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Performance Audit Guide

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ANNEXURE 1: Responsibilities within the audit process

1. Introduction

1.1 Purpose of the performance audit Guide

The general Auditing Standards¹ of INTOSAI² stipulate that each SAI³ should adopt policies and procedures to prepare Guides and other written guidance and instructions concerning the conduct of audits.⁴ This includes Guides for regularity audit as well as for performance audit

The purpose of this Performance Audit Guide is to:

- Help us to develop methods and practices on how to carry out performance audit.
- Enhance our capability and skill level to carry out performance audits of an acceptable standard and of uniform quality.
- Provide a guide for our staff training in performance audit.
- Provide practical guidance for planning, execution and follow-up of audits.
- Form the basis for decision making within the performance audit process
- Enhance standardisation in performance audit practice.

1.2 Organisation of the Guide

This Guide consists of nine main chapters:

- Chapter two looks at the context within which performance auditing operates.
- Chapter three and four provide guidance for planning performance audits.
- Chapter five describes how to conduct performance audits. It includes collection, documentation and analysis of audit evidence and development of audit findings
- Chapters six to eight provide guidance on writing, clearance and presentation. procedures of performance audit reports.
- Chapter nine deals with the follow-up process in the performance audit cycle.
- There is one annexure; Annexure 1: Responsibilities within the audit process.

¹ INTOSAI Auditing Standards, as approved by the 35th meeting of the Governing Board in October 1991.

² International Organisation of Supreme Audit Institutions

³ Supreme Audit Institution

⁴ INTOSAI Auditing Standards 2.1.13

2. The context of performance auditing

2.1 Definition of performance audit

Performance audit is an audit of the economy, efficiency and effectiveness with which the audited entity uses its resources to achieve its goals. It aims at increasing the effectiveness of the state entities and programmes using laid down and clearly explained auditing standards and practices, within the mandate of an independent audit institution whose authority is defined by relevant acts.

According to INTOSAI, performance auditing embraces:

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

Taken together, economy, efficiency and effectiveness constitute the three E:s and form the basis of performance auditing. Strictly speaking, INTOSAI defines the three E:s as follows:

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

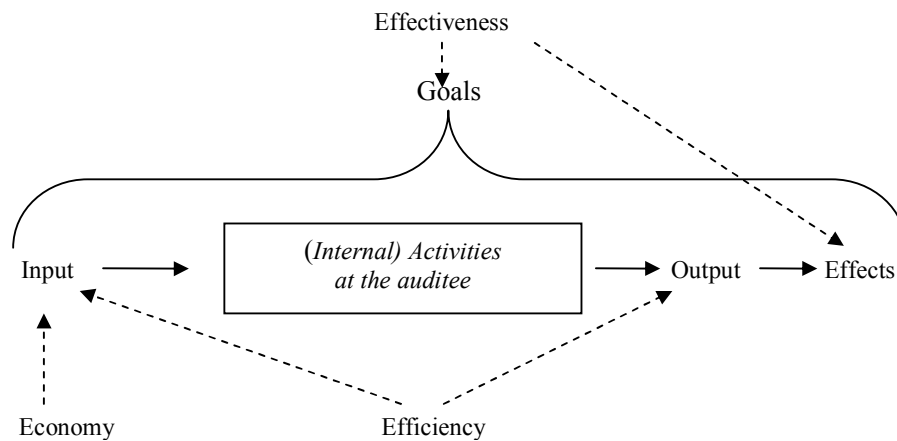
All other things being equal, economy is about keeping the cost of input low without compromising on the quality; efficiency is about getting the most or best output from available resources; and effectiveness is about achieving the stipulated aims or objectives. The three Es cannot however be assessed in isolation from each other. When assessing for example the impact it is necessary to take into consideration the cost of the inputs used to generate the impact and, similarly, when assessing economy the usefulness of the inputs for producing the outputs has to be taken into account.

“The three Es” are useful concepts that guide the auditor when formulating problems and outlining the general direction of our audit. To define these concepts and facilitate the analysis, the input-output model can be used. It provides a useful tool for handling different situations and for different purposes. It helps to understand the three Es, to describe processes, organise thoughts and observations, and to measure and explain. The model is based on the assumption that it is possible to arrange concepts in chains and to identify how they influence each other as causes

and effects. Another assumption is that organisations have established goals that they want to achieve or that such goals can be deduced. In the model inputs are used to produce outputs that will have an effect on the achievement of the goals. Economy is concerned with the inputs, efficiency with how these inputs are transformed into outputs and effectiveness with the effects generated by the outputs.

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

The input-output model



2.2 The special features of performance auditing

As stated in the auditing standards, performance audit is not overly subject to specific requirements and expectations. While regularity audit tends to apply relatively fixed standards, performance audit is more flexible in its choice of for example audit objects and methods. Performance audit is not based on formalized opinions. It is an independent examination made on a non-recurring basis. It is by nature wide-ranging and open to judgments and interpretations. It must have at its disposal a wide selection of investigative and evaluative methods and operate from a quite different knowledge base to that of traditional auditing. The special feature of performance audit is due to the variety and complexity of questions relating to its work. Within its legal mandate, performance audit is free to examine all government activities from different perspectives.

Some differences between Performance audit and Regularity audit

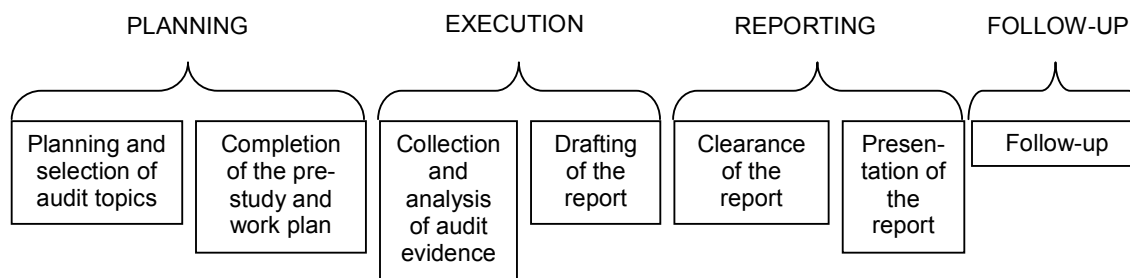
	Performance auditing	Regularity auditing
<i>Purpose</i>	Assess whether the performance of the auditee meets the three Es, economy, efficiency and effectiveness	Assess whether the accounts are true and fair
<i>Focus on</i>	The organisation/programme and its activities	The accounting system and management systems
<i>Academic base</i>	Economics, political science, sociology, etc.	Accounting

<i>Methods</i>	Vary from project to project	Standardised
<i>Assessment criteria</i>	Unique criteria for the individual audit	Standardised criteria suitable for all regularity audits
<i>Reports</i>	Varying structure and content. Published on ad hoc basis	Standardised structure. Published on regular basis

The character of performance audit must not, of course, be taken as an argument for undermining collaboration between the two types of audit. Performance audit and regularity audit have a number of similarities. The two types of auditors carry out the same type of task, namely to assess the performance of the auditee. In this way they may also use similar methods for collecting data. While the performance auditors primarily focus on economy, efficiency or effectiveness, the regularity auditors focus on the correctness and fairness of the accounts. Regularity and performance auditors most often have the same mandate to carry out the audit, the same obligations to the auditee and the same type of support in the shape of international co-operation, standards and discussions.

2.3 Stages in the performance audit process

The performance audit process covers several steps. It comprises the planning, the carrying out of the main study (execution), reporting and follow-up. Each one of these processes can be divided into different stages.



The purpose of the planning is to select suitable areas for audit, identify audit problems and prepare the execution of the main study. Before the planning of the individual audits can begin it is necessary for management to make strategic choices on criteria and priorities that can guide the auditors through the selection process. The first stage after this is usually area watching that is followed by general surveys, if that is required for the analysis of potential themes and topics. Once an audit area has been selected for performance audit, a pre-study – resulting in a work plan for a main study – may be undertaken to gather information in order to be able to design a proposal for a main study.

The carrying out of the main study consists of collection, documentation and analysis of audit findings and is completed with the drafting of the audit report. The report-drafting stage is a continuous analytical process of formulating, testing and assessing audit findings, conclusions and recommendations. Issues such as the expected impact and value of the audit should also be considered throughout the documentation and analysis of audit evidence. The emphasis should be on the production of a final report to be considered by parliament and presented to the government and the audited entities.

The reporting stage involves clearance of the report through reviews, quality controls and exit meetings with the auditee, and submission of the report to Parliament and the stakeholders.

The follow-up process identifies and documents audit impact and the progress the auditee has made in implementing audit recommendations. Such processes are vital to provide feedback.

2.4 INTOSAI Auditing Standards

INTOSAI's General Standards in Government Auditing stipulate that all auditors should possess adequate professional proficiency to perform their tasks. The SAI should recruit personnel with suitable qualifications, adopt policies and procedures to develop and train SAI employees, prepare written guidance concerning the conduct of audits, support the skills and experience available within the SAI and review the internal standard and procedures.

