

**OFFICE OF THE AUDITOR GENERAL OF STATE
OF ERITREA**



DRAFT PERFORMANCE AUDIT MANUAL

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Foreword

The Auditing Standards of INTOSAI¹ stipulate that each SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits. The implementation of a performance audit manual in line with INTOSAI Auditing Standards is a key to the development of performance auditing at individual SAIs.

The development of a performance audit template manual for the AFROSAI-E region forms part of AFROSAI-E's efforts to support the development of performance auditing.² The performance audit template manual gives directions for the planning, execution and finalisation of audits conducted by SAIs. It is important that the manual be used as a tool to work smartly and that it is applied using common sense.

To learn performance audit is like learning how to drive a car. From reading manuals and handbooks a driver will understand the theory but to become a good driver the driving skills need to be applied and practised. For a SAI and an auditor to fully understand performance auditing they also need to conduct performance audits.

SAIs should customise and adapt the template manual to their own needs. Consequently, a SAI that is about to introduce performance auditing can use the template as its manual. As the SAI gains more experience in performance auditing, it should adjust the template manual to local needs, particularly by customising relevant sections.

This template manual is based on INTOSAI's Code of Ethics and Auditing Standards, the Lima Declaration, the Implementation Guidelines for Performance Auditing, and the Swedish National Audit Office's Handbook in Performance Auditing.

The template manual can be seen to be as a frozen moment on a journey where several institutions and individuals have contributed their ideas and gradually modified and improved the template manual over the years and several will hopefully contribute on the onward journey. So enjoy the journey so far and please join the onward journey and come with suggestions for improvement and amendments. The manual will only be better with the feedback we receive from you.

We hope that the template manual will be a tool for you and your SAI to conduct good performance audits and create change and better functioning public entities in the region. Use the manual with the main performance audit tool - common sense - and apply the manual with rational consideration and sound judgement.

M W Pretorius
Executive Officer
AFROSAI-E

Secretariat

¹ International Organization of Supreme Audit Institutions

² AFROSAI-E is an organisation that consists of 23 supreme audit institutions (SAIs) in Africa that are English or Portuguese speaking. AFROSAI-E has declared performance auditing as a strategic imperative for the development of auditing within the region. AFROSAI-E supports its members, the SAIs, with training and the production of training material, guidelines, quality assurance visits and a website, etc.

Advice on how to customise the AFROSAI-E template manual

The structure and standards set in the template derive from principles established by INTOSAI. However, since the conditions for performance audit vary between countries, each SAI should adapt the template to its own circumstances when developing a performance audit manual. The extent to which a SAI will customise the template depends on that SAI's specific conditions and demands. It is recommended that the following sections of the template manual be customised. These sections appear against a grey background in the template manual:

Foreword: Customise and make the foreword more country-specific.

Advice on how to customise the AFROSAI-E template manual into a performance audit manual for the SAI: Delete when the manual has been customised.

Chapter 1.1 *Purpose of the performance audit manual:* Customise and, if appropriate, add more bullets regarding the purpose of the manual.

Chapter 1.2 *Organisation of the manual:* List annexure relevant to the SAI.

Chapter 2.6 *The mandate of the auditor-general:* Customise to the mandate of the Auditor-General in the SAI. Include each one of the issues mentioned if applicable.

Chapter 2.7 *The performance auditor:* Check whether all INTOSAI Auditing Standards are compatible with the SAI's mandate or circumstances. Customise and explain the SAI's recruitment policy for performance auditors.

Chapter 2.8 *Organisation of performance auditing:* Describe the performance audit organisation within the SAI.

Chapter 2.9 *Key players within the audit office:* Describe the SAI's key players, replacing the example with one relevant to the SAI.

Chapter 0 *Monitoring and supervision:* Add the SAI format for the role of management during different stages in a performance audit.

Chapter 2.11 *Quality control:* Describe how quality control is performed within the SAI.

Chapter 0 *Documentation:* Describe the documentation and file standard of the SAI.

Chapter 2.13 *Internal communication:* Add the format or routines for communication within the SAI, replacing the example with a relevant one.

Chapter 0 *External communication:* Add the SAI's policy for external communication.

Chapter 3.3.1 *Strategic planning:* Add the format and procedures for the SAI's strategic planning.

Chapter 3.3.2 *Annual planning:* Add the format and procedures for the SAI's annual operational planning.

Chapter 3.4 *Area watching and general surveys.* Amend to reflect the format and

procedures of the SAI.

Chapter 3.4.4 *Presentation of possible audit topics*: Add the SAI's format for presentation of possible audit topics.

Chapter 3.4.5 *The selection criteria*: Customise and explain the SAI's selection criteria and how the ranking between different criteria should be done.

Chapter 3.5.26 *Pre-study memorandum*: Add the SAI's procedures for presenting pre-study memorandums, including a policy on how pre-studies should be treated and documented in cases where audit teams do not propose to launch a main study.

Chapter 3.6.99 *Resource plan*: Add the SAI's own format and an example of a resource plan.

Chapter 4.1 *Introduction of the main study to the auditee*: Customise and state the SAI's policy on contacts with the auditee.

Chapter 4.2 *Data collection methods*: The SAI could add its own structures, suggestions and examples concerning data collection. For example, standard forms for questionnaires or supplementary advice on conducting interviews can be added.

Chapter 4.15 *Format for the report*: The SAI should add its own report structure.

Chapter 4.17.4 *Revising*: Describe how the SAI's review process is structured.

Chapter 4.17.1 *Review of the draft report*: Customise to the SAI's standard.

Chapter 4.17.2 *Sending a draft report to the auditee*: Customise and explain the SAI's policy on releasing the draft report to the auditee.

Chapter 4.17.3 *Internal finalisation*: Customise and explain the SAI's finalisation process.

Chapter 4.17.4 *Exit meeting*: Customise the SAI's exit meeting procedures.

Chapter 5.1 *Presentation of the performance audit report*: Include the SAI's policy and procedures for presenting reports, including submission to stakeholders, contacts with the media, etc.

Chapter 6.1 *Follow-up of own work*: Describe how the SAI follows up its work.

Chapter 6.2 *Follow-up of the recommendations*: Describe the SAI's format for the follow-up and the design of the formal letter requesting information.

Chapter 6.3.2 *Reporting on follow-up audits*: Add the SAI's policies and procedures for reporting on follow-up audits.

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1. INTRODUCTION

1.1 Purpose of the performance audit manual

The Auditing Standards of the International Organization of Supreme Audit Institutions (INTOSAI) stipulate that each supreme audit institution (SAI) should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.³ This includes a manual for performance audit (see annexure 2).

The purpose of this performance audit manual is to:

- enhance the capability and skill level of managers and auditing staff to conduct performance audits of an acceptable standard and uniform quality.
- provide practical guidance for the planning, execution, reporting and follow-up of audits.
- form the basis for decision-making within the performance audit process.
- enhance standardisation in performance audit practice.
- be used as a training tool
- promote the development of performance audit within the OAG office
 - An introduction to the concept of performance audit.
 - Guidance on selection of appropriate studies and planning of performance audit.
 - A summary of audit techniques needed to carry out performance audit.
 - Guidance applicable when undertaking performance audit examinations.
 - Advice and guidance on performance audit reporting.
 - Advice on the follow-up of performance audit reports.

1.2 Structure of the manual

This manual generally follows the stages in the performance audit process, namely planning, conducting the main study (execution), reporting and follow-up. However it also contains a chapter that places performance auditing within a context. The manual consists of six chapters:

- Chapter 1 is an introduction to the purpose and context of the template manual.
- Chapter 2 looks at the context within which performance auditing takes place.
- Chapter 3 provides guidance for the planning of performance audits.
- Chapter 4 describes the execution of performance audits, including the collection, documentation and analysis of audit evidence as well as the development of audit findings and provides guidance on drafting a report.
- Chapter 5 describes the reporting phase, including the presentation procedures of performance audit reports.
- Chapter 6 deals with the follow-up process for performance audits.

The manual includes three annexure:

- Annexure 1: Responsibilities within the audit process.
- Annexure 2: Information about INTOSAI Auditing Standards.
- Annexure 3: Indexes and abbreviations.

The sections of the template manual that are recommended to be customised appear against a grey and examples against a yellow background in the template manual.

³ INTOSAI Auditing Standards, as approved by the 35th meeting of the Governing Board in October 1991

2. THE CONTEXT OF PERFORMANCE AUDITING

2.1 Why performance auditing

In every society resources are scarce and should be used in the best possible way. The main reason for carrying out performance audits is that the audits can lead to better use of resources by public bodies and provide support to democratic government.

Performance audits help ministries, departments and agencies to improve their operations. Performance audits can be seen as investments that should lead to better functioning public entities. Performance audits identify important problems, analyse the causes and effects and present recommendations for using resources better. Performance audits are not restricted by departmental boundaries. By using experiences gained from studies of other organisations performance audits can bring new insights into problems faced by audited entities. Performance audit assists government in the decision-making process.

Performance audit deals with deficiencies in economy, efficiency and effectiveness. Performance audits do not target individual corrupt or fraudulent activities. However a corrupt civil servant needs a public sector that does not function well with complicated decision processes and/or long waiting times. If corruption is common it means the citizens and businesses are used to a public sector that does not deliver as it should. Corruption can be one reason for deficiencies in economy, efficiency and effectiveness. Where the government functions efficiently and effectively there is less risk of corruption. Performance auditors present findings and make recommendations that can create a more efficient and effective public sector and in that sense performance audits also address the root cause of corruption.

According to economic theory, in a perfect market the customer chooses the product from the company that gives them the best deal. A successful company will make a profit and stay in the market. The companies that do not perform will not survive in the market. In a perfect market situation companies need to improve their production, product or their price all the time to stay alive. In the public sector there are no market mechanisms and the public entity often has a monopoly on the service it delivers. Therefore there is a need for performance auditing as a substitute for market mechanisms.

Public accountability means that those in charge of government activities are responsible for their decisions and actions. Performance auditing has a role to play in making this visible and transparent, by providing parliamentarians, the media and citizens with professional and independent assessments of government activities.

2.2 The 3Es: Economy, efficiency and effectiveness

INTOSAI defines the three Es as follows:⁴

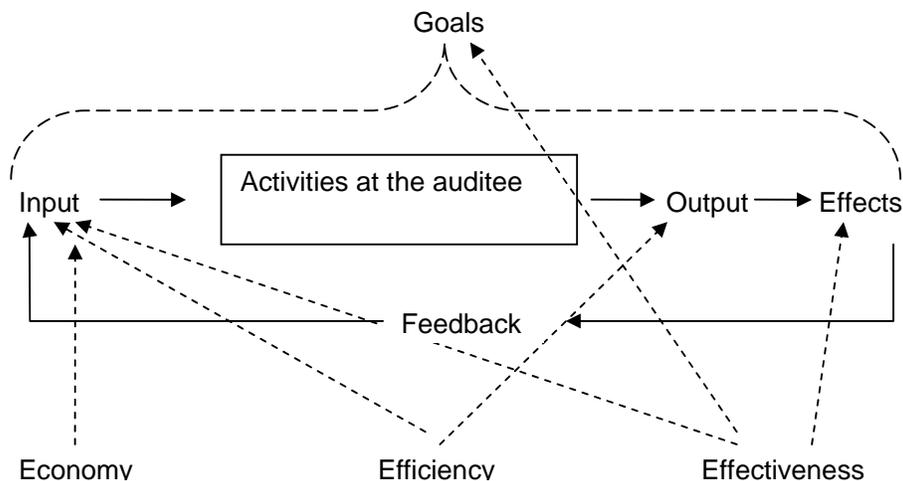
Economy	Minimising the cost of resources used for an activity, with regard to the appropriate quality
Efficiency	The relationship between outputs, in terms of goods, services and other results, and the resources used to produce them
Effectiveness	The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity

⁴ ISSAI 3000, *Implementation guidelines for performance auditing*, page 15 – 20.

To understand these concepts further the input-output model can be used.⁵ It helps to understand the three Es, describes processes and organises thoughts and observations. The model is based on the assumption that it is possible to arrange concepts in chains and to identify how they influence each other as causes and effects. Another assumption is that organisations have established goals that they want to achieve or that such goals can be deduced. The conversion of input into output takes place within the organisation (in terms of the model the organisation is sometimes called the black box) through different activities. In the input-output model, different types of inputs are transformed by activities into different types of outputs and products, which will have an effect on the achievement of the goals.

How the three Es fit into the input-output model is illustrated in the following figure:

Figure 1: The input-output model



Economy is concerned with the inputs. Economy deals with the resources procured or the staff recruited and the cost involved getting the input. Economy is about keeping the cost of input and the resources that the entity utilises low without compromising on the quality.

Efficiency is about how these inputs are transformed into outputs. Efficiency deals with what is produced with the available resources. When assessing efficiency the usefulness of the inputs for producing the outputs has to be taken into account.

⁵ The input-output model can be seen in the concept of system theory where:

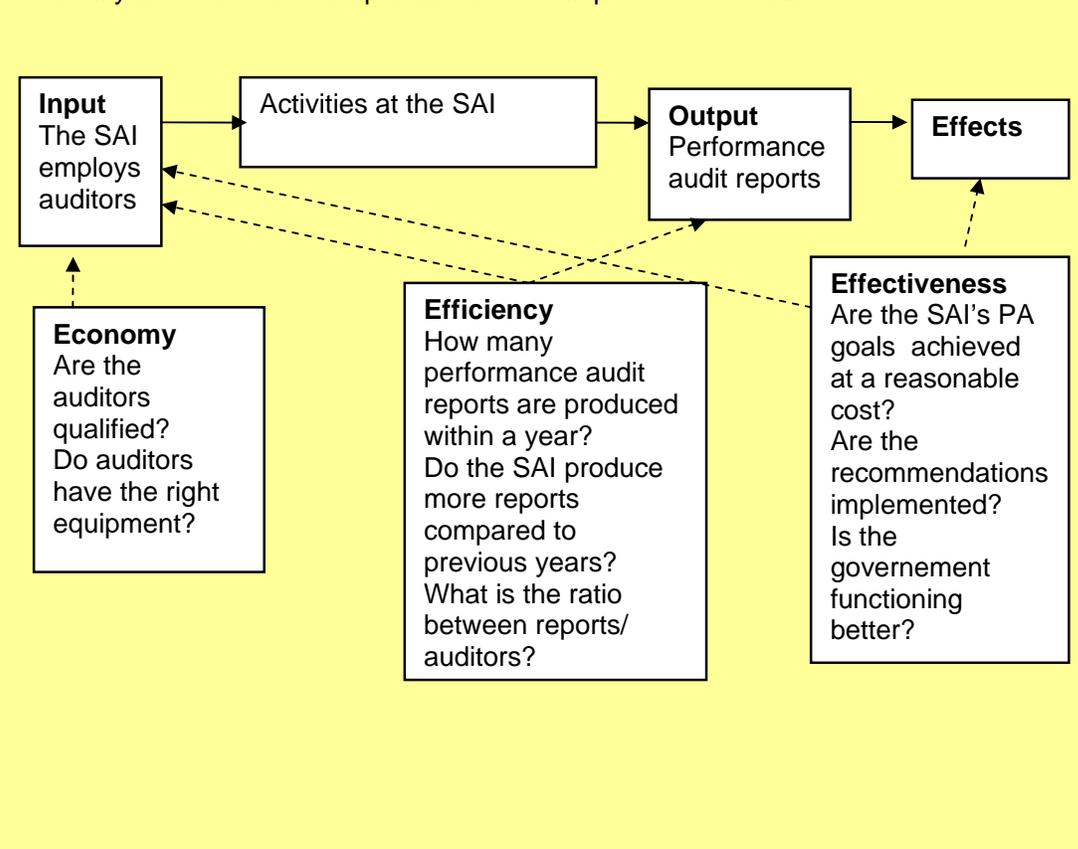
- a system has one or several goals or a purpose;
 - a system consists of interacting elements or parts;
 - resources and information flow among the different elements that compose the system
 - a system is situated within an environment;
 - resources and information flow from and to the surrounding environment via boundaries;
- Elements or parts of a system can also be defined as systems and are composed of other parts, just as the system itself is generally a part of a larger system.

Efficiency is about getting the most or best output (production) from available resources.

Effectiveness relates to the effects generated by the outputs. Effectiveness is about achieving the stipulated aims or objectives. When assessing the effects it is necessary to take into consideration the cost of the inputs used to generate the effects. Effectiveness deals with achieving the goals at the lowest possible cost.⁶

Figure 2: The input-output model, an example of the performance audit process within a SAI
7

To exemplify how the input-output model can be used practically as a description tool of the reality we can look at the performance audit process at a SAI.



In the example we can see that different types of questions can be relevant, depending on which of the three Es you focus on.

The example helps to clarify the difference between economy, efficiency and effectiveness. A SAI may well be very efficient, for example, while at the same time not being very effective. A large number of reports may be produced, giving high efficiency.

⁶ Please note that the definition of effectiveness in the AFROSAI-E manual is somewhat different from the one used by INTOSAI. The INTOSAI definition of effectiveness relates to goal fulfilment, but does not take resources into account. The advantage of adding the cost of the input to the definition is that it also focuses on the use of resources. Consequently, an effective organisation gives value for money while a similar judgement according to the INTOSAI requires additional consideration to take costs into account.

⁷ Examples are marked with a yellow colour in the template manual.

However if the recommendations are not implemented and the government does not function better the SAI will not achieve its goal of a high effectiveness,

2.3 Definition of performance auditing

Economy, efficiency and effectiveness constitute the three Es that form the basis of performance auditing. A performance audit is an audit of the economy, efficiency or effectiveness with which the audited entity/entities uses its resources to achieve its goals. The three Es are useful concepts that guide the auditor when formulating problems and outlining the general direction of the audit.

Basic questions in performance auditing are the following:

- Are entity/entities doing the right things?
- If so, are entity/entities doing things in the right way; and
- If not, what are the causes?

According to INTOSAI⁸, performance auditing embraces the following:

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

For the auditor, identifying and quantifying effectiveness can be difficult. The auditor may find that:

- objectives may be non-existent
- objectives may be vague, numerous and in conflict with each other
- objectives may be irrelevant to the tasks in question
- objectives may change over time

Performance audits can be conducted on or in a single entity.⁹ It may encompass the whole or part of the operations of an entity. Performance audits can also examine particular issues or functions, for example procurement or human resource management, across a number of entities.

Political goals and public commitments are often the starting points for performance audits. Performance audits do not question these political decisions but can point out unforeseen consequences regarding the implementation of such decisions.

Performance audits can provide a view on the means of achieving/fulfilling political goals. Furthermore, performance audits can draw Parliament's attention to conflicting political goals. Performance audits are aimed at increasing the economy, efficiency and effectiveness of public entities and programmes.

2.4 The special features of performance auditing

Performance auditing is about analysing and assessing the performance of government programmes or public services. It is an information-based activity. Unlike regularity

⁸ ISSAI 3000, *Implementation guidelines for performance auditing*, page 11.

⁹ A public sector organisation of any kind.

auditing, it focuses on activities rather than the accounts and flow of money, and unlike to compliance auditing¹⁰, it relates mainly to the intention behind government interventions and to the concepts of economy, efficiency and effectiveness.

Each performance audit has a different focus and different assessment criteria

Within its legal mandate, performance audit is free to examine all government activities from different perspectives. As stated in the INTOSAI Auditing Standards, performance audit is not overly subject to specific requirements and expectations. Performance audit is flexible in its choice of, for example, audit objects and methods. Performance audit is not based on formalised opinions; it is an independent examination on a non-recurring basis. Performance auditing deals with many different types of problems and is by nature wide-ranging and open to judgements and interpretations. Each performance audit has a different focus and different assessment criteria and performance auditors must therefore have at their disposal a wide selection of investigative and evaluative methods, and operate from a knowledge base different from that of regularity auditing which tends to apply relatively fixed standards.

Table 1 Some differences between performance auditing and regularity auditing

	Performance auditing	Regularity auditing
Purpose	Assess whether the performance of the auditee meets one or several of the three Es, (economy, efficiency and effectiveness)	Aims to give an opinion on whether financial statements are complete and accurate, and on whether transactions are legal and regular (accord with relevant laws and regulations).
Focus on	The organisation, programme or system, its activities, output and effects	The financial statements and management systems
Academic base	Economics, political science, sociology, etc.	Accounting
Methods	Varies from project to project	Standardised
Assessment criteria	Unique criteria for the individual audit	Standardised criteria suitable for the relevant regularity audits
Reports	Varying content Published on ad hoc basis	Standardised content Published on regular basis

The character of the two types of audit must not be taken as an argument for undermining collaboration between performance and regularity audit. Performance audit and regularity audit have a number of similarities. Regularity and performance auditors should have a mandate to carry out the audit and the same obligations to the auditee. The two types of audits both assess the performance of the auditee. The performance auditors focus on economy, efficiency or effectiveness while the regularity auditors focus on the accounts.

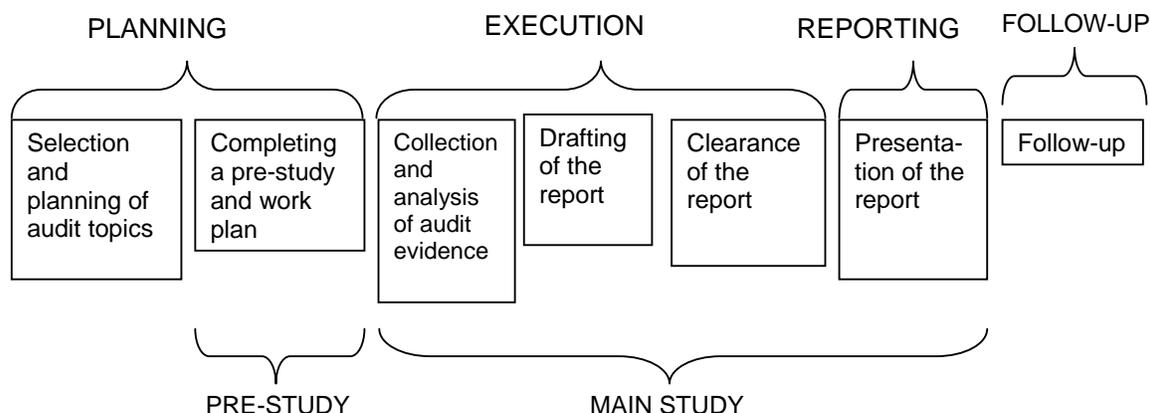
2.5 Stages in the performance audit process

The performance audit process covers several phases. The process comprises planning, carrying out of the main study (execution), reporting and follow-up. Each one

¹⁰ Audits with the aim of scrutinize the audited entity's compliance with established legislation and regulations.

of these phases can be divided into different stages. An overview of the performance audit process is described in the figure below it is also developed in annexure 1 together with the responsibilities within the different phases.

Figure 3: Stages in the performance audit process



The purpose of the **planning** phase is to select suitable areas for audit, identify possible audit problems, and prepare for the execution of a main study. Before planning for the individual audits can begin, it is necessary for management to set strategic priorities that can guide the auditors through the selection process. The first stage is usually area watching in accordance with management's strategic priorities (see chapter 3.2). It can be done in a more structured manner in the form of a general survey, if required for the analysis of potential themes and topics. Once an audit topic has been selected for performance audit, a pre-study may be undertaken to gather information in order to decide whether or not a main study should be carried out. During the pre-study the auditors increase their knowledge of the audit topic and consider different possible approaches and methods for conducting a main study.

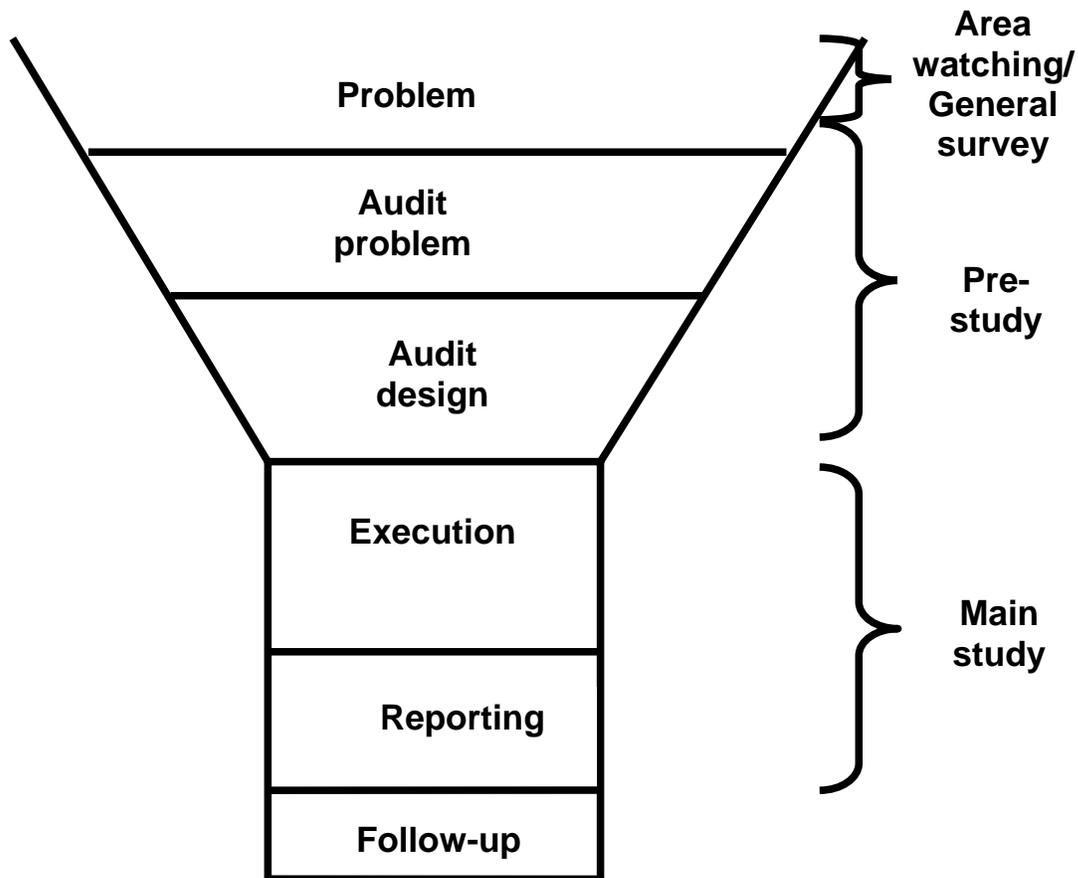
Conducting the main study (the **execution** phase) involves the collection, documentation and analysis of audit findings, culminating in the drafting of the audit report. The report-drafting stage is a continuous analytical process of formulating, testing and assessing audit findings, conclusions and recommendations. Issues such as the expected impact and value of the audit should be considered throughout the audit. The emphasis should be on the production of a final report to be considered by Parliament and presented to government and/or the audited entities.

The **reporting** phase involves the clearance of the report through reviews, quality controls and exit meetings with the auditee, and submission of the report to Parliament, government and/or the audited entities.

The **follow-up** phase contains processes that identify and document the audit impact and the progress the auditee has made in implementing audit recommendations, such processes providing feedback to the SAI and to Parliament and government.

Another way to describe the stages in a performance audit is to describe the process as a funnel.

Figure 4: The audit funnel



The "audit funnel" in the figure above illustrates how a performance audit successively becomes more narrow and focused during the planning process. Indications on a problem within society initiate a pre-study. When the audit problem has been chosen, the next step is to design the main-study. This is done during the pre-study and involves specifying the objective and scope of the audit, formulating audit questions, establishing audit criteria, developing methods for data collection, outlining possible results of the audit and administrative planning. During the main-study the plan that was compiled during the pre-study should be executed and published in the form of a report. The follow-up is done after the audit report has been published.

2.6 The mandate of the Auditor-General

2.6.1 Introduction

The Office of the Auditor General (OAG) was established by proclamation No. 23/1992. The Auditor General (AG) who heads the OAG was selected by the President and this appointment was confirmed by the National Assembly. The AG is accountable to the National Assembly.

Once the Constitution of the State of Eritrea has been finalised it is expected that a new act will be introduced specifying in full the powers and duties of the OAG. Until that time Legal Notice No. 14/1993, summarised below, sets out the duties.

