENTRAL CONCEPTS FOR PERFORMANCE AUDITING

### *Independence and ethics*

Requirement according to ISSAI 3000:

**The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics. (ISSAI 3000/21)**

#### Guidance

10. Ethics means the moral principles of an individual that include independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. To be independent, and be seen as such, the auditor needs to be free from situations which could impair the auditor's objectivity. Independence comprises:
- a) Independence in fact - allows the auditor to perform activities without being affected by influences that compromise professional judgment; to act with integrity and exercise objectivity and professional scepticism.
  - b) Independence in appearance - the absence of circumstances that would cause a reasonable and informed stakeholder, having knowledge of relevant information, to reasonably doubt the integrity, objectivity, or professional scepticism of the auditor, or conclude that they have been compromised.
11. Independence is important in the context of a performance audit because of key decisions made by the auditor, such as:
- a) identifying and deciding on an audit topic;
  - b) establishing the audit objective;
  - c) identifying the applicable criteria;
  - d) determining the methodological approach to the audit;
  - e) assessing audit evidence and forming conclusions;
  - f) discussing audit criteria and findings with the audited entity;

- g) assessing the positions of various stakeholders; and
- h) writing a fair and balanced report.

12. The auditor should be cognisant of any issues or situations that might threaten the independence of the SAI and/or the members of the audit team.

Requirement according to ISSAI 3000:

**The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users. (ISSAI 3000/23)**

#### Guidance

13. In addition to confirming his/her independence, throughout the audit process, the auditor need to establish open and good communication with the responsible party of the audit about its understanding of the auditor's independence. (For further guidelines on this topic, see Intended users and Communication).
14. Threats to compliance with the relevant independence requirements must be considered before and during an audit. Threats may fall into one or more of the following categories:
- a) Self-interest. This threat occurs when the auditor could benefit directly or indirectly from an interest or relationship with the responsible party.
  - b) Advocacy. This threat occurs when an auditor promotes a position or opinion to the point that neutrality and/or objectivity may be, or may be perceived to be, impaired.
  - c) Familiarity. This threat occurs when, by virtue of a close relationship with the responsible party, the auditor becomes too sympathetic to its interests.
  - d) Intimidation. This threat occurs when the auditor may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from the responsible party.
  - e) Self-review. This threat occurs when any product or judgment from a previous engagement needs to be evaluated to reach conclusions in the current engagement.
  - f) Management participation. This threat occurs when the audited entity becomes unduly involved in the audit, for example as a team member.
15. The nature of the threats and the applicable control mechanisms necessary to eliminate them, or reduce them to an acceptable level, will differ depending on the particulars of the audit.
16. In considering the significance of any particular matter, qualitative factors ought to be taken into account. A matter may be considered insignificant only if it is both trivial and inconsequential.
17. If the threat is other than insignificant, available control mechanisms ought to be identified and, where applicable, applied to eliminate the threat or reduce it to an acceptable level. In the event that an auditor does not comply with independence requirements, the SAI must consider if disciplinary action is needed, up to and including termination of employment.

18. Applying control mechanisms eliminates or reduces threats to an acceptable level. Safeguards are necessary when threats identified are at a level where a reasonable observer would likely conclude that compliance with the relevant ethical or independence requirements may be compromised.
19. Examples of audit-specific control mechanisms could include the following:
- a) involving another person to review the work done or advise as necessary, without compromising the auditor's independence. This person could be someone from outside the SAI, or someone from inside it who was not otherwise associated with the audit team. The person needs to be independent of the responsible party and will not, by reason of the review performed or advice given, be considered part of the audit team;
  - b) consulting a third party, such as a committee of independent directors, a professional regulatory body, or a professional colleague;
  - c) rotating personnel to performance audits of different entities after a few years to counter the familiarity threat;
  - d) all individuals working on an audit having to confirm their independence before commencing work on the audit and consider throughout the audit; and
  - e) removing a person from the audit team when that person's financial interests, relationships, or activities create a threat to independence.

### *Intended users and responsible parties*

Requirement according to ISSAI 3000:

**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)**

### Guidance

20. The intended users are the persons for whom the auditor prepares the performance audit. The legislature, the executive, government agencies, third parties concerned by the audit report, and the public can all be intended users. A responsible party may also be an intended user, but it will rarely be the only one. In many cases the legislature or the executive will be the primary intended user of an audit report. However, other intended users may exist, both inside as well as outside the executive. Citizens can use the results to make better-informed choices and thus could be intended users. Interest groups, organisations involved in implementing policies, the academic community and last but not least the media, can all also be intended users in a specific context. It is advisable to find out who the relevant intended users are in the very early stages of the audit.
21. A special group of intended users are the experts in a specific audit field. Authoritative reports benefit from their support. On the other hand, reports are in danger of losing authority when experts challenge conclusions and recommendations.
22. The responsible parties are primarily the ones that are supposed to act upon the conclusions and recommendations in the audit report. The role of the responsible party may be shared by a range of individuals, each with responsibility for a different aspect

of the subject matter. The responsible party may include those responsible for the subject matter being audited in an operative and/or supervisory role. At the end of the accountability chain there will always be a responsible party (for example, a minister) that will be held to account by the legislature for spending and performance in a certain area.

23. The performance auditor frequently has considerable discretion in the selection of the subject matter and identification of criteria, which in turn influences who the relevant responsible parties and intended users are. The auditor needs to consider the roles of the intended users while designing and conducting the audit and at the same time maintain their independence.

### *Subject matter*

Requirement according to ISSAI 3000:

**The auditor shall identify the subject matter of a performance audit. (ISSAI 3000/29)**

### Guidance

24. Subject matter refers to what is audited. The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities or existing situations (including causes and consequences). Examples might be service delivery by the responsible parties or the effects of government policy and regulations on administration, stakeholders, businesses, citizens and society. The subject matter is determined by the objective and formulated in the audit questions.
25. In many SAIs, the mandate of performance auditing will stop short of reviewing the policy bases of government programmes. In these cases, performance auditing does not question the merit of policy objectives but can rather involve examinations of actions taken to design, implement, or evaluate the results of these policies, and may imply an examination of the adequacy of information leading to policy decisions.
26. The subject matter needs to reflect the risk and materiality within the audit area. This is important in order to add value and ensure that the audit is relevant. Identification of the subject matter will often be done on the basis of a risk analysis. Whereas the subject matter refers to what is audited, the scope defines the boundaries of the subject matter.

