



A U D I T O R - G E N E R A L

## **PERFORMANCE AUDIT MANUAL**

**Policies, standards and guidelines for the planning, execution, reporting and follow-up of performance audits in the public sector**

**Approved by EXCO**

**14 April 2008**

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## FOREWORD

The principles of performance auditing in South Africa came to be embodied in the then Exchequer and Audit Act of 1975. However, it was only during 1986 that performance audits were introduced by the Auditor-General (AG). The first performance audit was carried out at the then Department of Education and Training during the same year. An organisational component to carry out performance audits was established with effect from 1 July 1988 with five staff members and a few consultants.

Since its early days, performance auditing has been the focus of various research projects, seminars, dissertations and articles in professional publications. A structured approach to performance auditing was followed since its inception and *Guidelines for the planning, execution, reporting and follow-up of performance audits (guidelines)* were developed and implemented. These guidelines were updated several times to keep in touch with new developments in the field of performance auditing and address new challenges we faced.

The AG has made a concerted effort to increase the attention it pays to performance auditing, which is in line with government's overall drive towards policy implementation and service delivery. The AG will continue to focus on doing specific performance audits, in order to support this drive.

## INTRODUCTION

### Purpose of the performance audit manual

1. The General Auditing Standards<sup>1</sup> of INTOSAI<sup>2</sup> 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.<sup>3</sup> This includes manuals on regularity auditing as well as performance auditing.
2. There is a need for special guidelines on performance auditing, since it differs in character from regularity auditing.
3. The manual has been written to meet the specific needs of performance auditors. It describes the conceptual underpinnings of the AG's performance audit methodology, explaining in broad terms how these audits should be selected, planned, conducted and reported.
4. The main purpose of this manual is to set out the related policies, standards, guidance and quality management requirements that govern the conduct of all performance audit work. It also provides guidance when conducting performance, environmental and sustainable development audits in the public sector. It aims to promote uniform working methods and explain the audit process and modus operandi to be followed.

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<sup>1</sup> *INTOSAI Auditing Standards, as approved by the 35th meeting of the Governing Board in October 1991.*

<sup>2</sup> *International Organisation of Supreme Audit Institutions.*

<sup>3</sup> *INTOSAI Auditing Standards 2.1.13.*

## Applicability and use of the manual

5. This manual is applicable to all performance audits carried out by the AG, performance audits conducted on behalf of the AG, as well as the performance audits where the AG has opted not to perform the audit.<sup>4</sup> This manual repeals all previous versions of the *Guideline for the planning, execution, reporting and follow-up of performance audits*.
6. This manual is applicable to all types of performance audits, as defined in chapter 2 of this manual, as well as environmental and sustainable development audits. This performance audit manual is NOT applicable to the auditing of performance information.<sup>5</sup>
7. Performance auditing standards are written as **should** statements and are to be complied with. Inability to comply with the standards as well as the reasons therefor should be brought to the attention of the person or delegate responsible for signing the audit report and should be documented in the relevant working papers.

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<sup>4</sup> Over and above the mandatory audits the AG must perform in terms of sections 4(1) and 4(2) of the PAA, the AG **may** audit and report on the accounts, financial statements and financial management of any public entity listed in the PFMA and any other institution funded from the national or a provincial revenue fund or receiving money for public purposes. In cases where these institutions are audited by auditors in private practice (when the AG has opted not to perform the audits), the AG may require the auditors in private practice to report on whether the auditee's resources were procured economically and utilised efficiently and effectively. Refer PAA section 28(2)(a).

<sup>5</sup> The auditing of performance information refers to the responsibility of the AG to audit and report on the performance of auditees against pre-determined objectives in terms of section 20(2)(c) of the PAA. The PAA requires the AG to express an opinion or conclusion on the reported performance information. The auditing of performance information forms an integral part of the financial auditing process and separate detailed guidance on the audit approach is contained in the AG's Public Audit Manual.

## Organisation of the manual

8. The manual consists of six chapters:
- **Chapter 1** defines performance auditing in the South African context, describes the mandate, sets out the general policies and auditing standards adopted for performance audits and links performance auditing and accountability.
  - **Chapter 2** describes the overall planning process, how performance audits are selected and the roles and responsibilities of key players.
  - **Chapter 3** sets out the performance audit planning standards, policies and guidance.
  - **Chapter 4** sets out the performance audit execution standards, policies and guidance.
  - **Chapter 5** sets out the performance audit reporting standards, policies and guidance.
  - **Chapter 6** sets out the performance audit follow-up policies and guidance.

# 1. DEFINITION, MANDATE AND GENERAL POLICIES

## Definition of performance auditing

- 1.1 In contrast to regularity auditing, which is subject to fairly specific requirements and expectations, performance auditing is wide-ranging in nature and more open to judgement and interpretation. Coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period, and it does not normally relate to particular financial or other statements. As a consequence performance audit reports are varied and contain more discussion and reasoned argument (AS 4.0.21).
- 1.2 A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.
- 1.3 Performance auditing is concerned with the auditing of economy, efficiency and effectiveness and embraces:<sup>6</sup>
- (a) auditing of the **economy** in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost;
  - (b) auditing of the **efficiency** of utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them; and

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<sup>6</sup> INTOSAI's Auditing Standards (AS 1.0.38 and 1.0.40). INTOSAI definitions of economy, efficiency and effectiveness redefined in terms of the AG mandate.

- (c) auditing of the **effectiveness** of performance in relation to achievement of the policy objectives, operational goals and other intended effects of the audited entity.

## Mandate and functions

- 1.4 The functions of the Auditor-General are reflected in section 188 of the Constitution<sup>7</sup> and further regulated in the Public Audit Act, 2004<sup>8</sup> (PAA). Section 188 of the Constitution, 1996 states that the Auditor-General must audit and report on the accounts, financial statements and financial management of all national and provincial state departments and administrations and all municipalities. The Auditor-General must also audit any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.<sup>9</sup>
- 1.5 The national statute that prescribes further powers and functions of the Auditor-General is the Public Audit Act.<sup>10</sup> The PAA mandates the Auditor-General to perform constitutional and other functions.

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<sup>7</sup> *Constitution of the Republic of South Africa, 1996.*

<sup>8</sup> *Public Audit Act, 2004 (Act No. 25 of 2004).*

<sup>9</sup> *Section 188(1)(a)(c).*

<sup>10</sup> *The purpose of the Public Audit Act is clearly expressed in section 2 of the Act, namely to:*

- (a) *give effect to the provisions of the Constitution establishing and assigning supreme auditing functions to an Auditor-General;*
- (b) *provide for the auditing of institutions and accounting entities in the public sector;*  
*and*
- (c) *provide for an oversight mechanism to assist and protect the Auditor-General to ensure the independence, impartiality, effectiveness and dignity of the Auditor-General and to advise the National Assembly.*

- 1.6 **Constitutional functions** relate to all those functions that the Auditor-General performs in order to comply with the broader mandate described in the Constitution. Section 4 of the PAA makes a further distinction between mandatory and discretionary audits.
- 1.7 Sections 4(1) and 4(2) require the Auditor-General to perform annual, mandatory audits of government departments, administrations, constitutional institutions, municipalities, municipal entities and certain consolidated financial statements.<sup>11</sup> In addition to these mandatory audits, section 4(3) furnishes the Auditor-General with a discretion to audit and report on the accounts, financial statements and financial management of public entities and other institutions that comply with certain criteria.<sup>12</sup>
- 1.8 **Other functions** relate to audit-related services which are commonly performed by a supreme audit institution. These services include anything necessary to fulfil the role of Auditor-General effectively.<sup>13</sup>
- 1.9 The nature and scope of audit services provided by the Auditor-General includes performance audits. The PAA provides the Auditor-General with the

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<sup>11</sup> Section 4(2) requires the Auditor-General to audit and report on the consolidated financial statements of:

- (a) the national government;
- (b) all provincial governments; and
- (c) a parent municipality and all municipal entities under its sole or effective control.

<sup>12</sup> Section 4(3) allows the Auditor-General to audit and report on the accounts, financial statements and financial management of:

- (a) any public entity listed in the Public Finance Management Act; and
- (b) any other institution which is funded from the National Revenue Fund or a provincial revenue fund or a municipality or authorised in terms of any legislation to receive money for a public purpose.

<sup>13</sup> Section 5(2)(c).

discretion to report on whether the auditee's resources were procured economically and utilised efficiently and effectively.<sup>14</sup>

## **The relationship between the audit function, government policy and policy making**

- 1.10 The auditing of government institutions takes place in an environment where it is the responsibility of the accounting officers concerned to institute management measures that will ensure that resources are procured economically and utilised efficiently and effectively.<sup>15</sup> In this environment the AG functions as an independent instrument of Parliament or the legislature to determine whether the necessary measures have indeed been instituted and are functioning satisfactorily.
- 1.11 It is not the function of the Auditor-General to question policy. The performance auditor focuses on the effect of a policy as well as the overall management measures that gave rise to policy decisions. With due regard to the specific circumstances of each case, the following may be considered:
- (a) Whether policy objectives have been set and policy decisions taken with the necessary authority.

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<sup>14</sup> Section 20(3) of the PAA.

<sup>15</sup> Sections 38(1)(b), 45(b) and 57(b) of the PFMA outline the responsibilities of accounting officers, accounting authorities and other officials. These sections provide that they are responsible for the effective, efficient, economical and transparent use of resources.

Sections 62(1)(a) and 78(1)(b) of the MFMA outline the responsibilities of accounting officers, senior managers and other officials. It provides that the financial and other resources of the municipality should be utilised effectively, efficiently, economically and transparently.

- (b) The extent to which policy goals and objectives have been set and decisions taken on the basis of adequate, appropriate and reliable financial and other information and whether the critical underlying assumptions have been disclosed.
- (c) Whether there are satisfactory measures for the consideration of alternative possibilities.
- (d) Whether established policy goals and objectives are clearly defined – the extent to which decisions on the implementation of policy are in line with the approved goals and objectives and have been set with proper authority at the appropriate level and whether the resulting instructions to staff are in line with the approved policy goals and decisions and are clearly understood by all concerned.
- (e) Whether there is conflict or possible conflict between the various policy goals and objectives or between the methods chosen to implement them.
- (f) Whether the cost of alternative levels for the rendering of service has been taken into account and is reviewed when costs change.
- (g) Whether the implementation of the policy has adverse or unintended effects or does not have the desired impact.

## **Auditing standards applicable to performance audits**

1.12 Section 13 of the PAA mandates the Auditor-General to determine the standards to be applied in performing audits. This mandate includes the determination of the nature and scope of such audits. In setting these standards, the Auditor-General must take into account all relevant factors that may impact on the audit services delivered.<sup>16</sup>

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<sup>16</sup> *The Auditor-General must consider local and international best practice and the capacity of the Auditor-General and the auditing profession to comply with these standards (section 13(2)).*

- 1.13 The standards contained in this manual are in accordance with the standards set by INTOSAI relevant to performance auditing.<sup>17</sup> While the Auditor-General adopts these standards as the minimum requirements for performance audits, we also draw upon the International Standards on Auditing (ISA), where applicable, and practices of other disciplines.<sup>18</sup>

## **Code of professional conduct and ethics**

- 1.14 The Auditor-General must issue a code of conduct for authorised auditors prescribing standards of professional conduct for the performance of an audit or their other functions, taking into consideration the manner in which the accountancy and audit profession is regulated in this regard.<sup>19</sup>
- 1.15 The Constitution requires the Auditor-General to be independent and impartial, subject only to the Constitution and the law. The Auditor-General must exercise his/her functions without fear, favour or prejudice. To assist the Auditor-General

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*Section 13(3) allows the Auditor-General to make different determinations for different categories of audits based on recognised best practice.*

<sup>17</sup> INTOSAI Auditing Standards, as approved by the 35th meeting of the Governing Board in October 1991, as well as INTOSAI Implementation Guidelines for Performance Auditing Standards, issued by the INTOSAI Auditing Standards Committee, July 2004 and issued as part of the ISSAI 3000 series.