2.6.2 Duties

Legal Notice No. 14/1993 states that the duties of the AG are to;

1. To audit or cause to be audited all budgetary government institutions and public enterprises;
2. To develop auditing standards and procedures and make necessary follow-ups on their implementation;
3. To give advice on financial regulations issued by the Ministry of Finance;
4. To issue certificates of competence to private auditors and accountants;
5. To impound books and documents where it has reasons to believe that any account has been kept in a criminal and dishonest manner.

The OAG discharges these duties either directly itself, through the activities of the Audit Services Corporation over whom it has a supervisory control and through the appointment of authorised auditors.

2.6.3 General auditing policies

To supplement the framework of external audit provided in Proclamation 23/92 and Legal Notice 14/93 there has been some continuation of earlier auditing policies and procedures. These have been modified to suit the circumstances of a new country which is establishing a new constitution on which all future laws will be based. The emphasis of the audit work continues to be focused on confirming that;

- Money expended has been applied to the purposes intended by the National Assembly;
- Arrangements for the custody of assets provide adequate security to avoid waste and mis-use;
- The organisation's arrangements are adequate to prevent fraud and irregularity; and
- Investigating the causes of losses or suspicions and allegations of fraud and corruption.

The main forms of report are;

- An opinion on the financial statements;
- A certificate that the audit has been concluded in accordance with the relevant requirements;
- A report on any matters arising from the audit which the auditor believes it is in the public interest to disclose.

2.7 The performance auditor

It is of importance that the SAI is looked upon with trust, confidence and credibility. Performance auditors should be aware of and adhere to the Basic Principles stated in INTOSAI's Auditing Standards and Code of Ethics. The standards and codes should guide the daily work of the auditors. The INTOSAI Auditing Standards as well as the INTOSAI Code of Ethics are presented in annexure 2. The OAG's Core values, beliefs, and guiding principles include the following.

Independence

The OAG is a statutory independent institution that performs its duties impartially. Therefore, staff will be required to maintain an independent attitude and appearance.

Integrity

The OAG staff members should be honest in performing their professional services and should have highly personal discipline, appearance, and punctuality.

Objectivity

The OAG should carry out its work impartially and objectively. The audit opinion and report should be based on evidence collected in accordance with audit standards. This indicates that staff should be fair, unbiased and free of conflict of interest.

Professionalism

To provide consistently high quality audit services, staff members are expected to maintain and develop highly professional competence and expertise.

Commitment

The OAG believes that commitment of all staff members will result in producing the highest quality services. Staff should also strive to perform their audit assignment effectively and efficiently.

Team work

The OAG believes that cooperation among the staff members and collaboration with clients are vital indicators of success.

Innovation

The OAG will have to steer and encourage the staff creativity in audit methodologies, processes and procedures, and other institutional factors to fulfill its mission.

Continuous development

To protect public interest and ensure accountability, the OAG has introduced mandatory Continuous Professional Development. This will demonstrate to audit clients and the public that the OAG is continuing to develop staff knowledge and skills together with ethical obligations.

INTOSAI's General Standards in Government Auditing stipulate that all auditors should possess adequate professional proficiency to perform their tasks. The SAI should recruit personnel with suitable qualifications and adopt policies and procedures to develop and train SAI employees.

The ability to recruit the right staff is a decisive factor in performance auditing. To become a performance auditor, a performance audit team leader or a performance audit manager, certain distinctive qualifications have to be met. Personal qualities, such as an analytical ability, creativity, receptiveness, social skills, integrity, judgement, endurance as well as good oral and writing skills are vital. It is recommended that the performance auditors have a university degree. Performance auditors can have different backgrounds and skills compared to staff doing regularity auditing. A suitable academic background could include political science, economics, social science, law, statistics or accounting, etc.

For performance auditors to be able to develop their skills and achieve a good quality of results in their audits, an environment that is stimulating and conducive to quality improvements needs to be created. The composition of the audit team should be such that proper supervision is secured, experiences are shared, and the best possible use is made of the skills of different auditors.

2.8 Organisation of performance auditing

The SAI should organise its performance audit separately from regularity audit. The SAI needs to establish a specialised performance audit unit big enough to sustain performance audit activities on a continuous basis and to develop a performance audit culture. In the AFROSAI-E institutional capacity building framework, level 3, the critical mass of performance auditor's necessary for coping with staff turnover, while maintaining a constant level of quality production, is at least 10 performance auditors. They shall be able to produce at least three performance audit reports per year. A condition for a SAI to reach level 5 of the AFROSAI-E institutional capacity building framework is that at least 50% of the auditors within a SAI are performance auditors.

2.9 Key players within the audit office

The main person within the audit office is the Auditor-General who makes the final decisions on what to audit and approves the final report for publication.

The performance auditors are also of course important persons within the audit office. It is the responsibility of the performance audit staff to administer the audits in a satisfactory manner. They must be able to plan and carry out the performance audit project in an economic, efficient and effective way, supported by convincing evidence and ensuring a high quality of work.

Other key players within the audit office are managers who influence the decisions on what to audit and the final report for publication. It is also the responsibility of managers to ensure that workable systems for management reporting, review and quality have been put in place.

Staff responsible for training play an important role, as it will not be possible to meet the quality requirements specified in the INTOSAI auditing standards unless the SAI has a programme to ensure that their staff maintain professional proficiency through continuous training. Staff providing administrative and IT support are also important for the success of performance auditing. The same applies to the members of a quality assurance unit and an advisory committee if the SAI has created such functions.

EXAMPLE: Key players in performance auditing within a SAI (the titles and organisations can vary between different SAIs)

The Auditor-General (AG) approves annual plans and individual audit plans. He/she scrutinise draft reports, decides whether or not to publish the final reports and also signs the final audit reports. The AG further interacts with and provides the public accounts committee with up-to-date information regarding audit reports and related matters.

The Deputy Auditor-General (DAG) is a link between the AG and the organisation. He/she prepares annual plans, etc.

The senior manager compiles departmental annual plans based on the information generated and audit plans developed by PA departments. The senior manager has overall responsibility for the management of the entire audit cycle. She/he organises and assigns work to PA departments. Some of his/her responsibilities are as follows:

- Direct, supervise and monitor the activities of the PA departments
- Training.

The director of a PA department is the operational manager and supervises the audit teams assigned to him/her during the course of the audit. The operational manager shall continuously follow the fieldwork of the audits and to point out deficiencies to the team leaders and, if necessary, to the senior manager. Some of the responsibilities of the operational manager are as follows:

- Coordinate performance audit plans
- Propose audits
- Report audit findings, conclusions and recommendations
- Review the project files during the audit
- Train and coach performance auditors
- Work with the subordinates in the field to do on the job training
- take initiative to follow-up audits

The **team leader** is responsible for executing the audit work as well as allocating tasks to her/his team members. In performance auditing, it is not fruitful to use a far-reaching division of work. All members of the team should have insight into the overall development of the project. Nevertheless, one person - usually the most experienced or highest-ranking auditor - will be appointed team leader. The team leader ensures the high quality of the output and its timely production. She/he ensures that all data collected is thoroughly analysed and that the findings, the conclusions and recommendations arrived at are consistent with the data collected. The team leader, together with the team, prepares and submits a draft report with the open file for discussion with the operational manager. Some of the responsibilities of the team leader are as follows:

- Produce performance audit plans
- Allocate tasks to the team members
- Supervise the team during execution of performance audits
- Report audit findings, conclusions and recommendations
- Train the team of performance auditors
- Maintain a good team spirit within the team

The **team members** participate in the actual audit of the entity under guidance of the team leader. Some of the responsibilities of team members are as follows:

- Collect data
- Document the collected data
- Analyse data
- File working papers
- Participate in in-house training

The Auditor-General (AG) approves annual plans and individual audit plans. He/she scrutinise draft reports, decides whether or not to publish the final reports and also signs the final audit reports. The AG further interacts with and provides the public accounts committee with up-to-date information regarding audit reports and related matters.

Director General (DG) is a link between the AG and the organisation. He/she prepares annual plans, etc. compiles **divisional** annual plans based on the information generated and audit plans developed by PA **departments the director responsible for PA together with head of PA unit**. The **senior manager audit director** has overall responsibility for the management of the entire audit cycle. She/he organises and assigns work to PA **division**. Some of his/her responsibilities are as follows:

- Direct, supervise and monitor the activities of the PA **division**
- Training.

The director who is responsible for PA division is the operational manager and supervises the audit teams assigned to him/her during the course of the audit. The operational manager shall continuously follow the fieldwork of the audits and to point out deficiencies to the team leaders and, if necessary, to the **director responsible for PA**. Some of the responsibilities of the operational manager are as follows:

- Coordinate performance audit plans
- Propose audits
- Report audit findings, conclusions and recommendations
- Review the project files during the audit
- Train and coach performance auditors
- Work with the subordinates in the field to do on the job training

- take initiative to follow-up audits

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- Collect data
- Document the collected data
- Analyse data
- File working papers
- Participate in in-house training

2.10 Monitoring and supervision

It is important that the role of different levels of management is clear. A work plan should be decided on at an appropriate management level as defined by the SAI. The decision should encompass milestones and the monitoring process for the project.

According to the INTOSAI Auditing Standards, 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 standards and practices of the SAI
- the work plan and action steps specified in that plan are followed, unless a variation is authorised by the appropriate manager
- the audit team achieves the stated audit objectives.

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.

1. Objectives

The primary objective of audit supervision and review is to obtain assurance that the audit work is undertaken efficiently and in accordance with OAG auditing standards, procedures in audit manuals and other instructions issued by senior management.

2. Supervision

Supervision provides the day-to-day link between those in charge of the audit and their assistants and is carried out concurrently with the work. The Head of PA unit is responsible for the efficient and timely completion of the audit work. In supervising the audit work assurance should be sought that:

- the work is being done in a systematic, thorough and accurate manner;
- audit findings and conclusions are fully supported by the work done, and
- the work done and the conclusions reached are properly and adequately recorded in the audit working papers.

The degree of supervision required during the audit fieldwork depends on the complexity of the assignment and the experience of the staff. Day-to-day supervision will normally be the responsibility of the AIC but should also be exercised by the Head Branch PA unit on a frequent basis and by the Head of Division on a less frequent basis.

3. Elements of audit supervision

To supervise effectively, the AIC (senior auditor or PA unit head) must have adequate knowledge and understanding of the supervisory responsibilities. Such responsibilities extend from the initial planning procedures right up to the conclusion of the audit. The more important elements of AIC's supervisory responsibilities are;

Knowing the audit objectives

The AIC must always keep clearly in mind the audit objectives for each segment or each stage of the audit and constantly confirm that the detailed audit work being done is in line with the attainment of the audit objectives for that segment of the audit.

Planning

The AIC should collect all the necessary data for the proper planning of the audit work and play a major role in assessing the internal control of the audited body and in analysing the risk of loss for transactions and properties. The information collected should cover all aspects of the organisation, activity, programmes and systems in order to acquire a working knowledge of the entity, as shown in the illustrative list below (this is not exhaustive):

- For an organisation or entity:
 - Its history and location
 - Its legal requirements
 - The entity's charter, objectives, obligations and policies
 - An organogram (organisational chart) and its management
 - Its budgetary allocations and expenditure levels
 - Travel and equipment expenditure
 - Number of employees
 - Type of examination to be made
- For an activity:
 - Background and factors influencing the activity
 - The type of activity
 - Its location
 - Persons responsible for the activity

- Policies pertaining to the activity
- Specific procedures for accomplishing the activity
- For a programme:
 - Its purpose and objectives
 - Cost and duration of programme
 - The inter-relationships between entities responsible for the programme
 - Policies and procedures for accomplishing the programme
 - Administrative regulations related to the programme

Organising

It is the responsibility of the AIC to so organise the work to be done that each member of the audit team is allocated work appropriate to their level of skills, experience and competence. The extent of supervisory review required in respect of the work done by each member of the team will depend on the AIC's personal knowledge and assessment of each member's capabilities and limitations.

The AIC, as immediate supervisor, should also take responsibility for making appropriate adjustments in the day-to-day allocation of work amongst members of the team, depending on circumstances (eg absenteeism, work inefficiencies detected, etc).

Briefing and on-the-job training

Apart from the initial briefing done, by higher supervisory levels at the commencement of the audit, the AIC should brief his staff on a more or less continuous basis while the job is ongoing. The opportunity should also be taken to give the necessary on-the-job training during the course of supervision.

Directing

Beyond briefing, appropriate directions should be given to the team members as to the detailed work expected of them. Such directions should be within the framework of matters set out in the APM. Audit programmes and time budgets constitute two of the principal documentary means of communicating audit directions. Of course, the most important form of communication is day to day personal contact, keeping in close touch with progress and helping to sort out any problems that the team members may have.

Co-ordinating

The AIC needs to co-ordinate the work being done by the members of the audit team so as to ensure that, together, they are all working towards the achievement of the overall audit objectives concerned. In these efforts of co-ordination the AIC will be able to detect areas in which work has been falling into arrears and take appropriate corrective action.

4. Review

Review is an integral part of the audit by which the Head of **Branch PA unit** and Head of Division satisfy themselves that work has been properly executed. It ensures that more than one level of experience and judgement is brought to bear on the work carried out and the conclusions reached. Review is a continuous process through the audit but it is

OAG practice to carry out two, formal stocktaking reviews, one at the interim and one at the completion stage of the audit. The aims of these reviews are to ensure that:

- • completed work meets the requirements of the OAG auditing standards, audit objectives and audit instructions;
- • fieldwork has been carried out in accordance with the audit plan;
- • there is sufficient, relevant and reliable audit evidence to form the basis for the audit certificate;
- • all errors, deficiencies and unusual matters identified have been properly documented and satisfactorily resolved or duly presented for consideration by senior officers; and
- • necessary changes and improvements in the audit are identified, documented and taken into account in the following year's audit plan.

4.2 First Stage Review

The Head of **Branch PA unit** is responsible for the first stage review and should examine in detail;

- the completed audit programmes for compliance and substantive tests;
- systems documentation and evaluations; and
- other information supporting the work done and the conclusions drawn.

The depth of scrutiny will depend upon the nature of the account and the materiality level, the level of risk and the complexity of the audit judgements involved in the area concerned. In all cases it should cover all papers submitted in support of the various audit opinions.

The reworking of audit tests by the reviewer should be kept to a minimum but will be necessary, on a sample basis in such cases as;

- where the reviewer has reason to doubt that the auditor's work has been satisfactory; and
- for any key calculations.

The review carried out should be duly evidenced, with the initials of the reviewer being placed at appropriate points in the schedules and other audit working papers.

The Head of Branch should consider whether any matters are sufficiently important to be brought to the attention of senior officials urgently.

4.3 Second Stage Review

The Head of Division should completely review the audit fieldwork to ensure that due professional care has been exercised in the performance of the audit. The reviewer should examine all the original documentation produced by the Head of Branch and generally obtain assurance that the work has been carried out satisfactorily. The Head of Division should decide the action necessary on the matters raised for attention and

record in the working papers any additional points arising, including those which need to be addressed on subsequent audits.

5. Progress Control

While ensuring that the quality of audit work performed is maintained at a high level, it is also necessary to ensure that the work is progressing according to the time schedules set for the different components of the audit. The following techniques should be adopted for the purpose of controlling time.

Time budgets

Depending on the nature and complexity of the audit assignment concerned, a time budget should be prepared at the planning stage, based on a detailed analysis of the time estimated for each aspect of each stage of the field work laid down in the audit programme. The AIC, the immediate supervisor, has to ensure that the time budget set is not likely to be exceeded.

If, however, difficult problems emerge during the course of the audit and unexpected deviations from the audit programme are necessary, the matter should immediately be brought to the notice of the Head of **Branch PA unit** and appropriate advice and guidance obtained. If necessary, the time budget may need to be revised with appropriate justifications and authority upon consultation with the Head of Division concerned.

A specimen of the Time Budget form, including provision for authorisation of variations where necessary is set out in Form 12A attached in Annexure 3.

Time Records

Time records should be prepared by each member of the audit team including the AIC showing time spent on each item of audit work, time used for other official duties, idle time, and overtime, if any. They should be prepared on a half-monthly basis. Time records of assistant auditors should be checked and approved by the AIC; and the AIC's time records should be approved by the Head of **Branch PA unit**. See Form 12B attached in Annexure 3.

Progress reports

Progress reports constitute the means by which the actual time spent is to be monitored against budgeted time on an ongoing basis during the course of the audit. They should also be prepared at half-monthly intervals by the AIC, who should also enter the particulars relating to the AIC in column 'G' of the Form. These reports must then be reviewed and approved by the Head of Branch.

A specimen form of progress report is attached as **Form 12C** attached in Annexure 3

Time variance analysis report

Upon conclusion of the field work, a summary of total time spent in respect to each audit activity as compared with budgeted time is necessary in order to provide adequate explanations for all material variances and so as to provide guidance in preparing time budgets for subsequent audits.

This analysis, with explanation, must be prepared by the AIC, reviewed by the Head of Branch and approved by the Head of Division concerned. As a result, appropriate notes of significant variances and reasons therefore should be recorded in the APM. The form to be used for this purpose is attached as Form **Appendix 12D** attached in Annexure 3

6. Audit supervision and review checklists

In order to ensure that full attention is given to all relevant matters concerning both audit supervision and progress control, and in order to provide evidence of the review process itself, two types of checklists are to be prepared, one for completion by the AIC, and the other for completion by the Head of **Branch PA unit** to be completed at the end of the audit assignment.

Specimen of these checklists are set out as **Forms 12E and 12F** attached in Annexure 3

2.11 Quality control

Quality control shall be built into the whole audit process, from planning and selection of audit problems to follow-up of completed audits.¹¹ The internal quality control in performance audits is normally focused on oral presentations and written memos from the project group, such as pre-study memos and draft reports. Oral presentations shall be done on dates specified in a work plan (see chapter 3.5) and also on the audit team initiative when the team encounter something that have influence on the project or the work plan,

Quality control activities can be in the form of:

- *review of the planning document by the team and managers.*
- *review by other team members and by the team leader*, in order to improve texts. Team members are expected to review and comment on the texts written by other team members,
- *seminars* where colleagues are invited at various stages of the audit, for example before a draft pre-study memorandum and work plan is submitted to management. The draft report can be presented during a seminar with the audit team, the manager of a performance audit unit and other performance audit staff. The draft should be made available to all participants before the seminar and they should all be invited to participate in the discussion.
- *regular meetings with the senior manager* for monitoring the progress of the audit. *review by the senior manager: working papers* could be reviewed and the draft report *should be reviewed by the senior manager* who can also ask independent experts to review the draft.
- *regular information to top management.*
- *informal discussions with the auditee.* During the main study a contact person can be informed about the progress of the audit. The team can also use informal contacts to discuss findings, criteria, conditions, causes and effects, conclusions and recommendations with representatives of the auditee – preferably including the

¹¹ ISSAI 40 establishes a general framework for quality control (see annexure 2). See also AFROSAI-E Quality Assurance Handbook who provides guidance to quality reviewers working with quality assurance at the SAIs.

contact person. In this way, the team can verify their analysis and check on misunderstandings, conflicting evidence and the need for additional information. It is also an opportunity to identify possible areas of different opinions between the team and the auditee.

- “peer review” of the draft audit report. Other performance auditors besides the team can be appointed to review the draft report.

2.11.1 Quality control policy

Review is carried out in several ways, but all based on the audit policies, quality control criteria, and other practice expectations in place within the Office. All levels of review are designed to provide assurance that practices meet accepted standards, and to help the Office continuously improve the quality of its products.

Team self-assessment. Audit teams can review audit practices through post-audit discussions and using available Self-Assessment Checklists. Checklists act as reminders to support the team in producing a high-quality audit. They can provide a blueprint for corrective actions during the course of the audit, provide a barometer to measure the quality of the audit, expedite future internal practice and external reviews, and identify opportunities to improve team and Office practices. The normal procedure for the OAG include the following.

First level (Audit Supervisor)

Depending on the size of the audit the PA unit head will conduct the first level of review. In the case of larger audits there may be more than one first-level reviewer. In such cases the reviewers should focus on the sections that have been allocated to them. First level review should be performed on an ongoing basis, for example, each time a working paper is finalized by the preparer it should be reviewed. All working papers, conclusions drawn, professional judgments made and the related audit evidence on the audit file should be reviewed. This includes the review of the following:

- Adequate and sufficient completion of working papers including clear and understandable language and spelling;
- Consistency of documented information and decisions made between different working papers;
- Significant decisions made and audit evidence supporting decisions and findings;
- The planning of the audit, balancing audit risk, tests of control and substantive tests performed, evaluating the sample sizes, conclusions, management letter issues, audit findings (exceptions), audit report issues, etc; and
- Inspecting the audit procedures performed and ensuring that all the assertions were addressed.

Second level (Audit Director)

The second level of review is almost as detailed as the first, but some reliance can be placed on the review work already performed. The experience and seniority of the first reviewer will influence the reliance placed on the first review conducted.

The second reviewer will still concentrate on detailed work, but to a lesser extent. Focus will be placed on documentation of key working papers, including as a minimum:

- Engagement letter;
- Overall audit plan, including significant risk areas and audit approach;
- Management letter, confirming that there is adequate audit evidence supporting the findings;
- Audit differences, Schedule of overs-and unders; and
- Audit report with supporting audit evidence for the findings.

The second reviewer will also review the work performed by the first reviewer.

Third level (Director General)

The third level review should be performed by the person who is responsible for signing off the audit report. In certain instances the review will be performed by more than one person. For example, when the first level review is performed by the audit manager and the second level review is performed by the senior manager the third level review may be performed by the business executive who may not be responsible for signing off the report. In this case the person signing off the report will perform another third level review.

The person performing a third level review should be, as far as possible, involved in major decisions relating to the audit. The Overall audit strategy should be approved by the third level reviewer before any of the fieldwork is conducted. If this is not possible the third-level reviewer should at least be consulted to obtain his or her inputs regarding the audit plan and scope. This is to ensure that the correct audit approach is followed and that the person who is responsible for signing the report is aware of the aspects covered in the audit plan.

The third-level reviewer's review should focus on the following aspects:

- Work performed by the second-level reviewer;
- Appropriate and sufficient audit evidence exists to support the audit findings;
- Compare the work performed with the Overall audit strategy to ensure that all risk areas have been addressed and deviations from the strategy have been documented with reasons;
- All reporting working papers including Overall audit summary memorandum, Schedule of overs and unders, Events subsequent to balance sheet date, etc; and
- .

The scope of the third-level reviewer should be increased if he or she identifies other possible risk areas or if there is any indication that the audit file does not meet the required technical standards.

Besides the quality control described here there should also be an independent review of selected audits by a quality assurance review team, and perhaps involve a peer review of a sample of completed audits each year. These quality assurance reviews are prescribed by the policies of the SAI and performed centrally. These procedures should form part of the SAI's policies and procedures and are not covered in this manual in detail.

External reviews. The Office periodically appoints an external organization to carry out a review of its practices in order to confirm internal assessments and to obtain a truly independent assessment.

2.11.2 Other quality control initiatives

We also undertake a variety of approaches to help us to identify opportunities to improve performance audit practices, including the elements described below.

Client and stakeholder surveys. The Office periodically obtains feedback on its performance through consultation with its clients and stakeholders.

Benchmarking and collaboration. The Office maintains relationships with audit offices in other countries. Practices are shared through exchange of information and conferences and symposia and well as through relationships with representatives from these other audit offices. The Office also keeps informed of new developments in the field of auditing through its participation in organizations such as the AFROSAI-E.

2.12 Documentation

INTOSAI Auditing Standards state that auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, the work performed and the findings of the audit.¹²

2.12.1 Documentation and ethics

Before data is collected from individual sources, in the form of for example an interview or a questionnaire, the auditor should inform the person providing information how that information is going to be used and whether the source of information is going to be revealed.

During data collection the auditor may obtain sensitive information for example the interviewee's opinion on management of the auditee. For many people revealing that they are the source of that information could be disastrous. Consequently, the auditors should, if possible, guarantee anonymity and not divulge an individual's opinions. In some situations it might not be possible to use data as audit evidence where it is impossible to maintain confidentiality of the source. If the auditors disclose the name of a person as the source of information when they had promised anonymity it will negatively influence the reputation of the SAI. In such situations the auditor must balance the value for the audit if the source of information is identified against the damage it may cause the individual by doing so.

The management of the auditee represents the auditee and it is often not necessary to grant them the same type of anonymity.

2.12.2 Guidelines for the preparation of working papers

Working papers are all relevant documents collected and generated during a performance audit. Working papers serve as a connecting link between the findings during the fieldwork and the audit report.¹³ Working papers also include documents recording the audit planning and the nature, timing and extent of the audit procedures. The main working papers in the clearance stage are the various drafts of the audit report and the managers and the auditees review notes.

Working papers need to be of sufficient quality. They should be:

- **Clear:** Working papers must be clear and understandable. The information they reveal should be complete yet concise. Anyone using the working papers should be able to determine their purpose, the nature and scope of work, and the audit team's observations. Conciseness is important, but clarity and completeness should not be sacrificed.
- **Neat:** Working papers must be easily readable.
- **Relevant:** The information contained in working papers should be important and useful with reference to the objectives established for the audit.

Working papers should:

- assist in the planning and performance of the audit
- record evidence resulting from audit work performed to support the audit conclusions and recommendations.
- facilitate effective management of the audit
- assist in the supervision and review of audit work.

¹² INTOSAI, Code of Ethics and Auditing Standards, page 57.

¹³ According to ISSAI 300 *Field Standards in Government auditing*, paragraph 5.5 "Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit."

The SAI should adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers.

Some basic questions regarding documents and interview notes that can help you classify and file your data are as follows:

Documents

- The source of the documents (records or books, data bases, particular government offices etc.)?
- The status of the document?
- What does the document consist of?
- Is the document limited to a particular geographical area or does it cover a particular period?
- Where, or from whom, can you obtain further information?

Interview notes

- Who is the interviewee?
- Who conducted the interview?
- When was the interview conducted?
- How did you get hold of the interviewee (address, telephone number, etc.)?
- Were any promises made to the interviewee about checking your interview notes, confidentiality, etc.?

2.12.3 **Audit files**

The data collection is a lengthy process, during which the team will interview a large number of people, read and extract information from numerous documents, make several observations or inspections etc. The auditors cannot store all the information in their heads. There may also be an external demand that the SAI should be able to state the source of their findings. This will become virtually impossible if the documentation is not stored correctly. The working papers need to be filed properly.

The audit file should contain all evidence accumulated in support of the findings, conclusions and recommendations in the report. The audit file should enable an experienced auditor with no previous connection with the audit to ascertain what work had been performed to provide proper support for findings, conclusions and recommendations.

Working paper should normally be filed in an open and then after finalisation of the audit in a closed file.

Open files

An open file should be opened when the decision to start a pre-study or a follow up audit is taken. Working papers should be added continuously during the audit as they are created. The following are examples of working papers to be included in the open file:

- Interview notes
- Documents produced by the auditee like budgets, plans, etc.
- Memos from discussions with representatives of the auditee and other officials
- Memos comprising analyses of various documents
- Analyses in support of the audit work
- Correspondence/communication with managers
- Work plan
- Materials and papers accumulated in report preparations, including drafts
- Reviews of management controls.

Table 2: Index for an open file, example

EXAMPLE: Index for an open file			
A Planning	B Execution	C Reporting	D Finalisation
A1 Project approval	B1 Minutes of the introductory meeting	C1 First draft report	D1 Final report
A2 Project plan	B2 Extracts from relevant documentation	C2 Comments from staff	D2 Letter of submission to auditee
A3 Work plan	B3 Questionnaires	C3 Comments from management	
	B4 Interview guides	C4 Second draft report	
	B5 Interview notes and summaries	C5 Written comments from auditee, exit meeting	
	B6 Analytical reviews	C6 Final draft	

Closed file

When the audit report has been completed, the auditors should keep the relevant working papers from the open file and then close the file. Working papers of less importance that do not substantiate the findings should be discarded.