The ability to recruit the right staff is a decisive factor in performance auditing. To become a performance auditor, a performance audit team-leader or a performance audit manager, certain distinctive qualifications have to be met. In general it is required that the auditor should have a university degree and some experience from investigation/evaluation work. Suitable academic backgrounds could be: political science, economics, social science, law, statistics, or accounting. Personal qualities, i.e. analytical ability, creativity, receptiveness, social skills, integrity, judgement, endurance, good oral and writing skills, etc, are also of considerable importance. Special knowledge of the different functional areas to be audited might also prove essential, but advanced skills in accounting and regularity auditing are not always needed in performance auditing. If the SAI has organised its performance auditing separately from regularity auditing, it is recommended that performance audit staff have different backgrounds and skills than staff in regularity auditing.

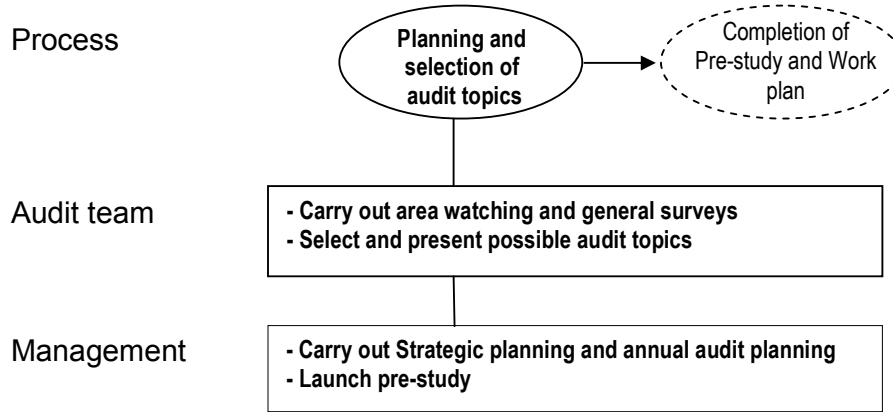
2.5 Organisation of performance auditing

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

We have decided to establish a specialised performance audit function big enough to kick off performance audit activities, big enough to introduce and develop a sustainable and continuous performance audit culture. The critical mass of performance auditors necessary for coping with staff turnover, while maintaining a constant level of quality production, is generally estimated to be between eight and ten.

3. Planning and selection of audit topics

The purpose of our planning process is to identify, prioritise and select audits that could be included in an overall programme of work.



Our planning aims at making the actual audit work more effective. The planning process leads to appropriate decisions on the nature, extent and timing of the performance audit work to be undertaken. The programme of performance audits should be based on strategic choices for the office as a whole. We shall adopt a structured approach to performance audit, whilst still allowing flexibility in the timing and priority of particular studies.

Our planning will take part at two levels:

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

3.1 Planning at the corporate level

The corporate planning deals with strategic and annual audit planning.

3.1.1 Strategic Audit Planning

Our strategic choices are made on broad focus areas, e.g. health care, education or poverty reduction, or on criteria to use when selecting areas for audit. They shall deal with broad policy issues, including the determination of overall priorities and resource allocation. Therefore strategic audit planning represents policy decisions that provide a starting point for the planning of individual performance audits. The strategic plan usually covers a period of three to five years, and is reviewed periodically to reflect changing needs and circumstances.

The purpose of our strategic audit planning of performance audit is to ensure that:

- a comprehensive and well planned performance audit is in place

- audit methodologies are progressively developed
- audit priorities are adequately determined
- an adequate skill base is developed and retained
- resources are allocated cost-effectively to areas with the greatest potential impact
- monitoring arrangements are in place to review progress on delivering the agreed audit programme
- an effective quality assurance process is in place

3.2 Annual audit planning

The initial drafting of the annual audit plan is the responsibility of the head of the performance audit function. The plan should comprise a detailed approach for the expected nature, timing and extent of the audits. Adequate planning of the audit work shall help us in ensuring that appropriate attention is devoted to important areas of audit, that potential problems are identified and that the work is completed expeditiously.

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

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

3.3 Selecting potential audit topics

During the planning phase vast amounts of information are collected. A number of potential audit areas will probably have been identified. To make recommendations about the topics that warrant further examination the auditors need some form of basis for evaluating the information that has been collected.

In this situation there are a number of factors that need to be taken into account to compare and rank potential audit topics. Some important factors to consider are:

- Performance targets are not being met.
- The entity is carrying out activities outside its mandate.
- Unauthorised over expenditure or rising costs resulting in demands for more resources.
- Projects do not get completed on time.

- Complaints from clients due to long waiting times, poor quality of service, defective products, etc.
- Complaints from staff or high staff turnover.
- Substantial losses because of fire, theft, or waste.
- Tender procedures not being adhered to.
- Changes in legislation or government policies.
- New technologies introduced or other circumstances changed.
- Complexities through scattered activities

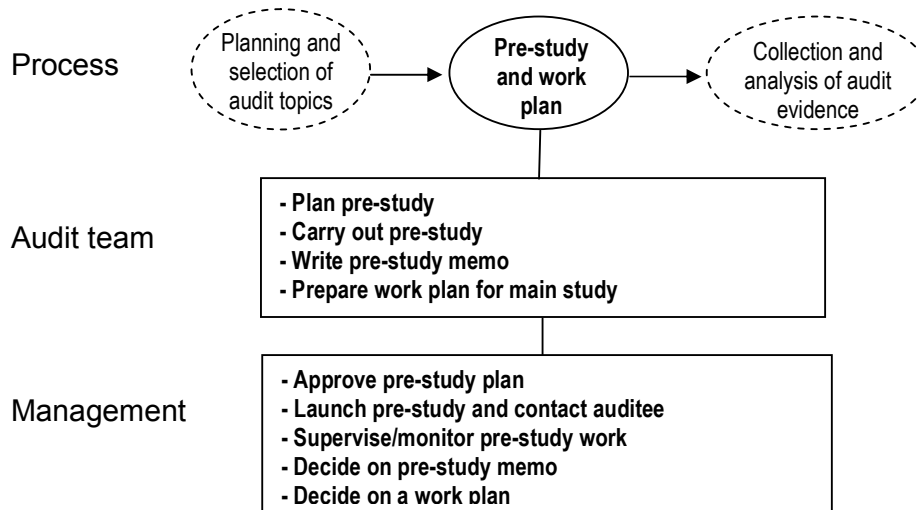
3.4 Presentation of possible audit topics

The results from the audit planning shall be presented to management for a decision on the performance audit process could continue into a pre-study or directly into a main study.

The results should be presented in a structured memorandum. The memorandum should provide background information on the auditee such as legislation, goals, objectives, structure/organisation, outputs, costs, etc. It should also present an analysis of encountered problems and recommendations on the way forward. The memorandum should be submitted to management for a decision on whether to carry out a pre-study or go ahead with a main study.

4. Pre-study and work plan

The purpose of the pre-study is to identify possible audit problems, establish whether the conditions for a main study exist and to produce a main study proposal with a work plan. In addition, it provides background knowledge and information needed to understand the entity, programme, or function. The pre-study results in an internal pre-study memo, normally not intended for publication.



4.1 Planning the pre study

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

- Motivation; the reasons why it was decided to carry out a pre-study.
- Objectives and issues to be investigated; will focus attention on the chosen audit object and illustrate what the auditors hope to be able to achieve by means of a pre-study.
- Collection of information; will mention the type and sources of information that will be needed and what methods will be used to gather the information. Sources of information could be people, documents and objects.
- Organisation and need for resources; will indicate who will be involved and what role they will play. All other resources like money and time should also be indicated as well as assessment of whether the issues to be clarified by the pre-study justify the amount and number of resources to be deployed.

The pre-study plan should be based on the standardised format. Due to the nature of the pre-study, it might however be difficult to standardise the working methods or to identify the sources of information in advance. The time for a pre-study can differ from one month with an absolute maximum of three months.

For the members of the audit team, the plan shall serve as a guideline according to which the project is to be pursued. The team should decide:

- What information is needed for the pre-study.
- How the information will be collected.
- How the information will be used to select the audit problem.

4.2 Carrying out the pre-study

The pre-study has the character of a trial and error process, where it is possible to test different ideas, alternative audit problems and methods. It is a broad-based appraisal of the operations subject to audit.

The pre-study extends the assessment made during area watching and general survey work and provides sufficient justification to proceed to the main study or else to conclude any further work. It defines the most important problems for an entity as a guideline for the main audit. It determines whether there are indications of non-compliance or shortcomings within the area in question.

4.2.1 *Collection and documentation of data*

Data can be collected through a number of methods representing testimonial data, physical observations and documents. The audit team may interview people with special knowledge of the audit object and people who are willing to assist in giving information and discussing possible audit problems. The audit team may also devote time to studying basic documents and other literature. The primary role of data collection is to gather enough information to be able to assess alternative audit problems.

Documentation of data is of great importance in auditing. This is true for the pre-study phase as well as during the main study. At the pre-study phase it is important to bear in mind that properly documented data might later be used as audit evidence in the main study. Therefore, care should be taken in the documentation of all data and the data collected should be filed in accordance with our filing format.

Our methods for data collection and requirements for documentation of data will be further discussed in chapter 5.

4.2.2 *Analysis of data*

All collected data should be analysed and converted into meaningful information. It can be done in the following way:

- Identify the key factors most likely to influence economy, efficiency and effectiveness.
- When possible, indicate if and why the operations did not meet three E:s
- Brainstorm ideas using the problem indicators gathered and group them into possible problem areas.
- Rank the possible problem areas using the criteria described in subchapter 4.2.5.