### *Confidence and assurance in performance auditing*

Requirement according to ISSAI 3000:

**32. The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. (ISSAI 3000/32)**

### Guidance

27. All audit work is a type of assurance service, meaning that the auditor provides reliable and valid information to an intended user (typically the legislature or the executive) about the activities of a responsible party (typically a government agency or the executive).



"Reliable and valid information" in this context requires that the conclusions on the subject matter are logically linked to the audit objective(s) and criteria, and are supported by sufficient and appropriate audit evidence. To achieve this, the conclusion(s) must be clearly linked to the audit objective(s) and audit criteria, and written in a way that enhances the degree of confidence of the intended users about the evaluation of the underlying subject matter against criteria.

28. Thus, assurance reports are intended to provide confidence for intended users that the audit conclusions accurately reflect the state of the underlying subject matter. Put simply, intended users of assurance reports should be able to be reasonably sure that the conclusion(s) are reliable and valid.
29. To achieve this, the conclusion(s) must be clearly linked to the audit objective(s) and audit criteria, and written in a way that enhances the degree of confidence of the intended users about the evaluation of the underlying subject matter against criteria.
30. Reaching an audit conclusion is an inferential exercise involving considerable judgement. Because of this it is very important that all aspects of the conclusion(s) are supported by evidence-based findings relative to the audit criteria. On the other hand, all findings should also be considered when expressing the conclusion. The logic is this: "Given findings A, B, C and D compared to the applicable audit criteria X, the natural conclusion is as follows.
31. Second, in order to reach a conclusion, it is very important that the findings are based on sufficient and appropriate evidence. If the evidence is flawed in any way, the findings and conclusion will also be flawed.
32. Providing assurance in this sense requires that conclusions are based on solid findings compared to the audit criteria, and that findings are based on solid evidence. However, it is also important to make these links clear to the intended users. This is done by being clear on how findings, criteria and conclusions were developed in a balanced and reasonable manner, and why the combinations of findings and criteria result in a certain overall conclusion or set of conclusions (ISSAI 100/32). If this is done properly, the intended users can be confident about the validity of the conclusions. The auditor has then provided assurance.

#### Forms of providing assurance

33. Assurance can be conveyed in different ways. Some examples of how this can be done include, but are not limited to, the following:
  - a) through an overall view on aspects of economy, efficiency and effectiveness, where the audit objective, the subject matter, the evidence obtained and the findings reached allow for such a conclusion; or
  - b) by providing specific information on a range of points including the audit objective, the questions asked, the evidence obtained, the audit criteria used, the findings reached and the specific conclusions.
34. It is good practice to make an informed choice, depending on the circumstances, regarding how assurance is communicated. It is also important not to confuse alternative a) with a formal attestation opinion which explicitly conveys the level of assurance (ISSAI 300/21). A formal opinion, comparable to the opinion on financial statements, is not possible in performance audit. Thus, how assurance is conveyed will fall under the heading of "In other forms" as described in ISSAI 100/32.

*Audit objective(s)*

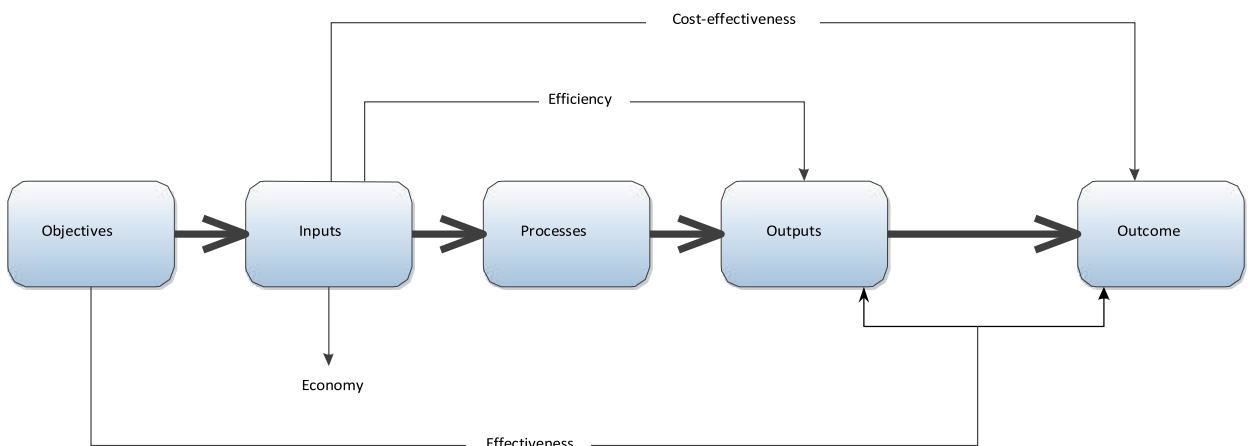
Requirement according to ISSAI 3000:

**The auditor shall set a clearly-defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness. (ISSAI 3000/35)**

Guidance

- 35. The audit objective(s) state(s) the purpose of the audit and what the auditor seeks to achieve by conducting the audit. The audit objective(s) need(s) to be formulated in a way that makes it possible to conclude whether the objective(s) has/have been reached after the audit is finished.
- 36. It is good practice to establish the audit objective(s) early in the planning process to assist in identifying the matters to be audited and reported on. The audit objective(s) determine(s) the subject matter, which is formulated in the audit questions, and provides the answer for why the audit is taking place. The audit objective(s) and scope are interrelated and need to be considered together. Further information on defining the audit objective(s) is provided in ISSAI 3200.
- 37. In the definition of performance auditing the three E's, economy, effectiveness and efficiency have a central place. The relation between these three principles is explained further in figure 1 below. In this figure input refers to the financial, human, and material resources used for a government intervention (government undertaking, policy, system, operation, programme, activity or organisation). Output refers to the products, capital goods and services which result from a government intervention. Outcome refers to the likely or achieved effects of an intervention's outputs. These can be short-term, mid-term or even long-term (long term effects can also be referred to as 'impacts').