There are several reasons for using a closed file. If the audit report is questioned by someone, the SAI will be able to check the sources of the findings. This is particularly useful if the responsible auditors and managers have left the audit office. The closed file will also be a source of knowledge when planning future work. The closed file also needs to be stored for a period sufficient to meet legal and professional requirements of record retention.

2.13 Internal communication

Depending on the mandate and organisational set-up, the roles and responsibilities of the respective key players will vary from one SAI to another. Each SAI needs to define the roles and responsibilities within its organisation and establish a format for communication between its staff and managers.

EXAMPLE: Format for internal organisation of communication regarding performance audits

Top management meetings

Frequency: Monthly

Participating: Auditor-General, deputy Auditor-General and senior manager or the director of the PA department if there is just one PA department and no need to establish a post as senior manager for performance audits.

Chairing: Auditor-General

Contents: Short-, medium- and long-term issues affecting audit operations, e.g. staffing, delegation of assignment, fixing deadlines for completing mandatory

assignments, delegations for training, delegations for international conferences and seminars, budgeting and control of expenditures.

Departmental meetings

Frequency: Monthly

Participating: The director of the PA department and members of the department

Chairing: The director of the PA department

Contents: Audit teams report on progress and obstacles in audits, other departmental issues

Further reporting: The director of the PA departments reports back to the Senior manager or directly to the top management if there is one PA department

Audit progress meetings

Frequency: Monthly and sometimes also weekly. Can be done for individual teams or during a common meeting and then be part of a departmental meeting.

Participating: The director of the PA department and the audit team(s)

Contents: Team leaders report about the teams progress compared to the work plan and budgeted output compared to actual output and remarks on the differences

Further reporting: The director of the PA department reports back to senior manager. It may also be necessary to inform or request information from regularity auditors.

1. Definition and objectives

The term 'internal reporting' as used in this chapter refers to the procedures to be adopted within the OAG in drafting and finalising the performance audit report. Since the performance audit report is the end-product of the entire performance audit process, and since such a report is intended for distribution to concerned authorities outside the OAG, the greatest care has to be exercised during all stages from its initial drafting through its processing and finalisation to its completion and distribution.

Three levels of senior officers will be involved in the progress referred to in this chapter as the first-level, the second-level and the third level respectively. These are defined as;

- Level one – AIC (**senior auditor**);
- Level two - Head of **unit** and Head of Division;
- Level three - AG and **DG**.

2. Channels of Reporting

Internal reporting should start at a level not lower than the level of the AIC responsible for the particular audit assignment concerned. In effect this means Team Leaders or Senior Auditors as the case may be.

This first-level officer will prepare and submit the initial draft performance audit report to the second level. Together the Head of **unit** and Head of Division will be responsible for the formal structure and content of the audit report in its draft form.

The Head of Division concerned will then submit the finalised report to the third level. They in return will review and approve the audit report.

3. First-level responsibilities

The AIC will base the initial draft primarily on the summary of audit findings gathered. The draft report should include;

- the audit findings and
- a description of the entirety of the work done as recorded in the working papers.

The AIC shall also utilise the intimate knowledge of the nature and extent of the auditee organisation's activities, as well as problems that might have been encountered during the audit and the extent to which they may, or may not, have been resolved.

The AIC will prepare and present to his Head of **unit** the draft audit report in the form and manner prescribed in **Chapter 4**.

4. Second-level responsibilities

Upon receipt of the draft performance audit report from the AIC, the Head of **Branch unit** concerned will examine it carefully in relation to the summary of audit findings and against the background of the Head of **Branch unit** own knowledge of the type of auditee organisation concerned. The Head of **Branch unit** shall also ensure that the structure and form of the report are in keeping with the requirements stipulated by the OAG in that regard (See Chapter 4)After appropriate adjustment and revision of the draft report as considered necessary, the Head of **Branch unit** will discuss material points in the draft report with the auditee management at the exit meeting and determine the extent to which, if any, the draft needs to be further revised in the light of any material amendments, observations or objections raised by the management during the course of such discussions.

The Head of Division may participate in discussions with the auditee organisation's management, depending on the nature, complexity and importance of the audit concerned. In examining and revising as necessary the draft audit report, the Head of Division shall pay special attention to the type of audit opinion to be rendered on the one hand, and, on the other, the materiality of the recommendations to be made to management in the light of the audit findings.

Upon submission of the finalised draft audit report to the Head of Division concerned, the latter shall examine it most closely and confirm that the draft report is in accordance with the audit findings, and that account has been taken, to the extent considered relevant and necessary, of any significant matters arising from the discussions held with the auditee organisation's management.

The Head of Division shall carry out the same procedures as the Head of **Branch unit** in gaining the necessary audit assurance.

The Head of **Branch unit** concerned and the Head of Audit Division shall be jointly responsible for the accuracy and validity of the content of the draft audit report, the form and manner of its presentation, the type of audit opinion expressed, and the substance and materiality of the audit recommendations.

5. Third-level responsibilities

Every final performance audit report, after finalisation by the Head of Division and Head of **Branch unit** concerned, shall be submitted to the **Director General** for approval. In all cases where he feels that further clarification is required on any matters in doubt, the **Deputy Auditor-General director general** shall discuss the issues involved with the

Head of **Branch unit** and Head of Division concerned. Any amendments or revisions considered necessary by the **Deputy Auditor-General director general** shall be carried out in consultation with, and with the full knowledge of, the Head of **Branch unit** and Head of Division involved.

All finalised performance audit reports relating either to special audits initiated at the instance of Government or a court of law, or to audits of particularly significant or sensitive Government organisations shall also be subject to review by the Auditor-General himself.

Final audit reports involving the rendering of a disclaimer or an adverse opinion shall necessarily be finally reviewed by the Auditor-General. In all cases where the Auditor-General deems it necessary to make any material amendments or revisions to the final audit report, he will do so in consultation with the **Deputy Auditor-General director general** and the Head of Division.

2.14 External communication

Each SAI needs to establish and implement its own strategy and policy for external communication with regard to performance auditing. This strategy should be in line with the overall strategic plan and give guidance on how the SAI should communicate with stakeholders and others in different situations.

The main external stakeholders are – Parliament, parliamentary oversight committees like the public accounts committee etc., audited entities and ultimately the public. The media are also important, because they serve as a link between the SAI and the public. The best marketing tool for performance audit is good reports.

A prerequisite for good external contacts is that the stakeholders have a basic understanding of the role and purpose of performance auditing. Staff and management of the SAI should therefore actively inform the stakeholders about performance auditing. This could be done in several ways, through meetings or written material; for example leaflets or brochures explaining the role and purpose of performance audits which can be distributed to audited bodies and key stakeholders.

Each SAI should ensure that its audit staff are aware of the strategies for external communication and are able to interact in a proper way with the auditees and with any other party that provides information essential for the performance audit project. It is important to maintain an open dialogue with the auditee during the audit. Before any further contact is made with the auditee in the main study, a formal introduction should take place. This could be in the form of a letter signed by the Auditor-General “an engagement letter” and an introductory meeting “an engagement meeting”. Regular contact should be maintained throughout the audit, preferably through a contact person appointed by the audited entity. Before finalisation of the audit, a draft report should be sent to the auditee and discussed at an exit meeting. There should also be an established practice (in line with the communication policy) regulating to whom the reports should be routinely delivered.

Restrictions in public reporting

Classified information may be critical for developing and supporting certain audit observations. In these circumstances, audit entities may express concern that such information, included in audit reports or other communications with the public, may be harmful to the national interest, and may request that it not be disclosed.

Auditors should assess with their Team leaders whether requests to restrict reporting are valid, and seek the authority of the Director **general** or Auditor General before agreeing to remove significant material from the report on the basis that it might be harmful to the national interest.

Reports to entity management

During the course of an audit, the audit team may identify situations, including weaknesses in controls, opportunities for improvement, deficiencies, or work well done that are not significant or of a nature to warrant reporting to Parliament. However, the observations may be useful to entity management. Auditors may communicate these observations, either orally or in writing, to the appropriate level of entity management. Written audit reports or other written forms of communication that are left with the entity are subject to access to information in the entity. Reports to entity management should be approved by the entity principal; reviewed by the Director; discussed with entity management; communicated clearly; and issued on a timely basis.

Third party references

Organizations or individuals that are to be cited or discussed in the reports of the Auditor General should be advised in writing on a timely basis of the nature and substance of the proposed reference and asked, where appropriate, to verify the accuracy and completeness of the statements made concerning them.

Third parties receive this notification where they are identified in the report, or are identifiable. Such notification enables the Office to fulfill its duty of care to third parties to ensure that the references are accurate and fair, besides promoting the objectivity of and underlying evidence for the reports. A third party is defined as any organization or person outside the department or agency that is the subject of the report. Any reference to third parties should respect their legal rights, particularly with respect to reputation and confidential information. Consideration should be given to the merit of disclosing the names of third parties, in the context of promoting transparency and clarity to the extent permitted under the law. The media is necessary for the publication and dissemination of the issues raised in our reports and where the release of third party names is permissible under the law, and does not detract from audit

objectives, disclosure should take place. The objective of such disclosure is the promotion of good communications, consistent with responsible reporting of our message.

There are three situations where the names of third parties may possibly be disclosed:

- in the body of the Report itself;
- before a Parliamentary committee; and
- in response to a question from the media.

The decision to disclose will be influenced to a great extent by:

- the type of third party reference (sample or case illustration); and
- the actual identity of the third party — government department, provincial agency, corporation or individual.

Different legal and transparency considerations will apply depending upon the nature of the third party information to be disclosed and the identity of the third party.

Given that management letters are subject to disclosure under the Access to Information Act, the same principles and procedures apply when third parties are mentioned in these letters.

Audit **Director** should:

- ensure appropriate third party notifications are sent out on a timely basis, and
- be familiar with the detailed Office Guidelines on Third Party References;
- consult Legal Services for guidance where they have concerns with the legal implications of comments pertaining to third parties or difficulties obtaining clearance.

External communications

It is expected that all Office communications with Parliament and other stakeholders are clear, persuasive and effective. Other key expectations are explained in the following paragraphs.

Testimony at standing committee hearings. Once the reports of the Auditor General is tabled in the Parliament, it is referred to the Public Accounts Committee. Committees consider the reports and examine certain matters contained in the reports at committee hearings. The committee frequently call members from the audited entity to testify. The Auditor General/Director **general** and members of **his**/her staff are also present and may be required to make an opening statement about the audit issues and to respond to questions from members.

The Office has been encouraging **Audit Directors** to spend more time with committee staff in order to obtain a better understanding of concerns and interests of the Committee and to explain the role of the Office and the value of using Office products. How the committees deal with an audit observation can have an important impact on the corrective actions taken by the audited entity.

Public communications. The **Director** Communications is responsible for co-ordinating public communications activities, including responding to media and public inquiries. Public communications includes any matter imparting knowledge that could only have been acquired while working for the Office of the Auditor General.

Spokespersons for the Office. On tabling day of **his**/her report and during the following week, the Auditor General is the only spokesperson for the Office unless otherwise approved. At other times, the Auditor General may designate other staff members to respond “on the record” to the media about audits under their direction. A list of these designates will be published before each tabling.

Other public communications. Office staff members are in a unique position of having access to information and insight into government operations. As a result, they are often asked for their views on matters that are both work related and non-work-related. Staff should:

- inform their **Director** or a higher level person to whom they report if they intend to deal with the media on a non-work-related topic and might be identified as an employee of the Office.
- obtain the approval of the **Director General** before accepting invitations to speak, teach, or lecture on work-related topics.
- obtain the authorization of **AAG/CESD director general**, in consultation with the **Principal director**, Communications, to publish work-related articles, and include in the article a disclaimer that the views expressed do not necessarily
- represent the views of the Office.

Serving on professional practice committees. Members of the Office often serve on committees of professional or international organizations that are involved in standards or audit practice development initiatives. Although officially they may be serving in a personal capacity, there is an obligation to not

only present their personal point of view but also the Office position.

Members of the Office serving on outside committees involved in standard or audit practice development should:

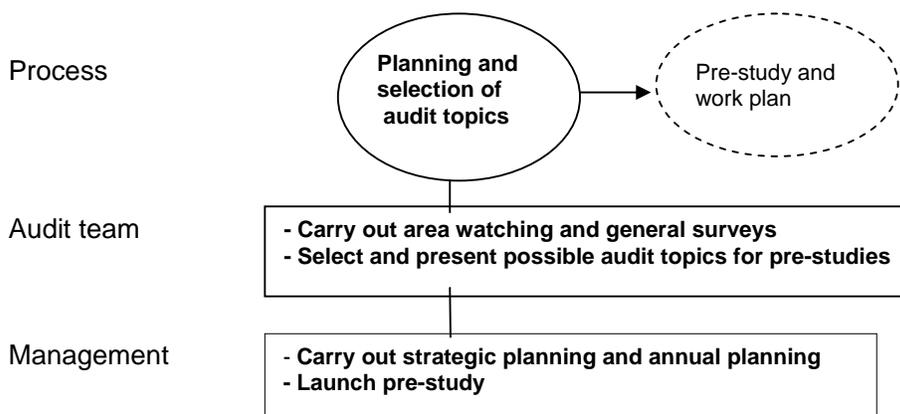
- inform themselves of the Office position on issues they deal with at external committees, by consulting with the appropriate members of the Office;
- notify their immediate superiors of any significant variances of positions taken by the committee with those of the Office; and
- inform their superior about substantive issues arising from committees that relate to and have a significant impact on Office methodology and practice.

3. PLANNING

3.1 Planning and selection of audit topics

The purpose of the planning phase is to select suitable areas for audit, identify audit problems, prioritise and select performance audits and prepare for the execution of a main study. The figure below gives an overview of the responsibilities for the audit team and the management during the planning phase. An overview of the responsibilities within the whole audit process is presented in appendix 1.

Figure 5: Planning and selection of audit topics



Planning is aimed at making the audit work more effective. During the planning process decisions are made on the nature, extent and timing of the performance audit work to be undertaken. The planning of performance audits should be based on strategic choices. It is helpful to adopt a structured approach to performance audit, whilst still allowing flexibility in the timing and priority of particular audits.

The planning and selection of audit topics take place at several levels:

- The overall level (strategic planning and annual planning)
- The area level (area watching and general surveys, and later pre-studies)

The scope and methods of the planning for a specific SAI depend on characteristics such as the size of the SAI and the performance audit unit. Small performance audit units can use more simplified methods for planning.

3.2 Surveys

There are two main stages in undertaking surveys. These include:-

- General survey work - to review fields of activity in order to develop a performance audit component for the AG's strategic plan for his Office.
- Marking - keeping general surveys up-to-date by regular monitoring.

3.2.1 General survey

General surveys may cover a whole entity, a group of related activities or particular major projects or programmes of expenditure or receipts. The general survey is aimed

at providing an understanding of the organisation'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. The aim is to:

- identify and review those areas absorbing a significant level of resources
- identify potential risks to achieving good VFM
- highlight areas for continuing audit attention
- propose areas or subjects for inclusion in the performance audit programme.

Much of the information for general survey work can be obtained through normal day-to-day work and contact with the public sector organisations in Eritrea. Information on progress of projects may be obtained from Implementation, Monitoring and Evaluation Division (IMED) of the **Ministry of national development**. The planning cell of the line ministry or the organisation may provide such information. Initial information may also be gathered from the **internal audit** unit of the auditee entity. Separate investigative work may, however, be required from time to time to obtain more detailed information. This is required to provide a basis for identifying potential areas for performance audit.

The information gathered and assessments made during general survey work are recorded in working folders for reference when making proposals for inclusion in the performance audit strategy. It is not necessary to repeat detailed material that is readily available in source documents but such material should nevertheless be available for reference.

Annexure.... summarises the information required and the approach to general survey work. This can act as a checklist of the required background information, covering the following:

- Background environment and information on the entity
- Significant legislative authorities
- Objectives of auditee entity
- Organisational arrangements
- Accountability relationships
- Activities carried out
- Nature and level of resources used
- Procedures and control systems in place
- Other relevant information or evidence.

3.2.2 Marking

The information and analysis from general survey work must be kept up-to-date by regular monitoring to take account of changing circumstances if it is to be of value in drawing up a performance audit programme. A process of "marking" is used for this purpose. It allows changes and new developments to be reflected in planning the performance audit strategy. Particular note should be taken of those areas identified from general surveys as requiring special attention.

Marking can be carried out by referring to a wide range of information that may be available on the activities of the entity. This includes financial estimates, accounts, annual reports, annual development programmes, project proforma, project concept papers, IMED (**Ministry of national development**) reports, records of debates or announcements, policy proposals, Parliamentary references and recommendations of the PAC.

Auditors need to be alert to any opportunities for prospective VFM work and where there is risk to VFM. During the marking or monitoring process, auditors, therefore, need to follow a scheme, as shown below, so that their knowledge of the entity is up-to-date.

EXAMPLE: Format for internal organisation of communication regarding performance audits

Top management meetings

Frequency: Monthly

Participating: Auditor-General, Director General and senior manager or the director of the general responsible for PA department division and head of PA unit if there is just one PA department and no need to establish a post as senior manager for performance audits.

Chairing: Auditor-General

Contents: Short-, medium- and long-term issues affecting audit operations, e.g. staffing, delegation of assignment, fixing deadlines for completing mandatory assignments, delegations for training, delegations for international conferences and seminars, budgeting and control of expenditures.

Departmental meetings

Frequency: Monthly

Participating: The director responsible for PA division and members of the department division

Chairing: The director general responsible for PA department division and head of PA unit

Contents: Audit teams report on progress and obstacles in audits, other divisional issues

Further reporting: The director responsible for PA departments divisions reports back to the Senior manager or directly to the top management if there is one PA departments divisions

Audit progress meetings

Frequency: Monthly and sometimes also weekly. Can be done for individual teams or during a common meeting and then be part of a divisional/unit meeting.

Participating: The director of the responsible for PA ,head of PA unit and the audit team(s)

Contents: Team leaders report about the teams progress compared to the work plan and budgeted output compared to actual output and remarks on the differences

Further reporting: The director responsible for PA division reports back to top management . It may also be necessary to inform or request information from regularity auditors.

3.3 Planning at the overall level

The overall planning deals with strategic and annual planning.

3.3.1 Strategic plan

Strategic planning is a process of defining goals, setting objectives and examining the current situation, to define future developments and strategies to reach the goals. The SAI's overall strategies are developed on the basis of the SAI's mandate, national goals

and issues that may have been raised in previous performance or regularity audit reports.

The SAI's overall strategic plan should set out its long term vision and mission as to what the SAI wants to achieve. The strategic plan provides an opportunity to direct the performance and regularity audit activities to meet the SAI's responsibilities in terms of audit legislation and international auditing standards. It should aim to improved utilisation, accountability and transparency with regard to public funds and other resources. The strategic plan usually covers a period of three to five years, and is reviewed periodically to reflect changing needs and circumstances.

The strategic plan normally contains a section about performance audits. Strategic choices for performance audits can be made in respect of broad focus areas, for example, health care, education or poverty reduction. The criteria to use when selecting areas for performance audits deal with broad policy issues for the SAI, including the definition of audit entities and functions, the determination of overall priorities and resource allocation. The strategic plan should contain policy decisions that serve as a starting point for the planning of performance audits.

The purpose of a SAI's strategic performance audit plan is to ensure the following:

- Resources are allocated to areas with the greatest potential impact.
- Audit priorities are adequately determined.
- A comprehensive performance audit focus for the annual plans is in place.

The aim of strategic planning is to determine the future programme of performance audit work and the relative priorities of various projects, together with the staff and other resources needed to carry out the programme for the Office as a whole. This will be based on the proposed audit topics that have been submitted for inclusion in the strategic plans. The plan should ensure that it reflects proper priorities and a balanced and varied programme. It must also be capable of being carried out by the available staff resources. The likely demands on the prospective auditee entities should also be taken into account when deciding on audit areas. Strategic plans look forward for three to five years but detailed proposals need only be made for the early part of the period. The strategic plans covering performance audit should be updated regularly and should aim to:

- ensure that the programme coverage broadly reflects the full extent of audit risk across all the areas for which the AG is responsible
- establish an adequate cycle of performance audit coverage
- deliver a range of performance studies to time, quality and within agreed budgets
- specify targets for full examinations and clearance with the audited entities
- achieve savings, if possible.

It is clearly not possible to include every area identified and choices will have to be made. The following are often fruitful areas for performance audit:

Potential Performance Audit Areas	
Type of Activity	Possible Improvements
Procurement or purchasing arrangements	Purchasing goods and services more cost-effectively
Stores management	Improved procedures resulting in reduced stockholding and reduced losses

Support services, including telephones and electricity	Obtaining services at better prices, managing facilities better and identifying scope for reducing consumption
Estates and asset management, including vehicles, buildings etc.	Making better use of land, buildings, vehicles, equipment or accommodation. The latter will allow increased capacity or release of accommodation for other use or for disposal
Major capital projects	Improved procedures allowing contracts to be completed within cost and timescale
Utilisation and deployment of manpower	Increased productivity and reduced staffing overheads

Once the strategic planning process has been completed and decisions taken by the OAG on the highest priority areas for audit, Heads of the organisations and the concerned **Director General** should be informed of the provisional audit topics. It would be helpful to establish a formal nominated contact person within each body to be audited with whom the OAG's auditors could liaise. The most senior finance officer (**director general**) in the auditee entity could perform this role.

3.3.2 Annual planning

An annual performance audit plan for all performance audit activities to be carried out during the year is prepared based on the strategic plan. The annual performance audit plan will normally form part of the SAI's annual operational plan which also covers regularity audit and human resource plan etc.

The plan should comprise information about the expected nature, timing and extent of the audits. The annual plan incorporates the performance audit department's work plans for ongoing audits and the new audits that will be started during the year. It focuses on strategic priorities, significant matters listed in memos from area watching or general surveys, pre-study reports, and follow-ups. An annual performance audit plan would normally entail departmental objectives, intended outputs and outcomes, areas to be audited, time frames, and resource allocation for each audit.

The aim of the annual performance audit plan is to determine the annual programme of performance audit work and the staff and other resources needed to deliver on the programme. Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas, that potential problems are identified, and that the work is completed expeditiously.

Annual planning also assists in the proper assignment of work to team members and coordination of work performed by different audit teams.

The development of the annual plan is normally the responsibility of the head of the senior manager or the director of the PA department depending of the organisational structure.

3.4 Area watching and general surveys

Area watching and general surveys are part of the planning process. Area watching and general surveys should be conducted in accordance with the priorities laid down in the strategic and annual performance audit plan. The purpose of area watching and general

surveys is to determine the potential areas from which topics for pre-studies will be selected.

3.4.1 **Selecting potential audit topics**

During area watching and general surveys information is collected. A number of potential generic problems would probably have been identified even before the area watching and general surveys. To make recommendations about the topics that warrant further examination, the auditors need some basis for evaluating the information that has been collected. In this situation there are a number of factors that need to be taken into account to compare and rank potential audit topics.

Some factors to consider could be the following:

- Complaints from clients due to long waiting times, poor quality of service, defective products, etc.
- Environmental problems like polluted drinking or ground water,
- Changes in legislation or government policies which can influence auditees performance.
- New technologies introduced or other circumstances that have changed.
- Unauthorised over expenditure or rising costs resulting in demands for more resources.
- Performance targets are not being met.
- Complexity due to scattered activities.
- An entity is involved in activities outside its mandate.
- Projects are not completed on time.
- Complaints from staff or high staff turnover.
- Substantial losses because of theft or waste.
- Tender procedures are not adhered to.

3.4.2 **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 regularity audits; listening to the experience of regularity 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 SAI is always in possession of updated information about what happens in society and areas that may require further examination. Area watching should be an ongoing process during the year done by performance auditors, and there should be some time allocated for them doing area watching. At times as indicated by management (for example, in the beginning of the annual planning process), results from area watching that indicate potential audit topics should be presented to management for a decision on whether a general survey or a pre-study should be carried out. The area watching results could be presented orally or in writing,

3.4.3 **General survey**

The general survey is not always necessary and should be used when the SAI enters into a completely new area of which the audit office has little knowledge. It should be done in the form of a project, with a goal, time frame and a budget.

The purpose of general surveys is to collect and evaluate relevant information in order to provide an understanding of a particular sector or programme, identify potential audit

areas, and allow the auditor to direct his/her attention to the most important areas and issues. It is a process aimed at gathering information relatively quickly, without detailed verification of the activities or operations of an organisation.

The general survey goes a bit deeper than area watching and could include studies of acts and regulations relevant to the auditee. It can also include a literature search, annual reports from the auditee, consultation of regularity audit files, reports from parliament and its oversight committees like the public accounts committee and contact with professional bodies. When necessary, information should be collected directly from the relevant organisations through interviews and/or written communication.

The results of the general survey may consist of a number of different ideas for audits and could be kept as a bank of ideas. These ideas can later be used as a starting point for a pre-study or sometimes even directly for a main study.

While the results from area watching could be presented orally or in writing, the results of the general survey should be presented in a memorandum. The memorandum should provide background information about the area and the role of the auditee, such as legislation, goals, objectives, structure/organisation, outputs, and costs. It should also contain an analysis of problems encountered and recommendations on the way forward. The memorandum should be submitted to management for a decision on whether to conduct a pre-study, go ahead with a main study, or choose other topics.

EXAMPLE: Possible format for a general survey memo

1. Background
2. Description of the surveyed area
3. Risks
4. Materiality
5. Conclusion
6. Recommendation

1. Background

The reasons why the decision to conduct a general survey was made.

2. Description of the area

A description of the sector and the relevant part of the entity under audit, including the auditee's:

- task, objectives and undertakings
- organisational structure
- division of responsibilities within the auditee/s.

3. Risks

An appraisal of the risks due to the auditee's shortcomings within the audit area. The risks should be divided as follows:

- Inherent risk, i.e. factors that are embodied in the nature of the auditee but fall outside its control, e.g. new legislation, complex area.
- Identified risk, i.e. factors identified by the audit team or others, which were created by the way the auditee performs its duties, e.g. the auditee's practices or internal organisation.

4. Materiality

An assessment of the extent to which the auditee's shortcomings within the audit area affect the state and the public, namely:

- Materiality by value, i.e. the amount of money spent or the relation between expenditures and revenues.
- Materiality by nature, i.e. how people are affected by the audited area, e.g. people's time, health or rights.

5. Conclusion

It should point out the main results off the general survey and identify potential audit problems.

6. Recommendation

Based on the overall conclusion, the audit team should recommend whether or not to launch one or more pre-studies.

3.4.4 Presentation of possible audit topics

Area watching results from are normally not documented in a structured format. At times, as indicated by management in the planning process, such results should be presented to management for a decision on whether a general survey or a pre-study should be carried out. If the area watching gives an indication of problems issues that could concern regularity auditors they should be informed. If the indicators that point out problems are broad and need to be specified further, the decision would normally be to conduct a general survey. If, on the other hand, more specific problems have been identified, the process could continue into a pre-study directly or sometimes even a main study.

3.4.5 Differences between area watching and a general survey

Some differences between area watching and a general survey are highlighted in the following figure:

Table 3: Differences between area watching and a general survey

	Area watching	General survey
Purpose	Keeping updated information on key issues to identify possible audit	Identify possible problem areas
Time frame	Continuous	Ad hoc
Focus	Broad	Specific target
Sources of information	Various sources	Various sources and information from and about the auditees
Documentation	Oral or written	Written

3.5 Pre-study

The first stage in obtaining a sound understanding of the prospective audit area is through a **pre-study**. This can be used to confirm whether or not the full study is still justified in the area identified during the strategic planning stage. If the audit is to continue, the pre-study should state how the work should proceed. It should recommend precise objectives and tasks for the full examination.

The aim of the pre-study is to carry forward the assessment made at the earlier general survey, marking and planning stages. Its purpose is to determine whether a more detailed examination is still justified and should proceed. This should be clearly distinguished from the full, in-depth study that will follow at a later stage.

The pre-study should be kept as brief as possible but should be sufficiently thorough to enable a decision on the full study to be taken. It must have adequate, relevant and reliable evidence to support the conclusions reached.

