PERFORMANCE AUDITING IN POLAND

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Executive summary

This paper aims to provide a concise and coherent guidance on performance auditing in the public sector of Poland. The current state of the Internal audit function in Poland focuses on compliance auditing with minimal focus on performance auditing and thus, does not support organisations in building managerial accountability and establishing and maintaining effective internal control systems and risk management structures and processes.

The guidance will support Polish internal audit functions by improving internal competencies concerning performance auditing. It provides steps for practitioners to follow in the various phases of a performance audit, enabling the responsible individuals involved in the internal audit functions across the public sector in Poland to provide assurance that an organisation's governance, risk management and internal control process are operating effectively.

The guidance is designed for all public sector internal audit practitioners working within the public sector of Poland. It defines and differentiates performance auditing, as it corresponds to other types of auditing. It discusses the three primary principles of performance auditing which include: economy, efficiency and effectiveness. Furthermore, it describes the required stakeholders who should be involved in a performance audit. By doing so, it will contribute to a more effective internal audit function across all levels of government.

It details the various topics and procedures involved in planning an audit engagement, conducting an audit engagement and the development of findings, conclusions and recommendations. Furthermore, it includes the specific aspects of the reporting phase, as well as the procedures to complete a follow-up audit, as needed. It also highlights seven principles which support performance auditing. These principles include independence, judgement, competencies, materiality, documentation, quality control, risk and aspects of communication. By ensuring those principles are integrated during the conduct of a performance audit, practitioners will be better able to provide assurance in regard to the objectives of the audit engagement.

Some of the constraints contributing to the lack of performance auditing in Poland include minimal managerial awareness of control/audit functions and the small size of internal audit units amongst others. As note, there is a lack of overarching practical guidelines which can be used by all auditors within all public entities. While legislation describes the goal of internal audit as a systematic assessment of the adequacy, effectiveness and efficiency of internal control, in practice these assessments are only partially performed.

The guidance incorporates international good practice examples and, material from the Institute of Internal Auditors (IIA), the handbook developed by the International Organisation of Supreme Audit Institutions (INTOSAI). It is a starting point for the Poland Ministry of Finance to further design and develop additional guidance to meet other requirements imposed by laws, regulations and practices as they continue to evolve.

Table of contents

1 Introduction to performance auditing

Throughout the public sector, there are various types of audits that are conducted with varying objectives. These types of audits typically include (but are not limited to): performance, financial and compliance. The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. (IIA, 2024[1]). This guidance, while inherently discussing characteristics which are common to various types of audits, will focus primarily on performance audits.

The OECD defines performance audit as the assessment of the economy of input, the efficiency of output, and the effectiveness of government policies in relation to outcomes. (OECD, 2015[2])

The International Organisation of Supreme Audit Institutions (INTOSAI) defines performance auditing as an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness. (INTOSAI, 2019[3])

The United States Government Accountability Office defines performance audits as providing objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision-making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability. Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. (US GAO, 2024[4])

Performance auditing seeks to provide new information, analysis, or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge, or value by:

- Providing new analytical insights (broader or deeper analysis or new perspectives).
- Enabling existing information to be more accessible to various stakeholders.
- Providing an independent and authoritative view or conclusion based on audit evidence.
- Providing recommendations based on an analysis of audit findings. (INTOSAI, 2019[3])

Audit objectives may also pertain to the current status or condition of a program. These overall objectives are not mutually exclusive. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating the program's internal controls. Key categories of performance audit objectives include program effectiveness & results audit objectives, internal control objectives and compliance audit objectives. (US GAO, 2024[4])

The goals and expectations of performance audits are increasing. The criteria are becoming higher based on international standards (e.g., environmental standards) and sustainability. This provides stronger added value and impact. (OECD, 2023[5])

When conducting performance audits, comparing with other similar organizations through benchmarking can be an effective approach. High expectations are rising for strong central harmonisation functions around the globe. Comprehensive training mechanisms and harmonised guidance should be ensured for this. Better audit quality and sound internal control frameworks are in the limelight of many countries. (OECD, 2023[5])

It is widely understood that performance auditing focuses on principles of economy, efficiency, and effectiveness. They can be defined as follows (INTOSAI, 2019[3]):

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

An analysis of the conditions is often required to ensure these three principles are upheld. Some of them include strong management practices and procedures to ensure the correct and timely delivery of services. (INTOSAI, 2019[3])

As the profession continues to evolve, the internal audit function (IAF) may consider focusing on the following additional principles:

- Environment: considering the need to protect and preserve the environment.
- Equality: achieving positive impacts for all and ensuring that programs consider gender equality and possible unintended negative impacts on different populations. (CAAF, 2020[6])
- Integrity: providing independent, objective, value-based insights and evidence to support public sector organisations to better manage and assess integrity risks, and by assessing whether internal controls to manage integrity risks are operating effectively and efficiently, and by identifying areas for improvement. (OECD, 2020[7])

Performance auditing is not always subjected to particular expectations and requirements. While financial and compliance auditing typically tends to apply relatively rigid standards, performance auditing maintains greater flexibility in the selection of topics, methods, opinions, and audit objects. Performance auditing is not a typical audit with formalised opinions, rather it is an independent examination made on a non-recurring basis. It is inherently open to interpretation and judgement. It should have at its disposal a selection of methods and operate from a different knowledge base than that of traditional auditing (i.e., checklist-based form). The variety and complexity of questions are what differentiates performance auditing from other types. With that stated, there is still the possibility of collaboration with other forms of auditing. (INTOSAI, 2005[8])

While the main objective of performance auditing is to promote economical, effective and efficient governance, it also significantly contributes to the promotion of accountability and transparency.