Figure.1



Economy

- 38. Auditing economy focuses the audit on how the audited entity succeeded in minimising the cost of resources (input) taking into account the appropriate quality of these

resources. This type of audit focuses only on the input. The main question 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).

### Efficiency

39. 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. Efficiency assesses the relationship between inputs and outputs. The key questions 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?”
40. Audits of efficiency can be aimed at technical efficiency (for example, can processes be streamlined to improve performance?), allocative efficiency (for example, can efficiency be improved by allocating resources differently, for instance by moving them to instruments that contribute the most to the output?), or scale or synergy efficiency (for example, can the same output be realized with less input by sharing means or processes, or even merging organisations?).
41. Efficiency is a relative concept. A process, instrument or programme is either more or less efficient than another. This means that for an audit on efficiency, some kind of comparison is needed. Examples are: comparing similar activities in comparable entities, comparing one process (in one entity) with the same process at an earlier point in time, comparing a process before and after adaptation of policy or procedure, comparing the efficiency of an organisation with an accepted set of characteristics of efficient organisations. Efficiency-oriented audits can also examine the processes leading from input to output to expose shortcomings in these processes or in their implementation. This can lead to a better understanding of why processes are efficient, even without measuring the efficiency itself.

### Effectiveness

42. Effectiveness is about the extent to which policy objectives have been met in terms of the generated output. It is concerned with the relationship between goals or objectives on the one hand, and outcome on the other. As shown in the figure the question of effectiveness consists of two parts: first, to what extent are the objectives met and second, can this be attributed to the output of the policy pursued. Both parts are discussed below.

#### **Quality**

In the definition of the three e's the quality of output is an important factor. If the costs of products or services decline while at the same time their quality has decreased, one can question whether economy, efficiency or effectiveness are being achieved. It is therefore important to assess if and how quality is affected when striving for economy, efficiency and/or effectiveness. Sometimes criteria for quality are clearly defined for specific products or services and can be used for these assessments. One of other possible ways of assessing the quality of products or services is by measuring customer satisfaction.

43. The first question: “to what extent are the objectives of a programme or policy met?” can be answered by a result-oriented audit. In such audits the main focus is on the objectives (are they specific and measurable?) and on the comparison between the

actual output and/or outcome and these objectives (see also the result-oriented approach in paragraph 61).

44. Measurement and comparison of outputs or outcomes against objectives in a result-orientated approach may give an indication of effectiveness but does not establish a causal relationship between the outcome and the programme being audited. Nor does it provide information on the reasons for performance. The second part of the effectiveness question, however, may address the contribution the programme makes to achieving objectives. When auditing effectiveness, one should try to identify the relationship between the achievement of objectives and the implemented programme. A useful instrument for this is the 'theory of change'.

#### **Theory of change**

Describes how and why an initiative or programme is expected to work. It is more than a schematic description of expected input, output and results linked with arrows (figure 1). It describes the assumptions behind the arrows on how the input will lead to the desired output and how this output will lead to the desired outcome. In other words, how change will occur. Identifying the theory behind a programme or a policy can be done by analysing key documents in which the policy is described or by interviewing those responsible for the policy or programme. It can help the auditor (and sometimes also those responsible) to obtain a clear description and better understanding of the assumptions on the causal relationship between the output and the intended outcome (objectives) of a policy or programme.

45. Effectiveness can be measured by various methods. The most sophisticated methods compare the situation being addressed before and after the introduction of the policy or programme and involve measuring the behaviour of a control group, which has not been subject to the policy or programme (the counterfactual). This can be done by a randomized trial or as a quasi-experiment. However this type of method is not always feasible. Sometimes more qualitative methods are better suited to gain insight into causal relations between policy or programme and effect, especially for finding answers to questions such as 'what works for whom under which circumstances?'. When drawing conclusions on the causal relation between policy or programme and effects it is important to be transparent on the strengths and limitations of the methods used. There are various (evaluation) handbooks providing guidance in choosing the right methods.
46. Another approach that is often used in performance auditing is not measuring effectiveness itself but focusing on the conditions that are (thought to be) necessary to ensure effectiveness. These conditions may include good management practices and procedures to ensure the correct and timely delivery of services (see output in the figure in paragraph 8). Other conditions might be the extent to which target groups have been reached, or the level of performance. These types of audits often have the characteristics of a process based audit or a programme evaluation. Data from performance management systems can be very useful for these kinds of audits; however assessing the quality of these data is of great importance.
47. An audit will often focus on only one of the three E's, since auditing effectiveness of efficiency often is time consuming and can require specific expertise. However it is advisable not to examine aspects of economy or efficiency or effectiveness of activities in total isolation. For instance, looking at economy without also considering, at least briefly, the outcome of a policy might lead to cheap but ineffective interventions. Conversely, in an audit of effectiveness, the auditor may also wish to consider aspects of economy and efficiency: the outcomes of an audited entity, activity, programme or operation may have had the desired outcome, but were the resources very costly?

48. An audit does not necessarily have to focus only on the intended effects of a policy. Unintended effects (positive or negative) can also be relevant for the auditor to consider. Unintended effects can for instance be revealed by interviewing the target group of an intervention, critics of the audited programme or other relevant stakeholders. Addressing unintended effects might be especially relevant if the auditee seems unaware of these effects or if the effects are not included in the theory of change as described in the key documents on the audited policy or programme.