4.2.3 Selecting the audit problem

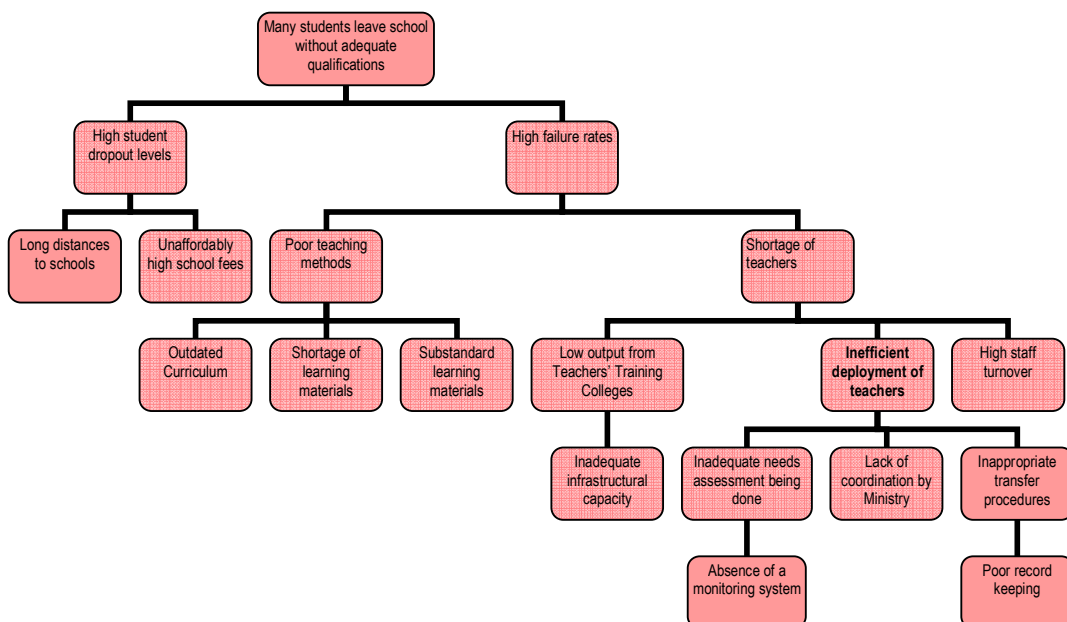
From an auditor's perspective, situations or events in organisations or programmes where performance is not satisfactory may be defined as problems. A well formulated audit problem is an established problem and fact which is possible to audit. It may be linked to one or more of the three concepts of economy, efficiency and effectiveness. Performance audit can focus on a range of different problems. However, performance audit gives priority to problems which are relevant for groups of people and just not for one individual and are of a long-term and structural nature. Problems may also be looked upon from different perspectives. What is defined as a problem by the headmaster of a primary school may not be regarded as a problem by the teachers or the pupils, parents, administrators, cleaners or politicians. Therefore, the auditor should make an independent and impartial assessment, approaching the problem from different perspectives.

Possible audit problems emanate from the findings of the pre-study. During the pre-study work the auditor should identify and analyse the characteristics of the problems found. When several problems have been identified, the team has to limit the scope by choosing the audit problem judged as the most important to audit. This is done since it is usually impossible to audit all the problems identified during the pre-study. The most important audit problem can be determined by using our selection criteria in conjunction with the problem-tree and/or the input/output model.

4.2.4 The problem-tree analysis technique

The problem-tree analysis is used to relate and link different problems to each other hierarchically according to how they influence each other. Any box in the tree can be defined as a problem. Causes of that problem will then be found as you move downwards in the tree and the consequences as you move upwards. The main purpose is to identify possible audit problems from the observations and findings made during the pre-study.

An example of a problem-tree is shown in the figure below:



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

If, in the example above, the audit problem is chosen at a very high level (e.g. high failure rates), it will probably be of great interest to the stakeholders, but it might not be possible to deal comprehensively with the problem since there is a risk that the audit will either be shallow and trivial or demand unreasonably large resources to cover all important aspects of the audit problem. If on the other hand the audit problem is chosen at a very low level (e.g. poor record keeping), it might be possible to investigate very well, but it may be of little interest to the stakeholders. In our example, we have chosen 'inefficient deployment of teachers' as the audit problem.

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

Organising thoughts in the form of a problem-tree will take quite some time, as the tree will probably have to be revised several times before the team is satisfied with the result. There are different phases in the problem-tree analysis. Firstly, new and innovative ideas are generated, and secondly, the ideas put forward are critically assessed. The team should not try to be creative and critical at the same time. Staff members from outside the project team could be invited to give feedback on the problem-tree. This will most likely provide new insights and generate a better understanding of the problems at hand.

4.2.5 The selection criteria

A performance audit represents a major investment in terms of time and money. We will initially just be able to undertake a limited number of performance audits each year. All projects must be carefully selected and designed to bring maximum benefits to the stakeholders and to the nation at large. Selecting an appropriate audit problem is a necessary condition for successfully meeting this target. Below is an example of selection criteria that can be used.

Mandate

- Does the problem lie within our mandate?

Materiality

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

Risk

- What is the risk that money may be lost or used wastefully?
- What is the risk that shortfalls in the audited entity's performance lead to poor output?
- What is the risk that important objectives will not be reached?

Auditability

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

Potential for change

- What are the possibilities that the conclusions and recommendations of the audit will be accepted?
- Are there political, financial, ethical or other factors that limit the possibilities for change?
- Can the problem be solved without an increase of resources?
- Are there other bodies already investigating how the problem could be solved?

4.3 Pre-study memorandum

At the end of a pre-study the audit team presents a written report (a pre-study memo), summarising the findings of the study and recommending further action. This written documentation of the results of the pre-study is normally an internal document. The pre-study memo should be written as precisely and unambiguously as possible. The information included and the structure should help the reader to identify why the team:

- selected this audit area.
- selected the specific audit problem.
- believes it is possible to carry out a main study.

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

- **Background** to the pre-study gives the reasons or explanation for conducting the pre-study.
- **Design** of the pre-study is a brief outline as to how the study has been carried out in terms of scope and what methods and sources of information have been used.
- **Description of the audit area** should provide sufficient background information to understand the area which has been under review.
- **Results of the pre-study** in terms of problems identified.
- **Recommendation to management** on whether to carry out a main study.
- **Description** of the selected audit problem.
- **Indications** on audit objective, scope, questions, criteria, and methodology

4.4 Work plan

When the audit problem suggested by the team has been decided upon, a work plan for a main study has to be prepared by the team, and approved by management. The purpose of the work plan is to plan and describe how the audit of this specific problem will be carried out in the main study. The work plan will help the team to structure their thoughts and guide them through the audit process. It also provides a basis for management monitoring throughout the process. 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. To illustrate the key components of the work plan, examples from the problem-tree described above will be used.

The work plan should include the following:

- Audit problem
- Audit objective
- Audit scope
- Audit questions
- Assessment criteria
- Methodology and sources of information
- Resource planning, including budget, human resources and activity plan

4.4.1 Audit problem and audit objective

The audit problem as defined in the pre-study memo provides the starting point for the planning of the main study. The audit objective relates to the reason for carrying out the audit. An audit objective is a precise statement of what the audit intends to accomplish and/or the question the audit will answer. It is linked to and can be derived from the audit problem. It states what the audit intends to accomplish. When defining the audit problem the audit team needs to specify whether the problem is related to certain time periods, geographical areas, population groups, seasons, etc.

4.4.2 Audit scope

The audit scope defines the framework or limits and subjects of the audit, i.e. it expresses the extent to which the main study is being limited.

The scope of a performance audit is determined by answering the following questions:

- **What?** What is the audit object, i.e. the activities, programmes or processes that will be audited?
- **Who?** Who is the auditee, i.e. the ministry/entity responsible for the audit object?
- **When?** Are there limits on the time frame to be covered, e.g. a specific year or period of time?
- **Where?** Are there geographical limits concerning the area to be covered, e.g. one or more regions?

Audit object

The audit object is an ongoing or terminated activity carried out by an auditee. It could cover the whole process, from input of resources to output and effects, or merely a part of that process. The same limitations in time, geographical areas, etc., as apply to the audit problem will also apply to the audit object.

Auditee

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

Time coverage

The aim in performance audit is usually to form an opinion on ongoing activities. It is often not possible to study the whole period that is relevant to the audit problem and the audit object. In those cases the period to be covered by the audit has to be limited. It is, however, desirable that the performance audit should cover a longer time frame than just one or two years. It might, for example, be of interest to illustrate developments in a certain field over a series of years. The availability of data and changes such as major reforms launched by government should also be taken into account when defining the time coverage for the study.

Geographical coverage

Already the definition of the audit problem and of the audit object will have indicated if the problem is a general one or one particular to certain geographical areas. The audit will always have to stay within the limits defined by the audit problem. If those limits are broad the audit team will need to further reduce the coverage of the audit. How this coverage is defined is crucial for the auditors ability to, at the end of the audit, generalise their conclusions and recommendations so that they cover the whole audit object. Selecting a few representative regions could be one way of limiting the study. Applying sampling methods to select a limited number of interviewees in each region could be another.

4.4.3 Audit questions

After determining the audit scope, the team has to define the specific audit questions that will be examined.