Accountability is promoted by helping the responsible parties, with oversight and governance duties, to improve performance. This is completed by evaluating and examining whether decisions by legislature are effectively prepared and implemented, and whether taxpayers have received value for money. The decisions and intentions of the legislature are not questioned but rather performance auditing evaluates if internal regulations and laws have any shortcomings and/or if their method of implementation prevented objectives from being achieved. The focus of performance auditing is on the areas which have a potential for improvement and if there can be any added value. This inherently incentivises the auditees and related stakeholders to take appropriate action (INTOSAI, 2019[3]). Beyond creating specific mechanisms to

establish and strengthen public accountability, audit functions can foster learning through evaluation and highlighting bad and good practices. (OECD, 2020[7])

In case of the local government, evaluation of decisions should also refer to the local law and decisions of local authorities. The future perspective (plans, strategies) should also be considered. The OECD promotes transparency as part of the disclosure and subsequent accessibility of relevant government data and information (OECD, 2020[7]). Transparency is promoted by allowing parliament, taxpayers, and other sources of finance (those targeted by government policies and the media) an insight into the management and outcomes of various government activities. In addition to serving as a platform for learning and improvements, it directly contributes to providing useful information to the organisation and ultimately, the general public. As a standard practice, the organisations have the liberty to decide within their mandate, what, when and how to audit. (INTOSAI, 2019[3])

It is important for the IAF to distinguish that a performance audit can be produced in various forms. While a financial and compliance audit will have rigorous objectives and methodology, performance audits may be considered to have greater flexibility in their assessments. As an example, an audit may assess the governance of a particular framework within a programme or area of a ministry and as part of it, those areas may include a review of financial and compliance aspects. With that noted, there may also be other assessments made within the context of the audit (unrelated to financial or compliance activities) and therefore it would be a performance audit. Ultimately, it is important to note that IAFs which conduct risk-based internal audits, will use the derived audit objectives to determine the type of audit to be conducted. To reiterate the definition, a performance audit typically will focus on principles of economy, efficiency, and effectiveness. Therefore, auditors may interpret performance audits to be engagements which go beyond the scope of assessing financial and compliance aspects and objectives.

In Polish Regulation audit engagement is defined as 'assurance engagement or consulting services' (Winiarska, 2018[9]). The knowledge of advisory engagements (i.e., consulting services) may vary significantly from organisation to organisation. While these types of engagements typically have targeted scopes, the IIA defines it as: 'services through which internal auditors provide advice to an organisation's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders.' (IIA, 2024[1]) While an advisory engagement may include methodologies which are used within a performant audit, they may still not be considered a performance audit due to it not providing assurance to the stakeholder(s) involved. It is important for all entities to clearly define and differentiate the types of engagements. Although performance auditing and advisory services have similarities in providing insight and foresight for stakeholders, it should be avoided to merge these activities into one engagement due to the differences in implementation requirements.

Performance audit as a "direct reporting engagement"

According to ISSAI Implementation Handbook on Performance Audit, performance audit is a "direct reporting engagement". This means that the IAF selects the subject matter and criteria. Following that, the subject matter is evaluated or measured against the criteria, considering risk and materiality. The result of this is concluded in the final report through findings, conclusions, and recommendations. (INTOSAI-IDI, 2021[10])

The other type of engagement is an "attestation engagement". In this instance, the responsible party measures the subject matter against the criteria and presents the subject matter information. The auditor gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion. Financial audits are always "attestation engagements", and compliance audits have the possibility to be "attestation" and/or a "direct reporting engagement", simultaneously. (INTOSAI-IDI, 2021[10])

With performance auditing being a "direct reporting engagement", it is part of the role of the auditor to define and select the subject of the engagement and in turn, the conclusion. This includes the identification of criteria and then to evaluate against those criteria. An active role will be required to ask the appropriate questions and then select and apply the relevant methods for attaining the evidence for the subject matter.

Similar to a compliance audit, there will inherently be verification of procedures of the auditee. With that stated, it should be ensured that the audit does not evolve into a 'checklist' exercise. A compliance audit would typically test procedures to identify issues or potential gaps but that does not always provide a sufficient understanding for assessing performance. Measuring performance involves an assessment of what actions are needed to be taken by the auditee. This may also involve explaining how the assessed procedures contribute to a successful result.

Ultimately in the "direct reporting engagement", which is a performance audit, the initiative is on the auditor to ensure its auditee is aware of the following (INTOSAI-IDI, 2021[10]):

- clear objective(s);
- criteria and why it was selected;
- evidence that was collected;
- strengths and weaknesses that exist;
- reason for the weakness and why;
- strength of the evidence;
- conclusion which was reached and why;
- impact and implication of findings;
- level of assurance on the conclusion.

Stakeholders involved

There is a great degree of flexibility when determining the audit subject matter and identifying the audit criteria. This process will impact who the auditee(s) and the relevant stakeholders are, and who will be the recipient of the audit report. The auditors may provide recommendations but must be aware that they do not assume any responsibility for their implementation.

It should be emphasised that the auditee may be multiple individuals and/or groups, with each being responsible for different areas of the subject(s) being audited. These responsibilities may range from providing the auditors with information, evidence, and interviews, to being assigned the task to initiate the recommendations of the audit.