<sup>18</sup> To ensure that high-quality work is done, appropriate standards must be followed. The objectives of the particular type of work or the particular assignment should dictate the specific standards that are followed. Each SAI should establish a policy on which INTOSAI standards, or other specific standards, should be followed in carrying out the various types of work that the organisation conducts to ensure that the work and products are of high quality (AS 1.0.14).

<sup>19</sup> Refer section 12(3)(b) of the PAA. Also refer to the IFAC code of ethics relevant to auditors in private practice.

in fulfilling these constitutional imperatives all authorised auditors should observe the following fundamental principles:<sup>20</sup>

- Integrity
- Independence, objectivity and impartiality<sup>21 22</sup>
- Accountability
- Professional competence and due care<sup>23</sup>
- Fair and professional conduct<sup>24</sup>
- Confidentiality<sup>25</sup>

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<sup>20</sup> *Fundamental principles as per Code of professional conduct and ethics, Office of the Auditor-General, effective from 1 September 2003.*

<sup>21</sup> *The SAI must remain independent from audited entities. It should, however, seek to create among audited entities an understanding of its role and function, 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. In this spirit, the SAI, while retaining its independence, can agree to be associated with reforms which are planned by the administration in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting its competence or its authority. In these cases it is not, however, a matter of the SAI interfering in administrative management but a matter of cooperating with certain administrative services by giving them technical assistance or by putting SAI financial management experience at their disposition (AS 2.2.25).*

<sup>22</sup> *The SAI must be, and be seen to be, objective in its auditing of entities and public enterprises. It should be fair in its evaluations and its reporting of the outcome of audits (AS 2.2.40).*

<sup>23</sup> *The auditor and the SAI must exercise due care and concern in complying with the INTOSAI Auditing Standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (AS 2.2.39).*

<sup>24</sup> *Personnel of the SAI should not become involved in instructing personnel of an audited entity as to their duties. In those instances where the SAI decides to establish a resident office at the audited entity with the purpose of facilitating the ongoing review of its operations, programmes and activities, SAI personnel should not engage in any decision-making or approval process which is considered the auditee's management responsibility (AS 2.2.29).*

<sup>25</sup> *Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and in reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. However, the SAI must be entitled to report offences against the law to proper prosecuting authorities (AS 2.2.46).*

1.16 The code **must be** clearly communicated to all persons conducting performance audits. All authorised auditors, as defined by the PAA, **should** comply fully and promptly with the IFAC code of ethics.

## **Access to information to fulfil audit responsibilities**

1.17 Section 15(1) of the Public Audit Act entitles the Auditor-General or an authorised auditor, at all reasonable times, full and unrestricted access to:

- any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee
- any of the assets of or under the control of the auditee
- any staff member or representative of the auditee.

1.18 Section 15 of the PAA sets out the general auditing powers the AG would exercise over auditees,<sup>26</sup> i.e. all institutions or accounting entities referred to in section 4 and audited in terms of the PAA. The powers are those necessary to perform the AG's duties and responsibilities at every institution or accounting entity that falls within the ambit of the AG's jurisdiction. Refer to AG policy and guidelines in this regard.<sup>27</sup>

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<sup>26</sup> *These powers are also available to the external auditors of entities where the AG has opted not to perform the audit.*

<sup>27</sup> *AG Policy and Guidelines: Access to and Disclosure and Protection of Information as contemplated in Sections 15 – 18 of the Public Audit Act, 2004 (Act No. 25 of 2004), approved 2 March 2006.*

## Quality assurance management

1.19 As a further means of ensuring quality of performance, additional to the review of the auditing activity by personnel having line responsibility for the audits concerned, it is desirable for SAIs to establish their own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified SAI personnel not involved in those audits, with consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the SAI's top management (AS 2.1.28).

1.20 The AG has a quality control strategy and system for audit, assurance and related services.<sup>28</sup> The system of quality control is designed to provide reasonable assurance that the AG and its personnel comply with professional standards and applicable regulatory and legal requirements, and that reports issued by and on behalf of the AG are appropriate. The quality control system in the AG has clearly delegated lines of responsibility and addresses the following:

- Leadership and responsibilities within the AG
- Ethical requirements
- Continuance of auditee relationships and specific engagements
- Human capital
- Engagement performance
- Engagement quality control review
- Monitoring

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<sup>28</sup> *Quality Control Strategy, 2006-2008 financial years, issued July 2006. The strategy is based on ISQC1 and ISA 220R and is also applicable to all performance auditing engagements performed by the AG and those performed on behalf of the AG.*

- 1.21 All performance audits are subject to pre-issuance reviews, which should be performed in terms of the AG's policy on pre-issuance reviews<sup>29</sup> (*also refer par. 2.15.67*).

## People management

- 1.22 The SAI needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Whatever the nature of the audits to be undertaken under the mandate, the audit work should be carried out by persons whose education and experience are commensurate with the nature, scope and complexities of the audit task. The SAI should equip itself with the full range of up-to-date audit methodologies (AS 2.2.37).
- 1.23 The PAA requires that the AG must determine the minimum qualifications, experience and competence for authorised auditors for appointment as authorised auditors.<sup>30</sup>
- 1.24 The AG **should** establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and to enable the AG to issue reports that are appropriate in the circumstances.<sup>31</sup>
- 1.25 Policies and guidance related to people management apply organisation-wide and are outlined in the AG human resource policies and guidance documents.

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<sup>29</sup> AG pre-issuance review policy, 1 February 2008, issued with Technical memo 02 of 2008.

<sup>30</sup> Refer section 12(3)(a) of the PAA.

<sup>31</sup> Refer par. 36 of ISQC1.

Some of the specific expectations regarding people management at team level are contained in chapter 2 of this manual.

## 2. KEY FACTORS IN DISCHARGING THE PERFORMANCE AUDIT MANDATE

### Strategic planning - selecting the right area for audit

- 2.1 The starting point in the performance audit strategic planning process is deciding what to audit from the myriad of government activities. Performance auditing should be directed towards areas where an external, independent audit may support the oversight function in promoting accountability, economy, efficiency and effectiveness in the use of public resources.
- 2.2 The choice of performance audit areas **should** take place without any outside pressure (AS 2.2.14). The AG must maintain its political neutrality, but maintenance of the AG's independence does not preclude requests to the AG from the executive, proposing matters for audit. However, if it is to enjoy adequate independence, the AG must be able to decline any such requests.<sup>32</sup>
- 2.3 The reputation promise of the Auditor-General of South Africa provides an important starting point in deciding what to audit:  
*“The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence.”*

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<sup>32</sup> As per the INTOSAI Implementation Guidelines for Performance Auditing Standards, par. 3.2.

- 2.4 The Auditor-General's statement of policy and commitment<sup>33</sup> further elaborates on this promise by indicating commitments to, inter alia,
- improve the quality, cost-effectiveness and timeliness of audits, and
  - increase the shift towards performance auditing to be in line with government's overall drive towards policy implementation that improves service delivery.
- 2.5 The strategic planning process is the basis for the selection of appropriate strategic and transversal performance audit themes/areas. The selection of these audit themes/areas involves strategic choices with consequences for the SAI. The main selection criterion is the audit's primary contribution to the assessment and improvement of the functioning of government and its entities (AS 3.0.1). The general selection criteria<sup>34</sup> are as follows:
- **Added value:** The better the prospects of carrying out a useful audit of good quality and the less the policy field or subjects have been covered earlier by audits, the greater the added value.
  - **Important problems or problem areas:** The greater the risk of consequences in terms of economy, efficiency and effectiveness or public trust, the more important the problems tend to be.
  - **Risks or uncertainty:** Factors that may indicate higher risk (or uncertainty) could be the following:
    - The financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved.
    - Areas traditionally prone to risk such as procurement or health, for example, are involved.
    - New or urgent activities or changes in conditions are involved.

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<sup>33</sup> As per the strategic plan of the Auditor-General, 2008-11.

<sup>34</sup> As per the INTOSAI Implementation Guidelines for Performance Auditing Standards, par. 3.2.

- Management structures are complex, and there might be some confusion about responsibilities.
- There is no reliable, independent and updated information on the efficiency or the effectiveness of a government programme.

2.6 Establishing the significance of wider performance audit areas in terms of government's overall and primary objectives will begin by analysing and understanding government's policies, strategies, budgets and statements to identify critical policy implementation that improves service delivery.

2.7 A proper consultation process involving appropriate roleplayers in government such as relevant ministers, portfolio committees, accounting officers and others will form the basis of the understanding of government's policies and priorities. This consultation process should inform the decision on appropriate strategic and transversal performance audit themes to be reflected in the AG strategic plan.

2.8 The Specialised Audit Services (SAS) unit is responsible for the performance audit strategic planning process by:

- conducting environmental scanning work relevant to performance audits
- constantly reviewing the wider performance audit areas for relevance
- facilitating a wider consultation process to obtain inputs from relevant roleplayers in government (refer par 2.7)
- organising the approval of strategic and transversal performance audit themes/areas including the preparation of supporting material such as risk analyses and proposed audits
- maintaining planning methodology for risk analysis and reporting
- identifying internal and external subject matter experts

- 2.9 Strategic and transversal performance audit areas identified through the strategic planning process **should** be reviewed and approved by the Auditor-General or delegated person/meeting.

## Annual planning

- 2.10 After strategic planning, the planning process continues with annual plans for all performance audit activities to be carried out during the year. Development of the annual plan is the responsibility of the SAS business executive (BE). The annual audit plan **should** comprise a detailed approach for the expected nature, timing (e.g. cyclical nature of performance audits at different audited entities) and extent of the audits.
- 2.11 The annual plan **should** incorporate the detailed audit plans for transversal performance audits as well as entity-specific performance audits (*refer par. 2.14*) that will be carried out during the year. The aim of the annual plan is to determine the annual programme of performance audit work and the staff and other resources needed to implement the programme. The annual plan should be based on the performance audit priorities as per the AG strategic plan, a good understanding of the audit field, a considered view of possible focus areas and adequate consultation with subject matter experts.
- 2.12 Annual planning also assists in proper assignment of work to team members and coordination of work performed by different auditors and ABUs. This is a basis for development of a detailed work programme that identifies the specific audit tasks to be undertaken.

2.13 Once a year, the Executive Committee of the AG (Exco)<sup>35</sup> meets to update audit plans and consider and approve the budget for the upcoming financial year. Following this approval, individual budgets for audits (*refer par. 3.46*), including performance audits, are confirmed and communicated to the relevant audited entities to ensure appropriate provision for audit fees by the entities .

## Types of performance audits

2.14 The AG uses the following performance audit approaches to make the performance audit products more relevant to Parliament:

- **Entity-specific performance audits**, during which management measures of the whole or part of the operations of an audited entity are evaluated. This type of performance audit will thus focus on an audited entity, or a programme within the audited entity or an activity or project for which the audited entity is responsible.
- **Transversal performance audits**, which focus on government-wide issues or functional areas, such as development of infrastructure, in a number of departments selected by the AG. The pre-determined focus areas for this type of performance audits will be referred to as transversal performance audit themes.