#### Cost-effectiveness

49. Cost-effectiveness combines both elements of efficiency and effectiveness (see figure 1) by analysing the relationship between the outcome of an instrument, a project or programme and the input, in terms of money and human capital. The result of this type of analysis can be expressed as a ratio: cost per unit of outcome or output per unit of cost. An example is the cost of reducing CO<sub>2</sub> emissions. This can be described as X euro/kg avoided CO<sub>2</sub> emissions or the other way around as X kg avoided CO<sub>2</sub>/euro spent.

#### **Equity and performance auditing**

Some SAIs distinguish equity as a fourth e. This describes the principle that everyone should be able to exercise their civil rights (e.g. Freedom of expression, access to information, freedom to associate, freedom to vote, gender equality), and their political and social rights (e.g. Health, education, housing, and security). Public policies of protection and social development play a key role in building equity. Equity issues can also be treated as an additional topic in performance audits or as an effectiveness issue where it is an explicit policy goal or programme objective. The examination of equity may involve, for example, equality of access to services, distributional impacts, and impact on regional disparities.

#### *Audit approach*

Requirement according to ISSAI 3000:

**The auditor shall choose a result-, problem or system-oriented audit approach, or a combination thereof. (ISSAI 3000/40)**

#### Guidance

50. The audit approach determines the nature of the examination to be made. The audit approach is an important link between the audit objective(s), audit criteria and the work done to collect evidence. Performance auditing generally follows one of three approaches or a combination thereof:

- a) a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
- b) a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from audit criteria;
- c) a system-oriented approach, which examines the proper functioning of management systems

51. A result-oriented approach deals mainly with questions such as:

'What is the performance or what results have been achieved, and have the requirements or the objectives been met?' In this approach, the auditor studies the actual performance, results and outcomes and relates those to the (criteria based on the) policy goals/objectives. The findings will therefore often be in the form of a deviation from the criteria. Recommendations, if presented, are often aimed at eliminating such deviations. The perspective is in that sense basically normative.

52. A problem-oriented approach deals primarily with problem verification and problem analysis. It has its starting point in a problem or a "known" deviation from what should or could be. The audit criteria have a less significant role than in the result-oriented approach. They are mainly used for identifying the problem(s) as a starting point for the audit. A major task in the audit is to verify the existence of stated problems and to analyse their causes from different perspectives (problems related to economy, efficiency, and effectiveness of government undertakings or programmes). The problem-oriented approach deals with questions such as: 'What is the problem? What are the causes of the problem? To what extent can the government solve the problem? What, if any, is the programme of the government to solve the problem?'

53. The perspective is analytical and instrumental; the aim is to deliver updated information on the stated problems and how to deal with them. The auditor can use various methods and is not restricted in his/her analyses. The approach may either apply the technique of providing answers to audit questions or focus on testing stated hypotheses. All possible material causes are considered (only general goals are taken for granted). So proposals to amend laws, regulations, and structural design of government undertakings are not excluded, if it is shown that the existing structure gives rise to severe and verified problems.

54. The system oriented approach is an approach that does not focus primarily on the policy or the goals, but on well-functioning management systems as a condition for effective and efficient policies. Examples of these systems are financial management systems, evaluation systems, control systems or ICT systems. This type of audit can use descriptive questions such as:

- a) What is the objective of the system?
- b) Who are the responsible actors within the system?
- c) What are the responsibilities of each actor?
- d) Which rules, regulations and procedures are relevant?
- e) What are the relevant information flows?

And can be complemented by more evaluative questions such as:

- a) To what extent is there a sound plan?
- b) Is there a good quality monitoring system?
- c) Is the comparison between the information of the monitoring system and the plan leading to adjustments, if necessary?
- d) Is planning, monitoring and adjusting recorded in a systematic way, ensuring accountability to a higher administrative level?
- e) Are processes evaluated periodically in a proper way?

## *Audit criteria*

Requirements according to ISSAI 3000:

**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)**

### Guidance

55. The audit criteria represent the standards against which the audit evidence is judged. Performance audit criteria are reasonable and attainable, audit-specific standards of performance against which the economy, efficiency, and effectiveness can be assessed and evaluated to determine whether performance falls short of, meets or exceeds expectations. The audit criteria are intended to give direction to the assessment (helping the auditor to answer questions such as 'On what grounds is it possible to assess actual performance?' 'What is required or expected?' 'What results are to be achieved – and how?').
56. In defining audit criteria, the auditor needs to consider that the criteria are relevant, understandable, complete, reliable, and objective. These attributes can be described as follows:
- a) Relevant audit criteria contribute to conclusions that assist decision-making by intended users and to conclusions that answer on the audit questions (ISSAI 1003).
  - b) Understandable audit criteria are those that are clearly stated, contribute to clear conclusions and are comprehensible to the intended users. They are not subject to wide variations in interpretation.
  - c) Complete audit criteria are those that are sufficient for the audit purpose and do not omit relevant factors. They are meaningful and make it possible to provide the intended users with a practical overview for their information and decision-making needs.
  - d) Reliable audit criteria result in reasonably consistent conclusions when used by another auditor in the same circumstances.
  - e) Objective audit criteria are free from any bias on the part of the auditor or the audited entity.
57. The audit criteria can be qualitative or quantitative and may be general or specific, focusing on what is expected, according to sound principles, scientific knowledge and best practice; or on what could be (given better conditions) or on what should be according to laws, regulations or objectives. Diverse sources, besides legislation, can be used to identify audit criteria, including regulations, standards, sound principles and best practices, performance measurement frameworks and organisational policies and procedures.
58. Criteria can perform a series of important roles to assist the conduct of a performance audit, including:

- a) providing a basis on which procedures can be built for the collection of audit evidence;
- b) providing the basis for assessing the evidence, developing audit findings and reaching conclusions on the audit objectives;
- c) helping to add form and structure to observations;
- d) forming a common basis for communication within the audit team and with SAI management concerning the nature of the audit; and
- e) forming a basis for communication with the audited entity's management.

59. In performance auditing, the general concepts of economy, efficiency, and effectiveness need to be interpreted in relation to the subject matter, and the resulting criteria will usually vary from one audit to another. However, established criteria may also be useful for other audits of the same audited entity or for audits of entities with a similar scope.