The fieldwork involves examination and analysis of the entity's papers, local and foreign visits as necessary and discussions with appropriate staff in the auditee organisation. Assistance and advice from experts may also be required where the study involves a professional area, such as hospital services. The duration of the pre-study will depend on the circumstances and complexity of the area being considered but should normally last for only a few weeks. The pre-study should address the points shown below.

Points to Identify in Preliminary Study

- The **fundamental VFM issues** to be examined and included in the planning document for the full study
- The nature, extent and availability of audit evidence required and how it will be collected
- The approach and techniques which will be used to analyse the data
- The timing of the various stages of the full review
- The resources required in terms of staffing input (both auditing and supervisory) and skills
- The format in which the findings and results of analysis should be reported.

Once the pre-study is under way, it may become apparent that the scope for a full examination is limited or that significant benefits are unlikely to be achieved. Reasons for reaching such a conclusion may include the following:

- The topic has been overtaken by events or is being duplicated by other studies or projects
- The investigation is impracticable
- The data essential to the study is insufficient, unreliable or incorrect
- Other factors influencing the results could not be defined - The audited organisation has already taken action to address any problems
- Audit staff with the required expertise and skills are not available
- The scope for added value from the study seems limited.

By using the pre-study, the auditor is able to cover all aspects of the organisation, activity, programmes and systems in order to acquire a working knowledge of the entity, as shown in the illustrative list below (this is not exhaustive):

Preliminary Study – Information Required

- **For an organisation or entity:**
 - Its history and location

- Its legal requirements
- The entity's charter, objectives, obligations and policies
- An organogram (organisational chart) and its management
- Its budgetary allocations and expenditure levels
- Travel and equipment expenditure
- Number of employees
- Type of examination to be made
- **For an activity:**
 - Background and factors influencing the activity
 - The type of activity
 - Its location
 - Persons responsible for the activity
 - Policies pertaining to the activity
 - Specific procedures for accomplishing the activity
- **For a programme:**
 - Its purpose and objectives
 - Cost and duration of programme
 - The inter-relationships between entities responsible for the programme
 - Policies and procedures for accomplishing the programme
 - Administrative regulations related to the programme

Identifying Fundamental Issues

The pre-study should identify, as far as possible, **the fundamental VFM issues** which are to be examined in the full study.

The auditor should draw up a checklist of points to be pursued. The following questions should be addressed:

- **Questions on Fundamental Issues**
 - What are the objectives that the organisation is expected to achieve?
 - How well and how far have these been achieved?
 - At what cost?
 - Have the objectives been achieved economically (spending less), efficiently (spending well) and effectively (spending wisely)?
 - If not, what explanations are given by the organisation?
 - What are the areas of weakness in the organisation perceived by management?

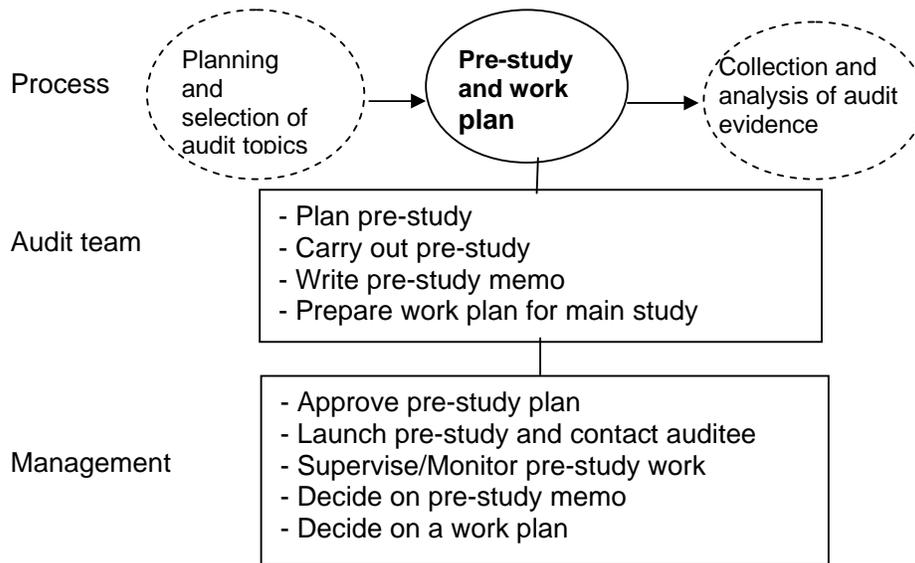
These are the **basic VFM questions** that any performance review should address if it is to reach sound conclusions on the use of resources. Reports are likely to be more effective if the number of such issues is confined to the limited number of crucial VFM questions set out above.

The issues identified should be clear and specific. The following questions will help in **identifying fundamental issues: Identifying Fundamental Issues**

- **Authority?** Does the activity have specific authority under relevant legislation or regulations?
- **Need?** Is there a need for public expenditure or resources to be used on this activity?
- **Alternatives?** Has consideration been given to alternative means of meeting the need? Was the best alternative chosen?
- **Method?** Have activities been planned, organised and implemented in an acceptable way?
- **Standard?** Were the requirements or specifications appropriate, at the right level and are they being met?

- **Timeliness?** Did matters proceed at the appropriate rate, avoiding delay and unnecessary costs?
- **Controls?** Are there adequate controls to ensure the achievement of satisfactory VFM?
- **Cost?** Were resources used economically and efficiently?
- **Recovery?** Were receipts or returns optimised?
- **Achievement?** Were the intended objectives properly defined and communicated? Were they achieved?
- **Implications?** Were there any other significant VFM implications of the activity concerned?

Figure 6: Pre-study and work plan



A performance audit represents an investment for the SAI in terms of time and money. The SAI can undertake only a limited number of audits each year. Therefore, all projects must be carefully selected and designed to bring maximum benefits to the stakeholders and to the nation at large.

The final part of the selection process is the pre-study. The pre-study is a process where it is possible to test different ideas, alternative audit problems and methods.

The pre-study takes the assessment made during area watching and general survey work further and provides sufficient justification to proceed with a main study or, alternatively, conclude any further work.

If the pre-study results justify proceeding with a main study then it contains information about the most important economy, efficiency or effectiveness problems for the entity that is scrutinised as a guideline for the main audit. In addition, it provides background knowledge and information needed to understand the entity, programme or function.

The pre-study results in a pre-study memo which normally is not intended for publication. The pre-study is an internal document that is the source for a decision to continue with a main study or not. If the management decides to start a main study, a work plan is prepared and decided upon. The work plan contains the audit objective, scope and criteria, possible data sources that are available as well as an estimate of

resource requirements for specialist skills. If the main study has been discussed and agreed on as part of the pre-study process, the work plan can be prepared at the same time as the pre-study memo. This means that the pre-study memo sometimes includes a work plan for a main study, while the pre-study memo and the work plan are sometimes two separate documents.

The pre-study and work plan lays the foundation for the audit to be conducted. In the end of the pre-study phase the decision on what to do is taken, in the main study the plan is executed. If the pre-study and work plan are not of a high standard, there is a high risk that problems will be experienced later in the audit.

3.5.1 Planning a pre-study

The pre-study plan is a plan for the execution of the pre-study. A pre-study plan should contain information regarding the approach, timing and resources required for conducting the proposed pre-study. The following issues should normally be included in the pre-study plan:

- *Motivation*: The reasons why it was decided to carry out a pre-study.
- *Objectives* and issues to be investigated: Focus on the chosen audit object and illustrate what the auditors hope to achieve by means of a pre-study.
- *Collection of information*: Mention the type and sources of information that will be needed in the pre-study and what methods will be used to gather the information. Sources of information could be interviews, documents and observations.
- *Organisation and need for resources*: Indicate who will be involved in the pre-study and what role they will play. All other resources, such as money and time spent on the pre-study, should be indicated.
- *When the pre-study should be finalised*: A pre-study could take from one month to maximum three months.

Given the nature of performance audits and the particular pre-study it might be difficult to standardise all working methods or to identify all sources of information in advance.

For members of the audit team the plan serves as a guideline according to which the pre-study is to be pursued. The team should decide:

- what information is needed for the pre-study
- how the information will be collected
- how the information will be used to identify the audit problems.

3.5.2 Collection of data

After the SAI has made a decision to start a pre-study the auditee's top management should be informed that a pre-study would be carried out and of the purpose of the pre-study before data collection at the auditee starts.

Collecting data takes place during both the pre-study and main study of an audit. The primary role of data collection in the pre-study is to gather enough information to be able to assess alternative audit problems. Data can be collected by a number of methods in the form of documents, testimonial data and physical observations (see chapter 4). The audit team should devote time to studying relevant documents and other literature. The audit team should utilise existing reports, evaluations and statistics in the area and avoid collecting primary data if other sources are already available. The audit team may interview people with special knowledge of the audit object and people who are willing to assist in giving information and discussing possible audit problems.

During the pre-study the audit team should also look for information that can be used as assessment criteria (see chapter 3.5.5) and try to find out what documents, files,

computerised data and statistics are available that can later be used to collect data during the main study.

The documentation of data is of great importance in auditing. This is true for the pre-study as well as the main study. During the pre-study, it is important to bear in mind that properly documented data might later be used as audit evidence in the main study. Therefore, all data should be carefully documented and the data collected should be filed in accordance with the filing format established by the SAI (see chapter 2.12).

3.5.3 Analysis of data and identification of possible audit problems

All data collected should be analysed and converted into meaningful information. The analysis of data will be further discussed in chapter 4 of this manual.

Meaningful information in the pre-study is data relating to possible audit problems. Selecting the audit problem is the most important step in the audit because it lays the foundation for all the activities that take place later during the audit.

The findings of the pre-study should be presented in such a way that related problems are presented together so that the links between them become clear. The most important audit problem can be determined by using the SAI's selection criteria in conjunction with some type of structured technique. The following steps can be applied:

- Define the activities that an entity perform to transform input into output (see chapter 2.2).
- Define good performance and/or good economy, efficiency and effectiveness.
- Use the collected data and analyse whether there are indications of poor performance.
- Identify possible audit problems by grouping the indications of poor performance according to the three Es.

The black box can also be broken down by studying what activities that take place in the black box using process studies or flowchart techniques. Brain storming techniques or the problem-tree analysis technique and/or the input/output model or other techniques can be used (for example taken from social science). The techniques can also be combined, for example the brainstorming technique could be used to identify possible problems and the problem-tree technique could be used to understand the relationship between those different problems.

Brainstorming

Selection of the audit problem can be done by using the brainstorming technique. Brainstorming is a group creativity technique designed to generate a large number of ideas. Firstly, new and innovative ideas are generated; and secondly, the ideas put forward are critically assessed. The team should not try to be creative and critical at the same time.

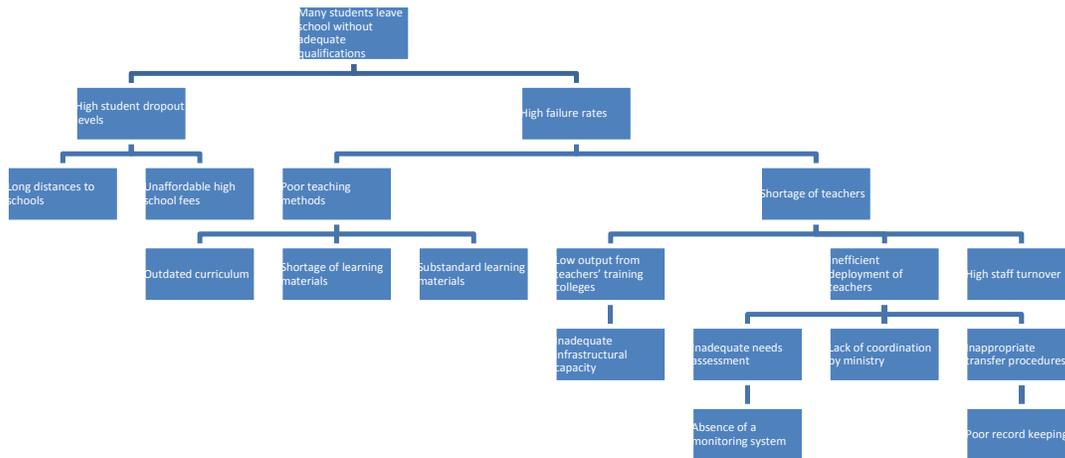
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- Brainstorming entails a session where ideas about the problems and problem indicators as seen from the data gathered in the pre-study is listed. There are four basic rules during the brainstorming session; focus on quantity, withhold criticism, welcome unusual ideas, combine and improve ideas.
- Group the problem found during the brainstorming session into possible problem areas.
- Rank the possible problem areas that can be scrutinised.
- Identify the key factors most likely to influence economy, efficiency and effectiveness.
- Indicate why the factors did not meet the three Es.
- Formulate the audit problem

The problem-tree analysis technique

The problem-tree technique is a tool to decide what problems are relevant and how to relate and structure those problems. The problem-tree analysis is a work tool used to relate and link different problems to each other hierarchically according to how they influence each other. The problem tree lists the problems that came up during the pre-study and their relationships (which problems are causes and which are consequences). Any box in the tree can be defined as a problem. Causes of that problem will then be found as you move downwards in the tree and the consequences as you move upwards. An example of a problem-tree is shown in the figure below:

Figure 7: Example of a problem-tree



Before arriving at the final version of the problem tree, the audit team would have reformulated many problems and eliminated others. Interrelated problems that have the same causes and consequences would have been merged. In this example, problems such as inadequate facilities, poor attitudes or poverty have been left out, since they lie outside what can be audited in this example. Other problems may have been eliminated simply because the auditors considered them to be too insignificant.

The problem tree technique help the team to identify different audit problems. Different selection criteria's (see chapter 3.4.5) are used to choose an audit problem. If, in the example above, the audit problem is chosen at a very high level (for example high failure rates), it will probably be of great interest to the stakeholders, but it might not be possible to deal comprehensively with the problem since there is a risk that the audit will either be shallow and trivial or demand unreasonably large resources to cover all important aspects of the audit problem. If, on the other hand, the audit problem is chosen at a very low level (for example poor record keeping), it might be possible to investigate it very well, but it may be of little interest to the stakeholders.

When in doubt, it is generally better to choose an audit problem at a lower rather than at higher level. Problems are usually more complex and complicated than initially envisaged. With good arguments you can explain to stakeholders how a problem at a lower level relates to problems at higher levels. It is also possible to launch several audits that deal with related problems at a lower level. The audits can be conducted parallel or in a sequence. The results of these separate (but coordinated) audits could then be used in a synthesis report, addressing problems at a higher level.

Organising thoughts in the form of a problem tree takes quite some time, as the tree will probably have to be revised several times before the team is satisfied with the result. Staff members from outside the project team could be invited to give feedback on the problem tree. This will most likely provide new insights and generate a better understanding of the problems at hand.

3.5.4 Activities in organisations or programmes can be audited

A situation in society that is not satisfactory may be defined as a problem from an auditee's point of view, but from an auditor's perspective it is not an audit problem that can be scrutinised in a performance audit. Activities undertaken by auditee/s where performance is not satisfactory may be defined as audit problems.

The audit problem should be linked to one or more of the three concepts of economy, efficiency and effectiveness. A performance audit can focus on a range of different problems. However, performance audits give priority to problems that are relevant for groups of people and not only to one individual, and which are of a long-term and structural nature. Problems may also be looked at from different perspectives. What is defined as a problem by the headmaster of a primary school may not be regarded as a problem by the teachers or the pupils, parents, administrators, cleaners or politicians. Therefore, the auditor should make an independent and impartial assessment, approaching the problem from different perspectives.

Possible audit problems emanate from the findings of the pre-study. During the pre-study work, the auditor should identify and analyse the characteristics of the problems found. When several problems have been identified, the team has to limit the scope by choosing the audit problem judged as the most important to audit. This is done because it is usually impossible to audit all the problems identified during the pre-study.

Some advice when formulating audit problem:

- Concentrate on one problem and do not try to mix several different topics
- Formulate the audit problem so it is evident that it is a problem
- Do not include explanations or causes of the problem

3.5.5 The selection criteria

Selecting an appropriate audit problem is a prerequisite for a successful performance audit. The assessment of the selection criteria can be done in several ways. It can be

rhetorical with arguments or by ranking how each possible audit problem scores according to a scale for each selection criterion. The individual selection criteria can also be ranked according to a scale. Irrespective of which method is used, it is important that the motivation for the selection of the audit problem that is chosen is stated clearly. Below are examples of selection criteria that can be used.

Mandate

- Does the problem fall within the mandate of the SAI?
- It is clear that it is an audit problem and not a political problem?

Materiality

- To what extent does the problem affect the citizens, the economy and government finance?
- Is it a general problem throughout the organisation or confined to a small part of the organisation?
- Is it a long-term or a short-term problem?

Risk

- To what extent is there a risk that a lot of money may be lost or used wastefully?
- To what extent is there a risk that shortfalls in the audited entity's performance leads to poor output?
- To what extent is there a risk that important objectives are not being achieved?

Auditability

- Are relevant and accepted audit methods applicable?
- Are sufficient resources available, e.g. budget, transport and human resources?

Potential for change

- What is the possibility that the conclusions and recommendations of the audit will be accepted?
- Are there political, financial, ethical or other factors that limit the possibilities for change? Can the problem be solved without an increase in resources?
- Have there been any major changes in responsibilities, laws or organisational set-up in the area recently which indicates that the audit should not be conducted?
- Are there other bodies already considering how the problem can be solved?

The following may also apply:

- .. New programmes and initiative made in haste
- .. Small organisation with regulatory services.
- .. Low profile services sometimes offer good potential for improvement because there are new ways of looking at them.
- .. Timely service delivery.
- .. Financial impacts of study i.e. savings compared to cost of study.
- .. Study should not duplicate

After finalising the problem-tree analysis and considering the selection criteria the audit team in the example above suggests 'inefficient deployment of teachers' as the audit problem. This audit problem appears to be neither too broad nor too narrow and probably meet each selection criteria.

3.5.6 Pre-study memorandum

At the end of a pre-study, the audit team presents a written report (a pre-study memorandum), summarising the findings of the study and recommendation for further action. This pre-study memo is normally an internal document. The pre-study memo

should be written as precisely and unambiguously as possible. The information included and the structure should help the reader to understand why the team selected the specific audit problem

The following should be covered in a pre-study memorandum:

- Background to the pre-study, gives a brief history of the problem and the **reasons or explanation for conducting the pre-study**.
- Design of the pre-study, gives a brief outline as to **how the study was carried out** in terms of scope and what methods and sources of information have been used.
- **Description of the audit problem environment**, which should provide sufficient background information to understand the context in which the audit problem that has been reviewed appears in.
- The findings from the data collection during the pre-study should be described.
- Results of the pre-study in terms of the **problems identified** and the reasons why they are identified to be problems.
- Selection analysis between the alternative audit problems
- A description of **the selected audit problem** if the team recommends that a main study should be carried out.
- **Recommendation** to management on whether or not to carry out a main study.

3.6 Work plan

When top management decides to audit the audit problem suggested by the team, a work plan for a main study has to be prepared by the team. The work plan should also be approved by management. The purpose of the work plan is to plan how the audit of the specific problem will be carried out during the main study. The work plan will help the team to structure their thoughts and guide them through the audit process. It also provides a basis for management to monitor the main study throughout the process.

The work plan of the main study is divided into two interrelated parts. The methodological plan of the main study gives answers to questions on *what* and *how*. The resource plan determines *whom*, *when*, and *at what costs*. Basically, this entails making an activity plan and a budget for the project.

The work plan should include the following:

- Audit problem
- Audit objective
- Audit scope
- Audit questions
- Assessment criteria
- Methodology and sources of data
- Expected findings
- Expected result
- Risks for carrying out the project and possible ways to deal with these risks
- Resource planning, including budget, human resources and activity plan

This work plan should be regarded as a contract between the project team and management; if management provides the required resources (time and money) – then the team should be able to deliver a report according to the work plan.

We can see the project as the black box in the input output model (see chapter 2.2), time and money are the inputs and the output will be the report which hopefully will create changes in the society or effects.

3.6.1 Audit problem

The audit problem as defined in the pre-study memo provides the starting point for the planning of the main study.

In our example the audit problem was 'inefficient deployment of teachers'

3.6.2 Audit objective

Based on the audit problem that the audit will address the auditor should formulate an audit objective. The audit objective relates to the reason for conducting the audit. It is more neutrally formulated than the audit problem. An audit objective is a precise statement of what the audit intends to accomplish.

In our example if the audit problem is 'inefficient deployment of teachers' the audit objective would be to "the audit will assess whether the government is taking steps to improve the deployment of teachers."¹⁴

3.6.3 Audit scope

When the audit problem and the audit objective have been defined, the audit team needs to specify the scope of the audit. The audit objective and scope are interrelated and should be considered together.¹⁵ The formulation of the scope can influence the formulation of the audit objective. The scope deals with how the audit shall be limited to certain time periods, geographical areas, population groups, seasons, etc. The audit scope defines the focus and/or boundaries of the audit. The scope is determined by answering the following questions¹⁶:

What? Audit object

What is the audit object, i.e. the activities, programmes or processes that will be audited?

The audit object is an ongoing or terminated activity carried out by one or several auditee. It could cover the whole process, from input of resources to output and effects, or merely a part of that process.

The audit object in our example is the system for deployment of teachers.

Who? Auditee

Who is the auditee, i.e. the ministry/entity responsible for the audit object? Is there more than one entity that will be scrutinised?

After having defined the audit object, it is necessary to indicate clearly who is responsible for carrying out the activity under audit.

The auditee in our example is the Ministry of Education, including its regional directorates and relevant specialised functions.

When? Time coverage

Are there limits on the time frame to be covered, e.g. a specific year or period of time?

The purpose of a performance audit is usually to form an opinion on ongoing activities. The aim is often to capture the current situation. It is often not possible to study the whole period that is relevant to the audit problem and the audit object. In those cases the period to be covered by the audit has to be limited. If the auditor wants to measure

¹⁴ Some countries work with a general audit question the audit question for the audit could be "Is the government taking steps to improve the deployment of teachers?"

¹⁵ According to ISSAI 3000 Implementation Guidelines for Performance Auditing, page 48.

¹⁶ According to ISSAI 3000 Implementation Guidelines for Performance Auditing, page 50.

development over time it is often advisable to cover a longer period than just one or two years. It might, for example, be of interest to illustrate developments in a certain field over a number of years. The availability of data and changes such as major reforms launched by government should also be taken into account when defining the time coverage for the audit.

We assume that the system for deployment of teachers has been in operation for five years.

The team, in our example, chooses not to cover all events that have taken place during each one of the five years that the system has been in operation. The audit team therefore decides to analyse available documents and statistics for the whole period, but to limit interviews and other data collection to the current situation and to developments during the last year.

Where? Geographical coverage

Are there geographical limits concerning the area to be covered e.g. to be concluded on, Is the geographic coverage covering the whole country or one or more regions?

It is important to understand the difference between having an audit with a scope of for example three regions out of ten regions, and an audit where an important method of data collection is case studies in three regions. In the latter case the intention is to generalise the results, e.g. to make conclusions that are valid for the whole country. To do that, a combination of case studies with other sources of information is often used, for example statistical data from all regions and interviews at the central level.

In our example, the problem is general to the whole country so the geographical coverage will be the whole country.
(Would there be problems with the deployment of teachers only in the eastern part of the country the geographic scope could also be more narrow and the conclusions from the audit could be applicable only to that part of the country.)

When defining the scope of an audit, it can be useful to specify any associated matters that are not to be audited and the reasons why.

3.6.4 Audit questions

After determining the audit problem the audit objective and the audit scope, the team should break the audit down into smaller pieces by define specific audit questions. By answering the questions the team should be able to reach the audit objective within the audit scope.¹⁷

Good audit questions are SMART:

- Specific
- Measurable
- Actionable (relevant due to the input-output model)
- Realistic (possible to answer properly)

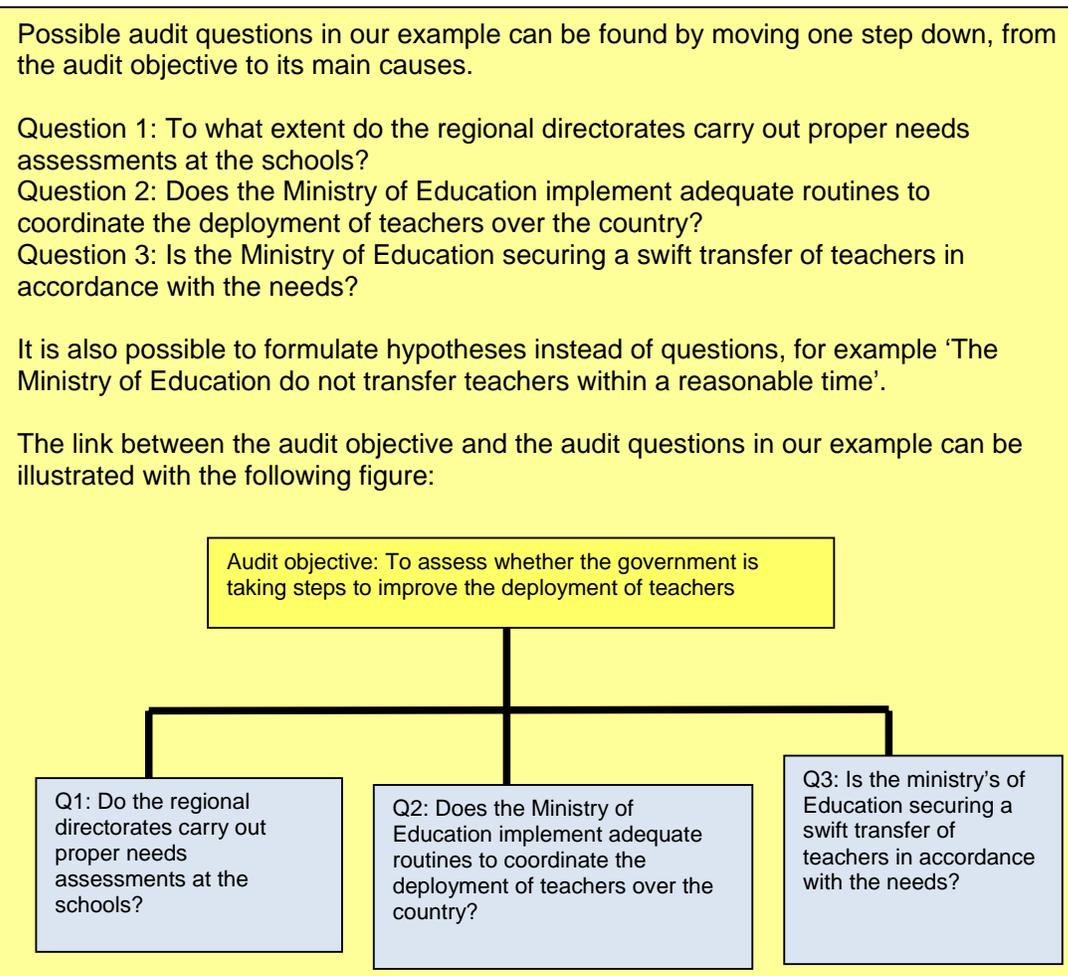
¹⁷ Audit hypotheses can sometimes be used instead of, audit questions. (Hypotheses are statements that are relevant to the audit problem; possible to test if they are true or false and formulated in a negative way.) It can be argued, however, that formulating questions is better than hypotheses as it helps the auditors to employ an open and inquisitive mind throughout the audit. Using questions instead of hypotheses, which are formulated in a negative way, can also make it easier when the audit is introduced to the auditee. If hypotheses are used by the auditors, it is advisable to rephrase them to audit questions when the audit is presented to the auditee and other stakeholders.

- Time bound

Good audit questions are also open (not assuming any result) and organised logically (not overlapping).

In formulating the audit questions, performance auditors must rely on the information collected and their own skills and experience. Techniques similar to the problem-tree analysis, brainstorming, etc. are sometimes used at this stage. When formulating audit questions, the auditor is advised to ensure that each issue to be raised in the audit is handled separately and, where issues are linked, there should be a clear indication of how they are linked. The audit questions will deal with issues such as 'what is' or 'why is it'. It will also be an advantage if the questions indicate which entity is responsible. When the question is answered, they should provide sufficient information about the audit problem and its causes within the given scope. The number of audit questions that should be formulated will depend on the scope of the audit problem defined. It is advisable to use between three and five specific audit questions. In general, a larger number of questions will increase the risk of the auditor losing his/her focus on the key issues of the audit.