## Roles and responsibilities

2.15 The following are the roles and responsibilities of the key players within the performance auditing environment:

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<sup>35</sup> *Since both the Auditor-General and the Deputy Auditor-General can delegate any power and duty assigned to them in terms of legislation, an executive committee (Exco) has been established to assist the DAG in managing the affairs of the organisation. Exco consists of the DAG as the chairperson and corporate executives.*

2.15.1 **The Auditor-General** approves transversal performance audit focus areas in consultation with the performance audit advisory committee (refer par 3.22), identified through the strategic planning process, and signs audit reports in terms of the AG management approval framework (MAF).<sup>36</sup>

2.15.2 **Corporate executive (CE)** monitors the annual performance audits to ensure that performance audits are conducted according to the relevant standards, guidance, strategic and audit plans. Other responsibilities include the leading of discussions of high-profile tabled performance audits at meetings of oversight bodies and chairing meetings of the performance audit advisory committee (refer par 3.22).

2.15.3 **The business executive (BE)** oversees all aspects of the audit. These duties include:

- involvement in major audit decisions on the scope of the audit, focus area selection, complex and contentious issues and reporting aspects
- in cases of high-profile performance audits, involvement in steering committee meetings and clearing of the management report with senior officials of the entity
- overall responsibility for recommending a focus area to the performance audit advisory committee (refer par 3.22) as well as ensuring the quality, cost-effectiveness and timeliness of performance audits
- leading of discussions of tabled performance audits at meetings with oversight bodies
- ensuring that all performance audit policies are followed.

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<sup>36</sup> AG Management approval framework (MAF) effective 1 April 2007.

2.15.4 **The senior manager (SM)** is responsible for the overall management and review of the audit process, for ensuring quality and adherence to audit standards and for:

- recommending a focus area to the business executive
- approving audit criteria, planned audit resources and cost
- leading steering committee meetings and other high-level discussions and interactions with the audited entity
- the final quality of the contents and layout of audit reports
- overall project management
- identification of training needs for respective auditors.

2.15.5 **The manager** is responsible for:

- leading from the front by personally doing research on the environment of the department to be audited, and by writing audit procedures to guide auditors
- initiating the audit planning process and developing detailed audit plans
- determining the audit objectives, identifying entity components significant for the overall audit objectives and determining audit criteria
- carrying out background research and audit work to identify and motivate possible focus areas (only relevant for entity-specific performance audits)
- planning the audit resources and controlling day-to-day audit work
- participating in the audit throughout and assessing the need for changes to audit plans and programmes
- monitoring and evaluating progress against plans, budgets and milestones, taking into account the stage of successful completion already reached
- providing on-the-job training to the audit team and giving assistance and feedback to the auditors, as well as identifying training needs of the audit team

- reporting audit findings according to applicable standards and formulating audit recommendations
- reviewing and ensuring that the audit work and files meet the required standards.

2.15.6 **Team members** are responsible for carrying out the responsibilities assigned to them by their manager. As such they are expected to support their managers in fulfilling their responsibilities, including:

- collection of data and audit evidence and documentation thereof
- execution of audit programmes and documentation of work performed
- Drafting of audit conclusions, audit findings and recommendations
- Overall maintenance of electronic working paper files.

2.15.7 **The pre-issuance review**<sup>37</sup> provides an independent and objective review and evaluation of significant judgements made on auditing and reporting matters. The conclusions of the pre-issuance reviewer should be based on all the relevant facts and circumstances known to him/her on the basis that no matters have come to his/her attention that would cause the reviewer to believe that the conclusions reached are inappropriate. The SM may consult the pre-issuance reviewer during the audit. Such consultation need not compromise the pre-issuance reviewer's eligibility to perform the task. Where the nature and extent of the consultations become significant, however, care should be taken by both the auditor and the reviewer to maintain the reviewer's objectivity.

The pre-issuance reviewer should, amongst others, review the following risk areas:

- significant audit symptoms (risks) identified by the auditor and the responses thereto

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<sup>37</sup> Refer to the AG pre-issuance review policy, 1 February 2008, established in terms of ISQC1: "Quality control for firms that perform audits".

- completeness of the planning process including the focus and scope of the audit
- suitability of the criteria used for evaluating the subject matter
- suitability of the audit approach, particularly in higher risk areas
- nature and extent of consultation by the audit team
- significance of any contentious, difficult or complex aspects of the performance audit or differences of opinion and the decisions made in this regard
- sufficiency and appropriateness of audit evidence in relation to all conclusions
- completeness and appropriateness of the conclusions and audit findings
- appropriateness of management and final performance audit reports.

2.15.8 **The Specialised Audit Services (SAS)** business unit has the following responsibilities with respect to performance audits and related issues:

- Compiling and updating of the performance audit manual to ensure that the policies, standards and guidelines are in line with international standards and best practices.
- Leading the performance audit strategic planning process as described in this manual.
- Planning, execution, reporting and follow-up of performance audits.
- Participating in the AG Technical Committee and forums with specific reference to performance audit technical matters.
- Researching and developing performance audit training material and conducting performance audit training of all performance auditors.
- Researching and developing transversal performance audit themes and facilitating the implementation and roll-out of such audits.
- Providing technical support to performance auditors on issues relating to performance audits.

### 3. THE PERFORMANCE AUDIT PLANNING STANDARDS, POLICIES AND GUIDANCE

#### Standards

- 3.1 The auditor **should** plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (AS 3.1.1).
- 3.2 In planning an audit, the auditor **should** do the following (AS 3.1.3):
- (a) Identify important aspects of the environment in which the audited entity operates.
  - (b) Develop an understanding of the accountability relationships.
  - (c) Consider the form, content and users of audit reports.
  - (d) Specify the audit objectives and the tests necessary to meet them.
  - (e) Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses.
  - (f) Determine the materiality (both quantitative and qualitative for performance audits) of matters to be considered.
  - (g) Review the internal audit of the audited entity and its work programme.
  - (h) Assess the extent of reliance that might be placed on other auditors, for example, internal audit.
  - (i) Determine the most efficient and effective audit approach.
  - (j) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations – only relevant in the case of follow-up audits.

(k) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

3.3 The following planning steps are normally included in an audit (AS 3.1.4):

- (a) Collect information about the audited entity and its organisation.
- (b) Define the objectives and scope of the audit.
- (c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later.
- (d) Highlight special problems foreseen when planning the audit.
- (e) Prepare a budget and schedule for the audit.
- (f) Identify staff requirements and a team for the audit.
- (g) Familiarise the audited entity with the scope, objectives and assessment criteria of the audit and discuss with them as necessary.

The SAI may revise the plan during the audit when necessary.

3.4 The auditor and the SAI must exercise due care and concern in complying with the INTOSAI Auditing Standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (AS 2.2.1 (d)).

3.5 In conducting performance audits an assessment **should** be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives (AS 3.0.3 (d)).

3.6 Because of the importance of ensuring a high standard of work by the SAI, it **should** pay particular attention to quality assurance programmes in order to improve performance auditing and results. The benefits to be derived from such programmes make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained (AS 2.1.26).

- 3.7 The SAI **should** establish systems and procedures to (AS 2.1.27):
- (a) confirm that integral quality assurance processes have operated satisfactorily
  - (b) ensure the quality of the audit report
  - (c) secure improvements and avoid repetition of weaknesses.
- 3.8 Since the duties and responsibilities thus borne by the SAI are crucial to the concept of public accountability, the SAI must apply methodologies and practices of the highest quality to its audits. It is incumbent upon the SAI to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures, methodologies and supervision (AS 2.2.36).
- 3.9 Supervision **should** be directed both to the substance and to the method of auditing. It involves ensuring that:
- (a) the members of the audit team have a clear and consistent understanding of the audit plan
  - (b) the audit is carried out in accordance with the auditing standards and practices of the SAI
  - (c) the audit plan and action steps specified in that plan are followed unless a variation is authorised
  - (d) working papers contain evidence adequately supporting all conclusions, recommendations and opinions
  - (e) the auditor achieved the stated objectives
  - (f) the audit report includes the audit conclusions, recommendations and opinions, as appropriate.

## **Application and other explanatory material**

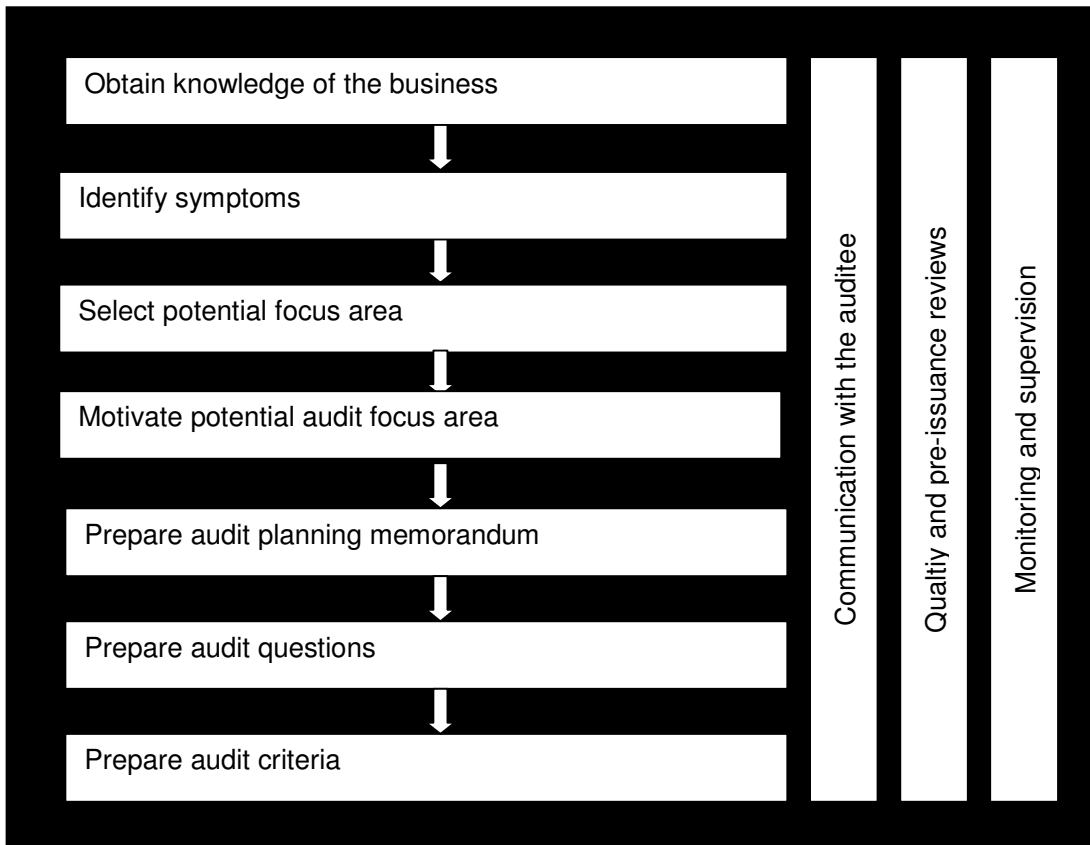
### **Purpose of planning procedures**

3.10 The purpose of the planning procedures is to establish whether the conditions for a performance audit exist.

### What does planning of individual audits involve?

3.11 Appendix 2 illustrates the basic performance auditing process.

3.12 The main planning procedures<sup>38</sup> can be summarised as follows (*refer par. 3.2 and 3.3*):



<sup>38</sup> It is important to note that the procedures do not necessarily take place in the order depicted in the summary.