A few examples of audit questions common to most performance audits are:

- Do the means chosen represent economical use of public funds?
- What causes the rapid increases in costs?
- Are the services provided of good quality and client-oriented?
- Why are the services not delivered on time?
- Are the programmes implemented efficiently?
- Are the goals and objectives met?
- What is the reason for the poor impact of the programme?

In formulating the audit questions, performance auditors must rely on the information collected and their own skills and experience. Techniques such as the problem-tree analysis, brainstorming, etc. are sometimes used at this stage. The audit questions

will deal with issues such as “what is” or “why is it”? It is also an advantage if the questions indicate who is responsible. When answered, they should provide sufficient information about the audit problem and its causes within the given scope. It is advisable to formulate around three specific audit questions. In general a larger number of questions will increase the risk that the auditor loses focus of the key issues of the audit.

Normally an audit question leading straight to consideration of the assessment criteria for evaluating the answer to that question. In most scenarios, unless questions are extremely narrow, further sub-questions will need to be answered before we get to the criteria/task/methodology stage of the planning.

4.4.4 Assessment criteria

Assessment criteria are the standards against which the performance of the audited entity will be measured. These standards determine whether or not the operations or the programme meet or exceeds expectations. They will also help the auditor to create a common understanding with the auditee. It is important to note that satisfactory performance does not mean perfect performance, but is based on what could reasonably be expected, taking auditee circumstances into account.

Sources of Criteria

When developing audit criteria it can be useful to consider the following:

- Standards and measures set by the auditee
- Laws governing the operations of the audited entity
- Planning documents, contracts and budgets
- Organisational policies and procedures
- Standards set by the auditors in previous audits
- Criteria used by other SAI's in similar audits
- Comparison with corresponding activities in the private sector
- Comparisons with international benchmarks
- Criteria used by professional organisations and standard setting bodies
- Expectations or experiences from citizens affected

Characteristics of useful criteria

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

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

Developing assessment criteria

The process to identify assessment criteria requires rational consideration and sound judgement. Goals and objectives set by act of parliament, by the government, or by

the auditee are sometimes vague or very broad. Under such conditions, the audit team might have to interpret the goals to make them more specific or measurable.

4.4.5 Methodology and sources of information

Performance audits can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as surveys, interviews, observations, and studying written documents. For each individual audit question, the audit team should indicate sources of information and methods for data collection. In order to be able to corroborate the data at a later stage, it is usually preferable to combine different sources and methods. The selection of sources and methods in the work plan should be as complete as possible, yet allowing additional ones to be included if necessary during the main study. Unavailability of data may however restrict the choice of methods. As a general rule, it is advisable to be open and pragmatic in the choice of methods. Nevertheless, the planning in the work plan has to be detailed enough to allow proper resource planning. Data collection and analysis methods are described in chapter 5.

Wherever possible, the team is expected to assess the practicability of the proposed audit methods, the availability of data in the required forms and the team's ability to collect, analyse and interpret the data. Any foreseeable problems should be identified at this stage and strategies for overcoming them developed.

4.4.6 Resource planning

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

Human resources

The names of the auditors who will carry out the audit and the supervisor responsible should be given in the resource plan. In accordance with our Code of Conduct, no member of the audit team should have any affiliations, e.g. kinship or other relationship, with the auditee that could affect his/her objectivity or/and independence. It is usually difficult to carry out a performance audit project alone, but too many auditors in the team may lead to problems of internal communication, co-ordination, etc. The size and the complexity of the audit will determine the number of auditors needed. In a way performance auditors are generalists who use audit methods to analyse organisations. However, there may be cases when the audit team needs specialised knowledge from other fields. In these cases the possibilities for using the expertise of consultants, doctors, engineers, etc. should be considered. If so, the assignment and the role of the expert should be clearly specified.

Responsibility within the team should also be clarified and work should be allocated appropriately. All members of the team should have insight into the overall development of the project. Nevertheless, the most experienced or highest ranking auditor will usually be appointed team leader. As such, he or she has specific responsibilities when it comes to planning the project, reporting to management, contacts with the auditee, etc.

Financial resources

Budgeting involves deciding on the amount of money needed for the project. Salaries, accommodation, transport, stationary and printing, different allowances, etc., for staff carrying out the audit must be determined in planning the project's

budget. Unrealistic budgeting can be a serious problem for the audit. It is therefore important that the plan focus on what is reasonable and realistic and not what is desirable.

Time schedule and activity plan

The resource plan should include a time schedule and an activity plan for all main activities, and should be as realistic as possible.

Tips when making an activity plan:

- Do not be over-optimistic when making the plan. Auditors might have to spend time on other tasks, such as seminars and training programmes. They should also consider public holidays and vacations.
- Take into consideration the logistics for travelling, weather conditions, and the working hours of the client.
- Compare activity plans from previous audits in order to estimate the amount of time that will be needed to complete a specific activity.

4.4.7 Contacts with the auditee

The planning process also includes reflections considering the relationship to the auditee. Contacts with the auditee have already been established during the pre-study. The audit team should specify the need for a contact person and the role of that person. It should be indicated who in the audit team or from management will be involved in direct contacts with the auditee.

4.5 Monitoring and supervision

It is important that the role of different levels of management is made clear in the work plan. The work plan will be decided by the Director for the Performance Audit function. The decision should encompass milestones and monitoring forms for the project.

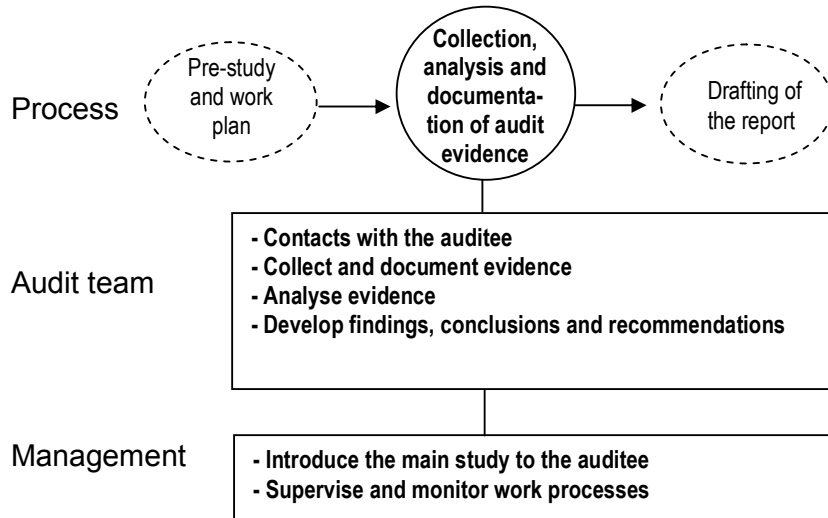
The work of the audit staff at each level and audit phase should be properly supervised during the audit. Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of audit work. According to the standards supervision should involve ensuring that:

- All members of the audit team have a clear and consistent understanding of the work plan and how it should be implemented.
- The audit is carried out in accordance with our standards and practices.
- The work plan and action steps specified in that plan are followed unless a variation is authorised by the appropriate manager.
- The audit team achieves the stated audit objectives.

Supervision, whether 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 management also takes a proactive, supportive and visionary role in the audit work.

5. Collection and analysis of audit evidence

The purpose of data collection and analysis of audit evidence is to be able to answer the audit questions, and to develop audit findings, conclusions and recommendations.



5.1 Introduction of the main study to the auditee

Contacts with the auditee have already been established during the pre-study. However an introduction of the main study is also necessary in the form of a letter and a meeting. The letter, signed by the Auditor General or someone with delegated authority, should inform the auditee about our decision to launch a main study and explain its purpose. At the meeting we would normally be represented by the audit team and the Director responsible for performance audit.

The purpose of the introduction meeting is to present the forthcoming audit. The audit team should inform the auditee about the following:

1. Purpose of the main study.
2. Time schedule for the main study.
3. Members of the audit team.
4. Methods that will be used in the audit.
5. The information that will be requested from the auditee.
6. The need to appoint or confirm the contact person.

The introduction meeting is usually followed by a meeting between the audit team and the appointed contact person. The contact person should throughout the audit assist the audit team with required information and he/she should be consulted if the audit team needs to make visits to the auditee's regional or local branches.

Throughout the audit, it is important to maintain productive relations to the auditee. We should seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them.

Good relationships will help us to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding.

5.2 Audit evidence

Audit evidence is information that forms the foundation that supports our findings, conclusions and recommendations. It consists of specific information collected and used to test the assessment criteria, and subsequently to support the audit findings. All work should be planned from the perspective of acquiring the evidence needed to identify findings that satisfy the audit objective. Selection, examination and evaluation of audit evidence are the backbone of any audit.