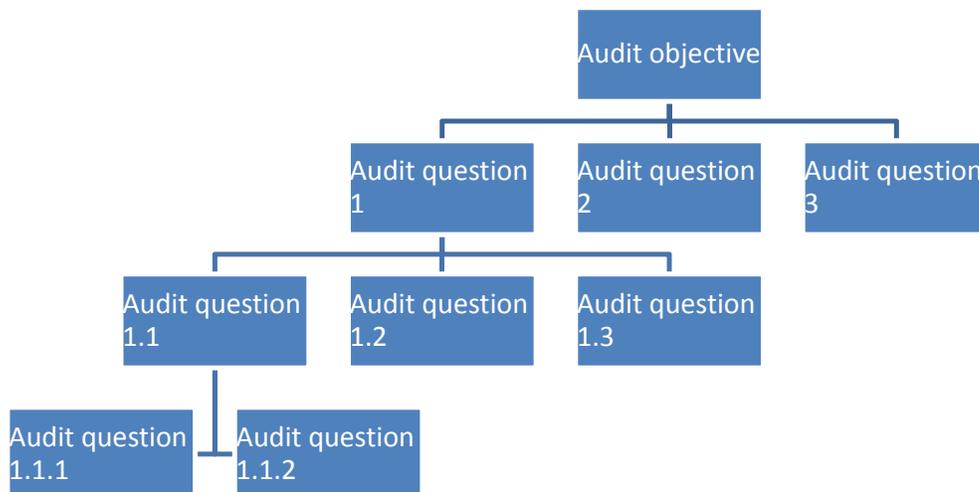
Figure 8: Example of link between the audit objective and audit questions



The audit questions can be divided further into sub-questions. It is not necessary to present those sub-questions in the work plan, but the team can do it as a tool for themselves.

This can be done by issue analysis technique were the audit questions are broken down in a hierarchy of sub-questions until the subsidiary questions are simple and manageable enough to be answered by conducting a particular piece (or pieces) of audit work. The sub-questions should be; mutually exclusive – they do not overlap with each other; and collectively exhaustive – between them, they should cover the whole topic.

Figure 9: Audit objective and audit questions



3.6.5 Assessment criteria

Performance auditing is concerned with comparing an actual situation with what is expected (i.e. what is versus what should be), and having an opinion about the difference between the two states of affairs. To facilitate such a comparison, Assessment criteria need to be formulated as explicitly as possible. Assessment is the same as appraisal or evaluation; criterion is standard for comparison and judgement. Assessment criteria = evaluation standards = what we need to compare with in order to make an appraisal.

Assessment criteria are the standards against which the performance of the audited entity will be measured in a particular audit. The assessment criteria's help us get from findings to conclusions. We can't say whether the findings are good or bad if we don't have assessment criteria to assess them with.

The assessment criteria determine whether or not the entity/ies, operations or the programme meet or exceed 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 behaviour?' 'What is required or expected?', 'What results are to be achieved – and how?'¹⁸

The assessment criteria will also help the auditor to create a common understanding with the auditee. It is important to inform the auditee about the assessment criteria early in the audit. The reason for that is that the auditee will be informed about what the audit assesses, the auditee can also have good arguments about the choice of the assessment criteria which can influence the audit. It will also be more difficult for the auditee to question the assessment criteria at the end of the audit if they can comment on them in the beginning of the audit. Even if the assessment criteria are discussed with the auditee in the beginning of the audit it is important to underline that the auditors have the final choice in the selection of the assessment criteria.

Characteristics of useful assessment criteria

For the criteria to be useful, they should meet certain standards:

- *Objective* criteria are free from any bias on the part of the auditor or the audited entity.

¹⁸ According to ISSAI 3000 Implementation guidelines for performance auditing, page 52.

- *Understandable* criteria are clearly stated and not subject to significantly different interpretations.
- *Comparable* criteria are consistent with those used in performance audits of other similar entities or activities and with those used in previous performance audits.
- *Complete* criteria refer to the development of all significant criteria appropriate to assessing the performance.
- *Acceptable* criteria are those that independent experts in the field, audited entities, the legislature, media and general public are agreeable to.

Sources of Assessment criteria

When developing assessment criteria, it can be useful to consider the following sources:

- Laws governing the operations of the audited entity
- Parliamentary statements
- Declarations of principle of the government or a ministry
- Planning documents, contracts and budgets
- Standards and measures set by the auditee¹⁹
- Organisational policies and procedures
- Comparisons with corresponding activities in the private sector
- Comparisons with international benchmarks
- Criteria used by professional organisations and standard-setting bodies
- Standards set by the auditors in previous audits
- Criteria used by other SAs in similar audits
- The expectations or experiences of the citizens affected
- Common sense, what system in place or service delivery is reasonable to expect from the auditee

The process of identifying assessment criteria requires rational consideration and sound judgement. Goals and objectives set by an act of parliament, by the government or by the auditee are sometimes vague or very broad. Under such conditions, the audit team might have to interpret the goals to make them more specific or measurable.

When the goals are in general terms, it is difficult to get a clear idea of the audited entity is effective or not. The auditor may choose to carry out the performance audit without any goals having been defined focusing on economy and efficiency. When no goals can be found it may also be possible to identify various types of effects, irrespective of the fact that no goals exist. The auditors themselves may define goals which seem reasonable. The auditor may ask the decision-makers to define the goals of the audited entity. The auditor may also state or discuss in the audit report what should/could be the goals for the entity.

In our example, suitable sources of assessment criteria for the respective questions could be fetched from:

- Q1 - Standards defined by an act of parliament or by the government regarding staffing at schools
 - Criteria laid down by the ministry
 - Established procedures and routines to apply when assessing needs
- Q2 - National goals regarding equal treatment of different regions
 - Standards defined by an act of parliament or by the government regarding staffing at schools

¹⁹ Standards set by the auditee itself must be used with caution. They should be analyzed with extra care and judgment should be made if they are objective and free from any bias from the audited and can be used.

- Q3 - There may be a period set for when transfers are allowed
- The auditors could develop a norm that transfers should be made in such a way that all teaching staff are available at the beginning of the school year/term.

3.6.6 Methodology and sources of data

The character of data collection will usually change over time as the project proceeds. At the start of the project, during the pre-study, the auditor will be interested in general, broader types of information where the auditor tries to understand the way the audited organisation functions. As the project progresses, the data needed would be increasingly specific with regard to sources, types of questions asked, etc.

Performance audits can draw upon a large variety of data-gathering techniques, the same techniques that are commonly used in the social sciences. Data can be categorised by its source as follows:

- **Documentary** data consists of all sorts of written documents, for example, reports, research papers, records, and statistical data.
- **Testimonial** data is obtained through interviews or questionnaires.
- **Physical** data is obtained by the direct observation of people, buildings, events, etc.

Data collection is one of the most time consuming part of an audit and often involves extensive fieldwork at different levels.

Because of financial and staff constraints, the audit team cannot collect data from all available sources within the scope of the audit. It needs to choose representative data sources (sampling). How this selection is done is crucial for the team so that it will be able to generalise the conclusions and recommendations at the end of the audit to cover the whole audit objective and scope. Selecting a few representative regions could be one way of limiting the audit. Applying sampling methods to select a limited number of entities in each region and a number of interviewees at each entity could be another.

In our example **the audit objective** is: To assess whether the government is taking steps to improve the deployment of teachers. The **three audit questions** are;
Question 1: Do the regional directorates carry out proper needs assessments at the schools?
Question 2: Does the Ministry of Education implement adequate routines to coordinate the deployment of teachers over the country?
Question 3: Is the Ministry of Education's human resources division securing a swift transfer of teachers in accordance with the needs?
The scope defined for the geographical coverage is the whole country.
- The team will interview people at the Ministry of Education's head office.
- A representative **sample** of regions is selected so that the team decides to go to three specific regions out of 12 regions. The ministry of education agrees that the three picked regions are representative for the whole country. In the regions the team talks with the regional heads and administrative staff.
- In each region two districts are chosen where staff who compile information are interviewed. The team lets the head of the region influence the choice of districts.
- In each district the team chooses two schools where the team talk to the headmaster and five teachers who had recently been employed. The team lets the district heads influence the choice of schools.
From the sample the team will draw conclusions of how the system of deployment of teachers works in the whole country and not just in the visited regions, districts and schools.

For each individual audit question, the audit team should indicate sources of information and methods for data collection during the main study. The team is expected to assess the practicability of the proposed audit methods, the availability of data in the required forms, and the team's ability to collect, analyse and interpret the data.

To be able to corroborate the findings at a later stage, it is usually preferable to combine data from different sources and methods. The selection of sources and methods to collect data in the work plan should be as complete as possible, yet allowing additional ones to be included, if necessary, during the main study. The unavailability of data may, however, restrict the choice of methods. As a general rule, it is advisable to be open and pragmatic in the choice of methods. Nevertheless, the planning in the work plan has to be detailed enough to allow for proper resource planning. Data collection and analytical methods are described more extensively in chapter 4.

3.6.7 Expected findings, conclusions, effects and risks

Expected findings are to speculate about what deviation will be seen between the assessment criteria's and what actually take place in reality. What conclusion will eventually be drawn from the expected deviation. How can the audit create change so that what actually take place in the reality will reach or come closer to the assessment criteria's.

Any foreseeable problems in executing the main study and getting the expected findings should also be identified. Strategies for overcoming the foreseeable problems should be developed. Any foreseeable risk should be mentioned.

3.6.8 Audit design

The audit design aims at making it possible to investigate the audit problem and consequently it must be clearly linked to the audit problem. It is necessary that all the different components of the audit design presented above are closely linked to each other. This means that the audit questions the audit scope and methods must be congruent with each other.

One approach to planning the audit is to make a list of the audit question. For each audit question state the assessment criteria, the data collection methods and expected findings. To facilitate this, auditors can use a verification form.

Table 4: Example of verification form for audit questions, assessment criteria, data collection methods and expected findings

To illustrate, from our example were the audit objective is: To assess whether the government is taking steps to improve the deployment of teachers:					
Audit questions	Assessment criteria	Data collection			Expected findings
		What?	How to obtain?	How to compile and analyse?	
Audit question 1: Do the regional directorates carry out proper needs assessments at the schools?	<p>- In an act of parliament <u>the maximum ratio between student to teacher for staffing at schools is 35 students to 1 teacher</u></p> <p>- Criteria laid down by the ministry says that each region shall <u>submit their staff need 6 months before the school year starts</u></p> <p>- The ministry has specified that the regions shall assess the needs by calculating <u>expected students, including new and leaving student, in different form and subject compared to expected teachers that will quit or retire</u></p>	Number of students, number of teachers by subject, per school and form.	<p>Read the act and criteria and the ministry's specification</p> <p>Collect the submissions of the regions, districts and schools.</p> <p>Interviews with:</p> <ul style="list-style-type: none"> • staff at the ministry who compile the regional submissions, and staff who uses the compiled reports • with staff at NGOs and the university who work with need assessments of teachers • staff from 3 regional directorates • staff from 2 district headquarters who compile information for the region in each of the chosen region. • headmaster from 2 schools in each of the chosen districts <p>Observe the mathematics classes in form 4 in each visited school</p>	<p>Compare the submitted reports with the ministry's specification</p> <p>Table showing average number of student per teacher in different subjects and forms for different regions</p> <p>Table showing when the different regions submit their needs, when they get the requests from the districts and when the districts get them from the schools.</p>	<p>The ratio between the number of student and teacher differs a lot within the country and is often higher than the maximum.</p> <p>Many regions submit their staff needs to late.</p> <p>All regions do not follow the ministry's form for calculating staff needs.</p>
Audit question 2 ...					

3.6.9 Resource plan

When the methodological plan of the main study is done the resource plan shall be done who give answer to questions such as *whom, when, and at what costs* the main study shall be executed. It should include an activity plan and a budget for the project.

The resource plan should specify how the resources will be used. Both human and financial resources, including the time required to complete the main study, need to be specified.

The resource plan should be closely linked to the methodological plan. The activities planned in the methodological plan take time and need to be realistically scheduled. In reality the methodological and recourse plans are linked together, the recourses available will influence the methods that can be used. As already mentioned financial and staff constraints will influence the data collection..

Human resources

It is usually difficult to conduct a performance audit project alone, but too many auditors in the team may lead to problems of internal communication, coordination, etc. The size and complexity of the audit will determine the number of auditors needed.

When composing audit teams it is important to ensure that the members collectively possess the necessary skills, expertise and experience the audit requires. The names of the auditors who will conduct the audit and the supervisor responsible should be mentioned in the resource plan (see also chapter 2.9).

Responsibility within the team should be clarified and work should be allocated appropriately. All members of the team should have insight into the overall development of the project. Nevertheless, the team leader has specific responsibilities when it comes to planning the project, reporting to management, contacts with the auditee, etc.

None of the audit team members should have any ties to the auditee that could question his/her objectivity. No member of the audit team should have any affiliation, for example, kinship or other relationship, with staff at the auditee which could affect his/her objectivity and/or independence (see also annexure 2).²⁰

There may be cases when the audit team needs specialised knowledge acquired outside of the SAI. In these cases the possibility of using the expertise of consultants, doctors, engineers, etc. should be considered. If so, the assignment and the role of the expert should be clearly specified.

Time schedule and activity plan

The resource plan should include a time schedule and an activity plan for all main activities, and should be as realistic as possible. The time schedule should highlight important activities and decision points or milestones when the management needs to be involved. It is important with regular meetings with the manager for monitoring the progress of the audit. Presentations shall be done on dates specified in the work plan and also on the audit team initiative when the team encounters something that influence the project or the work plan,

²⁰ A code of ethics declaration could be used by the SAI to be filled in by performance audit team members and managers responsible for the audit in the same way as it is used by financial auditors by SAIs who is members of AFROSAI-E (see AFROSAI-Es Regularity audit manual 2010).

The time schedule makes it easier to complete the project within a reasonable time and with a specific number of days spent by the auditors. The time schedule and activity plan will make it possible to link different activities within the project to each other. Some of the activities will be based on the results of other activities and must therefore be carried out in the right sequence. It is also necessary to allow time for analysing and interpreting data after the fieldwork and to write the report.

If it has been decided to conduct field visits to three regions in two districts within each region and at four schools within each district, the times of such visits must be planned. Time should be allocated for travelling and difficulties in getting hold of the right people. There is also a need to allocate time to conduct interviews at the central level, with university and NGOs and to retrieve and analyse data from the reports from regions, districts and schools.

The team should keep in mind that all calendar time is not available for project work. The team members will perhaps be required to work on other tasks, or participate in a training programme or take annual leave. To make the activity plan realistic, these and other considerations should be incorporated.

Tips when compiling an activity plan:

- Do not be over-optimistic when compiling the plan. Auditors might have to spend time on other tasks, such as area watching, seminars and training programmes.
- The plan should consider public holidays, training and vacations.
- Take into consideration the logistics for travelling, weather conditions and the working hours of the client.
- Compare activity plans from previous audits in order to estimate the amount of time that will be needed to complete a specific activity.
- Add some time, maybe 10-20%, for unforeseen events, particularly if there is a new area, complicated methods, etc.
- Put in sufficient time to analyse data and to write the report.
- Take into account that the managers need time to read drafts, memos etc. and plan what you can do before you get a decision.
- The decision points or milestones in the activity plan can also be used as agreement with management so that the reading time for management doesn't become too long.

As stated earlier a pre-study could take from one month to maximum three months and the total time for a performance audit (pre-study and main study) should normally be shorter than a year.²¹

Financial resources

Budgeting involves deciding on the amount of money needed for the project. Aspects such as salaries, accommodation, transport, stationery and printing as well as various allowances for staff conducting the audit must be determined in planning the project's budget. Unrealistic budgeting can be a serious problem for the audit. It is therefore important that the plan focuses on what is reasonable and realistic and not on what is desirable. The use of a budget for a performance audit project should be linked to the way budgets are normally used at the SAI. For example, does the internal budget system in the SAI distribute salary cost for staff and/or overhead cost on audit work?

3.6.10 Contacts with the auditee

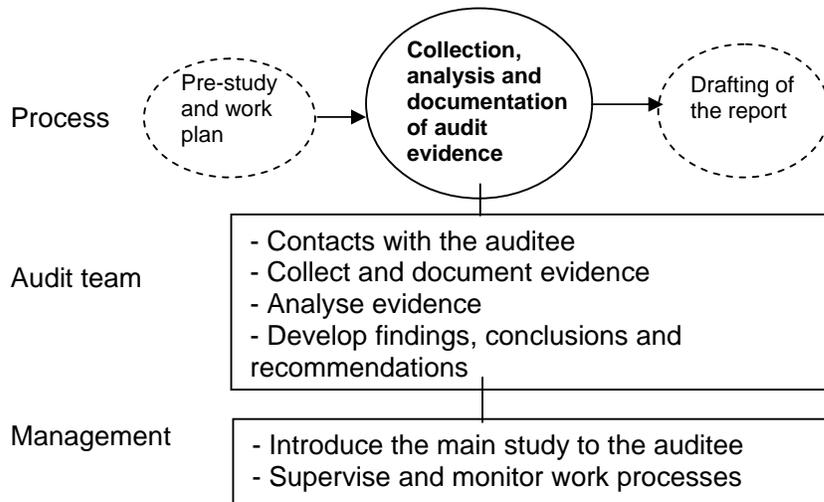
²¹ To be considered for the SNAO prize for the best performance audit report the production time should be less than 12 months.

The planning process also includes reflections on the relationship with the auditee. Contacts with the auditee have already been established during the pre-study. The audit team should specify the need for a contact person at the auditee(s) and the role of that person.

4. EXECUTION

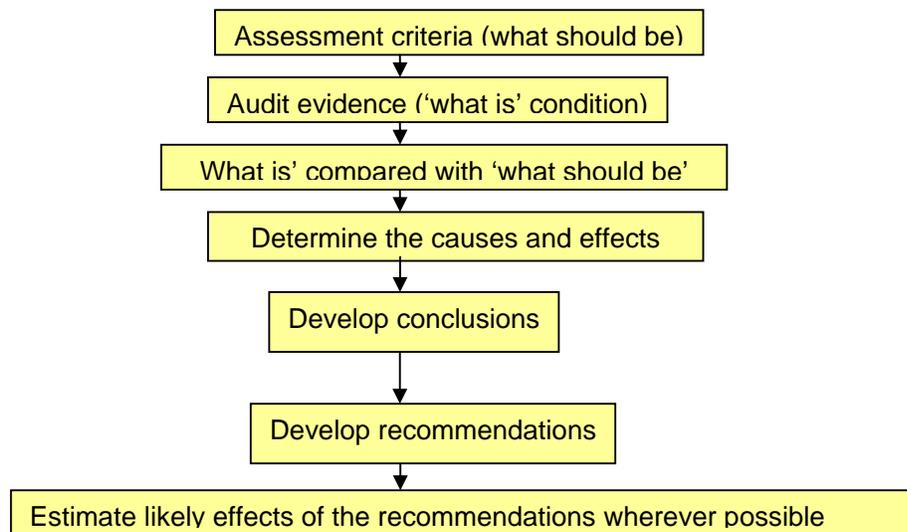
During the execution phase the plan that was drafted during the pre-study is implemented.

Figure 10: Collection, analysis and documentation of audit evidence



In performance auditing it is not enough to show that problems exist. There is also a need to explain why they exist and to recommend what should be done about them. The purpose of data collection in the main study is to be able to answer the audit questions and to develop audit findings, conclusions and recommendations that will be presented in the performance audit report.

Figure 11: The relationship between assessment criteria, audit evidence, audit findings, conclusions and recommendations



The figure is a general description of the relationships between the assessment criteria, audit finding, causes and effects, conclusions, recommendations and effects of recommendations.

In actual audit work the steps do not follow one after the other. Instead they overlap each other. Some of them will go on during the whole audit, but with different emphasis over time. The structure of a report can also be different from the figure depending on what is suitable in the individual audit. For example, the assessment criteria and the audit evidence can be described for each finding in a findings chapter. It is more common to develop conclusions and recommendations in separate chapters than to include them in one or more findings chapters,

4.1 Introduction of the main study to the auditee

Contacts with the auditee have already been established during the pre-study. However, the SAI has now decided to continue with the audit and chosen the topic for the main study. Therefore, an introduction to the main study is also necessary which can be done in the form of a letter “an engagement letter” and an introductory meeting “an engagement meeting”.

The letter, signed by the Auditor-General or someone with delegated authority, should inform the auditee about the SAI's decision to launch a main study and explain its purpose.

The letter should provide a statement of the objective and scope of the audit together with relevant contact details. The letter can contain information on the Auditor-General's mandate and other relevant information; for example if the report will be tabled in Parliament. The letter can state how and when the audit report is expected to be finalised and the possibility of the auditee providing commentary during the reporting phase. It is recommended that it also contain an invitation to an introductory meeting. In the case of an audit that covers more than one entity, separate letters should be sent to each entity subject to audit.

The purpose of the introductory meeting is to present the forthcoming audit. At the meeting the SAI would normally be represented by the audit team the performance audit manager and the top manager responsible for performance audit. The audit team should inform the auditee about the following:

1. Purpose of the main study
2. Time schedule for the main study
3. Members of the audit team
4. The audit objective, audit question and assessment criteria.
5. Methods that will be used to collect data
6. The information and support that will be requested from the auditee
7. The purpose of the auditee appointing a contact person
8. The purpose of the exit meeting.

In countries where performance audit is a new and unknown concept, a general information about performance audit should also be given.

The SAI can gather the auditees opinion about the chosen assessment criteria. The SAI can also let the auditee bring to their attention any contextual matters that might

influence the audit and give the auditee the opportunity to ask questions about the audit.

The performance auditor will need assistance from the auditee when it comes to finding persons to interview, developing questionnaires, looking for statistics, etc. To deal with these practical arrangements, the auditors may ask the auditee to appoint a special contact person. The auditee's contact person should assist the audit team throughout the audit with required information and he/she should be consulted if the audit team needs to visit the auditee's regional or local branches. The contact person is also a link between the auditors and the auditee's management. The introductory meeting is usually followed by a meeting between the audit team and the appointed contact person.

Throughout the audit it is important to maintain a productive relationship with the auditee. The SAI should seek to create an understanding of its role and function among audited entities with a view to maintaining amicable relationships with them. Good relationships can help the SAI to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding.

The SAI shall remain independent from audited entities. The SAI has to discharge its mandate freely and impartially. The SAI should take the auditee's views into consideration when formulating audit findings, conclusions and recommendations, but with no responsibility towards the audited entity for the scope or nature of the audit undertaken. The final decision on what to take into consideration or what not shall rest with the SAI. It is important that the auditee understands that the SAI will always have the final word on what to audit and what to write in the report.

4.2 Data-collection methods

SAI's shall have access to all records and documents relating to financial management and shall be empowered to request, orally or in writing, any information deemed necessary by the SAI.²²

To answer the audit question and meet the audit objective there is a need to collect different kinds of data in an audit. The purpose of the data collection is to increase the auditors' knowledge about the audit area and its problems; and to collect sufficient data in relation to the audit questions and assessment criteria that have been formulated in the work plan.

Different methods and techniques for collecting and compiling data can be used. Data collection methods need to be carefully chosen. These methods/techniques are also commonly used in social science. Practical reasons such as the availability of data may restrict the choice of methods, so the audit team may have to settle for second best. As a general rule, the audit team should be pragmatic in the choice of methods.

Data collection is one of the more time-consuming activities of a performance audit. It often involves visits at different levels within the auditee which can include travelling to remote places. It can also often involve visits at the lowest level of an organisation where staff execute the main tasks of the organisation and meet the citizens or customers.

Audit teams should seek to combine data from different sources. Audit teams should ensure that different findings, based on different kinds of data, are consistent. When

²² The Lima Declaration of Guidelines on Auditing, ISSAI 1.

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

It is vital that the team adopt a critical approach and professional scepticism. Independent judgements need to be made about the relevance and validity of data obtained during the audit. The team need to see things from different perspectives and maintain an objective distance from the data put forward. At the same time, they must consider the views and arguments of the auditee and other stakeholders.

It is seldom possible to collect information from the whole population that the team wants to assess. With almost all methods of data collection, different forms of sampling techniques are applied. From the sample, the auditor wants to draw general conclusions. The SAI has to decide, for example, which part of the country the audit will collect information from to make a statement that is valid for the whole country, or which staff members should be interviewed to be able to make statements valid for the whole entity or category of staff. Different methods can be applied to select the sample.

Data collection, and to a certain extent analysis, can be performed by others besides the SAI. Consultants can provide useful expertise in a number of areas. However, the accuracy of the evidence remains the auditors' responsibility. All work produced by others needs to be critically assessed.

In carrying out performance audits, there are a number of tools and techniques available to OAG (from many disciplines) that can be used to collect data and information. The chosen techniques should be those most suitable for the needs and circumstances of the particular audit.

Some of the techniques which auditors can use in obtaining and analysing performance audit evidence include the following:

- Examination of papers
- Interviewing
- Direct observation
- Benchmarking
- Case studies
- Questionnaires
- Surveys
- Focus groups
- Flow charting
- Statistical analysis
- Work study
- Cost benefit analysis

Examination of Papers

Written material is an important source of audit evidence and is a major component of most studies. Auditors should look, among other things, for the following:

- Annual reports
- Financial statements
- Project documents
- Correspondence
- Memoranda
- Minutes

- Reports
- Directions to staff
- Internal audit reports

The main source of **documentary evidence** is through the examination and perusal of the files and papers in the audited entity. The collection of evidence from papers needs to be orderly and aimed at obtaining information that supports the findings of the review. Other file information and papers can be summarised and recorded in the working paper files. The auditor must ensure that all relevant files and papers are made available to him.

Important, significant or controversial documents should be photocopied for retention and their source recorded, so that the contesting of evidence based on an examination of written material can be avoided.

Interviewing

Interviews and enquiries with staff in the audited body are the main means of collecting **testimonial evidence** (that is, evidence based on interviews and discussion). All performance studies use some form of interviewing to collect information and establish the facts. To be successful, interviews need to be structured and prepared in advance. Careful preparation, including the development of checklists, where appropriate, helps to maximise the productivity of the interviews.

The person being interviewed should be encouraged to be at ease and to speak freely. The **types of questions** and the circumstances of their use can be summarised as follows:

- **Open-ended and descriptive questions** – these start with how, why, where, when and what and are used to collect quantities of new, unanalysed information. They tend to be broader and allow a wider range of responses than closed questions. **Examples:** How many staff are responsible for a particular function and what is their function, for example, in reducing system loss of water? Explain how they attempt to reduce system loss?
- **Closed questions** – these are useful at the end of a line of questioning in order to obtain specific facts. **Examples:** Did the entity set a performance target for the activity, for example, to reduce system loss of water by x%? What is the cost of the programme? When did the deterioration in system loss begin? How does this compare with performance in the water industry as a whole?
- **Probing or evaluative questions** – these allow more specific information to be obtained and to check for depth of knowledge and experience. They are also used to fill in gaps in the interviewer's knowledge about the area or topic and inform much of an auditor's performance audit work. **Examples:** Was the target for reduction in system loss achieved? If not, what may have been the reasons? What action was taken to ensure that the target was achieved? What difference did the programme make towards preventing system loss

It is advisable to **avoid**:

- **Multiple questions** – this suggests that the interviewer doesn't really know what the issues are or what he/she is trying to find out. Questions should be properly planned and thought through.
- **Leading or suggestive questions** – these tend to put pressure on respondents to answer in a particular way. They may provide answers that

the interviewer may wish to hear but they could not be regarded as proper evidence.

- **Vague questions** – the interviewer must be clear on the information being sought and what he wishes to find out.
- **Hypothetical questions** – these may only produce hypothetical answers that cannot be used as proper evidence.

In order to help with recollection, notes should be taken during each interview and written up as soon as possible afterwards. If the oral evidence is of particular significance to the examination, the record of the interview should be confirmed with the person interviewed.