## Obtain knowledge of the business

- 3.13 The auditor **should** obtain a sound understanding and knowledge of the business,<sup>39</sup> including the following:
- 3.13.1 Legislation and relevant policies
  - 3.13.2 General programmes and performance goals
  - 3.13.3 Organisational structure and accountability relationships
  - 3.13.4 The objective, mission and expected results
  - 3.13.5 Internal and external environment in which the entity operates, including major control systems, and the stakeholders
  - 3.13.6 External constraints affecting programme implementation
  - 3.13.7 Earlier investigations and/or audits highlighting prior deficiencies or known problems
  - 3.13.8 Management processes and resources (including key personnel)
  - 3.13.9 Spending levels and revenues
- 3.14 Obtaining the required knowledge is a continuous and cumulative process of gathering and assessing information and relating the resultant knowledge to audit evidence at all stages of the audit.
- 3.15 The auditor **should** properly document the information acquired during the planning phase as part of the electronic working paper files.

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<sup>39</sup> Knowledge can be obtained by way of interviews with management, review of various documents, review of the entity's Internet site, observation, walk-through of major systems and control procedures, analysis and consultation.

## Identification of symptoms

- 3.16 During the gathering and analysing of relevant information when performing planning procedures, the auditor **should** identify symptoms or areas of risk<sup>40</sup> relating to the uneconomical procurement or inefficient and ineffective use of resources.
- 3.17 During the identification of symptoms, the performance auditor may use one of the following approaches:<sup>41</sup>
- **Results-oriented approach:** In this approach the performance auditor studies performance (concerning economy, efficiency and effectiveness) and relates the audit observations to the given norms (goals, objectives, regulations, standards, etc.) and general audit criteria (initially defined at the preliminary planning phase and finalised before the execution phase).
  - **Problem-oriented approach:** In this approach the performance auditor deals primarily with problem verification and analysis (problems related to economy, efficiency and effectiveness in government undertakings, programmes and activities), normally without reference to predefined audit criteria. Shortcomings and problems, or at least indications of problems, are the starting point of an audit and not the audit criteria.
- 3.18 The process and procedures followed in identifying symptoms **should** be properly documented and supported by appropriate audit evidence. In instances where different possible focus areas are relevant, symptoms should be

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<sup>40</sup> According to the Office of the Auditor-General of Canada – “An important tool used in all phases of the planning process is risk assessment. Risk is defined as the probability that an event or action may adversely affect the organisation, such as exposure to financial loss, loss of reputation, or failure to deliver the programme with economy, efficiency, cost effectiveness or taking into account the environmental implications. A risk assessment requires the auditor to ask questions such as: What can go wrong?; What is the probability of it going wrong?; What are the consequences?; Can the risk be minimised or controlled?”

<sup>41</sup> Adapted: Implementation Guidelines for Performance Auditing Standards, INTOSAI, July 2004.

compiled and categorised per possible focus area. The selection of the appropriate focus area should be based on the symptoms and comprehensively documented.

- 3.19 During the execution phase, as more information and audit evidence is acquired, additional symptoms may be identified which would necessitate modified audit planning procedures. All symptoms relating to the selected focus area **should** be followed up in working papers and reasons for not including symptoms in the management report **should** be documented.

## Selecting a potential audit focus area

- 3.20 During the planning procedures, vast amounts of information are collected and symptoms are identified. A number of potential audit focus areas will probably ~~have been~~ identified. To make a recommendation about the audit focus area that warrants further examination, the following factors should be used when evaluating the information collected and the symptoms identified, when comparing potential audit focus areas:

- Performance targets are not being met.
- Known problems exist.
- Unauthorised overexpenditure or rising costs resulting in demands for more resources.
- Fraud or other irregularities and deficiencies were indicated by previous audits or investigations.
- A matter of special interest to Parliament, legislature or the public has been identified.
- There is a lack of internal control systems and evaluation.
- Projects are not completed on time.
- Delegations are abnormally limited or exceptional freedom is being allowed.

- Inefficient, lengthy, obsolete or useless procedures are being followed.
- Unusual service conditions or fringe benefits are granted to personnel.
- Complaints from staff or high staff turnover.
- Misuse of machinery, equipment and other assets.
- The planning within the institution is weak.

## Motivating a potential audit focus area

- 3.21 The results of the planning procedures **should** be documented in a structured focus area memorandum.
- 3.22 The focus area memorandum **should** be submitted to a performance audit advisory committee for a decision on whether or not to continue with the performance audit. This committee should be chaired by at least a corporate executive and consist of the BE;SAS, other relevant BE's and an external expert if necessary. Transversal performance audit themes should be approved by the AG after consideration and motivation by the performance audit advisory committee.
- 3.23 The focus area memorandum **should** at least include the following:
- 3.23.1 Background information on the audited entity/function/programme/activity. This can include a brief summary of the main objectives, activities and undertakings of the entity/function/programme, relevant organisational structure and divisions of responsibilities.
- 3.23.2 An evaluation of the risks identified, as formulated in the symptoms. A detailed list of symptoms should be attached to the memorandum.

- 3.23.3 Materiality.<sup>42</sup> This includes an assessment of the extent to which the symptoms or risks affect the service delivery objectives and the public. Materiality by value (i.e. the amount of money spent or budgeted) as well as by nature (i.e. how people and service delivery are affected) should be indicated.
- 3.23.4 Audit objectives and audit questions.
- 3.23.5 Proposed audit scope and a general description of the proposed audit approach.
- 3.23.6 Possible results of the audit and an indication of the contribution/impact the audit report will make.
- 3.23.7 Auditability with reference to the audit team's ability to carry out the audit in accordance with professional standards and audit policies. The auditor should also consider whether sufficient resources are available, i.e. budget, human resources, the need of a specialist, etc.
- 3.23.8 Recommendation.

## Preparing an audit planning memorandum

- 3.24 After approval of the focus area the auditor **should** prepare an audit planning memorandum. The purpose of the audit planning memorandum is to plan and describe how the audit of the specific focus area will be carried out.
- 3.25 The audit planning memorandum will help the team to structure their thoughts and guide them through the audit process. It also provides a basis for management monitoring throughout the process.

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<sup>42</sup> According to the **INTOSAI standards glossary** - in general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material. In addition to materiality by value and nature, a matter may be material because of the context in which it occurs.

- 3.26 The audit planning memorandum **should** be approved by the SM prior to the commencement of the execution phase. The manager is responsible for the preparation of the audit planning memorandum.
- 3.27 The audit planning memorandum **should** include the following:
- 3.27.1 Audit problem/overall audit objective
  - 3.27.2 Final audit scope
  - 3.27.3 Audit questions
  - 3.27.4 Audit criteria
  - 3.27.5 Description of the audit approach and methodology (that is nature, timing and extent)
  - 3.27.6 Resource planning, including:
    - Identification of audit staff and the qualifications of contractors engaged for their special knowledge or skills
    - Final cost in terms of hours, travel expenses and contract work
    - Timing of the audit in terms of milestones, timing of audit steering committee meetings and date for issuance of management report
    - Preliminary reporting framework
- 3.28 Any major revisions of the audit objectives, scope, budget and cost or timing of the audit that are made subsequent to the approval of the audit planning memorandum or which does not fall within the parameters set during the initial budgeting process **should** be approved by the BE.

### ***Audit problem/overall audit objective***

- 3.29 The audit problem as defined in the focus area memorandum provides the starting point for the planning of the execution of the audit. According to the INTOSAI Auditing Standards an audit objective is a precise statement of what the audit intends to accomplish and/or the question the audit will answer.

- 3.30 The auditor **should** formulate an overall audit objective which will indicate the general question that the audit will answer.

### ***Audit scope***

- 3.31 The audit scope defines the boundary of the audit. The audit scope **should** be determined by answering the following questions:

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

3.31.2 **Who?** Who are the key players involved, for example the auditee, key subject matter experts or expert groups?

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

3.31.4 **Where?** Are there geographical limits concerning the area to be covered?

### ***Audit questions***

- 3.32 After determining the audit scope, the auditor **should** define the specific audit questions<sup>43</sup> that will be examined. In practice the audit questions will form the basis for the selection of data collection methods.

3.33 In formulating the audit questions, the auditor must rely on the information collected and their own skills and experience.

3.34 After having formulated the overall audit question the auditor have to break it down into specific and auditable sub-questions to be answered by the audit. Audit questions should be specific concerning *what is* or *why it is*. When answered, they should provide sufficient information about the audit problem

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<sup>43</sup> According to the INTOSAI Implementation Guidelines for Performance Auditing Standards the audit question can be thought of as the fundamental research question into a government programme to which the auditors seek the answer. Consequently, it is important that it is based on rational and objective considerations.

and its causes within the given scope. It is advisable to formulate between three and five specific audit questions.

### **Audit criteria**

- 3.35 Performance audits **should** have suitable audit criteria that focus the audit and provide a basis for developing audit findings.<sup>44</sup>
- 3.36 Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices and the economy, efficiency and effectiveness of operations can be evaluated and assessed.
- 3.37 Suitable criteria are criteria that are appropriate to the particular characteristics of the audited entity and the focus area and the resulting criteria will vary from one audit to another. When criteria are compared with what actually exists, audit findings are generated.
- 3.38 Audit criteria **should** be developed for each of the audit questions and corresponding symptoms.
- 3.39 Audit criteria **should** be reliable, objective, useful, and complete and accepted.<sup>45</sup>

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<sup>44</sup> According to the INTOSAI Guidelines, in the problem-oriented approach it is more important to formulate testable (verifiable) hypotheses on possible causes of the audit problem.

<sup>45</sup> According to the INTOSAI Guidelines.

*Reliable – Result in consistent conclusions when used by another auditor in the same circumstances*

*Objective – Free from any bias of the auditor or management*

*Useful – Result in findings and conclusions that meet users' information needs*

*Complete – All significant criteria appropriate to assessing performance*

- 3.40 The sources of the criteria determine the amount of effort needed to assure the suitability of the criteria. Potential sources of audit criteria, in descending order of relevance, are the following:
- 3.40.1 Laws, regulations and other requirements governing the operations of the audited entity.
  - 3.40.2 Decisions made by the legislature or the executive.
  - 3.40.3 Standards developed by recognised professional organisations that follow due process.
  - 3.40.4 Key performance indicators and performance standards set by the auditee or the government.
  - 3.40.5 New or established scientific knowledge and other reliable information.
  - 3.40.6 Criteria used previously in similar audits or by other SAIs.
  - 3.40.7 Independent expert advice and know-how.
  - 3.40.8 Organisations (inside or outside the country) carrying out similar activities or having similar programmes.
  - 3.40.9 General management and subject-matter literature.
- 3.41 The auditor **should** formally discuss the audit objectives, questions and criteria to be used, as well as management's responsibilities for the focus area, with senior officials of the audited entity and be able to provide evidence of such formal discussions.

### ***Audit approach and methodology***

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*Accepted – Generally agreeable to independent experts in the field, audited entities, legislature, media and the general public*

- 3.42 Having defined the audit objectives, questions, scope and criteria, the auditor **should** decide on the audit methodology that will produce the most relevant audit result, in the most cost-effective manner.<sup>46</sup>
- 3.43 The audit approach **should** provide for audit procedures relevant to determining the causes and effects of deficiencies.
- 3.44 Performance audits can draw upon a large variety of data-gathering techniques that are commonly used such as surveys, interviews, observations and studying written documents.
- 3.45 For each individual audit question, the auditor should indicate sources of information and methods of data collection. To be able to corroborate the data at a later stage, it is usually preferable to combine different sources and methods.

## Communication with the auditee

### *Contact meeting*

- 3.46 Before commencing with a performance audit, a contact meeting **should** be held with the accounting officer or the delegated person and senior officials of the institution. During this meeting the accounting officer and senior officials of the institution are informed of details of the performance audit to be conducted. (The audit budget for the performance audit would have been communicated to

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<sup>46</sup> According to the INTOSAI Guidelines there is a wide range of issues to be considered when deciding on an appropriate audit approach, the first being the type of study, for example, outcome-based studies, process-based studies, benchmarking studies. The next consideration would be to design the type of investigation, for example, a comparative investigation, sampling investigation, case study investigation. The third consideration would be to design and decide on the selecting techniques for gathering information, for example, file examination, literature search, surveys or questionnaires, interviews.

the entity with the financial audit budget – *refer par 2.12* in this regard.) The principles of performance auditing and the envisaged process are also explained to them.