Audit evidence can be categorised as:

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

Already when planning the collection of evidence it is essential relevant, reliable and sufficient evidence will be obtained to support our conclusions regarding the audit object. Later on, when analysing the evidence that has been collected, these concepts will be used to assess the quality of the audit evidence:

5.3 Sources and collection methods

Data collection is one of the longest phases of the audit process and it often involves extensive field work at different levels. One approach to planning for data collection is to list, for each audit question, the nature and location of evidence that is needed, as well as the audit procedure that is to be implemented. To facilitate this, auditors can use a verification form. Below, an audit on government vehicles is used as an example of this

Audit Questions	Data Collection		
	What?	How to obtain?	How to compile and analyse?
Audit question 1: Are vehicles efficiently used?	Kilometres in line of duty per vehicle	Service records at each depot in the districts	A table showing average kilometres per vehicle, depot and month
	Managers' assessment of utilisation	Interviews with 10 managers from the districts	Compilation of the assessments in a table
Audit question 2			

It is vital that the auditors adopt a critical approach, see things from different perspectives and maintain an objective distance to the information put forward. At the same time, they must consider the views and arguments of the auditee.

Data collection methods need to be carefully chosen. The audit team should aim at developing its ability to use different collection methods. There is a need to collect

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

In choosing methods for data collection the auditors should be guided by the objective of the audit and by the audit questions. Practical reasons such as availability of data may restrict the choice of methods, so the audit team may have to settle for the second best. As a general rule, the audit team should be pragmatic in the choice of methods.

Data collection, and to a certain extent analysis, can be performed by others. Consultants can provide useful expertise in a number of areas. However the accuracy of the evidence is still our own responsibility. All work produced by others need to be critically assessed.

5.3.1 Testimonial evidence

Method	Purpose	Advantages	Challenges
Interviews	To fully understand someone's views, impressions or experiences	<ul style="list-style-type: none"> – Obtain full range and depth of information – develop relationship with client – possible to ask for clarifications and put follow-up questions 	<ul style="list-style-type: none"> – Each interview can take a long time – can be hard to summarise and compare to each other – can be costly – interviewer can bias client's responses
Focus groups	Explore a topic in depth by combining different views	<ul style="list-style-type: none"> – Quickly and reliably obtain common impressions – efficient way to get range and depth of information in short time – convey key information about Programmes 	<ul style="list-style-type: none"> – Can be hard to analyse responses – need a skilled facilitator for good discussions – difficult to schedule several people together
Questionnaires	To get information from a great number of people	<ul style="list-style-type: none"> – Can be answered anonymously – inexpensive to administer – easy to compare and analyse – administer to many people – obtain large amounts of data 	<ul style="list-style-type: none"> – People might not answer – requires knowledge to construct - are impersonal and wording can bias client's responses –requires skills in sampling

Interviews

Interviews should be properly planned. As far as possible, the interviewer should be familiar with the subject to be discussed and the areas to be covered. The structure of an interview depends on its objective. In the pre-study questions will typically be broader, the objective being to formulate possible audit problems. In the main study

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

The typical interview is held in the context of a meeting. Sometimes telephone interviews provide an alternative that can save both time and costs, especially if questions are relatively simple and standardised.

Focus groups, seminars and reference groups

Focus groups, a selection of just a few individuals brought together to discuss specific topics, are primarily used to collect qualitative data that can provide insights into the values and opinions of individuals involved in the process or activity under audit.

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

Reference groups may be composed of people drawn from within or outside our office and are usually made up of experts and specialists, e.g. academic researchers. The group usually meets on a few occasions during the audit. The reference group may be used both for collecting data but also for quality control purpose.

Questionnaire

A questionnaire is a systematic collection of information from a defined population, usually by means of interviews or questionnaires administered to a sample of units in the population. Questionnaires are used to gather detailed and specific information from a group of people or organisations.

Questionnaires are mainly used to collect facts that are not available in any documents and that are important as a reference to substantiate an observation. Questionnaires are used when comprehensive knowledge is needed. Questionnaires may be carried out by using regular post or Internet. For analysis of results from the questionnaires, computer processing skills is often necessary.

It is extremely important that the questions are easy to understand and correctly formulated. The auditors should therefore put a lot of effort into the construction of the questionnaires. The respondents will probably not be able to respond if questions are incorrectly constructed or difficult to understand.

5.3.2 Documentary evidence

Method	Purpose	Advantages	Challenges
Review of written documents	When one wants an impression of how a	– Gives comprehensive and historical information	– Often takes much time – info may be incomplete – one needs to be clear about what to look for

	programme operates without disturbing operations	– information already exists – does not unnecessarily burden the auditee	– not flexible; data restricted to that which already exists
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File Examination

The prime source of documentary evidence is important documents and those conveying significant or potentially controversial matters. Such material should be photocopied and the originating file recorded on the copy. Besides this the examination of files and papers are crucial, to be summarised and recorded in the auditor's own words on working papers.

It is important that the audit team realises that all relevant papers may not be contained on files that are registered. There may be other relevant documents of which the team is unaware. The team should however seek to ensure that the evidence obtained is complete enough to answer the audit questions.

Policy statements and legislation

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

Auditee budget statements

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

Management reports and reviews

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

Databases

Many organisations have built up databases, both Guide and computerised. In many countries there is a government bureau of statistics and there may be commercial data bases, run for example by banks, which may be useful. These data bases may enable the auditor to use data which has already been collected and compiled. This will save time and money. It might also be possible to order special computer compilations.

Literature

When conducting an audit it is wise to consult academic research and other literature concerning the audit area. Alone this may not provide audit evidence, but it can give the theoretical framework or points of reference necessary to elaborate on other audit evidence.

5.3.3 Physical evidence

Method	Purpose	Advantages	Challenges
Observing people/inspecting physical objects	To gather information about how a programme actually operates, particularly about processes	<ul style="list-style-type: none"> – View operations as they occur – Method can be adapted to events as they occur - Gives reliable information on easily observed objects/phenomena 	<ul style="list-style-type: none"> – May be difficult to interpret behaviour – May be complex to categorise observations – May influence behaviour of programme participants – May be time consuming

Observing people

The direct observation method gives the audit team a unique possibility to understand the reality behind inspection reports and other official documents. It may give a clearer bottom-up view of essential problems which can be compared to the picture given in official reports or by the executive level of the organisation. It also allows an opportunity to study relationships and processes among staff and management. There are different ways of using this method. The auditor may choose to visit work places, schools, hospitals, etc. Another alternative is to accompany inspectors or other officials in their day-to-day work. A further possibility is to sit in the reception hall of, for example, the local clinic to observe how patients are treated. Sitting in (without participating) on meetings at the auditee may also provide useful information.

Inspecting physical objects

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

It is always good to document the physical evidence in photographic form.

Surveys and Case studies

Methods of data collection may be described in terms of how broad they are. At one extreme the performance auditor may wish to give an overall picture of the situation in the whole country or for the whole population. This type of study is sometimes referred to as a survey and usually uses quantitative data such as results from questionnaires, statistics etc. In general it is not necessary to observe the whole population, for example all hospitals. Instead a sample will be taken. If the audit team wants to generalise the description of the studied sample to the whole population, the sample should be large enough, and randomly and independently selected in accordance with statistical practice.

On the other hand we have the case study, which aims at thoroughly exploring a small number of cases as examples of a situation that may be prevalent throughout a

population. The case may consist of a specific event or object. It enables the auditor to concentrate on details and on understanding organisational processes. It is wise to choose a case (or a few cases) that is the most or least likely to have certain characteristics. Another option is to choose a case that is considered as representative of the whole population, or to select several cases that together can be argued to be representative. Several different methods can be used in a case study, e.g. interviews, observations, statistics, etc.

It is often useful to combine surveys with case studies.

5.4 Preparing for analysis while collecting data

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

The more data, the more need for structure

The more data that is to be collected and analysed, the more structured the data collection should be. This will facilitate the analysis by providing the auditors with data that is easy to compare and to categorise further. This is especially relevant for interviews, physical observation and some documents, e.g. work sheets. If a large number of observations/interviews are to be carried out, it is particularly important that the auditors start by testing the outline of the programme, so that it can be revised and perfected.

Scrutinise sources critically

The source of information, whether it is an interviewee or the author of a written document, may have reasons for not being objective. It is therefore important to carefully consider the possible bias in the collected information and try to adjust for it through double checking and corroboration of data.

Document directly

If data is not properly documented, the auditors risk missing important aspects. This is especially important in cases when the auditor is creating new primary data through interviews or physical observations. Documenting is in this sense not only about simply recording for example an interview by taking notes. The auditors' notes should as soon as possible be typed and structured in relation to the audit questions. This facilitates later analysis of the audit evidence. It can also be wise to send the interview notes for confirmation by the interviewee to make sure that the information will not be contested at a later stage of the audit.

5.5 Analysis of audit evidence

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

It is sometimes useful to distinguish the compilation of data from the analysis of data. For example when working on a questionnaire, the answers given to each question can be compiled to an average representing all the answers of the respondents. After

this the compiled data may be analysed from different perspectives or together with other data. The distinction between compilation and analysis is not always clear-cut and in the case of interviews the distinction is sometimes not possible to maintain. In the following we therefore use the term analysis to cover both analysis and compilation of data.

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

5.5.1 Some key concepts

It is of great importance that the auditors, and the management, critically assess the quality of the audit evidence that has been collected during the main study. To do this they need to familiarise themselves with the key concepts *relevant*, *reliable*, *sufficient* and *valid* that will provide useful tools for the quality assessment.

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

Reliable evidence is evidence that will lead to consistent findings if the same study is carried out repeatedly in the same environment by different auditors using the same methods and data. Therefore the auditors should make sure that their methods are clearly described and generally accepted.