60. Audit criteria are established by the auditor. However, they must be discussed with the audited entity (and possibly with other stakeholders) during the planning phase, or at the latest in the conducting phase of the audit. Discussing the audit criteria with the audited entity serves to ensure there is a shared and common understanding of what criteria will be used as benchmarks when evaluating the audited entity. It is therefore important to clearly define the criteria that the audited entity will be assessed against.

### *Audit risk*

Requirement according to ISSAI 3000:

**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)**

### Guidance

61. Audit risk is 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.

62. Dealing with audit risk is embedded in the whole process and methodology of performance audit. To manage audit risk, the auditor needs to:

- a) Identify the risks
- b) Assess these risks
- c) Develop and implement strategies to prevent and mitigate the risks
- d) Monitor audit risk and mitigation strategies throughout the audit and make adjustments as needed to changing circumstances (i.e. apply a risk management approach when addressing audit risk).



## Communication

Requirements according to ISSAI 3000:

**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 clearly communicate the standards that were followed to conduct the performance audit. (ISSAI 3000/61)**

### Guidance

63. The development of good and proper external relations is often a key factor in achieving effective and efficient audits of government programmes. The progress and outcome of the audit will be enhanced if the audit team can obtain good contact and foster confidence by maintaining a fully professional approach during the course of the audit. One needs to keep in mind that it is the SAI that seeks access to sources, data and arguments in an audit. Without good communication it may prove difficult to create an atmosphere which will serve that interest.

### Audited entity

64. The communication process between the auditor and audited entity begins at the planning stage of the audit and continues throughout the audit process, by a constructive process of interaction, as different findings, arguments and perspectives are assessed.

65. The auditor needs to inform the audited entity of the audit subject matter, audit objective(s), audit criteria, audit questions, the time period to be audited, and the government undertakings, organisations and/or programmes to be included in the audit, as soon as possible after the decision to start an audit.

66. The communication of these key aspects provides a clear picture of what the audit is about and why it is undertaken, what the result might be, and how the audit will affect the audited entity (e.g. time, documentation, resources) before the audit starts. Furthermore, it creates the basis for exchanging views, avoiding misunderstandings and facilitating the process. This does not mean that the audited entity dictates conditions or in any way controls the audit process, but rather involves establishing a constructive process of interaction. As a rule, the assistance of individuals from the audited entity is essential to an effective audit. An active dialogue during the audit with the audited entity, experts and others makes it easier; for instance, to continuously verify the auditor's understanding and preliminary audit findings.

67. The following topics may serve as examples for further discussion between the auditor and the audited entity:

- a) the audit scope, audit criteria, methodology, and the expected audit process;

- b) functions and persons of importance for the data-collection and who the SAI may liaise with, the expected types and quantities of documents that would or could be requested by the SAI;
  - c) how to keep the audit entity's management informed about the progress of the audit and emerging findings;
  - d) the ability to carry out the audit as planned (e.g. resources, time schedule, scope).
68. When important audit findings are made during an audit, the SAI needs to consider communicating the findings with those charged with corporate governance in a timely manner.
69. Finally, one needs to remember the importance of feedback from the audited entity on how well the communication process functioned during the audit and if there is room for improvement. It is also important to follow up on whether the audited entity found the report to be fair, balanced and useful.

#### Other stakeholders

70. Good external relations are important not only in the short-term perspective of getting access to information and achieving a good understanding of the subject matter; it is equally important in the long-term perspective for an SAI to gain trust, respect and credibility with stakeholders.
71. Some of the key stakeholder groups are:
- a) The legislature
  - b) The executive (other than the audited entity)
  - c) The citizens
  - d) The media
  - e) The academic community
  - f) Non-governmental organisations
72. During communications with stakeholders the auditor needs to be, and must be seen to be free of influences that would impair the objectivity of the SAI or the auditor. Accordingly, the auditor must be independent. More information on independence is provided in the section on "Independence and ethics".
73. Further information regarding the communication process can be found in ISSAI 3200.

#### *Skills*

Requirement according to ISSAI 3000:

**The SAI shall ensure that the audit team has collectively the necessary professional competence to perform the audit. (ISSAI 3000/63)**

#### Guidance

74. Performance auditing is a knowledge-based, complex investigatory activity with professional values occupying a central position. These values include the importance of the auditor being given the opportunity to develop skills and attain good quality results in audits. This includes creating an environment that is stimulating and that furthers quality improvements.
75. To become a performance auditor, a performance audit team-leader or a performance audit manager, there is a need for a wide range of skills and disciplines, including:
- a) research design,
  - b) social sciences,
  - c) scientific investigation/evaluation methods and the experience needed to apply such knowledge,
  - d) good knowledge of organisational management,
  - e) knowledge of government organisations, programmes, and functions,
  - f) personal qualities including integrity, creativity, judgment, analytical skills, team work,
  - g) ability to communicate clearly and effectively, orally and in writing; and
  - h) special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering) or expert knowledge of the subject matter concerned.
76. Special knowledge of the different functional areas to be audited might also prove essential, but advanced skills in accounting and financial auditing are normally not needed in performance auditing. It is important to ensure that competence is built step by step, and to stimulate knowledge sharing and learning in the organisation. On-the-job learning and training can help the auditor develop the professional knowledge and skills needed for performance auditing.
77. Often SAIs organise their performance auditing separately from financial and compliance auditing, with personnel selected for performance auditing having different backgrounds and skills from those selected for the other audit streams. To meet the quality requirements, it is a good practice for the SAI to have a training and staff development programme to ensure that its staff maintains professional proficiency through continuous education and training. A key factor in the development process is learning through practical auditing work.
78. Continuous education and training may include topics such as current developments in performance audit methodology, research design, management or supervision, qualitative investigation methods, case study analysis, statistical sampling, quantitative data-gathering techniques, evaluation design, data analysis, and reader-based writing amongst others. It may also include subjects related to the auditor's fieldwork, such as public administration, public policy and structure, government administration policy, economics, social sciences, or Information Technology. It is good practice to require auditors to maintain their skills by obtaining a certain number of continuous professional education hours every year or within a 2-year period.
79. Since performance auditing is a team effort, it is not a good practice to conclude a performance audit alone, since the issues involved are complex. Consequently, not all members need to possess every skill mentioned above. Furthermore, it may not always be possible for an SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for

appointment have clearly demonstrated the potential mindset and aptitude for the kind of work that performance auditing entails.