- 3.47 The auditor **should** keep concise minutes of the discussions during this meeting which should include at least the following:
- 3.47.1 A request to the accounting officer to inform the entity's audit committee about the performance audit to be conducted.
  - 3.47.2 If necessary, an information session on performance auditing in cases where the management of an institution has no previous experience of performance auditing.
  - 3.47.3 If necessary, a workshop with senior management of the auditee (preferably including the accounting officer) to understand the business and particular proposed focus area.
  - 3.47.4 Establishment of a steering committee representing the accounting officer and senior officials of the audited entity.
  - 3.47.5 Appointment of a contact person by the auditee and an exposition of the role of that person.
  - 3.47.6 Arrangements to introduce the audit team to the accounting officer and senior officials of the audited entity.
  - 3.47.7 Accommodation and admission to buildings of the audited entity.

### ***Steering committee***

- 3.48 The main purpose of the steering committee is to secure and maintain cooperation and formal communication between the senior management of the audited entity and the audit team throughout the audit.
- 3.49 The steering committee should meet according to need and should consist of at least the SM (from both performance and regularity teams), the manager and two senior officials from the institution, one of whom should act as chairperson.

If one of the delegates from the institution is an accounting officer or the circumstances justify it, the BE should also be involved in a steering committee.

- 3.50 During a steering committee meeting, efforts **should** be made to reach consensus on matters such as the focus area and audit criteria. Management should be informed about the proposed time frames for the audit and should be allowed to make timely inputs on the focus area and audit criteria.
- 3.51 The steering committee does not provide the management of the audited entity with a veto right in respect of the nature and scope of the performance audit or the manner of reporting.
- 3.52 The audit team **should** provide management with an agenda and the proposed audit objectives and criteria or the draft management report prior to the relevant steering committee meetings.
- 3.53 The auditor **should** keep concise minutes of steering committee meetings. The minutes of the final meeting, during which the factual correctness of findings is discussed, should clearly indicate whether and in respect of which findings consensus has been reached. The chairperson should sign the minutes of steering committee meetings.
- 3.54 If a mutually acceptable date for a steering committee meeting cannot be agreed upon with the auditee, the matter should be taken up in writing with the accounting officer. If all efforts to arrange a steering committee meeting are unsuccessful, the management report should be issued by default. Consultation with the BE and or CE in this regard is, however, essential.

### ***Engagement letter***

- 3.55 The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the auditor and auditee. An engagement letter **should** be sent before the commencement of the engagement so as to avoid any misunderstandings that might arise in respect of the engagement.
- 3.56 An engagement letter should include the following:
- 3.56.1 The mandate of the AG regarding performance audits as well as the objective of the performance audit.
  - 3.56.2 Management's responsibility towards the implementation and maintenance of measures to ensure the economic, efficient and effective use of resources.
  - 3.56.3 The scope of the audit, including reference to the applicable legislation and regulations.
  - 3.56.4 The reporting structure or other means of communication of the results of the engagement.
  - 3.56.5 Access to records and documentation required for the audit.
  - 3.56.6 Any other specific details regarding the audit.

### **Quality assurance and pre-issuance review**

- 3.57 When the planning phase of the audit has been completed and all the relevant planning documents have been completed, approved and signed off, the manager **should** complete and cross-reference the quality assurance (QA) working paper to the audit work performed. The SM should review the QA working paper for accuracy, completeness and validity.

- 3.58 The pre-issuance reviewer should be duly informed to perform a review of the significant judgements made during the planning phase.<sup>47</sup>

## Monitoring and supervision

- 3.59 The work of the audit staff at each level and audit phase **should** be properly directed and supervised during the audit. Supervision is essential to ensure the achievement of audit objectives and the maintenance of the quality of audit work (*refer par. 3.9 and 3.11*). Supervision should involve ensuring the following:
- 3.59.1 All members of the audit team have a clear and consistent understanding of the work plan and how it should be implemented.
  - 3.59.2 The audit is carried out in accordance with the prescribed policies, standards and guidelines.
  - 3.59.3 The audit planning memorandum and action steps specified in that plan are followed unless a variation is authorised by the appropriate manager (SM).
  - 3.59.4 The stated audit objectives are achieved.
  - 3.59.5 The work performed supports the audit conclusions reached.
- 3.60 Supervision, whether it is within the audit team or at higher levels, is however only one aspect of the management's leadership. To achieve good results it is imperative that the SM also takes a proactive, supportive and visionary role in the audit work.

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<sup>47</sup> Refer AG Pre-issuance review policy, 1 February 2008 and Pre-issuance review working paper.

## 4. THE PERFORMANCE AUDIT EXECUTION STANDARDS, POLICIES AND GUIDANCE

### Standards

- 4.1 The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result (AS 3.0.1).
- 4.2 The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the results from carrying out the field standards constitute the main source of the contents of the report (AS 3.0.2).
- 4.3 Competent, relevant and reasonable evidence **should** be obtained to support the auditor's judgement and conclusions regarding the organisation, programme, activity or function under audit (AS 3.5.1).
- 4.4 In conducting audits in accordance with this standard, the auditors **should** choose and perform audit steps and procedures that, in their professional judgement, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent and relevant evidence that will provide a reasonable basis for their judgements and conclusions (AS 3.4.5).

- 4.5 The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all the information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant (AS 3.5.2).
- 4.6 Auditors **should** have a sound understanding of techniques and procedures, such as inspection, observation, enquiry and confirmation, to collect audit evidence (AS 3.5.3).
- 4.7 In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e., the evidence should be competent, relevant and reasonable (AS 3.5.4).
- 4.8 The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff (AS 3.2.1).
- 4.9 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 (AS 3.5.5).
- 4.10 Adequate documentation is important for several reasons. It will:
- (a) confirm and support the auditor's opinion and reports
  - (b) increase the efficiency and effectiveness of the audit
  - (c) serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party
  - (d) serve as evidence of the auditor's compliance with auditing standards

- (e) facilitate planning and supervision
- (f) help the auditor's professional development
- (g) help to ensure that delegated work has been satisfactorily performed
- (h) provide evidence of work done for future reference (AS 3.5.6).

- 4.11 The auditor **should** bear in mind that the content and arrangement of the working papers reflect the degree of the auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions (AS 3.5.7).
- 4.12 All audit work **should** be reviewed by a senior member of the audit staff before reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgement to the audit task and should ensure the following:
- (a) All evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report.
  - (b) All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s).
  - (c) Changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities (AS 3.2.4).
- 4.13 In conducting performance audits an assessment **should** be made of compliance with applicable laws and regulations where necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable

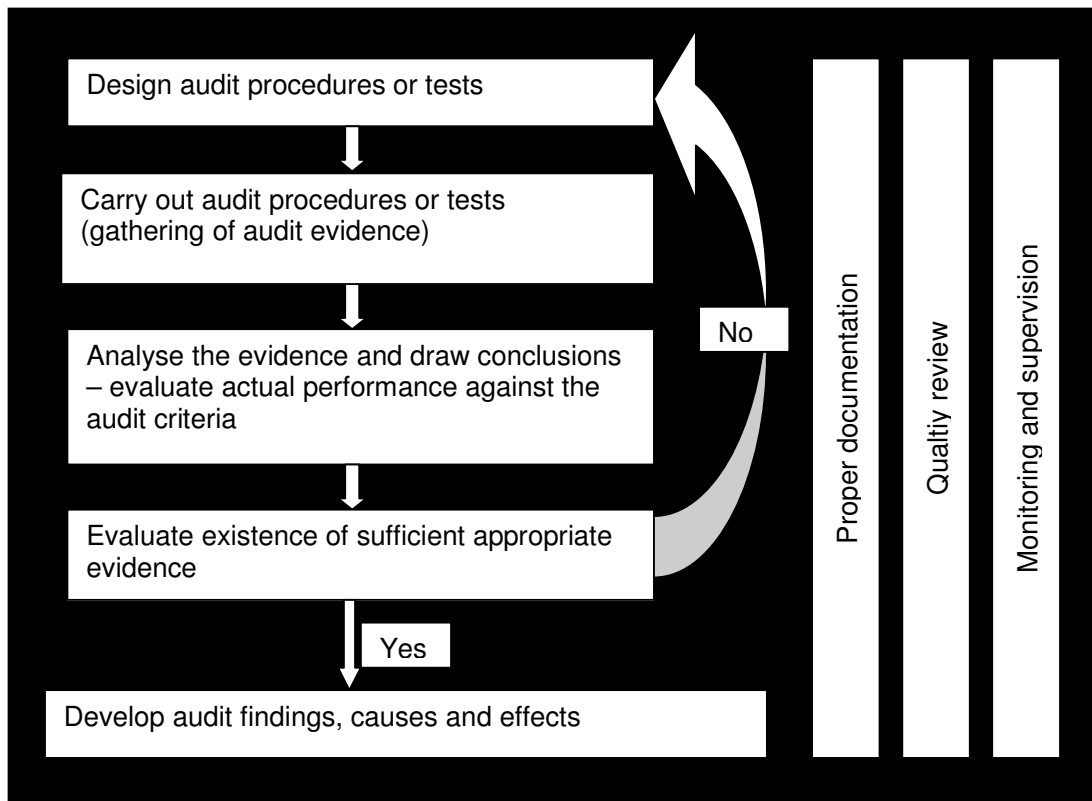
assurance of detecting illegal acts that could significantly affect audit objectives. The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results (AS 3.4.1).

## **Application and other explanatory material**

### **Purpose and overview of the execution phase**

4.14 During the execution phase the auditor designs audit tests and procedures to obtain evidence in the most cost-effective manner. The auditor gathers information, evaluates it for its appropriateness and determines if it is sufficient to support observations about the audited entity's performance. The auditor then concludes against audit objectives and makes recommendations. If not, additional evidence may need to be gathered.

4.15 The main activities during the execution phase can be summarised as follows:



## Audit procedures or tests

- 4.16 Audit procedures are primarily designed during the planning phase of the audit and appropriately updated and expanded during the execution phase.
- 4.17 Audit procedures **should** be designed during the planning phase and extended where necessary during the execution phase to provide sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the content of the performance audit report. Audit tests should be formulated to determine the cause and effect of deviations when criteria and conditions are compared. The judgement of the auditor regarding the method and size of sampling should be documented.

- 4.18 The manager responsible for the audit **should** ensure that audit procedures are comprehensive, clear and concise in describing the details of work to be performed.

## Audit evidence

- 4.19 Audit evidence is information collected during the course of an audit that **should** support and substantiate findings, causes, effects, conclusions and recommendations on working papers and the performance audit report.
- 4.20 Audit evidence should be competent, relevant and reasonable.
- 4.20.1 **Competent** evidence is appropriate information in sufficient quantity on which audit findings can be based.
- 4.20.2 **Relevant** evidence is information that can be used to answer the audit question.
- 4.20.3 **Reasonable** evidence is information that can be collected at a reasonable cost and thus allows the auditor to stay within the agreed budget limits.
- 4.21 The performance auditor will find it necessary to rely on audit evidence that is persuasive rather than conclusive, and will often seek audit evidence from different sources, or of a different nature, to support an audit finding. When audit evidence from different sources are contradictory, the auditor should perform procedures to determine the most relevant and reliable evidence.
- 4.22 The reliability of audit evidence is influenced by its source (internal or external) and nature (physical, documentary, testimonial or analytical). Evidence obtained directly by the performance auditor, for example through observation or analysis, is more reliable than information obtained from the entity, while documentary evidence is more reliable than testimonial evidence. Verification of client-supplied information should be clearly documented.