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

- The team's knowledge of the audited entity and its environment;
- The materiality of the matter in hand;
- The risk that insufficient evidence will lead to the wrong conclusion;
- The persuasiveness of the evidence;
- The likelihood that findings will be challenged by the auditee.

Valid evidence is evidence that describes what it is intended to describe. A correct thermometer-reading for example is valid evidence if the auditor wants to measure the temperature of water, whereas a measure of the depth would produce invalid evidence. Similarly if the audit team wants to study the quality of schools, people working in the education sector are more likely to provide valid evidence than people working in hospitals. The concept of validity is especially important when findings are based on analytical evidence ("valid arguments").

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

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

5.5.2 Quantitative analysis

Quantitative analysis is often equated with statistical analysis. Whether it can be applied or not partly depends on the kind of data that has been collected. The difference between quantitative and qualitative analysis is often described as the difference between analysing numbers (quantitative analyses) and analysing texts (qualitative analyses). Information that has been collected as text can, nevertheless, often be transformed into numbers. One can, for example, go through documents to see how many of them include a positive statement about a certain issue. After this a percentage can be calculated, expressing the share of the investigated documents that include this positive statement.

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

- sample that the auditors have gathered information about.
- whole population of which the sample is a part.

A number of statistical concepts can then be used. Some concepts are presented in the table below.

Concept	Explanation	Useful
Mean	Sum of all observations divided by number of all observations	When scores are more or less symmetrically distributed, e.g. height or weight
Median	The observation in the middle if all observations are arranged progressively	When extreme scores distort the mean, e.g. income
Mode	The most frequent observation	To describe dichotomous values and proportions, e.g. men and women. Or to point out the “typical” value,

		e.g. the typical number of children in a family
Range	The difference between the highest and the lowest observation	To complement the mean/median if scores are widely distributed.

When generalising from a sample to the whole population attention has to be given to the level of certainty with which this can be done. This depends on the size of the sample and the size of the population. In the case of means the degree of certainty can be calculated by establishing the confidence interval, i.e. the interval within which the “true” mean of the population is situated within reasonable doubt.

How big the sample needs to be depends on how far the audit team wants to break down or stratify the data. The necessary minimum size of a sample will usually involve collecting a substantial amount of data. As a consequence good computer skills and availability of some computer software might be required. For basic calculations and a limited amount of data, Excel is usually sufficient, but more advanced applications could also be considered.

5.5.3 Qualitative analysis

Qualitative analysis is a broad term used to describe a wide range of methods for structuring, comparing and describing data. It is usually used when combining different kinds of data. In contrast to quantitative analysis, qualitative analysis does not use mathematical procedures. Instead it is based on logical reasoning and arguments. In general, however, qualitative analyses means creating own ways of systemising analytical thought. Common components of this systematisation are comparing, sorting after differences and sorting after similarities.

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

Qualitative analysis is commonly used when deriving analytical evidence from certain sources of data, such as interviews and documents. An example of how to analyse interviews is as follows:

1. Choose a method for structuring the information from the interviews, using audit questions as the first choice and problems, actors, regions, etc. as the next choice if it is not meaningful to structure the information only in line with the audit questions.
2. Read the interview notes again and focus on the structure. If interviews are to be organised according to audit questions, make a note in the margin where something is said that is relevant for question number one, two, etc.
3. Go through all notes regarding audit question number one. If there are many relevant remarks, make a written summary. If necessary, choose a new factor to structure the remarks. Key players could be used as such a structuring factor.
4. Compile and analyse the opinions from each type of key player, one at a time.
5. Compile and analyse the opinions of all types of key players together.

6. Look for similarities and differences between the opinions of different categories of key players.
7. Summarise the information in a few sentences and judge if the audit question can be answered or not. Continue with the next audit question.

5.5.4 Mixture of quantitative and qualitative data analysis

Most often data have been analysed using different sources, method of data collection as well as data analysis. Consequently, the final step in data analysis consists of combining results from different types of data analysis. This means that results from interviews may be combined with analysis of statistical records, results from case studies may be combined with results from surveys etc. some finding may emanate from field studies in one province while other findings refer to another province. The work of combining data from different sources is a process that may be compared to doing a jigsaw puzzle, where the pieces are the results of different data collection activities. There is no general solution as to how to handle these situations. It is, however, of central importance that the auditor works systematically and carefully in interpreting the data collected.

5.6 Documentation

We 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.

Working papers are all relevant documents collected and generated during a performance audit. Examples of papers are interview notes and statistics collected from the auditee. They also include documents recording the audit planning and the nature, timing, and extent of the audit procedures, and the findings and conclusions drawn from the audit evidence.

Working papers serve as a connecting link between the fieldwork and the audit report and should be sufficiently complete and detailed to provide an understanding of the audit. Thus, they should contain all evidence accumulated in support of the findings, conclusions and recommendations in the report.

Working papers assist organisation, facilitate access to the evidential documentation and thus:

- assist in the planning and performance of the audit;
- facilitate effective management of individual audits;
- assist in the supervision and review of audit work; and
- record evidence resulting from audit work performed to support the audit opinion.

The auditors should adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers and should retain the working papers for a period sufficient to meet the needs of the legal and professional requirements of record retention.

5.6.1 Guidelines for preparation of working papers

Throughout the audit, the audit team should prepare working papers containing information that is relevant for achieving the audit objective. These working papers need to be of sufficient quality as described in the following guidelines:

Completeness and accuracy

Working papers must be complete and accurate in order to provide proper support for findings, conclusions and recommendations and to enable demonstration of the nature and scope of audit work when necessary.

Clarity

Working papers must be clear and understandable without supplementary oral explanations. The information they reveal should be clear, complete and yet concise. Anyone using the working papers should be able to determine their purpose, the nature and scope of work and the auditor team's observations. Conciseness is important, but clarity and completeness should not be sacrificed.

Legibility and neatness

Working papers must be legible and as neat as practicable. Sloppy working papers may lose their worth as evidence.

Relevance

The information contained in working papers should be restricted to matters that are important, relevant and useful with reference to the objectives established for the audit.

5.6.2 Audit files

Standardised working paper files should be developed. Once the working papers have been prepared they need to be properly filed. Before filing the working papers, the team leader and the team members have to agree that the working papers meet the quality standards as described above.

The filed material should contain all information needed during the implementation of the individual assignment. Examples of working papers to be included are:

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

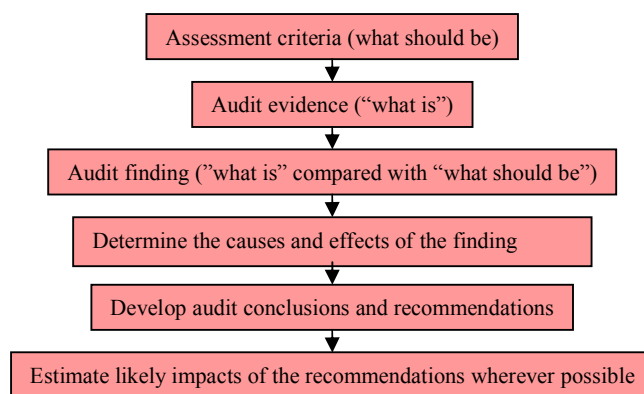
Permanent File

When the audit report is completed the auditors should transfer the current file into a permanent file. The purpose of the permanent file is twofold. If the audit report will be questioned by someone the auditors will be able to check their earlier findings. This is particularly useful if the responsible auditors and managers have left the Office. The permanent file will also be a source of knowledge when planning future work.

To establish the permanent file working papers of less importance should be sorted out while the rest should be organised to facilitate future use.

5.7 Developing audit findings, their causes and effects

Findings are the specific evidence gathered by the auditor to satisfy the audit objectives. The findings are gathered in order to be able to answer the audit questions and verify the stated hypotheses. The relationship between assessment criteria, audit evidence, audit findings, conclusions and recommendations is described in the figure below.



Findings are based on relevant facts and sound, logical conclusions. A finding must 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*). Once the findings have been identified, the audit team should determine if and why there is deviation from the criteria (*causes*) and what the consequences (*effects*) of these deviations are. The effects could either be noted as what has already occurred or, based on logical reasoning, as the likely future impact

The use of criteria has been explained in previous chapters. The term condition encompasses the evidence, relevant to the audit question, which has been collected and analysed throughout the audit.

Causes are the reasons why the condition deviates from the criteria. The audit team needs to identify possible causes and then determine the ones that could have been prevented (actionable causes). The validity of actionable causes should be confirmed. This could be done through the analysis of management control weaknesses. Below are some examples of how to pursue the analysis once a cause has been identified:

- Determine whether the cause is isolated or systematic. Systematic causes generally require more significant corrective action and may be creating other adverse effects outside the reviewed activity. Recommendations to address such causes must consider the potential effects that changing one aspect of a system might have on other activities in the system. However, the team should be careful because in some cases, an isolated cause can also create significant problems. There might be a need to assess the materiality of the cause.

- Determine whether the cause was an error or an omission, or was it intentional. Intentional causes generally suggest disregard of procedures and regulations. Errors or omissions generally suggest lack of knowledge of what is expected.
- Determine whether the cause was internal to the audited body or external. External factors not within the control of the agency may have a significant bearing on the problem. Recommendations for corrective actions must consider these factors and how their effects might be mitigated.
- Determine the internal controls and routines that should have prevented the cause from occurring.