Direct Observation

One of the best ways of following and understanding what is actually going on is by **direct observation of activities**. Techniques such as these help the auditor to obtain evidence about physical assets and can be helpful in gathering evidence about whether people are following the proper procedures. By observing carefully, auditors try to formulate their first-hand opinion about the activity or behaviour under study.

Inspection of processes while they are in operation will give the auditor sufficient understanding and credibility when discussing issues with the audited entity. It should be remembered, however, that a single observation could not be used to draw conclusions about matters that have occurred over a period of time.

Points to keep in mind when **observing activities directly** include the following:

- Approach the observation in a common-sense way and make it active, rather than theoretical
- When being introduced to the staff directly involved, the auditor should explain tactfully what he is trying to achieve by observing the activity
- The auditor must try not to upset the normal flow of work, or people's behaviour, by getting in the way.

The observers should try to understand the role of the participants in the procedure, trying to obtain knowledge of the activity as an insider, yet keeping their status as an objective observer

- Everything which is observed should be carefully recorded since it may become key evidence
- Take note of informal comments made when staff gain the confidence of the auditor (but be careful when staff simply make complaints). The evidence must be able to withstand scrutiny.

Case Studies

For performance audit, case examination is an effective way of obtaining, analysing and presenting information. **Case studies** refer to the in-depth examination of a representative selection of events, transactions or items in order to understand and measure a programme or activity as a whole. The method focuses on assessing efficiency of various services by analysing a sample of cases to obtain an insight into the precise workings of an activity.

Example: In the income tax department, the auditor may take a sample of income tax assessments to evaluate the response time of the department to letters received from taxpayers. Data would be tabulated

to show dates on which letters were received and processed and the dates of replies. Case studies must, however, be chosen with care if they are to make a useful contribution to the performance review.

Areas where case studies may be useful include:

- inconsistent performance between different institutions e.g. hospitals catering
- sales of government land, buildings etc. to ensure the best price
- management of space in hospitals, schools etc. to ensure optimal use
- project management
- quality of service
- maintenance of vehicles

Benchmarking

The **aim of benchmarking** is to determine, through comparisons with performance or good practice elsewhere, whether there is scope for better performance. Comparisons can be made with other branches or units within the entity or with other relevant external organisations at home or abroad. The aim is to determine whether, by comparison with good practice elsewhere, there is scope for doing things better. This technique can help to identify opportunities to improve efficiency and make savings. High-level comparisons can be made with other organisations carrying out the same function.

Example: schools, hospitals or administrative units or offices throughout the country.

Performance benchmarking uses a range of measures and indicators to compare performance. Areas covered include productivity, unit costs and quality of service.

Examples: pupil-teacher ratios, patients treated by hospitals, job placements achieved and unit cost of training provided.

Use of the benchmarking technique can stimulate entities to improve their performance. However, in making comparisons, it is important to ensure that:

- like is being compared with like (large entities may operate in different circumstances from smaller ones and comparisons may be unfair)
- the method of collection of the data should be consistent
- auditee entities are not permitted to accept favorable comparisons but reject others.

Questionnaires

Questionnaires comprise lists of questions designed to obtain information on a specific subject. When the cost of interviewing a large number of people would be prohibitive, questionnaires are a valuable means of gathering information. They are often used to assess quality of service or the scope for improvements in service delivery.

Questionnaires need to be structured to meet the needs of the situation and they can be suitable in circumstances where:

- there is a need to minimise the time and cost involved in collecting information
- the information is not otherwise available
- the auditor is trying to identify strengths and weaknesses in an organisation
- an assessment of quality of service is being made on the basis of ratings given by customers
- audit evidence is required to support particular conclusions from the study.

The design of questionnaires will have a direct impact on the quality of evidence obtained and is therefore particularly important. They need to be straightforward to complete, otherwise they will be avoided by potential respondents. Confidential, non-attributable questionnaires are more likely to encourage completion by respondents.

Surveys

Conducting a survey is a useful method of collecting new or standardised information, both quantitative and qualitative, from a number of respondents in an audit area. The main **quantitative survey methods** are postal (self-completion) questionnaires, personal interviewing and telephone interviewing. VFM studies can make good use of surveys to produce new insights and up-to-date evidence. They must be well planned, designed and implemented if the information obtained is to be useful and reliable. Where it is planned to organise a survey, auditors should seek professional assistance in drawing up the survey, conducting it and analysing the results.

Focus Groups

A **focus group** is a selection of people, often stakeholders or customers of an entity, brought together to discuss specific topics or issues. A focus group of about 15 to 20 people is an ideal size for free discussion.

Since much of VFM work is about the impact of government programmes on a wide range of people, focus groups can have a useful part to play. They are often used to collect information and produce results that allow respondents to express views in their own words and context. Customers' views of services are often required as well as those of the providers of government programmes. Focus groups do, however, only produce qualitative data and, therefore, considerable expertise is required in their interpretation.

Flow-Charting

Flow-charting refers to the gathering of information on specific processes or activities within an entity. The flow chart is a visual aid to the sequential processes in the flow of transactions in the organisation or process. Breaking down an activity into a flow chart can help to focus on the main features of an activity. It also helps in designing the methodologies to be used in the audit, for example, whether to use techniques such as surveys or benchmarking.

Statistical Analysis

Statistical analysis is often employed when data has to be analysed in order to establish trends or make comparisons. Statistics is concerned with the collection of data, its organisation, presentation and analysis.

To investigate the characteristics of a particular group of individuals, objects or activities (called the "population"), a sample is taken and the values of the variables to be investigated is established. Statistical analysis can be helpful in measuring performance and ensuring that any analysis and interpretation of the data supporting the recommendations and conclusions is sound. A basic understanding of probability theory will help in carrying out statistical analyses. Presentation of the statistical data is also important in explaining complex data.

Software packages can make an important contribution, particularly in collecting and sorting data, analysing and interpreting it and in presenting the results.

Activity Analysis

Activity analysis refers to the identification, measurement and analysis (in terms of time, cost and throughput) of the activities undertaken by people in an organisation. This analysis is useful when trying to measure objectively the contribution made by an activity and by those carrying it out. Although the technique can be useful in providing cost effective information about working activities, the measurement of activities may meet resistance from the staff involved.

Work Study

The principal objective of the **work study function** is to ensure that the area under study is providing value for money. It is a technique that examines work processes to see if working methods and standards can be improved. By measuring productivity (the relationship between input and output), work study has resulted in considerable benefits when applied to high volume, repetitive tasks. Work study can be used, for example, to highlight poor office practices and to improve working methods and procedures for clerical functions.

Cost Benefit Analysis

Cost benefit analysis is the most comprehensive form of **economic appraisal**. It seeks to quantify in money terms as many of the costs (inputs) and benefits (outputs) of a proposal as possible, including those for which the market does not provide a satisfactory measure of economic value. Cost benefit analysis need not be restricted to appraisal, since it can also be carried out after the event. In performance audit, it can be valuable to examine the original cost benefit appraisal to see whether the actual cost in comparison with the benefits achieved still represents value for money. Reasons for failure to contain the aestimated costs or to achieve the predicted benefits can be probed as part of a performance audit.

4.2.1 Data collected through documents

Table 5: Data collected through documents

Method	Purpose	Advantages	Challenges
Review of written documents	To understand the auditee and how it should operate and how it operates	<ul style="list-style-type: none"> – Give comprehensive and historical information – Information already exists – Do not burden the auditee unnecessarily 	<ul style="list-style-type: none"> – Often time-consuming – Info may be incomplete – Needs to be clear about what to look for – Not flexible; data is restricted to what already exists

Policy statements and legislation

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

Auditee budget statements

Auditee budget statements include an auditee overview providing financial information as well as information about the objectives and performance of the auditee.

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.

File examination

One source of documentary evidence is examination of files. It can be summarised and recorded in the auditor’s own words in working papers. In exceptional cases, important documents and those conveying significant or potentially controversial matters could be photocopied and the original files identity be recorded on the copy.

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. The team should, however, seek to ensure that the evidence obtained is complete enough to answer the audit questions.

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. This will save time and money. It might also be possible to order special computer compilations.

Statistics

Auditors can also use already compiled statistics. Statistics is 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.

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 research and other literature concerning the audit area. Alone this may not provide audit evidence, but it could provide the theoretical framework or points of reference necessary to elaborate on other audit evidence.

4.2.2 Testimonial collected data, asking people

One source of data is to ask people about facts or opinions.

Table 6: Testimonial collected data

Method	Purpose	Advantages	Challenges
Interviews	To understand someone’s views or experiences	<ul style="list-style-type: none"> – Obtain full range and depth of information – Possible to ask for clarifications and follow-up questions - Obtain document and information about other data sources 	<ul style="list-style-type: none"> – Each interview can take a long time – Interviewer could bias the interviewee’s responses – Could be difficult to summarise and compare to each other – A lot of interviews could be costly

Focus groups, seminars and reference groups	To explore a topic in-depth by combining views from different persons	<ul style="list-style-type: none"> - Quickly and reliably obtain common views - Efficient way to get range and depth of information in short time 	<ul style="list-style-type: none"> - Difficult to schedule several people together - Need a skilled facilitator for good discussions - Could be difficult to analyse responses
Questionnaires	To get information from a large number of people	<ul style="list-style-type: none"> - Can be answered anonymously - Each reply is inexpensive to administer - Easy to compare and analyse - Get the reply from many people - Obtain large amounts of data 	<ul style="list-style-type: none"> - People might not answer - Require knowledge to construct - Is impersonal and wording could bias client's responses - People maybe interpret the question differently compared to the auditors intention - Require some skills in statistics

Interviews

The structure of an interview depends on its objective. In the pre-study, the questions will typically be broader, the objective being to formulate possible audit problems. In the main study, the focus will shift to verify the audit problem, the reasons behind it and possible solutions.

As far as possible, the interviewer should be familiar with the subject to be discussed and the areas to be covered. Interviews should be planned. A good auditor must be a skilled interviewer, and this demands preparation, an effective questioning technique and the ability to listen carefully. The word "auditor" is derived from the Latin verb "audire" "to hear" or "to listen".

When asking for opinions on different issues, the auditors will usually benefit from not giving the questions to the interviewee in advance. The same applies if for any reason the audit team needs to interview several people within the same organisation. On the other hand, if the purpose of the interview is to collect specific facts about the audited entity, it is advisable to provide the questions in advance to enable the interviewee to collect relevant statistics and other documentation. Whichever the case, questions should be prepared in advance in the form of an interview guide.

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. A standardised interview can be done when information is collected with a questionnaire.

A memorandum containing the information gained during the interview should be recorded as soon as possible after the interview. In some cases it can be advisable to give the interviewee a chance to comment and sign to confirm that it is a true record of what he/she has said.

Interviews – some practical advice
Careful preparations

- Determine the purpose and objectives of the interview.
- Study relevant documents before the interview.
- Prepare an interview guide that allows you to be flexible during the interview.
- Consider practical arrangements (time, venue, information to the auditee).
- Assign roles to each person before the interview (if you are more than one person making the interview; which is recommended) and rotate roles between interviews.

Flexible implementation

Try to make the interviewed confident and willing to share information particularly when interviewing lower level staff.

An interview may be structured in an introduction, placing the questions and concluding remarks.

- Introduce the purpose of the interview; make it clear how long you expect the interview to take.
- Place your question, but be flexible to where the interview leads, you can come back to questions that you want to address later in the interview if answers to later questions comes up earlier than expected.
- Be brave enough to ask 'stupid' questions.
- Start each topic with an open and broad question; lead your interview object by paying attention and using follow up questions. Probing by using questions like, Could you give me an example? Could you develop this further?
- You can repeat the answer of the interviewee in your own words to make sure that you haven't misunderstood her/him.
- Think critical about responses
- Ask an open question at the end for example "Is there anything you want to add?"
- Sum up and explain what will happen next. Finally, thank the interviewee for the assistance given.

The continuous learning process

- Give each other in the interview team constructive feedback directly after the interview (what was good; what can be improved?).

Secure information

- Have a discussion right after the interview, to compare impressions and interpretations. Have you understood what the interviewee had said and that your questions have been answered? Did the interviewee bring in new information that need to be acted on, document to be collected, new question to be asked in future interviews?
- Put down detailed unstructured raw notes the same day as the interview.
- Structure notes under suitable headings later on (if there is not time to do it straight away).
- Get comments and clarifications from other participating team members; add and subtract, and clarify outstanding questions.
- From the notes, the working paper, it should be possible to see: who was interviewed; by whom; when the interview took place; and for what purpose. The main content of the interview should be structured under suitable headings; in such a way that information will be easy to retrieve at a later stage. Add conclusion that you draw from the interview. Furthermore, the notes should be written with details that capture the interview as much as possible. It may turn out that certain aspects will be of importance later on, even if the team did not realise that at the time of the interview.
- File the notes as a working paper.

Focus groups, seminars and reference groups

Focus groups (a selection of a few individuals 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.

Seminars have the advantage of bringing together a large number of people representing a wide range of knowledge and perspectives.

Reference groups may be composed of people drawn from within or outside the SAI 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 auditee and the participants. It should be used with a clear purpose and be well prepared.

Questionnaire

Questionnaires are used to gather detailed and specific information from a population consisting of a group of people or organisations. A questionnaire provides a systematic collection of information from a defined population, usually 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. Questionnaires are used when comprehensive knowledge is needed. The information is usually collected in the form of very structured interviews or questionnaires that the respondents complete themselves, Questionnaires that the respondents complete themselves can be distributed by using regular post, the Internet or be given directly.

It is important that the questions are correctly formulated and easy to understand. The interpretation of the response will be easier. The respondents will probably not be able to respond if questions are incorrectly constructed or difficult to understand. It will also be harder to interpret the responses from the individual that respond if the questionnaire is difficult to understand for the respondents. The auditors should therefore put a lot of effort into the construction of the questionnaires.

For analysing the responses to the questionnaire, computer-processing skills are often necessary.

When formulating a questionnaire, the auditor should consider:

- the purpose of the different questions.
- how the questions can be formulated so they will not be misunderstood
- how the answers will be compiled

The structure of a questionnaire is usually built up with:

- information to the respondent about the questionnaire and its purpose.
- background questions, which facilitate the grouping of answers into different categories like age, organisation, sex, etc.
- central questions, which may be formulated in a number of ways depending on what the auditors want to know and how the data will be compiled (Questions can be placed with a number of alternative answers or open ended question, or a combination of both)
- concluding questions which are open questions where the respondent may give some general comments

Have a system for checking questionnaires received so that it will be possible to remind people who haven't answered to return the questionnaire.

4.2.3 Physically collected data

Table 7: Physically collected data

Method	Purpose	Advantages	Challenges
Observation/Inspecting physical objects	To gather information on how a programme actually operates, particularly with regard to processes and to what extent objective exist and their status.	<ul style="list-style-type: none"> – View operations as they occur – Method can be adapted to events as they occur - Give reliable information on easily observed objects/phenomena 	<ul style="list-style-type: none"> – May be difficult to interpret observed behaviour – May be complex to categorise observations – The auditors presence may influence behaviour of observed people – May be time consuming

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 auditee may also provide useful information. An inherent risk of observing people is that the auditor's presence may alter the people's behaviour, and as a consequence the evidence collected will be less valid.

Inspecting physical objects

A wide range of information can be collected by inspecting physical objects, such as buildings and other facilities. A camera can be used to take photos and in that way document the inspections. Inspection of physical objects is mainly used to study a few objects in order to provide detailed examples of what has been observed. Physical data could also be collected from a large number of objects and compiled and analysed for further use

4.3 Surveys and case studies

There is a need to collect different kinds of data in an audit, quantitative as well as qualitative. Another way to categorise data collection methods may be described in terms of what type of conclusion you can draw when you measure the results.

One type of conclusion that the audit team wants to give could be an overall picture of the situation in the whole country or for the whole population. This type of study is sometimes referred to as a survey and usually uses quantitative data compiled from questionnaires, databases or files. Through surveys the auditors can get an overall picture of the situation. In general, it is not necessary to collect data from the whole population, such as all hospitals; instead, a sample of hospitals is taken. If the audit team wants to apply the description of the studied sample to the whole population, the

sample should be large enough, and randomly and independently selected. Sound judgements have to be made on for example, which part of the country the audit shall collect information from to make a statement that is valid for the whole country; or which staff members shall be interviewed to be able to make statements for the whole entity or category of staff. Various sampling methods can be applied.

On the other hand, there is the case study that aims at thoroughly exploring a small number of cases and then draw conclusion about the population. Case studies provide the opportunity to thoroughly explore a small number of cases – in order to have an in-depth knowledge of organisations, systems, processes and activities relevant for the audit problem. It enables the auditor to concentrate on details and on understanding organisational processes. The cases can be examples of a situation that may be prevalent throughout a population. Generalising from case studies is a question of good arguments, not absolute proof or statistical certainties. It is essential for the argumentation to use a clear and specified logic in the selection of cases, a logic that supports the intended use of the information. It is wise to choose a case (or a few cases) that are the most or least likely to have certain characteristics. Another option is to choose one or a few cases that are considered to be representative of the whole population. Depending on the purpose, there are several possible ways to select cases, e.g. the best cases, the worst cases, extreme cases, or typical cases for the whole country or for a group of possible cases.

Several different methods can be used to collect data about the particular studied case, for example, interviews, observations and statistics from for example a district, a hospital, an admission to the hospital or a file in the hospital record, etc.

It is often useful to combine surveys with case studies when possible so that the audit both can give an overall picture and in dept knowledge of the situation that is under audit.

4.4 Prepare for analysis while collecting data

The different data-collection methods have so far been treated separately. There are, however, several common traits, especially when it comes to the steps that should be taken to facilitate the future analysis of the collected data.

The more data, the more need for structure

The more data that is to be collected and analysed, the more structured the data collection should be. This will facilitate the analysis by providing the auditors with data that can be compared and it will be easier to categorise the data further. This is especially relevant for interviews, physical observation and some documents, such as worksheets. If a large number of observations/interviews are to be carried out or regions/districts to be visited it is particularly important that the auditors start by testing the outline of the data collection so that it can be revised and perfected.

In our previous example with the audit of the deployment of teachers, if the team interviewed one minister and 30 teachers, the team need to structure the data from the interviews with the teachers more than the interview with the minister.

Scrutinise data sources critically

There may be reasons why the sources of data (whether an interviewee or the author of a written document) is not objective. It is therefore important to carefully consider the possibility of bias in the collected data and to try to adjust for it through double-checking and corroboration of data.

Document directly

If data is not properly documented soon after it is collected the auditors risk missing important aspects. This is especially important in cases where the auditor is creating new primary data through interviews or physical observations. Documenting, in this sense, is not about simply recording an interview by taking notes. The auditor's notes should as soon as possible be typed and structured in relation to the audit questions. This facilitates later analysis of the data so that it can be used as audit evidence. If the interviewee is a manager it could also sometimes be wise to send the interview notes to the interviewee for confirmation to ensure that the information is not contested at a later stage of the audit.

4.5 Compilation and analysis of data

Analysing data is an important step in all performance audits. When analysing data, the audit team should start by revisiting the audit objective and the audit questions. This will help them to organise their data and focus their analysis in line with the audit questions. To analyse and interpret information effectively will require time, communication, creativity and a systematic utilisation of the extracted and summarised data.

It is sometimes useful to distinguish between the compilation of data and the analysis of data. For example, when working on a questionnaire, the answers given to each question can be compiled for example by an average representing all the answers of the respondents. After this, the compiled data may be analysed from different perspectives or together with other data. The distinction between compilation and analysis is not always clear-cut and in the case of interviews it is sometimes not possible to maintain the distinction. In the following sections we therefore use the term analysis to cover both the analysis and the compilation of data.

It is important to study the data gathered both in-depth and extensively. Analysing and interpreting data is a process that requires the audit team to constantly move between the different stages as the analysis gives rise to new knowledge and new ideas. This process should go on until the auditors are satisfied with the result.

Data, information and knowledge are similar concepts linked together in a chain. Data is the primary observation. Data which has been compiled is thereby transformed into information. Information which is analysed has become knowledge. The transformation of data to knowledge can be described in the following picture.

Figure 12: Transformation of data to knowledge



4.6 Quantitative analysis

Quantitative analysis is often equated with statistical analysis. Whether or not it can be applied, partly depends on the kind of data that has been collected. The difference between quantitative and qualitative analysis is often described as the difference between analysing numbers (quantitative analysis) and analysing texts (qualitative

analysis). Information that has been collected as text can, nevertheless, often be transformed into numbers. One can, for example, go through documents to see how many of them include a positive statement about a certain issue. A calculation can then be made, expressing the percentage of investigated documents that include this type of positive statement.

The kind of statistical analysis most frequently used in performance auditing is descriptive statistics. More advanced forms of statistical analysis, such as regression analysis are not described in this manual, but can be valuable tools for auditors who are acquainted with statistical theory. 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.

Some basic statistical concepts are presented in the table below.

Table 8: Basic statistical concepts

Concepts	Explanation	Usefulness
Centrality		
Mean	The sum of the values of all observations divided by the number of all observations	When scores are more or less symmetrically distributed, e.g. height or weight
Median	First the observations should be arranged progressively. The median is the observation in the middle of all observations.	When extreme scores distort the mean, e.g. income
Mode	The most frequent observation	To describe dichotomous values and proportions, e.g. men and women, or to point out the 'typical' value, e.g. the typical number of children in a family
Dispersion		
Range	The difference between the highest and the lowest observation	To complement the mean/median as a measurement on how scores are distributed
Variance	Average of the squared distance between a single observation and the mean value	To complement the mean as a measurement on how scores are distributed
Standard deviation	The square-root of the variance	To complement the mean as a measurement on how scores are distributed
Percentage	(The part of the population/the total population) multiplied with 100	To see the size of part of the population. For example the number of yes in relationship to the total number of responses
Index	Relates the development of a variable to a base level, often 100 a particular year.	Makes it easy to understand and compare the development for different variables over several years. It also makes it possible to compare different years with regards to inflation.

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. In the case of means, the degree of certainty can be calculated with statistical methods by establishing the confidence interval, i.e. the interval within which the 'true' mean of the population falls within reasonable doubt.

4.7 Qualitative analysis

Qualitative analysis is a broad term used to describe a wide range of methods for structuring, comparing and describing data. It is usually used when combining different kinds of data. Unlike quantitative analysis, qualitative analysis does not use statistical methods. Instead it is based on logical reasoning and arguments. In general qualitative analysis means creating own ways of systemising data that convince the reader that the evidence is true. Common components of this systematisation are comparing, sorting after differences and sorting after similarities.

Generalising through qualitative analysis beyond the cases that have been investigated is a complex issue that needs careful consideration each time. If there is reason to believe that the auditee, or other stakeholders, will dispute the generalisation, the auditor should exercise particular caution.

Qualitative analysis is commonly used when deriving analytical evidence from certain sources of data, such as interviews and documents.

An example of how to analyse interviews is given below:

1. Choose a method for structuring the data from the interviews, using audit questions as the first choice; and problems, actors, regions, etc. as the next choice if it is not meaningful to structure the data only in line with the audit questions.
2. Read the interview notes again and focus on the structure. If interviews are to be organised according to audit questions, make a note in the margin when something is said that is relevant for question number one, two, etc.
3. Go through all the notes regarding audit question number one. If there are many relevant remarks, make a written summary. If necessary, choose a new factor to structure the remarks. Key players could be used as such a structuring factor.
4. Compile and analyse the opinions of each type of key player, one at a time.
5. Compile and analyse the opinions of all types of key players together.
6. Look for similarities and differences between the opinions of different categories of key players.
7. Summarise the information (the interpreted data) in a few sentences and judge whether or not the audit question can be answered. Continue with the next audit question.

4.8 Mixture of quantitative and qualitative data analysis

Very often data is analysed using different sources, different methods of data collection as well as different types of data analysis. Consequently, the final step in data analysis consists of combining information from different types of data sources to gain information and knowledge. 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 is a process that may be compared to doing a jigsaw puzzle, where the pieces are the results of different data-collection activities. There is

no general solution on how to handle these situations. It is, however, of central importance that the auditor works systematically and carefully in interpreting the data collected. By combining multiple data sources, methods, analyses, auditors seek to overcome the bias that can come from using a single source of information. When three or more sources are used to verify and substantiate a finding is called triangulation.

4.9 Audit evidence

Audit evidence is gathered in order to support a description of the activity under review in an organisation or program. Audit evidence is information retrieved from the data collected that forms the foundation that supports the SAI's findings, conclusions and recommendations. It consists of specific information collected and used to test the assessment criteria, and subsequently to support the audit findings. All work should be planned from the perspective of acquiring the evidence needed to identify findings that satisfy the audit objective. The selection, examination and evaluation of audit evidence are the backbone of any audit. It is of great importance that the auditors, as well as SAI management, critically assess the quality of the audit evidence that has been collected during the main study.

When analysing the evidence that has been collected, the concepts below should be used to assess the quality of the audit evidence.²³

Relevant evidence is information that can be used to answer the audit questions. Relevant evidence bears a clear and logical relationship to audit objectives, audit questions and assessment criteria. An important aspect of relevance, if the audit object is an ongoing activity, is that the evidence used to reach a conclusion should not be outdated. If recent evidence is not available, the auditor should be able to justify why historical evidence is still relevant.

Reasonable evidence should have been collected and compiled in the most efficient way and yet allows the audit objective to be achieved.

Competent evidence is usually explained as evidence that is both sufficient and appropriate.

Sufficient evidence relates to the quantity of audit evidence that is needed to support an audit finding. The decision as to whether evidence is sufficient in quantity will be influenced by its quality. Audit teams should gather enough evidence to persuade a reasonable person that their findings, conclusions and recommendations are well founded. The judgement on what can be considered as sufficient evidence will be influenced by a wide variety of matters, including:

- the materiality of the matter in hand
- the risk that insufficient evidence will lead to the wrong conclusion
- the persuasiveness of the evidence
- the likelihood that findings will be challenged by the auditee.

Be aware that sometimes the evidence is not sufficient and more information needs to be collected but it also often happens that too much information is collected.

Appropriate evidence means that the evidence is reliable and valid.

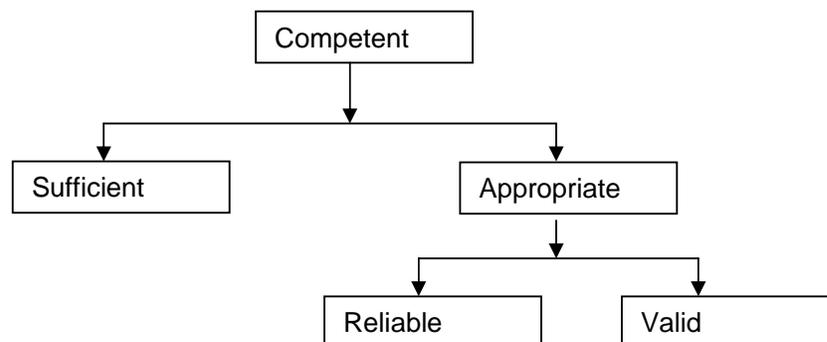
²³ INTOSAI Auditing Standards stipulate that relevant, reasonable and competent evidence should be obtained to support the auditors' conclusions regarding the audit object. Already when planning the collection of evidence, it is essential that the audit team is aware that the audit should be able to live up to INTOSAI Auditing Standards.

Reliable evidence is based on data that would be the same if the same study is carried out repeatedly in the same environment by different auditors using the same methods. Therefore, the auditors should make sure that their methods are clearly described and generally accepted.

Valid evidence is evidence that describes what it is intended to describe.

It can be illustrated graphical:

Figure 13: Competent audit evidence



An example that illustrates the two concepts, reliability and validity, is if you put a thermometer in boiling water and it consistently shows 91 degrees Celsius (at sea level), then the thermometer is reliable since it shows the same temperature for boiling water every time. However, it is not valid since it shows 9 degrees too low. On the other hand, if you have a thermometer that gives different readings every time but on average indicates 100 degrees then you have a valid but unreliable instrument.