## **Sources of evidence**

4.23 There are three broad sources of the information that constitutes audit evidence.<sup>48</sup>

4.23.1 **Information gathered by the auditors (primary evidence).** Information can be gathered by the auditors directly by way of interviews, surveys and direct inspection or observation. In these cases the auditors have control over the methods employed and the quality of the information gathered. Auditors, however, need the necessary skills and experience to apply the methods competently.

4.23.2 **Information gathered by the auditee (secondary evidence).** Auditors can use information gathered by the auditee – including the reports of internal audit and programme evaluation groups, as well as information found in other auditee files, databases, reports and documents. Auditors **should** determine the quality of this information by evaluation and corroboration as well as tests of the effectiveness of the auditee's internal controls over the quality of the information.

4.23.3 **Information gathered by third parties (secondary evidence).** Audit evidence can also include information gathered by third parties. In some cases this information may have been audited by others, or the auditors may be able to audit the information themselves. The extent to which third-party information can be used as evidence will depend on the extent to which its quality can be established.

## **Relying on and using the work of others**

### **Relying on and using the work of internal audit**

4.24 In the interests of audit efficiency, auditors **should** rely on the work of internal audit whenever possible in areas relevant to the audit. When the work of

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<sup>48</sup> Refer to chapter 1, section on Access to information to fulfil audit responsibilities.

internal audit is the main or sole evidentiary support for particular observations, conclusions and recommendations, auditors **should** evaluate and corroborate the specific internal audit work on which they intend to rely. The purpose will be to determine whether the work meets the standards with respect to sufficient appropriate evidence, such that an adequate basis for reliance exists. Normally, when such matters are included in the report, the source of the findings is clearly indicated.

- 4.25 Auditors can determine the quality of internal audit work by assessing the reputation, qualifications and independence of the internal auditors, as well as by reviewing audit reports, audit programmes and audit working papers. The nature and extent of the evaluation and corroboration will depend on the significance of the internal audit work in relation to the audit objectives and the extent to which the auditors will rely on it.

#### ***Relying on and using the work of specialists***

- 4.26 As in the case of reliance on internal audit, the auditor **should** evaluate and corroborate the work of programme evaluation and performance measurement specialists (as well as others — such as experts on scientific and technical matters) to determine the appropriateness of audit evidence obtained from these sources. This assessment will be based on such factors as the knowledge, experience, professional standing and independence of the professionals concerned. Where appropriate, auditors will also need to have a good understanding of, and document in working papers, the standards, methods, data sources and significant assumptions that have been used by these professionals.
- 4.27 Other specialists whose work is relied upon may be members of the AG staff or contractors used by the AG to provide expertise in an area relevant to the audit. The specialists who are members of the audit team or of other groups in the

organisation should adhere to the code of professional conduct and ethics referred to in chapter 1 of this manual.

- 4.28 Regarding the individuals contracted by the AG, the auditor **should** assess their knowledge, competence, integrity and independence in the relevant area of expertise, and evaluate and corroborate the reasonableness and significance of the specialist's work and findings for the audit.

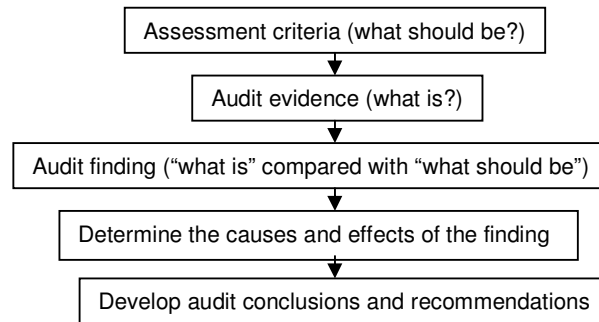
## Documentation

- 4.29 The performance auditor **should** document matters that are important in providing evidence that supports the audit conclusions and confirm that the performance audit was carried out in accordance with these policies, standards and guidelines (*refer par. 4.21-4.23*).
- 4.30 Working papers **should** be detailed, providing an overall understanding of the performance audit. The performance auditor should record information on the planning, nature, timing and extent of the audit procedures conducted, the results thereof and the conclusions drawn from the evidence obtained.
- 4.31 All performance audit working papers **should** be documented by using the TeamMate audit software. Performance audit libraries in TeamMate have been customised for use during performance audits.

## Developing audit findings, their causes and effects

- 4.32 The INTOSAI Auditing Standards define audit findings as the specific evidence gathered by the auditor to satisfy the audit objectives.

- 4.33 The process of analysing evidence, developing findings and producing recommendations to resolve identified areas of poor practice is summarised in the following diagram:



- 4.34 Findings **should** be based on relevant facts and sound, logical conclusions. A finding **should** always be related to the audit problem. Audit findings are identified by relating audit observations to assessment criteria. In other words they always compare "what should be" (*criterion*) to "what is actually happening" (*condition*).
- 4.35 Once the audit findings have been identified, the auditor **should** determine if and why there is a deviation from the criteria (*causes*) and what the consequences (*effects*) of these deviations are.
- 4.36 Causes are the reasons why the condition deviates from the criteria. The auditor **should** identify possible causes and then determine the ones that could have prevented the finding from occurring. The validity of causes should be confirmed and clearly documented. This could be done through the analysis of management control weaknesses.

- 4.37 Once the team has documented the condition, compared it with the criteria, determined that the condition does not meet the criteria, and determined why the criteria are not being met (*causes*), the team **should** identify possible consequences (*effects*) of the criteria not being met. To a certain extent these possible effects will have been considered at an earlier stage (as part of the symptoms) as a motivation for carrying out an audit of this particular audit problem.
- 4.38 Effects **should** be considered in three areas: cost/economy, time/efficiency and attaining organisational goals/effectiveness. The effects **should** as far as possible be factual, i.e. possible to observe.
- 4.39 Auditors **should** whenever possible quantify the effects. The importance of quantification is emphasised as a means to demonstrate the significance of audit findings and recommendations.

## **Audit conclusions**

- 4.40 Audit conclusions **should** clarify and add meaning to specific findings in the audit working papers and reflect the view of the auditors deduced from these findings. The purpose is usually to highlight the need for changes in policies, procedures, practices or organisational structure.
- 4.41 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 usually 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) with what is actually happening

(audit observations), the conclusions reflect the auditors' explanations and opinions based on these findings. This is why findings are usually expressed in the past tense and the conclusions in the present tense. Conclusions might include identifying a general topic or a certain pattern in the findings. An overall problem underlying and explaining the findings may also be identified.

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

## Developing audit recommendations

- 4.43 Performance audits **should** include recommendations to point to the direction in which positive changes can be made to address the most serious deficiencies reported.
- 4.44 The goals of performance audits are to reduce costs and improve the effectiveness of state activities, thus saving public funds, improving operations and providing better services to the public. The catalyst for such changes is addressing high-quality recommendations to those who will implement the recommendations to realise the intended benefits.
- 4.45 Audit recommendations emerge from identification of the causes of the audit findings which ought to be addressed by the entity. Recommendations should be neither too detailed nor too general. In developing the recommendations auditors have to concentrate on what should be changed and leave the question of how to make changes to the auditee.

- 4.46 Recommendations **should** be sufficiently detailed so that they can be understood and implemented by the audited entity and followed up by the SAI.
- 4.47 Below are some characteristics of good recommendations that the performance auditor is expected to develop. Good recommendations **should**:
- logically flow from the evidence and conclusions, addressing only matters contained in the report
  - address the underlying causes of the problems
  - be directed to those who have authority and responsibility to act
  - be stated positively and constructively
  - address significant deficiencies and demonstrate that action will improve operations, safeguard assets, reduce costs, or bring the condition into compliance with the criteria
  - consider practical constraints of implementation against potential benefits
  - indicate alternative solutions when more than one course of action could correct the problem
  - avoid recommending additional measures if efforts are already underway to remedy the problem. In such circumstances, it may suffice for the team to refer to those efforts.

## 5. PERFORMANCE AUDIT REPORTING STANDARDS, POLICIES AND GUIDANCE

### Standards

- 5.1 At the end of each audit the auditor **should** prepare a written report, as appropriate, setting 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 evidence, and be independent, objective, fair and constructive. With regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives (AS 4.0.7).
- 5.2 In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report (AS 1.0.9).
- 5.3 It is appropriate for legislation to specify minimum reporting requirements, including the matters to be subject to an audit opinion and a reasonable time within which reports should be made. Apart from that, flexible arrangements for the SAI's reporting to the legislature, without restriction on content or timing of reports, would support the maintenance of independence (AS 2.2.11).
- 5.4 Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. However, the SAI must be entitled to report offences against the law to proper prosecuting authorities (AS 2.2.46).

- 5.5 In order to recognise reasonable user needs, the auditor's report in both regularity and performance auditing may need to have regard to expanded reporting periods or cycles and relevant and appropriate disclosure requirements (AS 4.0.5).
- 5.6 The form and content of all audit reports are founded on the following general principles (AS 4.0.8 and 4.0.24):
- 5.6.1 **Title.** The report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
- 5.6.2 **Signature and date.** The report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date.
- 5.6.3 **Objectives and scope.** The report should include reference to the objectives and scope of the audit. This information established the purpose and boundaries of the audit.
- 5.6.4 **Completeness.** The audit report *should* contain all information and arguments needed to achieve the audit objective and provide answers to the audit questions. The relationship between audit objectives, findings and conclusions needs to be verifiable, complete and clearly stated.
- 5.6.5 **Addressee.** The report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice.
- 5.6.6 **Identification of subject matter.** The report should identify the area to which it relates. This includes information such as the name of the audited entity, the date and period covered and the subject matter that has been audited.
- 5.6.7 **Legal basis.** Audit reports should identify the legislation or other authority providing for the audit.
- 5.6.8 **Compliance with standards.** Audit reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

- 5.4.9 **Timeliness.** The audit report *should* be prepared and issued in a timely fashion in order to be of greatest use to readers and users, particularly government and the audited entity which have to take the necessary corrective actions. It is therefore important that the report is published within the time schedule set up in the work plan.
- 5.4.10 **Accuracy.** Evidence presented in the audit report *should* be true and comprehensive and all findings correctly and logically portrayed. The need for accuracy is based on the need to assure the readers that what is reported is credible and reliable. A high standard of accuracy requires an effective system of quality assurance.
- 5.4.11 **Objective and logical.** The presentation of the report *should* be balanced in content and tone. For the credibility of the report, 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.
- 5.4.12 **Clarity.** The audit report *should* be clear and easily understood, written to suit the capabilities, interests and time constraints of the audience. 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.
- 5.4.13 **Concise.** The audit report *should* be no longer than needed to convey and support the message.
- 5.5 Auditors should recognise that their judgements are being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgements, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation

of weaknesses or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially where the SAI presents its own views or recommendations (AS 4.0.24).