Selection of audit area

The selection of the audit topic may vary from organisation to organisation. It is important for management and auditors themselves to understand how audit topics were selected. Understanding the interests and priorities will determine and support how the work is conducted. The chapter will discuss the strategic planning process, how should the environment be scanned to identify audit area and subsequently topics, how to handle any stakeholder requests and the possible criteria for selection.

In financial and compliance audits, the topics will often be related to a process which may be more cyclical or standard. This could include annual reports and procurement requirements. On the topic of procurement audit, it could relate to a much broader scope of topics. This could relate to any function, program and/or policy within the organisation. In that scenario, it is important that the IAF does not feel any restrictions when selecting a topic for a performance audit.

Strategic planning process

The IIA Global Standards state within principle 9 (plan strategically) that: the chief audit executive plans strategically to position the internal audit function to fulfil its mandate and achieve long-term success. (IIA, 2024[1])

The strategic planning process includes determining the long-term goals of the IAF as well as the goals of the organisation. It is important to determine the potential areas of audit and then to ensure there is the appropriate allocation of audit resources.

As part of this, the IAF must identify the key risks and areas of concern which are most important. Using that information, the IAF will indicate which audit may add the most value and will be of particular interest to the head of the organisation.

Each organisation will determine how many years the plan will cover. It can range from one to several years. Often, the plan is evergreen (i.e., rolling), allowing for topics to be addressed in future years. (INTOSAI-IDI, 2021[10])

The ultimate objectives of the process are to:

- Provide the basis to set the way forward for audit coverage.
- Understand organisational risks and take them into account.
- Communicate audit priorities to senior management.
- Produce a program to see what can be achieved with given resources.
- Provide a basis of accountability for the IAF.

Environmental scan

Within any IAF, the identification of topics is an ongoing process. The IAF must be open as ideas and topics may appear at any given time from various sources. As all organisations continue to evolve, it is important to be prepared for new challenges, risks and factors that affect government organisations.

There are various pressures (internal and external) which could be the topic of audits. These include, but are not limited to, budget constraints, economic and social trends, the launch of new programmes, availability of skilled staff, media focus on organisation, political pressure and changes in senior management. (INTOSAI-IDI, 2021[10])

The IIA Global Standards principle 9.4 requires an organisation wide risk assessment to be completed at least annually as the basis for the plan. However, the chief audit executive should keep continuously apprised of risk information, updating the risk assessment and internal audit plan accordingly. If the organization's environment is dynamic, the internal audit plan may need to be updated as frequently as every six months, quarterly, or even monthly. The size, complexity, and type of changes occurring in the organization relative to the maturity of the organization's governance, risk management, and control processes should be considered when determining the appropriate level of effort to update the risk assessment. (IIA, 2024[1])

Risk analysis supports the strategic planning process. When risks are identified earlier through audits and respective recommendations are made to mitigate them, they should have a positive impact on the effectiveness of the auditees. It is good practice to update IAF risk assessments on an annual basis. This should allow for a greater impact.

Each IAF may differ to what extent their risk assessments are updated and utilised. As part of the assessment, there will be a variety of factors considered. As part of it, there can be an exercise on the inclusion and selection of topics. This includes discussion with all relevant stakeholders to have an idea of what should potentially be included. The following are various methods on how to identify and support the selection of possible audit topics (INTOSAI-IDI, 2021[10]):

Method	Description / Benefit
Scanning the environment	It can be useful for the IAF to monitor key issues in the public sector and to be aware of developments that may merit a further look through a performance audit. This could include: • reading other audits and publications (including financial and compliance audits; publications about ideas, trends in the management science); • learning from the experience of other auditors; • review details of top management topics and debates; • attend relevant conferences; • and consider reviewing media coverage of various issues. This process should be ongoing and always ensure that the IAF is aware of up-to-date information about what is happening in society and what areas may warrant further examination.
Financial and data analysis	It would be useful to perform basic financial and data analysis to understand how and where funds flow into the organisation. There could be specific materiality factors. Some may include complex financial arrangements, sources of income and expense (based on unique or varying programs) and areas where their disbursements of funds are significant or volatile.
Media monitoring	Each organisation has a different level of interest from the respective media. Depending on the mandate and activities of the organisation, the level of interest will vary. Media (e.g., newspapers, articles, broadcasts, social media, etc.) can be monitored to identify issues that the public is raising about the organisation's activities. It is important for all types of media to be considered to have the appropriate coverage. Often, specific sources have specific audiences.
General Survey	A general survey would provide the IAF with an understanding of the organisational units' objectives, primary activities, and requirements of resources to carry out its mandate. The intention of the survey is to: review the areas absorbing substantial resources, note potential risks to achieving optimal use of resources, highlight areas for ongoing audits and propose future potential subjects, topics and/or functions for audit. These surveys could cover the whole organisation, major projects of expenditures or a group of interrelated functions. Moreover, this survey may also be used as an ongoing reference material when determining audits to be included in the strategic plan. It will be important to ensure the information is kept relevant and up to date. Generally, it may include background information, objectives, accountability structures, primary activities, level of resources used and key procedures and/or control systems that are in place.
Internal discussions within IAF and other assurance functions	The IAF must leverage the knowledge and experience of others within the IAF and the organisation. The experience of other auditors must be considered as their past work and outputs would allow them to understand what could provide value. Moreover, discussing other functions within the organisation (i.e., internal controls, finance, investigations, inspections, examinations, etc.) would allow the IAF to attain more information. As an example, financial audits may identify weaknesses in programs to demonstrate that they have not been implemented effectively.

Stakeholder requests

Within any organisation, there may be requests from internal stakeholders who request the services of the IAF. The IAF should be open to considering suggestions. With that stated, they must respect all laws enacted by the legislature of their function and maintain its independence.