The following guidelines will help the auditors to assess the quality of audit evidence:

- Evidence corroborated by several different sources is more sufficient than from a single source.
- Evidence collected by several auditors applying the same methodology is more reliable.
- Evidence that is old and does not reflect changes that has occurred since data was collected might not be relevant.
- Evidence that is too expensive to obtain may not be reasonable.
- Evidence collected from sources that have a vested interest in the outcome might be less valid.
- Evidence collected from non-representative samples is not valid for the whole population and therefore insufficient.
- Evidence from first-hand informers is often more reliable and valid than the same information obtained indirectly.
- Evidence obtained from knowledgeable independent sources is less biased and therefore usually more valid than that evidence obtained from within the audited organisation.
- Evidence from statements made by officials of the audited entity is more reliable when confirmed in writing.

4.10 Audit findings

The INTOSAI Auditing Standards define findings as the specific evidence gathered by the auditor to satisfy the audit objectives. The findings are gathered to be able to answer the audit questions. Audit findings contain assessment criteria (what should be), condition (what is), and effect (what are the consequences – observed as well as reasonable and logical future effect), plus cause (why is there a deviation from norms or criteria), when problems are found.

The use of criteria has been explained in previous chapters. The term ‘condition’ encompasses the evidence, relevant to the audit question, which has been collected and analysed. In other words, **the findings compare ‘what should be’ (criteria) to ‘what is actually happening’ (condition).**

4.11 Causes and effects

Once the deviation has been identified, the audit team should determine why there is deviation from the criteria (causes) and what the consequences (effects) of these deviations are.

Causes are the reasons why the condition deviates from the criteria. Causes must be presented with caution unless they are supported by evidence. The auditors should access causes that are stated by the auditee, the explanations to why the criteria are not met, and make a judgement if they are relevant or not. The audit team needs to identify possible causes and then determine the ones that could have been prevented (actionable causes). The validity of actionable causes should be confirmed.

Below are some examples of how to pursue the analysis once a cause has been identified:

- Determine whether the cause is isolated or systematic and inbuilt in the system. Systematic causes generally require more significant corrective action and may be creating other adverse effects outside the reviewed activity. However, the team should be careful because in some cases an isolated cause can also create significant problems. There might be a need to assess the materiality of the cause.
- Determine whether the cause was an error or an omission, or whether it was intentional. Intentional causes generally suggest disregard of procedures and regulations. Errors or omissions generally suggest a lack of knowledge of what is expected.
- Determine whether the cause was internal to the audited body or external for example unclear legislation. External causes not within the control of the agency may have a significant bearing on the problem. Recommendations for corrective actions must consider these factors and how their effects might be mitigated.
- Determine the internal controls and routines that should have prevented the cause from occurring.

The team should identify possible effects of the criteria not having been met. If possible, in identifying the effects, the actual situation (where the criteria are not met) should be compared with the ideal situation where the criteria would have been met. To a certain extent these possible effects would have been considered at an earlier stage as a motivation for carrying out the audit of this particular problem.

The effects could be noted either as what has already occurred or, based on logical reasoning, as the likely future impact. The nature of the findings determines whether the audit team can present actual or potential effects. Actual effects from past or current conditions help to demonstrate the harmful consequences and generally provide

evidence that corrective action is needed. Potential effects are generally described as the logical consequences that could follow should the condition not meet the criterion. Potential effects are to some degree speculative, so teams should use them with care, especially in the absence of any related evidence of observed past effects.

4.12 Conclusions

Once the auditors have documented the condition, compared it against the criteria, determined that the condition does not meet the criteria, determined why the criteria are not being met (causes), and possible consequences (effects) they should draw conclusions. Performance audits should point out deficiencies in economy, efficiency and/or effectiveness. The conclusion should specify the reasons behind the lack of economy, efficiency or effectiveness.

Audit conclusions reflect the view of the auditors deduced from the findings. A conclusion is the auditor's view or opinion formed after considering the findings. Audit conclusions should clarify and add meaning to specific findings in the report. It is not always easy to make a clear distinction between the findings and the conclusions. One reason for this is that conclusions are based on findings and can include summaries of the findings. Conclusions, however, go beyond merely restating the findings. Whereas the audit findings are identified by comparing what should be (assessment criteria) to what was actually happening (audit observations) when data was collected, the conclusions reflect the audit team's explanations and views based on these findings. This is why findings are usually expressed in the past tense and conclusions in the present tense. Conclusions might include identifying a general topic or a certain pattern in the findings. An underlying problem that explains the findings may also be identified.

The conclusions should flow logically from the findings, their causes and their effects. All analytical steps taken beyond the findings should be clearly explained and justified.

4.13 Recommendations

From the conclusions, the auditors can develop recommendations to guide corrective actions. Recommendations are not required for each audit finding. Recommendations are the auditors' proposals for improvement in operations and/or performance of either the audited entity as a whole or a particular section or area audited within the entity or to the decision makers above the entity. Recommendations can target changes in policies, procedures, practices or organisational structure. Recommendations cannot suggest changes of political decisions but the implementation of political decisions.

4.13.1 Formulating recommendations

Audit recommendations emerge from identifying the causes of the audit findings which ought to be addressed by the audited entity.

Recommendations should be neither too detailed nor too general. Recommendations should be sufficiently detailed so that they can be understood and implemented by the audited entity and followed up by the SAI. The recommendations should focus on what should be changed and leave the questions of how to make the changes to the auditee. The audit team should not prescribe detailed steps to be taken by the auditee. This will be for the auditee to decide at a later stage.

The audit team needs to consider the following questions in order to develop good recommendations:

- What needs to be done?
- Why does it need to be done?

- Where does it need to be done?
- Who is responsible for doing it?
- What are the expected effects of the recommendations?
- Could the implementation have negative effects elsewhere?

If the audit covers more than one audited entity, it should be clear which entity should implement which recommendation.

The audit team must develop audit recommendations that can be implemented and that will not necessarily require additional resources. The recommendations should lead to changes in the auditee's organisation and administrative systems, etc. rather than increased allocation of resources.

4.13.2 Characteristics of useful recommendations

Some characteristics of good recommendations are that they:

- Flow logically from the findings and conclusions, referring only to matters addressed in the report.
- Be directed at those who have authority and responsibility to act.
- Be stated positively and constructively.
- State what actions need to be taken to improve economy, efficiency and/or effectiveness.
- Indicate alternative solutions when more than one course of action could correct the problem.
- Address significant deficiencies and demonstrate that action will improve operations, safeguard assets, reduce costs or bring the condition into compliance with the criteria.
- Identify and weigh costs and risks against potential benefits.
- Consider the practical constraints of implementation in the light of limitations, such as financial constraints.
- Avoid recommending additional measures if efforts are already underway to remedy the problem. In such circumstances, reference to such efforts may be sufficient.

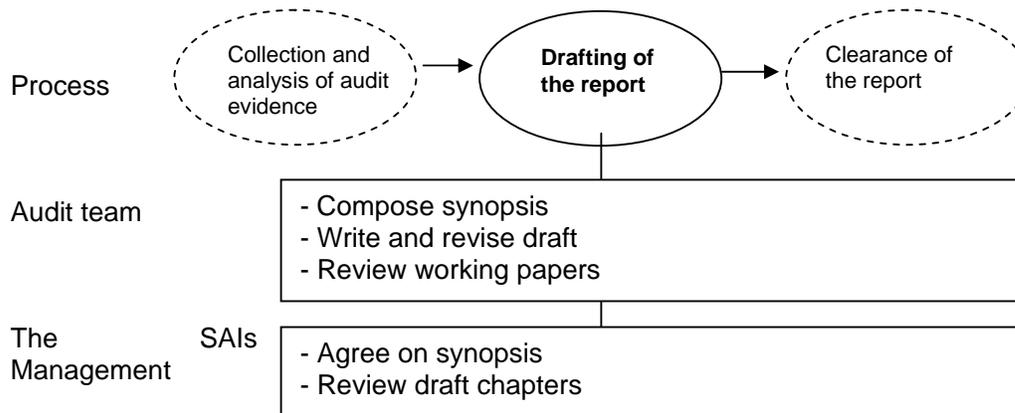
Table 9: Example on how to support the formulation of recommendations

To support formulation of recommendations a table can be used.			
Findings	Conclusions	Recommendations	To whom
<ul style="list-style-type: none"> - the ratio between student to teacher for staffing differ between 20 and 50 students to 1 teacher, in some cases far above the maximum ratio of 35 students to 1 teacher - only two region submit their staff need 6 months before the school year starts - No regions assessing the needs of teachers according to the ministry's specification - The regional directorates do not carry out needs assessments for teachers at different schools as they should - Schools in urban areas have more teachers per students than in rural areas - The ministry do not act if they don't get the regional staff needs as requested 	<p>Because the system of regional submission of teacher needs do not function there is no functioning system in place for distribution of teachers which has led to an unequal distribution of teachers to different schools. The teachers desire to be in urban areas has a higher influence on the distribution of teachers than the students needs.</p>	<ul style="list-style-type: none"> - The distribution of teachers to schools should be based on the number of pupils - Action should be taken directly when regions don't comply with the requirement 	<p>Ministry of Education</p>

4.14 Drafting the report

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

Figure 14: Drafting of the report



4.15 Reporting standards

The audit report is the most important product of the audit. The audit report is not a compiled version of internal working papers. The working papers made throughout the audit project must be transformed into the audit report. In this process there will be information, which may be interesting, but not fit into the scope and must therefore be omitted. At the same time, during the writing process the auditor's might find that the collected data might not be completely sufficient, which may mean that the auditors will have to collect some more data.

The performance auditor is not expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. A report is normally addressing specific areas of an entity's activities, the auditor should provide a report which describes the circumstances and arrives at a specific conclusion rather than a standardised statement. According to INTOSAI Auditing Standards in exercising its independence the SAI should be able to include whatever it sees fit.²⁴ The reporting standards to be met include the following:

²⁴ INTOSAI Auditing Standards stipulate that an audit report should set out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

Objectives and scope: The performance audit report should state clearly the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

Completeness: The audit report should contain all information and arguments needed to fulfil the audit objective and provide answers to the audit questions. The relationship between audit objectives, findings and conclusions needs to be complete and clearly stated.

Accuracy: Evidence presented in the audit report should be true and comprehensive and all findings correctly and logically portrayed (see also chapter 4.9). The readers need to know that what is reported is reliable. A high standard of accuracy requires an effective system of quality assurance.

Objective and logical: The presentation of the report should be balanced in content and tone. All evidence should be presented in an unbiased manner. Auditors should be aware of the risk of exaggeration and overemphasis of deficient performance. The audit report should only present arguments that are logically valid.

Clarity: The audit report should be clear and easily understandable as well as written to suit the capabilities, interests and time constraints of the readers. The language should be as simple as the subject matter allows. Technical terms and unfamiliar abbreviations must be defined. Tables, charts and photographs should be used where appropriate to present and summarise complex information. Clarity is improved when the report is concise.

Timeliness: The audit report should be prepared and issued in a timely fashion in order to be of greatest use to readers and stakeholders, particularly government and the audited entity that have to take the necessary corrective actions. If the report is delayed the implementation of the audit recommendation or other changes caused by the audit will also be delayed. The findings can also become obsolete.

4.16 Format of the report

Some points need to be emphasised with regard to performance audit reports:

- The value of concise and focused reports that highlight significant issues of public administration.
- The report should be focused on meeting the audit objective and answering the audit questions and not be focused on the description of the auditee or what the auditor have done.
- The need for well-developed audit findings based on relevant, reasonable and competent evidence.
- The importance of having a few, comprehensive audit conclusions and recommendations.

Below is an example of a report format within a SAI (the headings in the example are descriptive, but in the audit reports the headings could give information on the contents).

Title

The title should make it clear what the audit object is and indicate the auditee responsible for the activities audited.

For example, if the audit problem is 'insufficient supply of potable water in the rural area', the title could be 'Provision of water in the rural area by the Ministry of Natural

Resources'. It can also be formulated judgemental "The Ministry of Natural Resources do not provision water in the rural area as it should". The formulation depends on what the SAI want to achieve, if it wants big headlines or a good future relationship with the auditee. It is a judgment of what is of most benefit for the SAI and what can create most changes in the reality in the long run.

Covering letter

The AG presents the report and acknowledges the cooperation received from the auditee by the auditors who undertook the audit. The covering letter is written on the official letterhead of the AG, including the AG's signature and the date. It can also mention the names of the performance auditor and managers that has produced the report. In the letter, reference is made to the AG's mandate according to the constitution and the mandate to undertake special audits in accordance with relevant legislation. The covering letter should indicate who the report is addressed to. In the covering letter the SAI can indicate how it intends to follow up the report and the implementation of the report's recommendations. The SAI can also request that the auditee shall report back on a later date the action it has taken in line with the recommendations presented in the audit report.

Table of contents

This illustrates the structure of the report.

Executive summary

The summary summarises the background, major findings, conclusions and recommendations. The summary does not introduce new things that are not mentioned in the main body of the report. It does not have to follow the structure as the main body of the report. The summary is designed for those who have little time to read the full report. The summary should normally be just a few pages - as a rule of thumb not more than 10% of the pages in the main report (e.g. 4 pages for a report of 40 pages).

Chapter 1: Introduction

The objective is to give background information about the audit. It could include a short summary of the auditee's legislative framework, goals and objectives, resources and organisational structure. Information that has no relevance to the understanding of the findings should preferably be omitted. This chapter also presents the audit motivation, the audit objective and scope. Data collection methods should be presented briefly. If necessary, a more detailed presentation of the data collection carried out (list of documents reviewed and number of interview objects, etc.) may be included in an annexure.

Chapter 2: Description of the audited activity

A brief description of the system or programme being audited. From this description it should be clear how the system should work, with details that make it possible to understand the following part of the report. Information that has no relevance to the understanding of the findings should preferably be omitted. Part of this work will normally have been carried out during the pre-study. The title of this chapter should be the name of the system or programme being audited.

It can be illustrated by using some type of model. A model is a picture or a simplification of reality. The model can be used as a tool for describe and explain how the system works, for example we have used the input-output model to describe the 3E;s, but other types of models like flow-charts can be used.

Chapter 3: Findings

This chapter clearly describes the assessment criteria and relates them to what has been observed in the reality, i.e. the condition. The findings should be presented in a

correct way without judgements or comments by the auditor. It presents the findings generated from the comparison between criteria and condition.

Chapter 4: Conclusions

The chapter contains the SAI's conclusions.

Chapter 5: Recommendations

The chapter contains the SAI recommendations.

Annexure

Annexure can be used to present detailed descriptions and findings. Annexure may also be used for comprehensive descriptions of the auditee, statistical tables, publishing reports from consultants, detailed explanations of methods used, etc. These can be placed in annexure so the report does not become too long and to facilitate the reading of the audit report.

- Glossary of terms sorted alphabetically.
- List of abbreviations sorted alphabetically.

The findings deal with what has been observed by the auditors during the collection of data and they should therefore be stated in the past tense. The auditee may already have taken action after the data collection, making the findings obsolete. If the findings are evidently up-to-date, it might be natural to use the present tense. The “conclusions” should state prevailing conditions and consequently the present tense will be suitable. Recommendations should be written either as a request using the conditional mood or as a demand using the imperative mood.

Table 10: Usage of tense for findings, conclusions and recommendations

	Past tense Yesterday	Present tense Today	Conditional or imperative Tomorrow
Findings	X	(X)	
Conclusions		X	
Recommendations			X

Report Structure and Content

The order and structure of the report must be logical if it is to be effectively understood. The length and style will vary according to the circumstances. The **structure and contents of the final report** should generally be along the following lines:

- **Title:**
 - “ Ensure that the subject matter of the report is reflected accurately in the title.
- **Preface:**
 - “ Introduction by the C&AG, indicating the aim of the examination.
- **Executive Summary:**
 - “ Distinguish clearly between findings and recommendations.
 - “ Include an overall conclusion, together with key findings and recommendations. This should provide the reader with a concise, clear view of the purpose and results of the performance review.
 - “ A concise summary (perhaps only two pages) is more effective. Reports of more than about ten pages should begin with a summary of the findings and conclusions.
- **Introduction to Report:**
 - “ Set out the purpose and nature of the review, ensuring that it is consistent with the terms of reference.

- “ Provide a brief background to the review and the programme, activity or area of study. This should be sufficient to allow readers to understand the context of the report.
- “ Identify the legislative authority under which the audit examination was carried out.
- “ Indicate the audit standards under which the examination was conducted.

- **Objectives and Scope of the Review:**

- “ The report should clearly state the objectives and scope of the audit.

- **Timing:**

- “ The report should indicate the period of time for which assurance is being given and to assure readers that the issues considered are of current interest.

- **Audit Criteria:**

- “ The report should explain the basis for measuring performance and the source of the criteria.

- **Methodology:**

- “ The report should give a clear explanation of the techniques used to collect and analyse information.

- **Findings:**

- “ Present the findings in a logical sequence. Separate sections or chapters of the report should cover each identified main theme, topic or fundamental issue.
- “ The report should include the criteria that were used to measure performance.
- “ The report must be accurate and complete in every respect, containing the most recent figures and information.
- “ Include only relevant information.
- “ Present the report in a way that does not unduly exaggerate deficiencies and which presents the findings in a neutral way, so that “the facts speak for themselves”.

- **Recommendations and Conclusions:**

- “ Include in the relevant sections the recommendations and conclusions on the action needed to correct any problems and ensure that they flow directly and logically from the findings. The **drafting of recommendations** is particularly important. They should have the following characteristics:
 - * Clarity and precision in conveying the key messages i.e. be **specific**
 - * Practicality i.e. be **achievable and realistic**
 - * Timescales for their achievement i.e. be **time-bound**
 - * Personnel should be identified who will have responsibility for the implementation of specific recommendations
 - * Estimates of the potential financial savings i.e. quantify the **financial or other impacts** of the recommendations.
- “ Include any response to the recommendations from management in the audited entity.
- “ Conclusions should indicate the performance against each of the audit objectives.

- **Appendices:**

- “ Key messages and the supporting evidence should be included in the main text. However, more detailed information which may be essential to an informed reading of the report can be included in **appendices**. They may also include background material or details of calculations.

- **Glossary:**

“ **Technical terms and abbreviations** should be kept to a minimum and should be listed and explained in a glossary at the end of the report.

Reports should make full use of **diagrams, charts, tables and graphs** to assist readers in understanding the issues and conclusions. Where possible, graphics such as these should be incorporated in the text, rather than in appendices. Reports should also indicate the period of time for which assurance is being given so that readers are aware that the report is dealing with current issues.

4.17 **The writing process**

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

1. Synopsis
2. Audience analysis
3. Drafting
4. Revising

Effective writers keep these stages separated. Audit teams are advised to adhere to these stages when writing the report. If the audit team fails to keep these stages separated, they are likely to experience difficulties in writing the report. This might result in wasted time plus a more disorganised and poorly written report.

4.17.1 **Synopsis**

Before starting to write the report, the team should organise its work by preparing a synopsis. A synopsis is an outline or skeleton of the report. The synopsis sets out the main structure and lists – in the form of keywords or short sentences – the intended content under each heading. The aim of the synopsis is to sketch the structure and broad content of the report. It is a tool for defining the structure of the report. The synopsis encourages a professional approach to writing, clarifies the team's organising principles, and facilitates the actual writing of the report. Often a draft synopsis can be produced at a very early stage of the audit. It can be a useful tool for the audit team, influencing the collection of data and making it possible for the auditors to start writing early.

In the synopsis, the audit team should:

- sketch a logical structure of the report
- indicate the findings, together with supporting evidence, and conclusions to be included in the different sections
- identify necessary annexures.

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

The completion of the synopsis should coincide with a meeting with management. Management then has an opportunity to see what the report is really about, and to provide input, comment on the general direction, conclusions, express their opinions and give directions. This will save time by reducing the need for revision and amendment at later stages of the drafting process.

4.17.2 **Addressing the reader's need**

The audit report should be written in a way which is relevant for the specific target groups. Identifying and knowing the target groups will help the audit team to decide on the structure and tone of the report. As mentioned earlier, in performance audits the stakeholders are parliament, the government, the audited entities and the general public. The media are also important because they serve as a link between the SAI and the general public. The audit team may have valuable findings, conclusions and recommendations, but unless organised and presented properly, the readers will have difficulty to understand what the team has found and which conclusion they make. No report can achieve its purpose if the auditors do not addressing the readers need.

Some questions that may help the audit team to write the report are listed below:

- What kind of information are the readers interested in?
- What are the reader's likely attitudes towards the message?
- Will the decision makers implement the recommendations?
- What is the likely effect of the report on the readers?
- Are the readers familiar with the subject matter?
- How do the readers view the SAI's credibility, expertise and authority?

4.17.3 Drafting

Once a synopsis has been produced and the readers have been identified, the audit team should start drafting the report in accordance with the agreed structure. However, it should be remembered that the structure may be changed during the drafting stage if necessary.

During the drafting the auditors understanding of what they have observed will grow, the understanding of the issues in the report will develop and improve. **Writing as such is an analytical part of the work.** Some of the analytical problems faced by the auditors may not be clarified until they start to write. This means that several drafts will be written, commented upon and revised. Therefore the auditors need to let this process take its time until they are clear about what they want to say; i.e. what the main message is in the report as a whole as well as in different parts.

The auditor should write the report so it conveys an understanding of the issues relevant to the audit. The draft report should reflect an objective audit where issues are examined in their proper context. 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.

The team leader is responsible for coordinating the drafting process. He/she may decide to split the drafting of different chapters/sections amongst the team members. After completion of the chapters/sections, the team will come together and agree on the content.

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. Those parts can then be inserted into the report according to the structure decided upon in the synopsis.

Writing the report – some practical advice

- Start writing at an early stage.
- Be aware that it is common to write a too long summary and a too long descriptive chapter but a too short findings chapter.
- Lead the reader through the whole text by linking chapters, sections and paragraphs to a coherent story. Outline the content of each chapter in an introduction.

- Start the findings chapter, or different sections in the findings chapter, by summarising the main messages in a box.
- Use tables and diagrams to present important findings, when it makes it easier for the reader to grasp the message. Highlight the main points that you want the reader to conclude from the table after the presentation of the table, but be restrictive in giving other comments.

Some practical advice using tables

- Make tables and diagrams as simple as possible. Exclude superfluous information, so that the main message is not lost. More detailed information can cloud the view and give a false impression of exactness. More comprehensive tables can be presented in appendices that you can refer to.
- Only use tables and diagrams when it is an effective way to communicate the message. Don't use tables/diagrams just because you have the information.
- Put a number and an informative title on figures and tables.
- State the source of the information under the diagram/table.
- Consider using deflated figures in presenting monetary values. If possible relate figures to something, e.g. output (unit cost).
- Percentages and index series can often be more effective measures to communicate the message than absolute figures.

- Make clear distinctions between observations and facts and the auditors' conclusions.
- Use an objective tone and let facts speak for themselves (don't reinforce or use emotional language). Avoid jargon.
- Keep it simple.
- Be concise – make every word count. Write accurate, brief and clear. Eliminate digression and irrelevant sentences.
- Write specific and informative headings.
- Write in short paragraphs that start with a topic sentence. Develop paragraphs by using facts, details, examples, definitions etc.
- Use acronyms and abbreviations with moderation. Acronyms should be explained when used the first time in the text. A list of acronyms can be provided in the report.
- Use footnotes when you refer to your sources of information.

4.17.4 **Revising**

After writing a first draft, the team should revise the document. When revising, the team should aim for clarity and conciseness. Consequently, the auditors should ensure the following:

- The overall report is logically organised and structured.
- The style of writing is adapted to the intended readers.
- 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.
- The words are concrete, professional and commonly known.
- The spelling is correct.

It is advised to have somebody proofreading the draft to look out for spelling mistakes, typographical mistakes, inconsistencies of type of style, and numbering mistakes (references to footnotes, pages, tables and graphs).

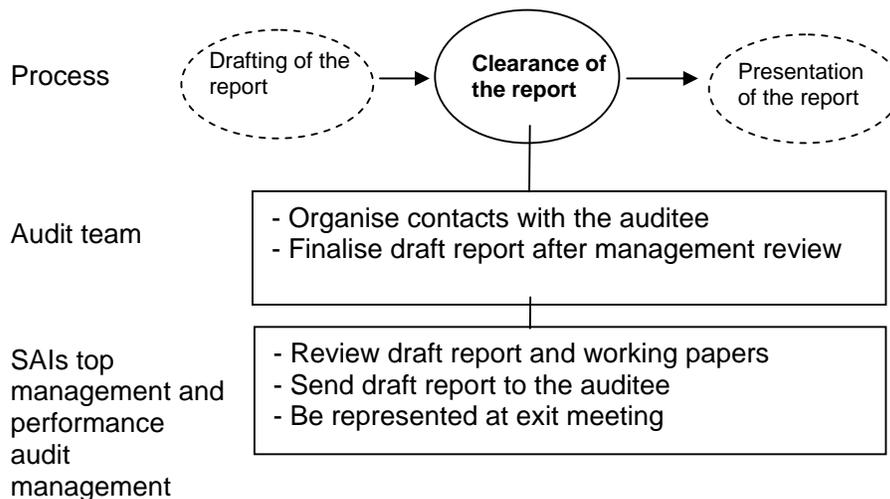
The audit team can make use of peers to help revise the draft. It is often useful to have someone with no knowledge of the audit read the draft report at an early stage. This might highlight areas where the presentation is weak. The team shall also cross-

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.

4.18 Clearance of the report

After receiving the draft report, performance audit management should review the draft and working papers. To meet the INTOSAI's standard of timeliness it is important to secure a swift review process. The purpose of this review is to ensure that the audit meets the SAI's auditing standards. Once the report has been cleared by the auditor-general, it should be submitted according to its mandate which can be to parliament, auditees and other stakeholders.

Figure 15: Clearance of the report



4.18.1 Review of the draft report

During this review, different level of management should ensure the following:

- **Legitimacy of the report.** The report should not stray outside the SAI's legal mandate. There should be no suggestion that the SAI is questioning the political objectives.
- **The findings, conclusions and recommendations are addressing the audit objectives.** Management should ensure that the report provides complete and conclusive coverage of the audit problem.
- **Balance of the various sections.** The report should concentrate on the important aspects and avoid minor issues.
- **Quality of presentation.** The draft should be well written, appropriate tables, charts, etc. should be used to help the reader understand the findings, conclusions and recommendations.
- **Meet the INTOSAI auditing standard** described in chapter 4.15 **and the SAI's own standards.**

The draft report could be submitted to an internal team of experts for quality review, advice and comments; sometimes it can also be good to let regularity auditors review the draft report. This could be done before or after clearance by the performance audit management. Once the final adjustments have been made, the draft should be submitted to the Auditor-General, or to a manager with delegated authority, for a decision on whether the draft report can be sent to the auditee for comments.

Top management will not normally review the working papers, as this has already been done by the performance audit unit manager. However, where findings, conclusions or recommendations are particularly sensitive, top management may find it necessary to call for the relevant working papers.

4.18.2 **Sending a draft report to the auditee**

When the auditor-general, or a manager with delegated authority, is satisfied that the draft report meets the SAI's auditing standards, he/she sends it to the auditee together with an invitation to submit written comments.

It is important that the descriptive part and the findings are a correct interpretation of the reality. From that interpretation of reality the SAI formulates its conclusions and recommendations. The SAI will have to decide on whether the draft report to be sent to the auditee should include conclusions and recommendations, or only descriptive parts about the auditee and the findings.

The purpose is to; get comments on the descriptive chapters, audit findings and conclusions (if they are sent over to the auditee) outlined in the draft report; give the auditee an opportunity to correct factual errors; test the feasibility of possible recommendations (if they are sent over to the auditee); give an opportunity for the entity to provide additional information and assess whether any audit findings should be modified in the light of the additional information provided.

In the invitation it is advisable to state the latest date for submission of the comments.

To manage the relations with the auditee OAG will:

- Submit draft reports to auditee for clearance and comment to help ensure that the audit observations are accurate and balanced.
- Consider obtaining feedback from auditees on its own performance
- Consider this an important task of senior management and not leave it to auditees in the field; and
- Develop specialised training for audit staff at all levels to organise business relations with auditees.