- 5.6 The performance audit report **should** state clearly the objectives and scope of the audit. Reports may include criticism (for example where, in the public interest or on grounds of public accountability, attention is drawn to matters of serious waste, extravagance or inefficiency) or may make no significant criticism but give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved (AS 4.0.22).
- 5.7 The auditor is not normally 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 is provided (AS 4.0.23).
- 5.8 In a performance audit, the auditor reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example, covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements (AS 4.0.4).
- 5.9 Performance reports **should** not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally these recommendations suggest what improvements are

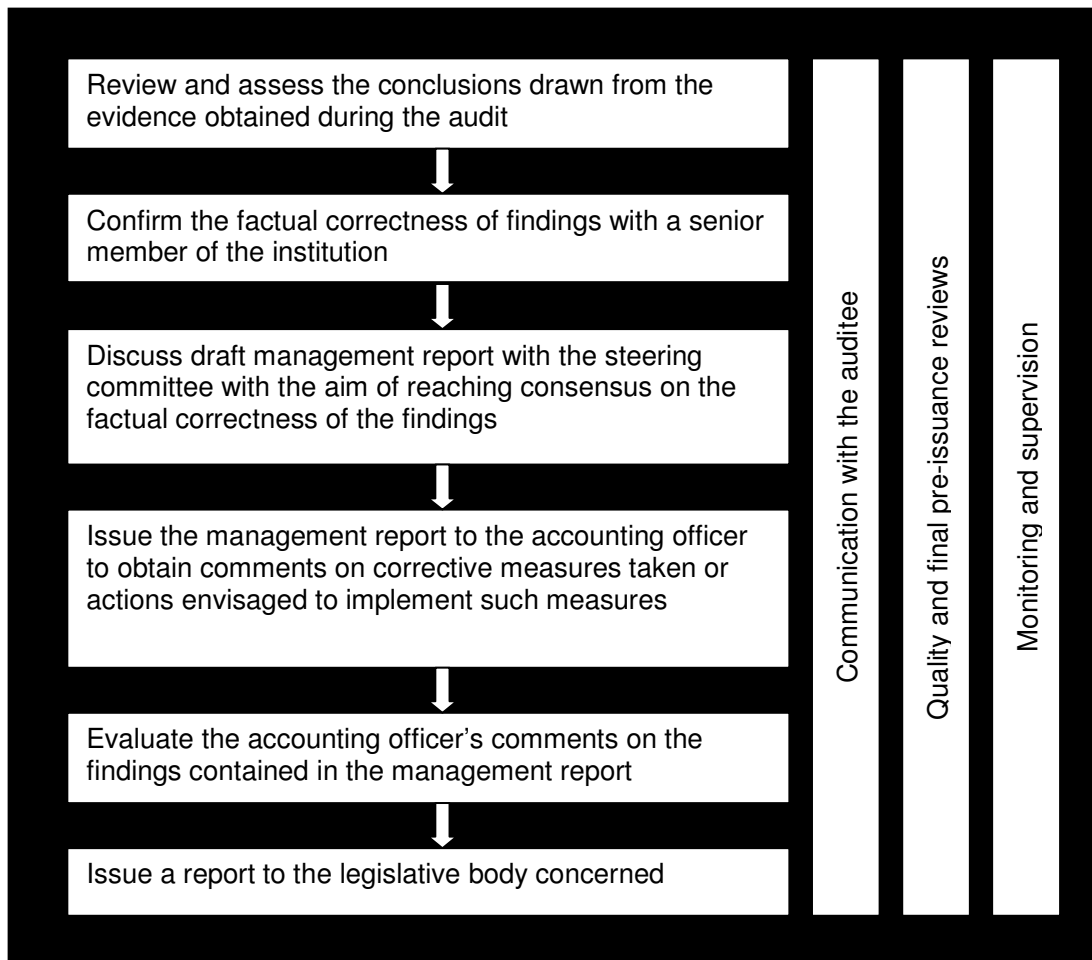
needed rather than how to achieve them, although circumstances sometimes arise which warrant a specific recommendation, for example, to correct a defect in the law in order to bring about an administrative improvement (AS 4.0.25).

- 5.10 In formulating the report, the auditor **should** have regard to the nature of the audited entity or activity (performance auditing) (AS 4.0.27).

## **Application and other explanatory material**

### **Purpose and overview of the reporting phase**

- 5.11 Performance audit reports **should** communicate the results of performance audits to the relevant levels of government, make the results less susceptible to misunderstanding, make the results available for public inspection, and facilitate follow-up to determine whether corrective actions have been taken. Refer to appendix 3 for guidance on the users and characteristics of performance audit reports.
- 5.12 The main activities during the reporting phase can be summarised as follows:



## The management report

5.13 The management report **should** communicate the results of the performance audit to the accounting officer of the auditee. This report is a confidential document between the AG and the accounting officer.

### ***Contents of the management report***

5.14 Over and above the general principles as described above the management report should at least contain the following:

5.14.1 **Overview of the focus area.** Background information, which is necessary to understand the context of the focus area, should be furnished in this overview.

5.14.2 **Audit findings.** Audit findings are defined as the results of the auditor's comparison of the actual situation/facts with the relevant criteria, also referred to as the deficiencies. Care should be taken to ensure that the possible causes and effect(s) of the deficiencies are included in the formulation of findings. The audit findings in the report paragraphs should focus on:

- specific inadequate management measures, also referred to as the cause(s)
- a description of the deficiency with reference to the uneconomical procurement, or inefficient or ineffective utilisation of resources
- the effect(s) of the inadequate management measures
- if possible, the financial implications of the effects of the findings and examples thereof.

5.14.3 **Recommendations.** Suggestions that may serve as guidelines with regard to positive actions to be taken by the auditee for the most serious deficiencies reported. Recommendations should indicate **what** improvements are needed but should not prescribe **how** to achieve them. The word "should" must be used.

### ***Revising the draft management report***

5.15 After writing a first draft the senior manager **should** review and revise the management report. When revising the team should aim for clarity and conciseness.

5.16 The management report should contain audit findings of good quality. The line of reasoning should be as follows:

- 5.16.1 **Causation.** The link between the inadequate management measure or cause(s) and the effect thereof should be clear. It should be possible to insert the words “consequently” or “therefore” before the sentence that addresses the effects of the inadequate management measure or cause(s).
- 5.16.2 The “**so what?**” **test.** If the audit finding does not contribute to the audit objective or matters relating to the economical procurement and/or the efficient and/or effective use of resources, the inclusion thereof in the report should be reconsidered.
- 5.16.3 **Primary cause.** Read the description of the deficiency and ask “why did this happen?” or “what was the real reason for this to happen?” This should identify the primary cause or causes and give an indication of the inadequate management measure.
- 5.16.4 **Logically inferred consequence.** The next step is to test whether the identified management measure or cause(s) would have prevented the effect from occurring. Determine what else could have happened as a result of the absence of the management measure.

### ***Factual correctness of the draft management report***

- 5.17 It is seen as good practice for the auditor to clear the factual correctness of each audit finding in the draft management report with a senior member, at an appropriate level, of the audited entity. Proper records of these proceedings should be kept on the working paper files.
- 5.18 The draft management report **should** be discussed with the audited entity at a meeting of the steering committee, with the aim of reaching consensus on the factual correctness of the findings.
- 5.19 The auditor **should** provide the audited entity with the draft management report before the steering committee meeting and proper minutes should be kept of the decisions taken during the meeting.

- 5.20 The steering committee meeting **should** agree on the factual correctness of the audit findings and that the recommendations can be implemented.

### ***Review of the draft management report***

- 5.21 The SM **should** review the draft management report before the steering committee meeting and ensure the following:
- 5.21.1 **Adequacy** of the audit findings and recommendations in addressing the audit objectives. The SM should ensure that the draft management report provides complete and conclusive coverage of the audit problem.
  - 5.21.2 **Balance** of the various sections. The report should concentrate on the important aspects of the auditee's management and performance and avoid detail on minor issues.
  - 5.21.3 **Quality** of presentation. The draft should be well written, in accordance with the AG reporting standards and principles. Appropriate tables, charts, etc. should be used to help the reader understand the audit findings.
  - 5.21.4 The draft management report should be submitted for a final pre-issuance review<sup>49</sup> before the management report is signed.

### ***Releasing the final management report***

- 5.22 Once the final adjustments have been made, the final management report is submitted to the BE for a decision on whether the report can be sent to the auditee for comments. The BE will not normally review the working papers. However, where findings and recommendations are particularly sensitive, it may be necessary to call for the relevant working papers.
- 5.23 The final and signed management report, together with a covering letter, should be sent or delivered to the accounting officer of the auditee. The cover letter

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<sup>49</sup> Refer to AG Pre-issuance review policy, 1 February 2008 and pre-issuance review working paper.

**should**, amongst others, indicate a return date (not more than one month) within which the accounting officer should furnish comments on the management report. The accounting officer **should** be requested to also obtain inputs from the relevant political role-players in the process of providing comments on the management report.

- 5.24 The accounting officer **should** be requested to focus the audited entity's comments on corrective steps taken or actions envisaged to implement functional measures. The auditor should evaluate these comments for reasonableness as soon as they are received.
- 5.25 In cases where the auditors are in disagreement with the comments based on the audit findings and evidence, follow-up actions should be taken, also considering new evidence provided by the accounting officer (either by way of a letter or discussions).

## **The final performance audit report**

### ***Contents of the final performance audit report***

- 5.26 The report to the relevant legislature (national, provincial or council) is compiled after the comments of the accounting officer have been received and evaluated. This report **should** comply as a minimum with the requirements reflected in the standards above.
- 5.26.1 Title, including the name of the entity, as well as the focus area
- 5.26.2 Purpose and content of the performance audit
- 5.26.3 Nature and scope of the performance audit
- 5.26.4 Auditing concepts and approach

- 5.26.5 The audit findings (summarised if necessary) and recommendations as contained in the management report
  - 5.26.6 Comments by the accounting officer focusing on corrective steps or actions to be taken or in progress
  - 5.26.7 Address of the Auditor-General
  - 5.26.8 Signature of the Auditor-General or delegated person
  - 5.26.9 Date of the audit report
- 5.27 Final performance audit reports **should** be signed in terms of the management approval framework of the Auditor-General.

### ***Submission of final performance audit reports***

- 5.28 The submission of final performance audit reports **should** be dealt with in terms of section 21 of the PAA, which requires the AG to submit an audit report in accordance with any legislation applicable to the auditee who is the subject of the audit. If there is no such legislation the AG must submit the audit report to the relevant legislature within a reasonable time.<sup>50</sup> If an audit report is not tabled in a legislature within one month after its first sitting after the report has been submitted by the AG, the AG must promptly publish the report. Despite any other legislation, the AG may in the public interest submit an audit report to any legislature whether or not that legislature is a relevant legislature or any organ of state.<sup>51</sup> The purpose of all the above requirements is to comply with section 188(3) of the Constitution which states that:

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<sup>50</sup> *The AG has determined a period of up to a maximum of six months after the financial year-end of the auditee, depending on the circumstances, to be a reasonable time. Refer General Notice 648 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.*

<sup>51</sup> *Refer PAA section 21(4)(a) and (b).*

*The Auditor-General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by legislation. All reports must be made public.*

- 5.29 A decision not to make a final performance report public **should** be documented indicating the basis and reasons for this decision. Such decisions can only be approved by the AG after considering the impact on public interest and the legal implications thereof.
- 5.30 Final performance audit reports at national level are submitted to Parliament. Parliament delegates its power to the Standing Committee on Public Accounts (SCOPA) which has to undertake the investigation of the reports on behalf of Parliament. A similar process is followed for provincial government where the final performance audit report is submitted to the provincial legislature, which delegates its powers to the provincial public accounts committee (PPAC). For municipalities, the final performance audit report is submitted to the municipal council and the provincial legislature.
- 5.31 Performance audit reports are issued separately from regularity audit reports. Only reference to performance audit reports issued since the last audit report should be included in the regularity audit report under the heading of “*Other matters – performance audit reports issued during the year*”.<sup>52</sup>
- 5.32 The AG will brief the relevant minister on the contents of sensitive performance audit reports before the submission thereof to the national legislature.
- 5.33 Performance audit reports on transversal performance audit themes will be submitted to the respective legislatures in a consistent manner and format agreed upon during the planning of the transversal performance audit. The

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<sup>52</sup> Refer AG reporting guideline, October 2007.

timing of the submission of transversal performance audit reports to the legislatures should also be coordinated to take place within a reasonable time of each other.