These requests may also be relevant to multiple entities within the organisation. That is something which should be integral within the consideration of the engagement, as there may be significant added value to the organisation. There may be a topic of particular interest to the head of the organisation to be audited, which warrants an independent review. The most important factor is that the IAF remains open to all possible engagements. In the long-term, this should build and facilitate further trust in the IAF by all stakeholders of the organisation.

The final decision on whether to conduct the engagement will be the responsibility of the head of the IAF of the respective organisation. (INTOSAI-IDI, 2021[10])

Box 1.1. Regulation pertaining to internal audit in Poland – Selection of audit area

As written with the Polish context in the *Regulation of the Minister of Finance on internal audit and information on this audit work and results*,[1] Chapter 2 of the 'Minister of Finance on internal audit and information on this audit work and results' states:

S.7:

1. When developing the audit plan referred to in Article 283(1) of the Act, the head of the internal audit unit shall conduct a risk analysis taking into account the way of managing risk in the entity.

2. When carrying out the risk analysis, the head of the internal audit unit shall take into account in particular:

- the objectives and tasks of the entity;
- risks affecting the fulfilment of the objectives and tasks of the entity;
- the results of audits and inspections.

3. The result of the risk analysis referred to in paragraph 1 shall be a list of all identified areas of activity of the entity, taking into account their order resulting from the risk assessment.

S.8:

The head of the internal audit unit shall determine the areas of the entity's activity in which assurance engagements will be performed in the following year, taking into account:

- the result of the risk analysis;
- priorities of the head of the unit and the audit committee;
- available personnel resources.

1. Regulation of the Minister of Finance on internal audit and information on this audit work and results - Chapter 2: Minister of Finance on internal audit and information on this audit work and results - 4 September 2015 (Journal of Laws of 2018 item 506) (Winiarska, 2018[9])

Following the identification of potential areas as described in section 8 of the regulation, they must be prioritised to be selected. The topic is determined during an initial review and is included in the assurance engagement program.

2 Planning an audit engagement

Following the selection of an audit area, the next step is to plan (may also be referred to as the design phase) the audit. This is an important part of the process to ensure that the appropriate information and knowledge are obtained to complete the audit.

Involved in the design of the audit is the creation of an audit programme. This programme typically includes the type, timeline, resources (staff and budget), background, scope, objectives, criteria, risks, and methodology of the audit. An appropriate audit programme is the integral baseline for assessing the economy, efficiency, and effectiveness of a performance audit.

The IIA Global Standards principle 13 (plan engagements effectively) states Internal auditors plan each engagement using a systematic, disciplined approach. (IIA, 2024[1])

As a good practice, it is necessary for the whole team within the IAF to document their independence. This can be completed with a signed document added to the audit file. This document should state there are no potential conflicts of interest and impairments which may hinder the objectivity of the auditor. (INTOSAI-IDI, 2021[10])

In the audit planning phase, performance audits are distinguished by their broader and more exploratory approach. They focus on understanding the context and operations of the entity, identifying key issues, risks, internal controls and performance indicators. This involves extensive preliminary research, stakeholder engagement, and the development of tailored audit criteria based on best practices and performance standards. In contrast, financial audits have a narrower scope, centred on financial records and compliance with accounting standards, and compliance audits focus on specific regulatory requirements, with predefined criteria and a more structured planning process.

This chapter will discuss the various aspects of the planning phase of a performance audit. Including topic research, objective, scope, audit questions, criteria, methodology, resources, audit plan and stakeholders' involvement.

Research of topic

There are several elements that must be considered, including the significance of the subject matter, auditability of the topic, resources/skills to carry out engagement, alignment of the topic with the IAF mandate and maximisation of the impact of the audit. (INTOSAI-IDI, 2021[10])

A scoring matrix may be used to rank the topics. This matrix, complemented by professional judgment, would involve the use of selection criteria and then scoring each potential topic against those criteria. There are several criteria which should be considered in the prioritisation and the selection of audit topics. While they will vary within each organisation, their relative importance will depend on their specific circumstances. Possible criteria which may be used in the ranking system include:

Criteria	Description	Ranking (1-Low to 5 High)
Materiality	Relative importance (or significance) of a matter in the context in which it is being considered. In addition to monetary value, materiality includes issues of social and political significance, compliance, transparency, governance and accountability.	
Auditability	Can the topic be audited? Will the audit provide benefits to the public? Does it fall within the legal mandate of the IAF? Does the IAF have the capability to audit the topic?	
Possible Impact	Will the topic have a powerful effect on enhancing the economy, efficiency and/or effectiveness of management undertakings?	
Risks to the IAF	Is there a strategic or reputational risk if an audit topic is not examined?	
Legislative of Public Interest	Will auditing the topic address a legal concern or be to the advantage of the community? For example, will the audit help to promote inclusiveness? Is a legislation process covering the topic underway?	
Relevance	Does the topic have some bearing on, or importance for, real-world issues, present-day events or the current state of society?	
Timeliness	Is this the right or appropriate time to audit the topic? For example, is it too early to examine the progress of a new activity?	
Previous Audit Work	Has the topic been audited in the past? Is it worth auditing it again? Is there a new audit approach you could take? Has there been previous inspections, evaluations?	
Other Work Planned or in Progress	Is other work being planned or done on the topic?	
Request for Audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of a request to determine its importance, for example, requests from beneficiaries or other stakeholders.	