80. The auditor needs to possess adequate professional proficiency to perform his/her tasks. The SAIs need to recruit personnel with suitable qualifications, adopt policies and procedures to develop and train SAI employees to perform their tasks effectively, prepare written guidance concerning the conduct of audits, support the skills and experience available with the SAI and review the internal procedures

#### Use of external experts

81. Experts are often used in performance auditing to complement the skills set of the audit team and to improve the quality of the audit. An expert, if needed, is a person or firm possessing special skills, knowledge, and experience in a particular field other than auditing. Before using experts, the auditor needs to ensure that the expert has the necessary competence required for the purposes of the audit, and that he/she is informed about the conditions and ethics required. The expert must be well informed about rules of confidentiality. Any external experts engaged with the audit also need to be independent from situations and relationships that could impair the external experts' objectivity. Although the performance auditor may use the work of an expert as evidence, the auditor retains full responsibility for the conclusions in the audit report.

#### *Supervision*

Requirement 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)**

#### Guidance

82. Supervision is essential to ensure that audit objectives are met and the quality of the audit work is maintained. Proper supervision and control is therefore necessary in all cases, regardless of the competence of the individual auditor. Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit, to address the audit objectives and to follow applicable methodology, while staying informed about significant problems encountered, and reviewing the work performed. More specifically, supervision includes:

- a) Ensuring that all team members fully understand the audit objectives;
- b) Ensuring that audit procedures are adequate and properly carried out;
- c) Ensuring that the audit evidence is relevant, reliable, sufficient and documented;
- d) Ensuring international and national auditing standards are followed;
- e) Tracking the progress of the engagement to ensure that budgets, timetables and schedules are met;
- f) Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether

they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;

- g) Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately;
- h) Supporting the auditor as and when needed to overcome challenges in the audit;
- i) Providing hands-on support in solving issues that arise;
- j) Identifying matters for consultation or consideration by more experienced engagement team members during the engagement;
- k) Reviewing the audit work.

83. The nature and extent of staff supervision, the review of audit work, and evidence of it, varies depending on a number of factors, such as the size of the audit organisation, the significance and complexity of the work, and the experience of the staff.

84. All audit work needs to be reviewed by a senior member of the audit team as the audit progresses and particularly before the audit reports are finalised. Review brings more than one level of experience and judgment to the audit task and needs to ensure that:

- a) The audit work has been performed according to the audit plan;
- b) The nature, timing, and extent of the procedures performed are consistent with the audit programmes;
- c) The results of the audit procedures and evidence obtained are clearly reflected in the audit documentation and the conclusions reached are consistent with the results of the work performed;
- d) Consultations have taken place, where appropriate, and the resulting advice documented and implemented;
- e) The evidence obtained is sufficient and appropriate to support the observations, conclusions, and recommendations in the report.

### *Professional judgment and scepticism*

Requirement according to ISSAI 3000:

**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)**

### Guidance

85. Professional judgment is the application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. In performance auditing, the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgment and discretion concerning the relevant issues.

86. In addition to personnel directly involved in the audit, professional judgment may involve collaboration with other stakeholders, external specialists, and management in the audit organisation.

87. Professional judgment is essential to the proper conduct of an audit. The following are examples of how professional judgment is required in the context of performance audits:

- a) Identifying and evaluating any threats to independence, including threats to the appearance of independence;
- b) Deciding what to audit;
- c) Determining the required level of understanding of the audit subject matter and related circumstances;
- d) Determining the objective(s), questions and scope of the audit;
- e) Determining the criteria;
- f) Determining the nature, timing, and extent of audit procedures;
- g) Determining the review and consultation procedures required for the audit, and how advice will be addressed;
- h) Determining which findings are significant enough to report;
- i) Evaluating whether sufficient and appropriate audit evidence has been obtained, and whether more needs to be done to answer the audit questions and to conclude against the objective(s);
- j) Drawing conclusions based on the audit evidence obtained compared with the criteria and audit objective(s); and
- k) Determining the recommendations to be made.

88. Professional scepticism means maintaining professional distance from the audited entity and an alert and questioning attitude when assessing the sufficiency and appropriateness of the audit evidence obtained throughout the audit. It is vital that the auditor exercises professional scepticism and adopts a critical approach, makes rational assessments and discounts personal preferences and those of others. The following are examples of how professional scepticism is particularly important in the context of a performance audit:

- a) Considering the integrity of management;
- b) Questioning responses to inquiries and other information obtained from management and those charged with governance;
- c) Revising risk assessment as a result of identified material or significant inconsistent information;
- d) Planning for sufficient procedures to evaluate the reliability of data to be used during the audit; and
- e) Being alert to audit evidence that contradicts other audit evidence obtained.

89. Professional scepticism is often demonstrated in the various discussions held with the audit team, management, and those charged with governance. Examples of how professional scepticism can be applied and assessed at each stage of the audit include, but are not limited to, the following:

- a) The auditor assessing the logic of the audit argument, alternative perspectives and views presented, and amending where necessary his/her understanding during the course of the audit, rather than just relying on evidence supporting the final conclusion.

- b) The auditor challenging management views, assumptions, not just accepting them.
  - c) The auditor assessing the reliability of the source of the documents.
90. The auditor needs to be receptive to views and arguments and to consider issues from different perspectives. This is necessary in order to avoid errors of judgment or cognitive bias. Therefore, it is important that the auditor exercises professional scepticism and adopts a critical approach, makes rational assessments and discounts personal preferences and those of others.