## 6. PERFORMANCE AUDIT FOLLOW-UP STANDARDS, POLICIES AND GUIDANCE

### Standards

- 6.1 In formulating and following up recommendations, the auditor **should** maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted (AS 4.0.26).

### Purpose and overview of the follow-up phase

- 6.2 A follow-up audit process will facilitate the effective implementation of corrective steps by the audited entity and provide feedback to the Auditor-General, the legislature and the government on performance audit effectiveness.
- 6.3 Follow-up on performance audits may serve the following purposes:<sup>53</sup>
- 6.3.1 Increasing the effectiveness of audit reports – the prime reason for following up audit reports is to increase the probability that corrective steps will be implemented to address the identified weaknesses.
  - 6.3.2 Assisting the government and the legislature – follow-up may be valuable in guiding the actions of the legislature.
  - 6.3.3 Creating incentives for learning and development – follow-up activities may contribute to better knowledge and improved practice. When a performance audit is completed, there are various opportunities for obtaining information on how it has been received, for instance by observing reactions from audited bodies, Parliament and the media.

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<sup>53</sup> Refer INTOSAI Implementation Guidelines for Performance Auditing Standards, par. 5.5.

- 6.4 Results from the follow-up of audit should be recorded. Deficiencies in the implementation of corrective measures identified in the follow-up audits should be reported to the relevant legislature.

## Process

- 6.5 For follow-up audits, the process and approval framework described for the conducting of performance audits has to be followed. The process should, however, be adapted to exclude activities already performed during the initial audit, such as the compilation of criteria.
- 6.6 The focus of the follow-up audit is to determine whether or not the problems or issues originally identified have been resolved. Issues may evolve with time; focusing strictly on specific actions taken to address shortcomings identified during the original audit, may not provide an accurate picture, due to new circumstances or the evolution of the issue. The purpose of the follow-up audit is to determine the progress achieved in addressing the original shortcomings and resolving the issues.<sup>54</sup>
- 6.7 When deciding if a follow-up audit should be performed the following criteria can be considered:
- 6.7.1 The first audit indicated material weaknesses.
  - 6.7.2 A follow-up audit is required or requested by SCOPA.
  - 6.7.3 The focus area covered a long-term programme/project or activity such as low-cost housing development of infrastructure, etc. and a follow-up audit will contribute to assessing the progress in the programme/project or activity.

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<sup>54</sup> *Office of the Auditor-General of Canada – Performance Audit Manual.*

- 6.8 The timing of a follow-up audit should allow sufficient time for the auditee to implement corrective steps, e.g. not less than two years after completion of the initial performance audit.

## REFERENCES AND BIBLIOGRAPHY

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INTOSAI, July 2004. *Implementation Guidelines for Performance Auditing Standards, INTOSAI Auditing Standards Committee*.

Office of the Auditor-General, August 2005. *Guideline for the planning, execution, reporting and follow-up of performance audits conducted in the public sector*.

Office of the Auditor-General of Canada, 2004. *Performance Audit Manual*.

The South African Institute of Chartered Accountants, 2006. *Guide on performance audit in the public sector*.

## APPENDIX 1: DEFINITIONS AND INTERPRETATION OF KEY TERMS USED IN THE MANUAL

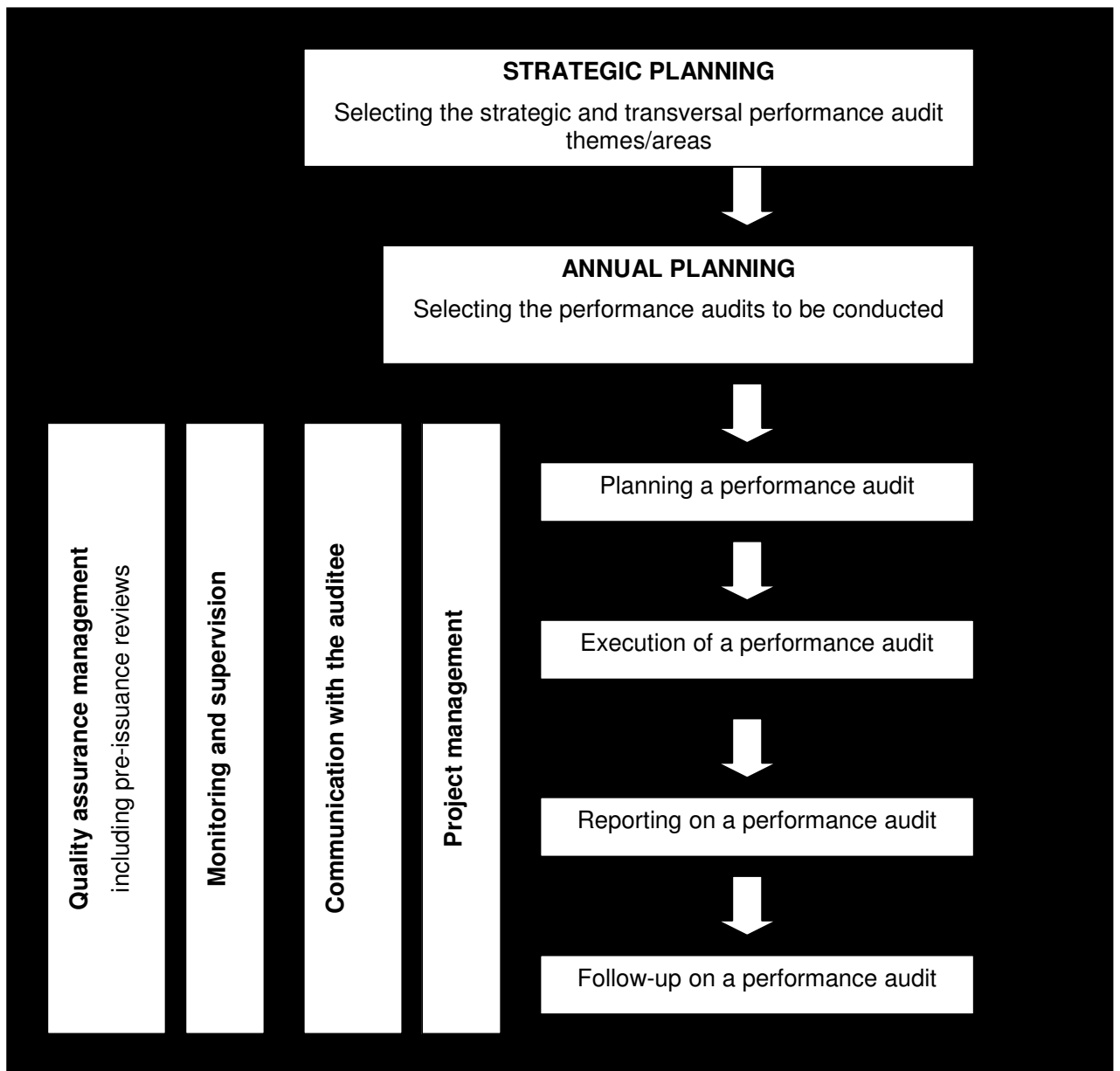
In this document, unless the context indicates otherwise –

1. “**accounting officer**” means a person referred to in section 36 of the Public Finance Management Act. In relation to a municipality, means the municipal official referred to in section 60 of the Municipal Finance Management Act or in relation to a municipal entity, means the official of the entity referred to in section 93 of the MFMA, and includes a person acting as the accounting officer.
2. “**audit**” means the examination or investigation, in accordance with any applicable auditing standards, of those aspects to be reported on in terms of section 20 or 28 of the PAA.
3. “**Auditor-General**” as an institution, means the institution contemplated in section 181(1)(e) of the Constitution and as an individual, means the individual appointed as Auditor-General or acting as such.
4. “**authorised auditor**” means a person authorised in terms of section 12 of the PAA to perform or to assist in the performance of an audit referred to in section 11 of the PAA.
5. “**cause**” means the primary reason for an effect.
6. “**condition**” refers to what actually exists in terms of management measures.
7. “**Constitution**” refers to the Constitution of the Republic of South Africa, 1996.

8. "**criteria**" are reasonable and attainable standards of performance and control against which the adequacy of systems and procedures and the extent of economy, efficiency and effectiveness of management measures can be assessed, measured and evaluated.
9. "**economy**" refers to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost.
10. "**effectiveness**" refers to the extent to which set policy objectives, operational goals and other intended effects are achieved.
11. "**effect**" means the **result** of the insufficient/inadequate management measure(s) that led to the uneconomical procurement, and/or the ineffective and/or inefficient utilisation of resources.
12. "**efficiency**" refers to the optimal relationship between the output of goods, services or other results and the resources used to produce them.
13. "**focus area**" refers to a specific department, programme, activity, process, service rendered, management control system or organisational unit of a public sector entity that has been identified for a performance audit.
14. "**management measure**" means an arrangement instituted by the management of an institution to ensure that resources are procured economically and utilised efficiently and effectively.
15. "**MFMA**" means the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).
16. "**PAA**" means the Public Audit Act, 2004 (Act No. 25 of 2004).

17. "**PFMA**" means the Public Finance Management Act, 1999 (Act No. 1 of 1999 as amended by Act No. 29 of 1999).
18. "**resources**" refers to financial, human, physical and information resources.
19. "**relevant legislature**" means a legislature that has a direct interest in an audit.
20. "**standards**" means the standards by which an audit is conducted and includes audit practices, procedures and guidelines.
21. "**supreme audit institution**" (SAI) means the institution which, however designated, constituted or organised, exercises by virtue of the law of a country, the highest public auditing function of that country.
22. "**symptom**" refers to the identified risk of inefficient and/or ineffective utilisation or uneconomical procurement of resources.

## APPENDIX 2: THE BASIC PERFORMANCE AUDITING PROCESS



## **APPENDIX 3: DIFFERENT USERS AND CHARACTERISTICS OF PERFORMANCE AUDIT REPORTS**

<b>DESCRIPTION OF PERFORMANCE AUDIT REPORT</b>	<b>MAIN USERS</b>	<b>CHARACTERISTICS OF THE REPORT</b>
<b>Performance audit management report</b>	Accounting officer/authority and senior officials at the audited institution	<ol style="list-style-type: none"> <li>1. A confidential document between the AG and the auditee.</li> <li>2. Report contains sufficient detail to enable the auditee to follow up on the shortcomings reported in the management report for example would include reference to personnel details such as PERSAL numbers and details of default contactors.</li> </ol>
<b>Final performance audit report</b>	Relevant legislatures, standing committees on public accounts, public	<ol style="list-style-type: none"> <li>1. This report is usually an abbreviated version of the management report.</li> <li>2. The report provides a balanced perspective to audit findings as it also includes comments from the accounting officer on the audit findings as per the management report.</li> <li>3. The report becomes a public document after tabling in the relevant legislature.</li> <li>4. The report should NOT contain any references to specific individuals/institutions/companies or contractors.</li> <li>5. The final report will focus on the more important aspects from the management report.</li> </ol>
<b>Final performance audit report on a transversal</b>	National legislature, standing committee on	<ol style="list-style-type: none"> <li>1. This report will provide Parliament with findings reflecting the trends and transversal shortcomings across</li> </ol>

<p><b>audit theme</b></p>	<p>public accounts, relevant national portfolio committees, public</p>	<p>departments and/or provinces where a transversal performance audit was conducted.</p> <ol style="list-style-type: none"> <li>2. The report will not focus on individual findings per auditee unless it has a wider impact.</li> <li>3. The report should focus on areas where Parliament can take corrective action.</li> </ol>
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