Source: INTOSAI IDI – Performance Audit ISSAI Implementation Handbook 2021. (INTOSAI-IDI, 2021[10])

Other criteria could also be used, e.g., in some institution with mature internal control system risk register records could also be relevant.

While selecting the audit area/topic auditor has to consider also requirements resulting from agreements or regulations. However, such requirements does not exclude the use of performance criteria.

As part of the process, the IAF should gather information on the topic and auditees' line(s) of business.

This will include preliminary activities to acquire knowledge, brainstorm audit designs, and assess whether the topic is auditable. Even if these considerations were taken during the selection phase, circumstances may have evolved since then and/or further information may have been acquired. This can be done with or without the knowledge of the auditee.

It will be important to determine whether the audit will be able to provide added value, improve the auditees' economy, efficiency, and effectiveness by strengthening internal controls. It should also be considered during this process as to what is not functioning well and how the audit may address weaknesses or problems in performance.

The IAF must develop an understanding of the audit topic (including context and impacts) to determine the significant audit issues and key risks. It is understood that performance audit is a learning process involving the adaptation of methodology, engrained within the audit itself.

This research on the topic should be completed and documented with an approach consistent with the processes of the IAF. The information gathered should allow for the IAF to appropriately understand:

- entity structures, roles, functions, stakeholders, activities, trends, and resources;
- applicable internal controls;
- environmental factors which may affect programmes under review;
- constraints (if any) impacting the delivery of outputs/outcomes;
- positives/negatives of the programmes;
- criteria (if exists) or to develop to assess performance.

This information should be collected early in the design process. It can be attained through an array of information sources, depending on the organisation. These include but are not limited to legislation, strategic plans, organisational charts, annual reports, interviews, policies, management information systems, previous audit/evaluation reports, media coverage and any other related websites. (INTOSAI-IDI, 2021[10])

At this stage it is necessary to find out the possible sources of information, consider what kind of information would be useful and what kind of formalities are required to obtain information.

First meeting with the auditee

Following the completion of the research on the topic, the auditors should have a formal meeting with the potential auditee prior to collecting information or data. During the initial meeting with the auditee, the IAF will discuss the intention of the work, how it was derived, team members, participation level of auditee personnel and other related items. This meeting (or set of meetings) should also allow the IAF to develop a relationship and take into account the perspective of the auditee. This meeting should be documented along with any decisions or actions agreed upon during the discussion.

The auditee should also be informed about the launch of the audit and a relevant point of contact in the auditee for all audit related matters should be established. (INTOSAI-IDI, 2021[10])

Approach

The IIA Global Standards principle 6 states the internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.

The audit approach is an important aspect of an audit. It is a key link between the audit objective(s) and the audit questions. The decision on the approach is an important component of an audit as it directs the type of examination which will be completed. Moreover, it defines the required knowledge, information, and data along with the procedures needed to acquire and evaluate them.

There are three general approaches for performance audits that auditors could choose from. They are as follows:

- System-oriented: examines the proper functioning of management and control systems (e.g., financial management, internal control systems). When using this approach, performance benchmarks and other principles of good management will be supported as criteria. This type of approach would answer a large array of questions to describe how activities are operating, the cause of weaknesses (if any) and the level to which things may be improved.
- Result-oriented: assesses whether an outcome or output objectives have been achieved or programmes and services are operating as intended. The recommendations will attempt to address the causes of the variations in the performance criteria.
- Problem-oriented: examines, verifies, and analyses the causes of particular problems or variations from criteria. This approach should be used when there is a clear agreement on a problem. One of the major activities in this approach is to analyse the cause of the problem from various perspectives. (INTOSAI-IDI, 2021[10])

A combination of approaches is also possible, to facilitate the soundness of the audit design. (INTOSAI, 2019[3]). Depending on the nature of the audit, multiple approaches may also be combined to address the objectives.

Objective

When setting the objective in a performance audit, it should relate to the principles of economy, efficiency, and effectiveness. They should identify the audit subject and performance aspects to be assessed during an audit. As it determines the approach and design, it is important that it is clearly defined and described. Objectives which are prescribed (i.e., are matters as they ought to be?) or analytical (i.e., why are matters not as they ought to be?) tend to have a higher degree of added value.

The IIA Global Standards principle 13.3 (engagement objectives) states that engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations. (IIA, 2024[1])

Performance auditing may also have multiple objectives. Its primary objective is to constructively encourage and promote effective, efficient, and economical governance while intending to contribute to transparency and accountability.

As a primary consideration in developing the audit objective, it must be considered the subject it pertains to, the organisations involved, and to which stakeholders the final recommendations will be relevant.

Most audit objectives are formulated as an overall audit question, which then inherently translates into more specific sub-questions. They should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. All the terminology in the audit question must be clearly defined. With that stated, there is also the possibility of developing several objectives which do not necessarily translate into more specific sub-questions. (INTOSAI, 2019[3])

The following example from the Royal Government of Bhutan provides insight into the specifics of performance audits when setting objectives. The example differentiates the key attributes which exist between performance and financial/compliance auditing. Understanding these basic aspects will support those who have minimal experience in performance auditing.