4.18.3 **Internal finalisation**

The audit team should carefully consider reservations expressed by the auditee. The team should verify data that has been contested and, if necessary, collect additional data. It might also be necessary to ensure, once again, that all findings and conclusions are based on competent evidence. Where differences of opinion cannot be satisfactorily resolved, the SAI should consider whether this should be highlighted in the report.

After the team amended the report it should be reviewed by the management. The final decision about the report should be taken.

4.18.4 **Exit meeting**

After the final decision about the report has been taken an exit meeting will be arranged. The audit team or performance audit manager will arrange an exit meeting with the auditee where the report, and the response to the written comments from the

auditee, will be presented. It is polite to supply a copy of the report to the auditee at the exit meeting so that the auditee is acquainted with the report at the time of publishing.

The purpose of the exit meeting is to ensure that the auditee has been given the opportunity to see the report before it is published. It also informs the auditee about the amendments that has been made and the final report that will be tabled. At the exit meeting it is particularly important that the critical findings of the audit are highlighted. The meeting should ensure that:

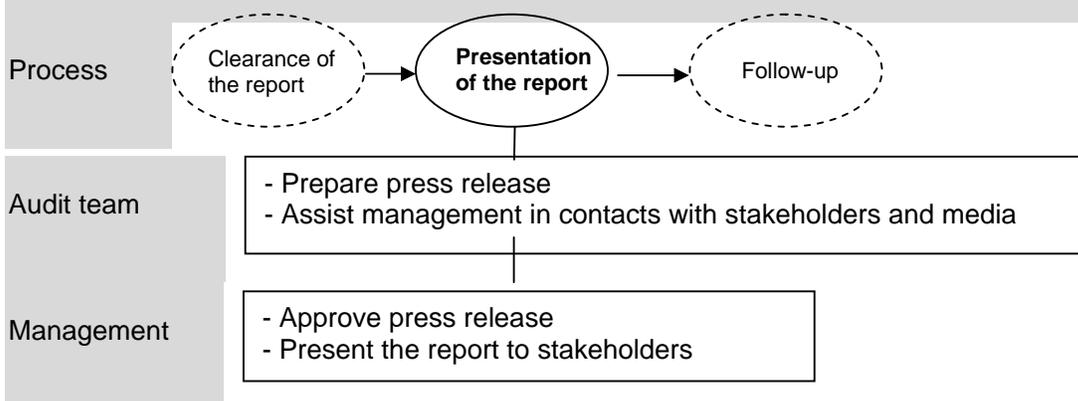
- it is clear that the auditee understands the findings, conclusions and recommendations.
- the auditee is informed about tabling and publication procedures.

5. REPORTING

5.1 Presentation of the report

Once the performance audit report has been internally finalised and the exit meeting has taken place, the report should be presented to the stakeholders. Comprehensive reports and wide distribution of the reports are key to the credibility of the performance audit function.

Figure 16: Presentation of the report



The SAI should have an established policy to the effect that, within the limits of legislation, performance audit reports are publicly available and widely distributed. Generally, audit reports will become public documents only after they have been tabled in parliament, but as mentioned above it is customary for the SAI to provide the auditee with a copy of the report shortly before it is released.

The report should, when possible, be distributed to the auditee, the government, the media and other interested parties. Also, people who have contributed to the audit could be supplied with a copy. Once the report has been published, the SAI should post it on its website.²⁵

²⁵ INTOSAI says in its Performance Audit Guidelines, ISSAI 3000 – 3100, page 69, that “Written reports should communicate the results of audits to all levels of government, make the results less susceptible to misunderstanding, make the results available for public inspections, and facilitate follow-up to determine whether corrective actions have been taken.”

To spread the audit report's message and avoid misinterpretations, it is advisable that the SAI provides the media with adequate and well-balanced information in the form of press releases or even press conferences when the report is released.

A press release is a way for a SAI to supply information to journalists and a tool for the SAI to leading journalists to focus on relevant issues in the report. A press release is often written when an audit report is about to be published. The content, form and style of a press release are essential to make the media interested in covering the report.

Below is some advice on how to write a press release:

- The press release should have a headline. The headline should be brief, correct and to the point, and should state the main message in the report.
- Start with the most important facts or news items. Start with the main point and conclusions, and then move on to further details and background information.
- The tone of the press release should be factual. Keep sentences short and the language comprehensible. Avoid technical language.
- Try to use phrases and quotes from the report which the journalists can use in their reports or articles.
- The more accessible you make the text in the press release; the more likely it is that the journalist will use your own words in the article or report.
- Keep the press release brief.
- Date the press release and include the name of persons that can be contacted for further information.

Do not forget that the main purpose with performance audits is that the audit should create change/improvements; the main point is not to have a big press cover.

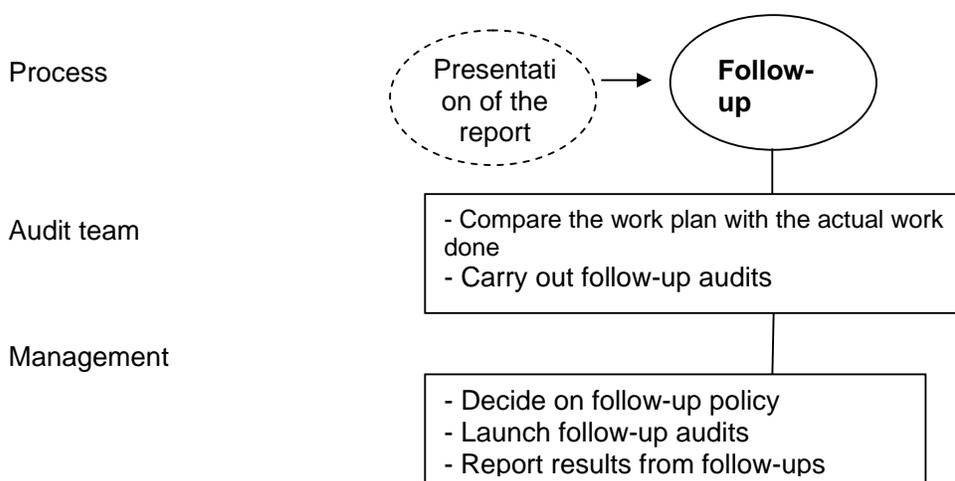
SAIs are encouraged to send a copy of the report to AFROSAI-E for posting on its website, for the purpose of regional networking, capacity building and constructing a database for future research.

6. FOLLOW-UP

The priority that can be given to follow-up tasks should be considered in the context of the SAI's overall audit strategy as determined in the planning process.

There are three common types of follow-up activities that a SAI can carry out. The timing of such activities and the type of follow-up activities undertaken by the SAI will depend on its policies and the prevailing circumstances. The follow-up activities provide a basis for assessing the SAI's performance and an opportunity to validate possible benefits generated by the audit. Follow-up activities may also provide the legislature with valuable information.

Figure 17: Follow-up



6.1 Follow-up by the auditors of their own work

To promote learning within the organisation and provide valuable input towards the planning of training activities the audit team should make a follow-up of its own work. Immediately after finalising the report, the audit team should identify weaknesses as well as strengths that occurred during the audit. This can include comparing the planning documents with the actual work done or the time spent compared with the budgeted time in the work plan. If the work was delayed, the auditors should try to find reasons for the delay from for example documents in the working paper file. Lastly, the audit team should check that documentation has been compiled in accordance with standards. This can be done shortly after the report has been tabled.

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

In addition to the internal follow-up by the audit team, the SAI could also try to include the views of the auditee in follow-up.

It is also recommended that the audit team share the lessons learned with other SAIs and communicate these to AFROSAI-E for publication on its website.

6.2 Follow-up of the recommendations

To promote learning within the SAI and to increase the possibility for the recommendations to be implemented the SAI should follow up the extent to which the auditee has taken action in line with the recommendations presented in the audit report. The timing and format of this follow-up constitute a key management decision to be taken by each individual SAI in accordance with its policies.

Recommendations can be followed up in several different ways, for example, through informal contacts with the auditee, information can be gathered by regularity auditors during regularity audits, a formal request for information can be sent to the auditee, or a follow-up audit can be carried out.

Depending on the results of the follow-up of recommendations, the SAI will consider what further action is required.

The PACs recommendations and the debate and decisions that can take place in the parliament because of an audit should also be followed up.

6.2.1 Following up the impact of recommendations

Assessing the impact of the actions the auditee has taken on the recommendations will help to measure how well the SAI's performance audits promote economy, efficiency and effectiveness in the public sector. Follow-up is also necessary to assess the performance of the SAI's own work.

Impacts may be qualitative or quantitative. In identifying impacts, the costs that are associated with achieving the impacts should be compared against the benefits. Significant impacts should be validated with the entity or other relevant bodies where possible.

It can be difficult to separate the effect caused by the auditee's action by implementing the recommendations and other external effects.

For example, if the SAI has audited the Ministry of Health's campaign to reduce the number of malaria cases and suggested recommendation that has been implemented by the ministry.

After a year we can measure a reduction of malaria cases.

We know that during the year an NGO made a big effort to prevent malaria and there had been a drought, which meant there were fewer mosquitoes that spread malaria.

Therefore it could be difficult to quantify the effect in the reduction in malaria cases: How much of the reduction was caused by the implementation of the SAI's recommendations, the NGOs efforts and the drought?

A decision to follow up the impact should be based on an analysis of the results of the follow-up of recommendations. If, for example, there are indications that the auditee has been slow in implementing the recommendations, lax in coordinating its actions, or has difficulties in fully understanding what actions are required, there is a strong case for following up the impact of the audit.

Following up the impact of the audit requires a lot of effort and analysis what the auditee has done regarding the recommendations It should be carried out in the form of a follow-up audit. Furthermore, a follow-up audit of the impact needs to cover the manner in which recommendations have been implemented and how other issues may have influenced the impact. The assessment of the impact will nevertheless form the core of, and basis for, the follow-up audit.

6.3 Follow-up audit

In many cases following up on recommendations without carrying out a follow-up audit is sufficient. This is usually the case when the audit referred to a one-off event or to a specific programme now abolished. Even in these cases, however, there may sometimes be important for follow-up audits in order to examine whether recommendations have been implemented.

Specific follow-up audits can be done by many reasons for example when the audit revealed significant issues for further review by the legislature or when the audits recommendations were likely to lead to significant benefits.

If the SAI decides to conduct a follow-up audit of a performance audit report, it is advised that a new team carry out the follow-up audit. New auditors will probably be more objective.

6.3.1 Planning follow-up audits

Planning is important for the follow-up audit, and takes a similar form as a main study work plan with the purpose of follow up what has happened after the audit and if the recommendation has been implemented or not and the reasons for that

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

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

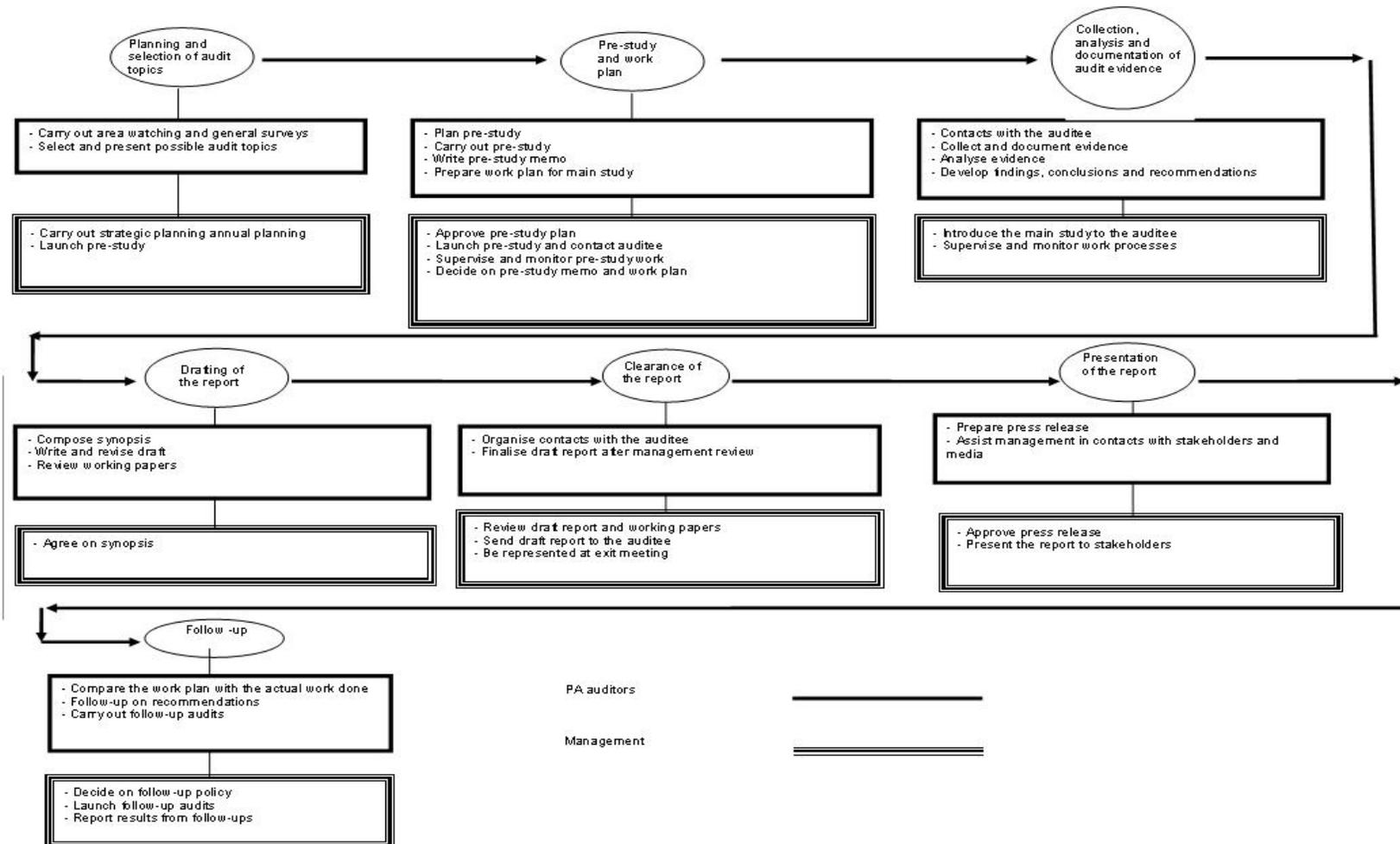
- Whether the original conclusions are still relevant.
- Corrective actions taken by the auditee.
- Work by parties other than the auditee that could influence the impact.
- Relevant external factors and other issues.

6.3.2 Reporting on follow-up audits

Reporting on follow-up audits should be done in line with the general reporting principles of the SAI. Whether or not it is suitable to table the follow-up audit report in parliament will depend on how the SAI assesses the significance of the findings and conclusions from the follow-up.

Deficiencies and improvements identified in the follow-up audit should be communicated to the auditee. Positive action in implementing the audit recommendations should also be highlighted, as this is to the credit of both the auditee and the SAI.

Annexure 1: RESPONSIBILITIES WITHIN THE AUDIT PROCESS



Annexure 2 INTOSAI AUDITING STANDARDS

The INTOSAI Auditing Standards consist of four parts:

- Basic principles
- General standards
- Field standards
- Reporting standards

The purpose of auditing standards is to provide the criteria against which the quality of the audit results can be evaluated.²⁶ The INTOSAI Auditing Standards do not have mandatory application, but they reflect a 'best practices' consensus among SAIs. Each SAI should determine whether the INTOSAI Auditing Standards are compatible with the achievement of its mandate. National standards, taking into consideration the constitutional, legal and other circumstances under which the SAI operates, should be defined.

The basic principles are assumptions, principles and requirements, which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply. Auditing standards should be consistent with the principles of auditing and provide minimum guidance for the auditor to help determine the steps and procedures that should be applied in the audit.

The general standards describe the qualifications and competence, the necessary independence and objectivity, and the exercise of due care, which will be required of the auditor to carry out the tasks related to the field and reporting standards in a competent, efficient and effective manner.

The field standards establish the criteria or overall framework for the purposeful, systematic and balanced steps that the auditor has to follow. These steps represent the research that the auditor, as a seeker of audit evidence, carries out to achieve a specific result. The standards establish the framework for planning, conducting and managing audit work.

The reporting standards set the framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report.

Standards regarding Performance Audits

INTOSAI issues the International Standards of Supreme Audit Institutions (ISSAIs) concerning the responsibilities of SAIs. There are ISSAIs that are general and there are also ISSAIs that are specific for different types of audits. Some of the ISSAIs that concern performance audits are described below.

Excerpt from INTOSAIs code of ethics, ISSAI 30

²⁶ Issued by the Auditing Standards Committee at the 14th Congress of INTOSAI in 1992 in Washington, D.C., United States as amended by the 15th Congress of INTOSAI 1995 in Cairo, Egypt.

The INTOSAI Code of Ethics is intended to serve as a foundation for the national codes of ethics.²⁷ Each SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national code of ethics and act accordingly.

A code of ethics is a comprehensive statement of the values and principles that should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor place high ethical demands on SAIs and the staff they employ or engage for audit work. A code of ethics for auditors in the public sector should consider the ethical requirements relating to civil servants in general and the particular requirements relating to auditors.

According to INTOSAI, a code of ethics involves the following:

Trust, confidence and credibility

The legislative and executive authorities, the general public and the audited entities are entitled to expect the SAI's conduct to be above suspicion and reproach and worthy of respect and trust.

Integrity

Integrity is the core value of a code of ethics. It requires auditors to observe both the form and the spirit of auditing and ethical standards. Auditors have a duty to adhere to high standards of behavior (e.g. honesty and candidness) in their work and in their relationships with the staff of audited entities. The conduct of auditors should be above suspicion and reproach.

Independence

Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence. Auditors should strive to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review. It is essential that auditors be independent and impartial, not only in fact but also in appearance.

Political neutrality

It is important to maintain both the actual and the perceived political neutrality of the SAI. Therefore, it is important that auditors maintain their independence from political influence and discharge their audit responsibilities in an impartial way. This is relevant for auditors since SAIs work closely with the legislature, the executive and government entities required by law to consider the SAI's reports.

Conflict of interest

When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing their independence and integrity.

Professional secrecy

Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the auditing

²⁷ INTOSAI Code of Ethics, Issued by the Auditing Standards Committee at the 15th Congress of INTOSAI in 1998 in Montevideo, Uruguay, ISSAI 30.

body's statutory or other identified responsibilities as part of the auditing body's normal procedures or in accordance with relevant laws.

Competence

Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work in order to perform their duties competently and with impartiality. Auditors must not undertake work they are not competent to perform.

Professional development

Auditors should exercise due professional care in conducting and supervising the audit and in preparing their reports. They should use methods and practices of the highest possible quality in their audits and have a continuous obligation to update and improve the skills required for meeting their professional responsibilities.

Quality Control for SAIs, ISSAI 40

ISSAI 40 establishes a general framework for quality control. ISSAI 40 is based 6 domains:

a) Leadership is responsible for quality within the SAI

The head of the SAI (e.g. the Auditor-General) have the overall responsibility for the SAIs system of quality control. The head of the SAI may delegate operational responsibility. SAIs should strive to achieve a culture that recognises and rewards high quality work.

b) Relevant ethical requirements

Each SAI shall establish policies and procedures designed to provide it with reasonable assurance that the SAI and its personnel comply with relevant ethical requirements.

c) Acceptance and continuance of client relationships and specific engagements

Each SAI shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements designed to provide the SAI with reasonable assurance that it will only undertake or continue relationships and engagements where the SAI:

- is competent to perform the engagement and has the capabilities, including time and resources, to do so;
- can comply with relevant ethical requirements and
- has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity .

d) Human resources

Each SAI shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:

- perform engagements in accordance with professional standards and regulatory and legal requirements and
- enable the SAI or engagement partners to issue reports that are appropriate in the circumstances.

e) Engagement performance

SAI shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the SAI or the engagement partner issue reports that are appropriate in the circumstances.

f) Monitoring

SAI shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.

Basic Principles in Government Auditing, ISSAI 100

ISSAI 100 states that the full scope of government auditing includes regularity and performance audit. Performance audit is concerned with the audit of economy, efficiency and effectiveness.

Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience, ISSAI 3000

ISSAI 3000 is based on generally accepted principles of performance auditing. The guideline sets out the general framework for performance auditing, defines application of auditing principles for performance auditing, provides standards and guidance for planning and conducting performance audits, and for presenting the audit results. It also includes information on performance auditing in relation to information technology and on conducting performance audits with an environmental perspective. Further, a framework of system-oriented approaches in performance auditing is presented.

Performance Audit Guidelines – Key Principles, ISSAI 3100

ISSAI 3100 outlines a common understanding of what defines high quality work in performance auditing; How to formulate objective for performance audits, selecting audit topics; how to conduct a performance audits and follow-ups and how to perform quality control. It also contains information about key issues to consider in introducing and maintaining performance auditing in an SAI.

Annexure 3 Monitoring and control Forms

Form 12A

Time budget for Performance Audit

Auditee _____

Budget year under performance audit _____

Date:-

Ref. No.	Activity	Time budget (in hrs)	Prepared by (initials)	Revised time budget (in hrs)	Authorised by (initials)
1	Selection and planning of audit topics				
2	Completing a pre-study and work plan				
3	Collection and analysis of audit evidence				
4	Drafting of the report				
5.	Clearance of the report				
6.	Presentation of the report				
7.	Follow-up				

NB. Reasons for variations to original time budgets should be explained in full by attaching a separate note to the time budget form before submitting it to the Head of Division.

Prepared by: Name _____
AIC

Signature _____
Date _____

Reviewed and Approved by: Name _____
Head of Division Signature _____ Date _____

Progress report for half-month ended _____ Form 12C

Auditee organisation _____ Progress Report No. _____

Budget year under performance audit _____ Date _____

Ref. No.	Description	Hours as per Staff Time Records					Total hours during period	Total hours b/f	Total hours to date c/f	Budgeted hours (Original) Revised
	Name of Performance Auditor									
	Performance Audit Activity									
1	Selection and planning of audit topics									
2	Completing a pre-study and work plan									
3	Collection and analysis of audit evidence.									
4	Drafting of the report									
5	Clearance of the report									
6	Presentation of the report									
7	Follow up.									

Comments and Explanations of AIC

Name _____ Signature _____ Date: _____

Reviewed and Approved by: Head of Branch

Name _____ Signature _____ Date: _____

Variance analysis report

Form 12D

Auditee organisations _____

Budget year under audit _____ Date _____

Ref. No.	Activity	Actual Total hours	Budgeted Total Hours	Variance	Remark
1	Selection and planning of audit topics				
2	Completing a pre-study and work plan				
3	Collection and analysis of audit evidence				
4	Drafting of the report				
5	Clearance of the report				
6	Presentation of the report				
7	Follow-up				
8	Travel time (out of town)				
9	Idle time				
	Totals				

Prepared by:

AIC _____

Name _____

Signature _____

Date _____

Reviewed and Approved by:
Head of Branch

Name _____

Signature _____

Date _____

Audit Supervision and Review Checklist I
Auditor-in-charge

Form 12E

Auditee organisations _____

Budget year under audit _____ Date _____

Ref. No.	Questions	Yes	No	N/A	Initials
	WORKING PAPERS				
1	Are the working papers fully referenced and cross-referenced?				
2	Do the working papers contain a clear description of the basis on which the items chosen for testing were selected and the work undertaken?				
3	Do they contain a clear and complete trail of all auditing procedures followed during the audit assignment through the use of fully explained tickmarks and other documentation of work done?				
4	Have you ascertained that the working papers do not include unnecessary or superfluous explanations?				
5	Are the sources of the information included in the working papers clearly indicated?				
6	Are you satisfied that the information in the working papers is accurate, complete and technically correct?				
7	Have all the working papers been signed and dated by those preparing them?				
8	Have you signed all the working papers to signify satisfaction with the work done?				
9	Have all points and queries that could be disposed of during the field work been properly disposed of?				
10	Are all pending items that still require attention summarised separately for subsequent attention?				

Audit Supervision and Review Checklist I

Form 12E/2

Ref. No.	Questions	Yes	No	N/A	Initials
11	Have all audit points that need to be included in the audit finding summary been properly summarised?				
12	Are points arising appropriate to management being recorded separately?				
13	Are you satisfied that the working papers contain all the relevant analyses and explanations necessary to support the audit opinion to be rendered, and that they are complete in all necessary respects?				
14	Are you satisfied that the audit has not given rise to suspicions of major irregularity of fraud in regard to cash or other assets or transactions?				
15	Have you updated the permanent file data in respect of proclamations, legal matters, Ministerial directives, etc?				

Audit Supervision and Review Checklist I

Form 12E/3

Ref. No.	Questions	Yes	No	N/A	Initials
	JOB ADMINISTRATION				
24	Have you ascertained that the staff are accounting for their time on the audit assignment properly and accurately?				
25	Have any major variations between actual audit time and budget time been adequately explained?				
26	Have you reviewed the work of all assistants thoroughly and gave appropriate on the job training?				
27	Have you filled the staff rating form for each staff member under your supervision?				
28	Wherever you felt that staff under your supervision needed improvement in the quality and efficiency of their work or their work habits, have you discussed the points with them?				
	REPORTING				
29	Have you ascertained that all material points in the Summary of Auditing finding are properly included in the draft audit report?				
30	Have you arranged the audit working papers in the order of what is stated in the report?				
31	Have you referenced and cross-referenced the report with the working papers.				

Prepared by:

Auditor-in-charge

Name _____

Date _____

Signature

Reviewed and Approved by:

Head of Branch

Name _____

Signature _____

Date _____

Audit supervision and review checklist II
Head of Branch

Form 12F

Auditee organisations _____

Budget year under audit _____ Date _____

Ref no	Questions	Yes	No	N.A.	Initials
	WORKING PAPERS				
1	Do the working papers properly demonstrate the nature and extent of work performed?				
2	Have material weaknesses noted during the review and testing of systems of internal control been properly summarised?				
3	Have all working papers been signed and dated by the preparer and the reviewer?				
4	Has the permanent file been properly updated?				
5	Have you resolved or otherwise disposed of queries and major points noted for your attention?				
6	Are you satisfied that the working papers are complete and accurate in accordance with the OAG's policies and that no further work is required?				
7	Are you satisfied that the audit has been carried out within the intended scope?				

Audit supervision and review checklist II

Form 12F/2

Ref no	Questions	Yes	No	N.A.	Initials
	<p>REPORTING</p>				
8	<p>Are you satisfied that all material points, findings, and recommendations noted during the audit and which should be included in the report, are actually included?</p>				
9	<p>Are you satisfied that no additional audit work or outstanding items are pending before the working papers and draft report are submitted for final review to the Head of Division?</p>				
10	<p>Is the draft audit report accurate, complete, constructive, convincing and objective?</p>				
11	<p>Is the language of the draft audit report clear, simple and concise?</p>				
12	<p>Have you reviewed the audit completion checklist of the AIC and are satisfied that his representation as to the facts and work done are adequately supported by the working papers?</p>				

Ref no	Questions	Yes	No	N.A.	Initials
	ADMINISTRATION				
13	Are you satisfied that the staff have accounted for their time on the audit assignment properly and accurately?				
14	Are major variation of actual time from budget satisfactorily explained?				
15	Have you checked agreement of time spent with the time budget and completed the time variance analysis form?				
16	Have you reviewed and approved the staff rating forms of the audit staff prepared by the Auditor-in-charge?				
17	Have you held a meeting to discuss with the AIC and other member of the team any weaknesses that they should overcome to improve their audit skills, efficiency and work habits?				

Reviewed by:
Head of Branch

Name _____
Signature _____
Date _____

Annexure 4 Index and abbreviations

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Abbreviations

AFROSAI-E	African Organisation of English-speaking Supreme Audit Institutions
AG	Auditor general
INCOSAI	It is a congress that is held every third year by INTOSAI's members.
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	Professional standards and best practice guidelines for public sector auditors, officially authorised and endorsed by the International Organisation of Supreme Audit Institutions (INTOSAI)
NGOs	Non governmental organisation
PA	Performance audit
PAC	Public account committee
SAI	Supreme audit institution, i.e. Auditor-General's office
SMART	Specific, measurable, actionable, realistic and time bound
3Es	Economy, Efficiency and Effectiveness