Requirement according to ISSAI 3000:

**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)**

### Guidance

91. 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 such as:
- a) breach of trust,
  - b) collusive awarding of grants and contributions,
  - c) collusive bidding or awarding on contracts,
  - d) deceit,
  - e) dishonest acts,
  - f) false representation,
  - g) fraudulent concealment,
  - h) illegal acts,
  - i) intentional misstatements,
  - j) irregularities,
  - k) kickbacks,
  - l) secret commissions, and
  - m) theft.
92. Unlike error, fraud is intentional and usually involves deliberate concealment of the facts. It may involve one or more members from the audited entity or third parties. The primary responsibility for the prevention and detection of fraud rests both with those charged with governance of the audited entity and with management of the audited entity. The auditor's responsibilities are to identify and evaluate the risk of fraud where the risk is significant. The auditor also needs to determine audit procedures in response to those risks.
93. The auditor needs to maintain professional scepticism during the planning phase and during the entire audit because, typically, management and employees engaged in fraud will take steps to conceal the fraud from the auditor and others inside and outside the

audited entity. When conducting audits, the auditor needs to maintain an awareness of the possibility of fraud related to the subject matter (for example contracting or grants and contributions). If the auditor suspects or encounters fraud, he/she has to bring the matter to the attention of the supervisor and the relevant authorities for further action.

Requirement according to ISSAI 3000:

**The auditor shall maintain a high standard of professional behaviour. (ISSAI 3000/75)**

#### Guidance

94. High expectations for the auditing profession include compliance with all relevant legal, regulatory and professional obligations, and avoidance of any conduct that might bring discredit to the auditor's work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditor's work was professionally deficient. The auditor is expected to apply a systematic audit approach and due care in all phases of the audit process. Due care generally refers to the care that a person of normal prudence would have exercised in performing a given work. This includes adequate care in audit planning, gathering and evaluating evidence and in reporting findings, conclusions and recommendations. The audit team and the SAI must exercise due care and concern in complying with the auditing standards.
95. Legislatures and citizens expect the SAI and its auditors to maintain a high level of competence. This underscores the need to maintain individual professional skill and competence by keeping abreast of, and complying with, developments in professional standards and pertinent legislation. The expectation to operate with due care requires the auditor to act diligently and according to applicable technical and professional standards when performing performance audits. Diligence includes the responsibility to act with care, in respect of an engagement.
96. A high standard of professional behaviour needs to be maintained throughout the audit process, from topic selection and audit planning, to reporting. It is important for the auditor to work systematically, with due care and objectivity. A good practice is the use of audit programmes which are detailed work plans to guide the execution of the work.

Requirement according to ISSAI 3000:

**The auditor shall be willing to innovate throughout the audit process. (ISSAI 3000/77)**

#### Guidance

97. By being creative, flexible, and resourceful, the auditor will be in a better position to identify opportunities to develop innovative audit approaches for collecting, interpreting, and analysing information. It is important to recognize that different stages of the audit process provide different levels of innovation opportunities. During the planning stage, the auditor may have the greatest opportunity to innovate while still in the process of determining the best audit approaches and techniques applicable to the audit.
98. Within audit and the fields of evaluation and social science, methodologies will evolve and develop, and new techniques and technologies for evidence gathering and analysis might be established which enhance the quality of the audit and audit report. As SAIs



adopt new techniques and technologies as result of this, the auditor should be perceptive and willing to try new techniques and methodologies. Tools like data analytics and data mining can be used, for example, for identifying trends, patterns and knowledge from large amounts of data. Using enhanced data analytics can lead to more focused risk assessments, more efficient execution of the audit, and more effective reporting. Other examples of innovation include the broadened use of electronic working papers and knowledge management systems for sharing information that could be useful to more than one audit team, and the use of drones for photographic purposes (for example in agricultural performance audits).

99. An SAI needs to foster an innovative culture, and auditors need to learn from each other and open their minds to doing things differently. In other words, an SAI could:
- a) Stimulate innovative, low-cost, sustainable and web-based ways for SAIs to exchange views, documents and experiences;
  - b) Encourage collaborative audits of relevant topics and foster experimentation with new approaches, techniques and reporting;
  - c) Lead by example in its governance and modus operandi;
  - d) Seek an independent evaluation of its own governance and modus operandi;
  - e) Facilitate activities to develop its capacity to “deliver the message” in an effective way; and
  - f) Keep informed about new evaluation methodologies.

### *Quality control*

Requirement according to ISSAI 3000:

**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 reports that add value and answer the audit questions. (ISSAI 3000/79)**

### Guidance

#### *Quality control (while conducting the audit)*

100. A quality control system includes policies and procedures designed to provide the SAI with reasonable assurance that it, and its personnel, comply with professional standards and applicable legal and regulatory requirements. The objective is to ensure that audits are conducted at a consistently high level. Quality control procedures cover matters such as direction, supervision and review of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters.
101. The system of quality control (QC) needs to be designed so it is appropriate to the SAI's mandate and circumstances and able to respond to their risks to quality. For the system of quality control to be effective, it needs to be part of the SAI's strategy, culture, and policies and procedures. This way, quality is built into the performance of the audit and the production of the report, rather than being an additional process once the report

is produced (see quality assurance below). Maintaining a system of quality control requires ongoing monitoring and a commitment to continuous improvement.

102. QC procedures need to be an integral part of the conduct of each performance audit to minimise the risks of error and drive consistency in conduct. Those procedures need to be documented and include, for example, the various steps in the audit process, checks to be undertaken (such as management review, peer review of draft work and editorial review of final reports). It may be helpful for the SAI to first clearly define the characteristics of what constitutes a high-quality audit report.
103. A key aspect of any performance audit is the formal and informal consultation that takes place within audit teams, between audit teams, and with internal or external specialists. Consultation during the course of an assurance engagement is important, as it helps to promote quality and improves the application of professional judgment, as well as reducing the risk of error. Consultation is advantageous for reaching sound conclusions, for ensuring that the report is appropriate, fair and balanced and that it adds value. It is a good practice to document the key consultations that take place, the nature of the advice received, and the manner in which the audit team deals with the advice.
104. A key component of QC is an engagement quality control reviewer (EQCR). An EQCR is an individual, independent from the audit team, who conducts an objective evaluation of significant matters, including risks identified and significant judgments made by the audit team, and the team's conclusions reached in formulating the audit report. It is a good practice to appoint an EQCR to high-risk audits, as defined by the SAI.
105. It is difficult for an SAI to develop effective quality control procedures on an individual basis that can guarantee high-quality performance audit reports across the organisation. It is therefore important to develop such procedures at an institutional level. It is equally important for the auditor to be – and remain – competent and motivated as well as open to feedback from quality control. Control procedures need therefore to be complemented by support, such as on-the-job training and guidance for the audit team.
106. See ISSAI 40 for additional guidance on quality control.