Once the team has documented the condition, compared it against 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. If possible, the identification of the effects should compare the *actual* situation (where the criteria are not met) with the *ideal* situation where the criteria would have been met. To a certain extent these possible effects will have been considered at an earlier stage as a motivation for carrying out an audit of this particular audit problem.

The nature of the findings determines whether the audit team can present actual or potential effects. Actual effects from past or current conditions help demonstrate the harmful consequences and generally provide the strongest evidence that corrective action is needed. Potential effects are generally described as the logical consequences that could follow from the condition not meeting the criterion. Potential effects are to some degree speculative, so teams should use them with care, especially in the absence of any related evidence of observed past effects.

Audit teams should whenever possible quantify the effects. In the event that the effects cannot be measured the team should give sufficient examples. It is worthwhile to report on both negative and positive effects.

5.8 Audit conclusions

Audit conclusions should clarify and add meaning to specific findings in the report 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. Conclusions should consider causes and effects related to objectives and goals.

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

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.

5.9 Audit recommendations

Recommendations are the auditors' proposals that call for improvement in operations and/or performance of either the audited entity as a whole or of a particular section or area audited within the entity. Audit findings resulting from an audit may be positive or negative. Where deficiencies in performance have been identified the audit team needs to develop recommendations to guide corrective actions.

5.9.1 *Formulating recommendations*

Audit recommendations emerge from identification of the causes of the audit findings which ought to be addressed by the entity. Recommendations should neither be too detailed nor too general. In developing the recommendations auditors have to concentrate on what should be changed and leave the questions of how to make changes to the auditee.

Recommendations should be sufficiently detailed so that they can be understood and implemented by the audited entity and followed-up. The audit team must develop audit recommendations that can be implemented and that will not necessarily require additional resources. However, the audit team should not prescribe detailed steps to be taken by the auditee in implementation. This will later on be up to the auditee to decide.

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

1. What needs to be done and why?
2. Where does it need to be done?
3. Who is responsible for doing it?
4. What is the expected impact of the recommendations?
5. Could the implementation have negative effects elsewhere?

5.9.2 *Characteristics of useful recommendations*

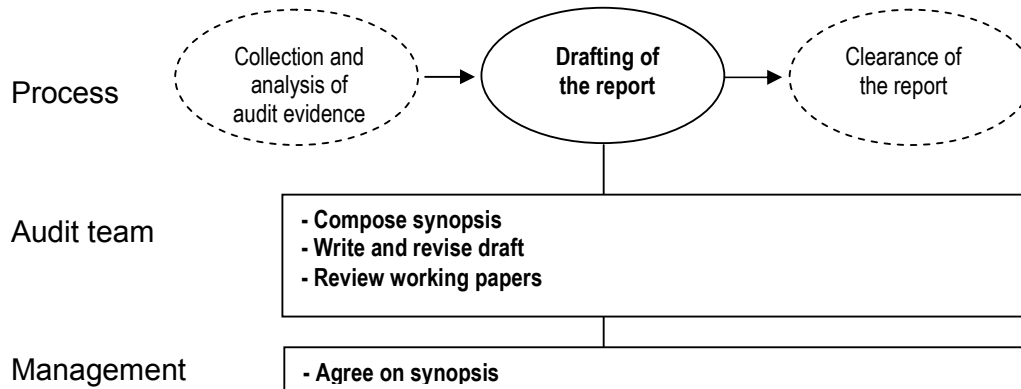
Below are some characteristics of good recommendations that the performance audit team is expected to develop. Good recommendations should:

- logically flow from the findings and conclusions sticking only to matters addressed in the report;
- state what actions need to be taken and by whom;
- 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;
- identify and weigh costs and risks against potential benefits.

- consider the practical constraints of implementation in the light of limitations such as financial constraints;
- 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.

6. Drafting of the report

At the end of each audit we should prepare a written report communicating the results of the audit to the auditee, the Assembly, Government and other stakeholders. The published performance audit report is the product on which our performance audit function is judged by its stakeholders. Errors in the report could be potentially damaging to the credibility of a particular report and to us as an institution. It is therefore crucial that a great deal of attention be given to the accuracy, logic and clarity of the report.



6.1 Reporting Standards

An audit report should be appropriate and easy to understand. The following standards should be met:

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.

Completeness

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

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.

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.

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. Clarity is improved when the report is concise.

6.2 Format of the report

A number of points need to be emphasised with regard to performance audit reports:

- the value of concise and sharply focused reports that highlight significant issues of public administration.
- the need for well developed audit findings based on relevant, reasonable and competent evidence.
- the importance of having fewer, but more comprehensive audit conclusions and recommendations.
- the importance of a timely audit.
- the benefits of sound and well established audit methodology.

EXAMPLE: Our Report format

1. Title

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

2. Foreword

The Auditor General (AG) presents the report and acknowledges the co-operation with the auditee and the auditors that undertook the audit. Foreword is written on the official letter head of OAG, including AG's signature and the date. The report should identify those to whom it is addressed.

3. Table of contents

It illustrates the structure of the report.

4. Executive summary

The chapter summarises the background, major findings, conclusions and recommendations. It is designed for those who have little time to read the full report. The summary should normally not be more than two pages.

5. Introduction

The objective is to give background information about the audit; the audit motivation, the audit objective and audit problem.

6. Methods used

This chapter should include the auditing standards and the audit design. If necessary a more detailed presentation of the data collection carried out (no of interviews etc.) may be included.

7. Description of the audit object

Description of the system or programme being audited. From this description it should be clear how the system should work in all its details, who is responsible for what, etc. Part of this work will normally have been carried out during the pre study. The title of this chapter should be the name of the system or programme being audited.

8. Findings

The chapter clearly describes the criteria and relates them to what has been observed. It presents the findings generated from the comparison between criteria and observations. All findings must be derived from the audit evidence.

9. Conclusions

The chapter contains the conclusions of the audit.

10. Recommendations

The chapter contains the recommendations of the audit.

11. Annexes

If comprehensive descriptions of the auditee, many statistical tables etc are needed, these should be placed in annexes as to facilitate the reading of the audit report.

6.3 The writing process

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

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

Each of the four stages involves a distinct task requiring special skills. Effective writers keep these tasks separate and do them in this order. If the audit team fails to keep these tasks separate, they are likely to experience difficulties in writing reports. This might result in wasted time plus disorganised, poorly written reports. Audit teams are therefore recommended to adhere to these stages when writing any report.

6.3.1 *Synopsis*

The audit team may have valuable ideas and concepts, but unless it organises them properly, the readers will get the impression that the team did not fully consider its subject matter. Before starting to write the report, the team should organise its work by preparing a synopsis of the draft report. A synopsis is an outline or skeleton of the report. The synopsis is a helpful tool for defining the structure of the report. It encourages a professional approach to writing, clarifies the team's organising principles and facilitates the actual writing of the report.

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

In the synopsis, the audit team should:

- Sketch out a logical structure of the report.
- Indicate the findings and conclusions, together with supporting evidence, to be included in the different sections.
- Identify tables, charts or other graphical representation of information.
- Identify all necessary appendices.

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

The synopsis should be agreed with management and the Auditor General before any detailed drafting starts. This will save time by reducing the need for revision and amendment at later stages of the drafting process. Most often the synopsis can be produced at a very early stage of the audit making it possible for the auditors to start writing.

6.3.2 *Audience analysis*

No report can achieve its purpose if the writers do not carefully consider the readers. Some questions that may help the audit team to carry out the audience analysis are listed below:

- What kind of information are the readers interested in?
- What are their likely attitudes towards the message?
- What is the likely effect of the report on them?
- Are they familiar with the subject matter?
- How do they view our credibility, expertise and authority?

Identifying and knowing the audience is crucial and will help the audit team to decide on the structure and tone of the report. In performance audits the audience is the Parliament, the Government, the audited entities and the general public. Media is also important because it serves as a link between us and our audience.

6.3.3 *Drafting*

Once a synopsis has been produced and the audience analysis has been carried out, the audit team is ready to start drafting the report in accordance with the agreed structure. However it should be remembered that the synopsis may be changed during the drafting stage if necessary.

The draft report should reflect an objective audit where issues are examined in their proper context. It should be balanced in the sense of presenting performance as it is. Weaknesses in systems and controls and examples of poor performance should be disclosed in the report, but effective management and good performance should not be left out. The focus should be on what the auditee is doing in order to reach its goals and not on what the auditee is not doing.

The team leader is responsible for coordinating the drafting process. He/she may decide to split chapters/sections amongst the team members. After completion of the

chapters/sections, the team will come together and agree on the content.

To shorten the production time it is wise to start writing as soon as possible. Examples of chapters that may be written at an early phase of the audit are the introduction, the methods and the description of the audit object.