Aspects	Performance Auditing	Financial or Compliance Auditing
Principle	Economy, Efficiency and Effectiveness Assess whether government interventions or measures have been conducted in accordance with the principles of economy, efficiency and effectiveness.	Compliance with Law Assess whether financial operations have been conducted in accordance with legislation and regulations and whether accounts are reliable.
Purpose	The purpose is to contribute to public management improvement.	The purpose is to verify if the actions of the management are according to the laws, rules and official instructions.
Focus	Policy, programmes, organisation, activities and management systems.	Financial transactions, accounting, financial statements, and key control procedures.
Academic basis and relevant experience	Experience of professional investigations or evaluations and familiarity with methods applied in social science as well as other relevant methods/skills.	- Accountancy and law, and - Professional audit skills.
Auditor's Role	Performance Evaluation	Verify the discrepancy between the existing situation and the rule.
Methods	Vary from audit to audit.	Standardised format.
Audit Criteria	- More open to the auditors' judgement. - Unique criteria for the individual audit.	- Less open to the auditors' judgement. - Standardised criteria set by legislation and regulation for all audits.
Reports	- Special report published on an ad-hoc basis. - Varying structure and content, depending on objectives.	- Annual opinion and/or report. - Standardised.

Source: Performance Audit Guidelines for Internal Auditors of Royal Government of Bhutan (Bhutan Ministry of Finance, 2019[11])

Questions

Following the development of the objective(s) and approach, there should be questions to guide the work of the audit. These questions will be derived from the objective(s) and typically will be specific to address the subjects which will be evaluated during the audit. The goal of the questions should be to cover all areas of the objective(s). The wording of the questions will impact the type of information collected, the collection methods, the analytical approach, and the variety of findings and conclusions.

There are two types of audit questions:

- descriptive – they describe a condition;
- evaluative – they evaluate a condition against criteria and can be standard or analytical.

The formulation of audit questions is an iterative process in which there is an exercise to repeatedly specify and refine the questions, considering known and new information on the subject and the feasibility of obtaining answers. It is important that the audit is allowed to evolve to obtain additional information and further insights into sub-problems and causes. In doing so, it is also critical that it is documented when, how and why audit questions were modified. This will provide a complete record of the audit. If significant changes are made, it is necessary to inform the auditees about the changes. (INTOSAI-IDI, 2021[10])

Box 2.1. Audit questions

- How effective are the internal controls in ensuring compliance and performance? Are there any emerging risks that need to be addressed?
- How effective are the risk management strategies in mitigating identified risks?
- Is the data being used to measure performance accurate, reliable, and timely?
- Are there any gaps or weaknesses in the data collection and reporting processes?
- Are there any best practices or innovations that could be adopted to enhance performance?
- Are the resources (financial, human, material) being acquired at the lowest possible cost?
- How do the procurement processes compare to best practices and standards?
- Are the resources being utilized in the most efficient manner to achieve the intended outcomes?
- To what extent are the program's objectives and goals being achieved?
- Are the intended beneficiaries receiving the expected benefits?
- What are the broader impacts of the program on the target population and community?
- Are there any unintended positive or negative consequences of the program?
- How do stakeholders perceive the impact of the program?
- Is the program or activity aligned with the current needs and priorities of the stakeholders and community?
- Have there been any changes in the context or environment that necessitate a revaluation of the program's relevance?
- How well do the program's objectives align with the overarching strategic goals of the organization?
- What are the main risks associated with the program, and how are they being managed?

Scope

The scope defines the parameters of the audit. It addresses the ultimate questions and the type of review the auditor must complete. It will define the topic that will be assessed/reported upon, the documents/records to be reviewed, the period under consideration and the locations (if any) to be examined. The scope is impacted by the objectives (and questions) of the audit. It is important to note that any modifications to the objectives may also then impact the scope. The development of the scope of the audit is an important part of the audit design. (INTOSAI-IDI, 2021[10])

The IIA Global Standards principle 13.3 (engagement objectives and scope) requires that internal auditors establish and document the objectives and scope for each engagement. The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations. (IIA, 2024[1])

The scope of the audit may be established by answering the questions defined below, which will help properly define it.

Topic	Questions
What	• What specific questions or hypotheses are being examined? • What are the key processes relevant to the audit? • What is the subject matter that will be assessed and reported on? • What resources are available to complete the audit? • What questions, processes, and resources will not be covered?
Who	• Which agencies and organisations have responsibilities or perspectives relevant to the audit? • Who within relevant agencies and organisations is best positioned to provide appropriate and sufficient evidence to answer the audit questions? • Who is responsible for assuring the reliability of information and data that are relevant to the audit? • Which organisations or persons will be excluded?
Where	• What are the locations to be covered? • Where are the documents and records that need to be examined? • What locations will be excluded?
When	• What is the timeframe to be covered?

Source: INTOSAI ISSAI Implementation Handbook - Performance Audit – 2021; IDI/PAS Development Team (INTOSAI-IDI, 2021[10])

There should also be additional considerations in the determination of the audit scope. These will vary by each organisation. These include, but are not limited to:

- availability of reliable data, including requirements to obtain it and sources of information;
- internal resources to conduct the audit;
- accessibility of auditors with the appropriate skill sets;
- accessibility to subject matter experts (as needed);
- costs associated with the audit (i.e., travel or other operational needs);
- time limitations of the audit;
- any other item or topic which may impact the coverage of the audit.

The scope of the audit can also include potential topics which were part of recommendations of a previous audit report (if deemed to be pertinent and relevant). (INTOSAI-IDI, 2021[10])

Criteria

Following the development of the scope, there should be consideration of the criteria to measure the organisation's performance against expectations. Similar to the objective, the criteria in performance audit should relate to the audit questions about economy, efficiency, and effectiveness, as well as programs, systems and organisational units.

The IIA Global Standards principle 13.4 (evaluation criteria) requires that internal auditors identify the most relevant criteria to be used to evaluate the aspects of the activity under review defined in the engagement objectives and scope.

Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria should be reasonable. This will allow for the appropriate evaluation of the standards being used to assess them. They identify the required (or desired) state or expectation, concerning the audit topic.

The criteria have the flexibility to be quantitative or qualitative, and they should describe the areas the auditee will be assessed against. The criteria may also be general or specific, focusing on what should be according to laws, regulations, or objectives; what is expected, according to sound principles, scientific knowledge, and best practice; or what could be, given better conditions.

An array of sources (including performance measurement frameworks) may be used to identify the criteria. There must be clear transparency in the sources used and the criteria must be relevant and reasonable for all intended users. It should also ensure it is complete, reliable, and objective in the context of subject matter and audit objectives. While it is important that the criteria are discussed during the development of the audit plan, it is the responsibility of the auditor to select appropriate criteria. Typically, the criteria would be developed and communicated during the planning phase to encourage their acceptance, but complex audits may create a situation where they are defined in a later stage of the audit process – in such situation the audit program should be adjusted. (INTOSAI, 2019[3])

The approach, questions, and objective determine the type of acceptable criteria. Moreover, confidence in the conclusions of the findings of a performance audit will be dependent on the criteria. Some examples of criteria include:

- laws and regulations applicable to the procedures of the organisation;
- objectives, policies and controls established by the organisation;
- technically developed standards or norms;
- opinions of experts;
- procedures for a function or activity;
- defined business practices;
- agreements (i.e., contracts or grants);
- benchmarks or performance indicators set by relevant organisations (i.e., units or sectors);
- performance (from prior periods);
- criteria used in similar audits or by audit entities (while ensuring their validity);
- criteria determined in strategies, plans, projects, programs;
- budget assumptions, including relevant indicators.

The selection of audit criteria requires the assessment to be completed objectively, with rational consideration and a high degree of professional judgment. There will be various scenarios, depending on the audit, on how easily criteria could be defined. There will be instances where criteria will not be apparent in the early phases, i.e., performance objectives may be vague (or non-existent) and standards set by the organisation do not equal good performance. In such instances, it is important to note that performing audit

activities prior to the selection of the criteria will ensure appropriate materiality and enable the auditors to become more knowledgeable about potential issues and associated best practices. (INTOSAI, 2019[3])

To select criteria objectively, it is important to have:

- a general understanding of the subject to be audited, including knowledge of relevant legal, policy and other documents (i.e., studies, audit, etc.);
- sufficient knowledge of the motives (including any legal basis) of the audit subject and goals (if any) set by the government;
- a general knowledge of practices and experience in other relevant or similar government programmes or activities.

It is essential that the criteria selected are suitable for the topic and objective. Suitable criteria should be relevant, reliable, objective, understandable, testable, and complete. Professional judgment will play a significant role in determining the relative importance of each of these characteristics.

In scenarios where criteria do not exist, are not measurable or are not appropriate, the IAF will have to adapt or develop new criteria. These new criteria are typically developed from existing criteria, principles of research or standards of professional practice. For example, existing criteria for similar audit subjects or topics may be adapted. It also may be necessary to arrange a meeting with subject matter experts or consultants to determine performance benchmarks based on comparable practice. Ultimately, the developed criteria must be valid and convincing to a reasonable reader.

As part of the design phase, the IAF must discuss the audit criteria with the auditee. This level of collaboration will help to ensure there is a shared and common understanding of the criteria that will be used as benchmarks (during the evaluation of the audit area). It will also provide feedback on their applicability and legitimacy. Involving the organisation may also increase the likelihood that they will agree with the findings and recommendations. While transparency is necessary, it will be the ultimate decision of the IAF to determine the appropriate audit criteria based on the type of audit. (INTOSAI, 2019[3])

Box 2.2. Examples of audit criteria from various ministries within the Government of Canada

Agriculture and Agri-Food Canada (AAFC): Audit of Information Management - (2023-2024)

- Governance: AAFC had a defined and communicated strategic direction and objectives for IM, including supporting implementation plans, monitoring and reporting.
- Training: IM training, awareness and outreach activities were in place and updated to reflect a changing environment.
- IM lifecycle: requirements were documented, communicated and supported by departmental IM processes and tools for KW.

Environment and Climate Change Canada (ECCC): Audit of ECCC risk management practices - (2023-2024)

- Oversight bodies are in place to support the integration of risk management information in support of decision making.
- Risk management roles, responsibilities and accountabilities are clearly defined, documented, communicated and understood by stakeholders throughout the Department.
- Processes, guidance and tools are in place to assist branches in identifying, analyzing, assessing and communicating risk in a consistent manner.
- Risk information and mitigation measures are tracked, analyzed, updated, monitored, reported on and used as part of planning and decision making.

Global Affairs Canada: Audit of Internal Control over Financial Management (ICFM) - (2022)

- Accountabilities, roles and responsibilities for the system of ICFM are formally defined, communicated, exercised, and are supported by an appropriate level of governance and oversight.
- A system of ICFM is supported by an adequate risk assessment and ongoing monitoring plan.
- Testing methodology for the system of ICFM is effective and applied consistently across all processes.
- Results of control assessments are captured and communicated to business process owners and senior management through internal and external reports.

Royal Canada Mounted Police: Audit of National Standards - (2021)

- National standards requirements are identified based on risk and are achievable.
- A process to develop national standards is in place.
- The implementation of national standards is based on a plan that takes into consideration resources, training, equipment and maintenance.
- Monitoring and oversight are in place to ensure the implementation of national standards.