*Quality assurance (after the completion of the audit)*

107. A quality assurance (QA) process allows audits to be independently assessed after their completion on a consistent basis against specific criteria. The main purpose of a QA process is to monitor the SAI's quality control system as designed and assess if the appropriate controls are in place and are working appropriately. Undertaking a QC process outlined above would be step one that the QA process would review and the SAI can develop its own criteria, based on its particular circumstances, with examples of criteria-based questions including:
  - a) To what extent does the report clearly describe the context within which the area examined is carried out?
  - b) To what extent is the report well-structured and well written, and does it include an effective executive summary?
  - c) To what extent is the rationale for the scope clearly set out?
  - d) Is the audit methodology clearly set out?

- e) To what extent were the report's findings, conclusions and recommendations balanced, logical, consistent and supported by the evidence quoted?
  - f) To what extent has the audit been successful in concluding against its objectives and providing useful information to help improve public services?
  - g) To what extent is there sufficient documentation on team competencies, audit procedures carried out, evidence to support findings, consultations done and treatment of comments received, and supervision?
108. Those carrying out the independent QA could be senior members of the performance auditing unit (with no involvement in the conduct of the audit) or external. A peer review, carried out by members of other national SAIs, might also be considered for this purpose. The benefit of a peer review is that the members clearly understand the role and responsibilities of the SAI, while at the same time they have the distance from the SAI to allow their assessment to be independent. Using external QA provides an opportunity for the SAI to demonstrate its accountability to stakeholders, understanding that the main reason for QA is to improve audits, the audit process and the system of quality control. The SAI can use the results of QA reviews by circulating good examples of performance audit reports within the SAI for the benefit of all auditors. Where performance audit reports are found to need strengthening, senior staff members should assess the QC system to identify which controls might need strengthening to produce performance audit reports that meet the standards of the SAI, and work with the audit teams to identify lessons learned and possibilities for training, mentoring and coaching in specific areas.

### *Materiality*

Requirement 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)**

### Guidance

109. Materiality is the relative importance of a matter, in the context in which it is being considered, that can change or influence the decisions of users of the report such as legislatures or executive. Materiality can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the interests expressed by intended users or recipients. In addition to monetary value, materiality includes issues of social and political significance, compliance, transparency, governance and accountability. Materiality can vary over time and can depend on the perspective of the intended users and responsible parties.
110. Qualitative factors may include such things as:
- a) Whether a finding is the result of an intentional act (fraud) or is unintentional.
  - b) Whether a particular aspect of the programme or entity is significant with regard to the nature, visibility and sensitivity of the programme or audited entity.
  - c) Whether the health or safety of citizens is affected.
  - d) Whether a finding relates to transparency or accountability.

111. The consideration of materiality is relevant in all aspects of performance audits. Therefore the auditor needs to consider materiality when selecting the audit topics, determining the audit objective(s), questions and scope, defining the criteria, evaluating the evidence, documenting the findings and developing the conclusions and recommendations.
112. Findings are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions taken by intended users on the basis of the auditor's report. The auditor's consideration of materiality is a matter of professional judgement, and is affected by the auditor's perception of the common information needs of the intended users.
113. Quantitative factors relate to the magnitude of the findings that are expressed numerically. The auditor needs to consider the aggregate effect of individually insignificant findings.

### *Documentation*

Requirement according to ISSAI 3000:

**The auditor shall document the audit in a sufficiently complete and detailed manner.**  
(ISSAI 3000/86)

### Guidance

114. The auditor needs to keep all relevant documents collected and generated during a performance audit. Examples of the types of records that are generally expected to be documented for most performance audits include (a) details of the audit plan and methodology, (b) results of fieldwork and analysis, (c) communications and feedback with the audited entity, and (d) supervisory reviews and other quality control safeguards. However, the particular circumstances of the performance audit, will determine the specific purpose and context of the audit documentation. This includes substantive e-mail communications sent to, or received from, an official in an audited entity or an outside party that are relevant to the audit and are related to the report. The documentation records who performed the audit work and the date such work was completed. Documentation of the audit work has to be sufficient to enable an experienced auditor with no previous connection to the audit to understand:
- a) The nature, timing and extent of the work conducted;
  - b) The findings of the audit work, and the audit evidence obtained; and
  - c) Significant matters arising during the audit (for example changes in the scope or approach of the audit, decisions regarding a new risk factor identified during the course of the audit, actions taken as a result of disagreement between the audit entity and the team), the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
115. If, in the context of a performance audit, the auditor collects personal data or information, he/she must ensure that it is adequately safeguarded. The nature and sensitivity of the information are factors in determining what security is adequate.

116. In determining the nature and extent of the documentation for a particular audit area or procedure step, the auditor generally needs more audit documentation when:
- a) the risk is high (the risk associated with conducting the audit or when the finding is significant, sensitive or contentious);
  - b) more judgment is needed in performing the work or evaluating the results; and
  - c) the evidence is more significant (i.e., the evidence is critical to conclude on the objectives of the audit).
117. It is advisable for the documentation to include a system that cross- references the audit report to the working papers.
118. The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers. The auditor also needs to retain the working papers for a period sufficient to meet the needs of the legal, regulatory, administrative and professional record retention requirements and to conduct audit follow-up activities.