6.3.4 Revising

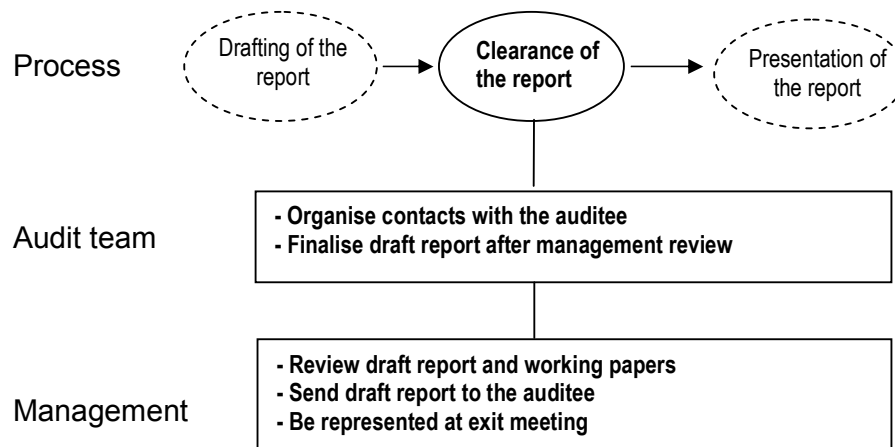
After writing a first draft the team should revise the document. When revising, the team should aim for clarity and conciseness. Consequently the auditors should ensure that:

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

The audit team can enhance the effectiveness of its revision by reading the draft report aloud as if giving a speech. It is also encouraged to make use of peers to help revise the draft. It is often useful to have someone with no knowledge of the audit read the draft report at an early stage. This might highlight areas where the presentation is weak. The team shall always cross-reference the report – its findings, conclusions and recommendations, supporting evidence, tables and charts, etc. – back to the relevant main study working papers to check that it is possible to justify everything in it. After revision of the draft report, the team leader should present the draft and all working papers to management for review.

7. Clearance of the report

After receiving the draft report, performance audit management should review it and make a final review of all working papers. The purpose of this review is to ensure that the audit meets our auditing standards and to secure a swift initiation of the clearance process. Once the report has been cleared by the Auditor General, it is ready for submission.



7.1 Review of the draft report

During this review, management should ensure the:

- **Legitimacy** of the report. The report should not stray outside the our legal remit. There should be no suggestion that the office is questioning the merits of political objectives.
- **Adequacy** of the findings, conclusions and recommendations in addressing the audit objectives. Management should ensure that the report provides complete and conclusive coverage of the audit problem.
- **Balance** of the various sections. The report should concentrate on the important aspects of the auditee's management and performance and avoid detail on minor issues.
- **Quality** of presentation. The draft should be well written, in accordance with our reporting standards and principles. Appropriate tables, charts, etc., should be used to help the reader understand the findings, conclusions and recommendations.

The draft report should be submitted to an internal team of experts for further quality review, advice and comments. Once the final adjustments have been made, the draft is submitted to the Auditor General for a decision on whether the draft report can be sent to the auditee for comments.

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

7.2 Releasing the draft report to the auditee

When the Auditor General is satisfied that the draft report meets our auditing standards, the report will be sent to the auditee together with an invitation to submit written comments. The draft report sent to the auditee should include conclusions and recommendations. The audit team will agree with the auditee on a date for an exit meeting where the draft report, and possible written comments from the auditee, will be discussed.

Comments should also be sought from any third parties named, or implicitly referred to, in the report.

7.3 Exit meeting

The purpose of the exit meeting is to assure that the auditee has been given the opportunity to see and comment on the report before it is finalised. At the exit meeting it is particularly important that the critical findings of the audit are highlighted. The meeting should ensure that:

- all relevant facts have been included in the report and presented in a fair way;
- the conclusions drawn are fair; and
- it is clear whether the auditee agrees on the findings, conclusions and recommendations.

It is important that the auditee fully understands the purpose of the exit meeting and realises that we will always have the final word on what to write in the report.

7.4 Internal finalisation

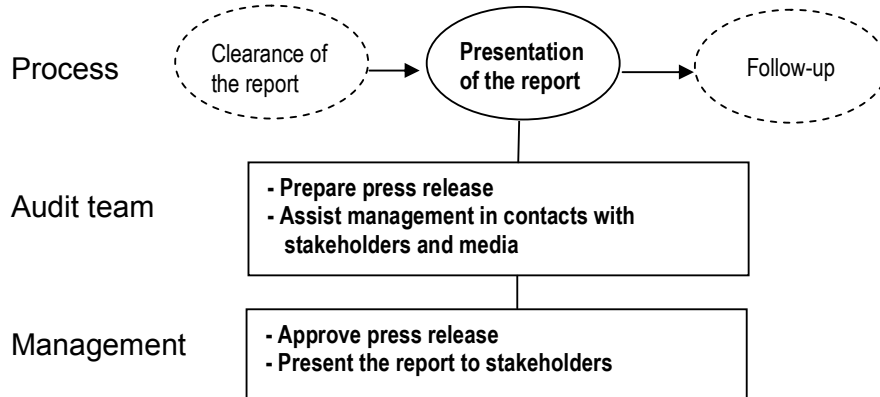
If the auditee's comments have not been presented in writing, they should be summarised in agreed minutes from the exit meeting.

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

The main elements of documentation in the clearance stage are the various drafts of the audit report and the managers' review notes. There will be few additional working papers generated. It is essential to maintain the standard of documentation, as defined in chapter 5.6, throughout the finalisation of the audit report.

8. Presentation of the report

Once the audit report has been internally finalised, it should be presented to the stakeholders. Comprehensive reports and wide distribution of the reports are keys to the credibility of the performance audit function.



Our policy is, as with other reports, that performance audit reports are publicly available and widely distributed.

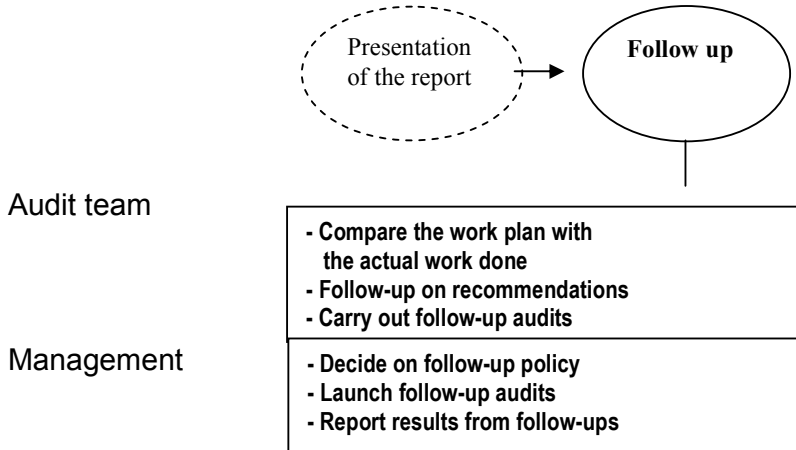
The report should, besides being distributed to the auditee, also be distributed to the the Assembly, the government, the media and other interested parties. Also, people who have contributed to the audit could be supplied with a copy. Once the report has been published we will post it on its website.

To spread the audit report's message and avoid misinterpretations, we shall provide the media with adequate and well-balanced information in the form of press releases or even press conferences after the publication of the reports.

9. Follow up

Our follow-up activities are of three types. They shall provide a basis for assessing our performance and an opportunity to validate possible cost savings and other benefits generated by the audit. Follow-ups may also provide valuable information to the legislature.

Process



9.1 Follow-up of own work

Immediately after finalising the report, the audit team should compare the planning documents with the actual work done. The time spent should be compared with the budgeted time in the work plan. If the work was delayed the auditors should try to find reasons for the delay from documents in the working paper file. Lastly the audit team should check that documentation has been done in accordance with standards.

The follow-up also helps the auditors to identify their weaknesses as well as their strengths and relay it to their colleagues. This will promote learning within the organisation and provide valuable input to the planning of training activities. In addition to the internal follow-up by the audit team itself. We will also try to include the views of the auditee in the follow-up. This could be done on an ad hoc basis, using interviews, questionnaires, focus groups, etc.

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

9.2 Follow-up of recommendations

The main reason for following up the recommendations is to promote their swift implementation by the auditee. The audit team should follow-up the extent to which the auditee has taken action in line with the recommendations presented in the audit report. The timing and format of this follow-up is a key management decision.

Follow-up of the recommendations can be done in several different ways. Informal contacts with the auditee, a formal request for information or a follow-up audit are the most common forms.

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

9.3 Follow-up the impact of recommendations implemented

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

Following-up the impact requires a lot of effort and analysis. It cannot be carried out with less than a full follow-up audit. Furthermore this follow-up audit will need to cover also how the recommendations have been implemented and how other issues may have influenced the impact. The assessment of the impact will nevertheless form the core of and basis for the follow-up audit.

9.4 Follow-up audit

In many cases following up on recommendations without carrying out a follow-up audit is sufficient. This is usually the case when the audit was small, or referred to a one-off event or to a specific programme now abolished. Even in these cases there may, however, sometimes be scope for follow-up audits in order to examine whether recommendations based on general principles have been implemented by the auditee. Smaller audits may also warrant specific follow-up audits when they reveal significant issues for further review by the legislature or when audit recommendations are likely to lead to significant benefits.

9.4.1 Planning follow-up audits

Planning is as important for the follow-up audit as it is for other studies and takes the same form as a main study work plan. How much priority can be given to follow-up tasks should be considered in the context of our overall audit strategy as determined in the planning process.

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

The scope should be determined based on an assessment of:

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

9.4.2 Reporting follow-up audits

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

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

RESPONSIBILITIES WITHIN THE AUDIT PROCESS