Department of Finance Canada: Audit of Safeguarding of Sensitive Information - (2018)

- Governance is exercised to provide appropriate oversight over the safeguarding of sensitive information;
- Training and awareness programs are effectively deployed to enhance employees' knowledge and understanding of their responsibilities in protecting sensitive information;
- Sound values and ethics practices are implemented to safeguard sensitive information; and
- Established processes are in place to address employee misconduct and information leaks.

Sources:

(Agriculture Canada, 2023[12]) , (ECCC Canada, 2023[13]) , (GAC Canada, 2022[14]) , (RCMP Canada, 2021[15]) , (Finance Canada, 2018[16])

Methodology

Following the completion of the objective, questions, criteria and scope, the methodology and time/resources will need to be determined. The methodology should describe how the auditors will collect and analyse information to answer the questions and meet the objective. There are several methodologies which can be used. The common ones are as follows:

Method	Advantages / Considerations
Interview: To conduct a discussion with one or more people. This can be done in person or virtually, to obtain their thought, opinions and perspectives on a program, activity, etc.	• Enables in-depth understanding of the interviewee's perspective. • Can be completed in a timely manner. • Supports collection of information on more sensitive topics. / • Should be conducted with precision to ensure consistency and comparability. • It does not support statistical analysis. • Requires time to identify and analyse patterns or trends across several interviews.

Method	Advantages / Considerations
<u>Document collection:</u> Gather documents from the organisation or entity for review.	• Generally considered to be more reliable than testimonial evidence collected during interviews. • Typically provides good depth and range of information. / • The source's integrity, authenticity, authority, and reliability must be considered. • There may be difficulty gaining access to information wherein the auditee does not readily provide documentary evidence.
<u>Direct observations and inspection:</u> The physical observation of programs, projects, facilities, events, people and/or any other activity to collect qualitative information.	• Directly observe the programmes, people, property, or events related to the audit. • Can provide context for the issues related to the audit. / • Observations intended to directly or partially answer audit questions may be complex. • The observation may affect the behaviour of the person or situation being observed. • May require significant resources for travel and staff participation.
<u>Surveys:</u> Approach to information or data collection that is used to collect evidence from a population using a standard set of questions.	• Method to gather information from multiple people. • Data can be used for different types of analysis. • Data on selected variables may be generalisable and precise. / • It may be resource and time intensive, including analysis.
<u>Site visits:</u> This involves physical travel to locations to perform audit activities.	• Can combine different methods including interviews, document review and direct observations or physical inspections. • It may provide cost efficiency by combining multiple methods during one visit. / • May require significant resources for travel and staff participation. • Requires time to further understand how the auditee of the visit is organised.
<u>File reviews and structured observations:</u> This includes any type of information or data collection tools used to systematically track and maintain observations and information extracted from records.	• Results in a structured and reliable data set that may be used to support quantitative or qualitative analysis. • Effective tool for collecting the data needed to assess compliance with legal or regulatory requirements. • Can provide data that may be valuable to a programme or population. / • Requires significant time and resources to execute this approach. • May not enable the determination of the cause of identified deficiencies.
<u>Small group methods:</u> This includes the collection of information from a group of people using tools such as focus groups or smaller groups, including experts.	• Discussion can reveal issues not addressed in individual interviews. • Adaptable for many varieties of audit needs. • Experts can provide consensus perspectives on issues or activities. / • Can be costly in terms of travel or fees to convene expert panels. • Analysis can be complex and time consuming due to volume and diversity of information.
<u>Secondary data:</u> This includes any data which was collected by another party or persons. This may include government agencies, universities and/or research organisations.	• Possibly more time efficient compared to other data collection methods. • Quality checks may have already been completed. / • Data may not match the audit objective. • Data may be difficult to access. • May require significant time to assess the reliability of the data.
<u>Case studies:</u> This may include further detailed collection of data, for one or many complex events, incidents or locations that seek to answer more comprehensive questions (i.e., 'why' or 'how').	• Can enable in-depth assessment of activities, facilitate the analysis of similarities and differences between operations in different localities, or illustrate aspects of processes or the consequences of flaws in programmes using specific 'real-world' examples. • Enables collection of more in-depth information about a topic or complex events. / • May require substantial time and resources. • Case study selection will significantly impact information collection and findings.

Source: INTOSAI ISSAI Implementation Handbook - Performance Audit – 2021; IDI/PAS Development Team (INTOSAI-IDI, 2021[10])

Following the identification of information and data, further consideration should be given to how data could be analysed. Two examples of analysis methods in the development of methodology include:

- Content analysis: this is a method used for structuring and analysing complex qualitative information obtained from various sources (i.e., interviews, documents, etc.).
- Statistical analysis and modelling: this method involves the use of specialised software and computer models to identify possible trends, patterns, and correlations in data sets.

It is important to ensure the approaches used will help the auditors in obtaining evidence that directly supports the audit objective and answers audit questions. With that stated, in most scenarios, it will be beneficial to use more than one method to collect and analyse data, as this will validate information from various sources. Furthermore, it will be equally important to assess the evidence to ensure it is reliable. (INTOSAI-IDI, 2021[10])

Managing audit risk

Identifying and assessing risk in the audit design process would require relevant knowledge of the audit topic, including a sufficient understanding of the topic objectives, policy, and process, as well as key stakeholders and controls. There are various factors to be considered in the identification of audit risk.

Audit risk is defined as:

> *the possibility that the auditors' findings, conclusions or recommendations may be incorrect or incomplete due to factors such as inadequate audit processes, insufficient or inappropriate evidence, resource or data limitations, or intentional omissions or misleading information because of misrepresentation or fraud. (INTOSAI-IDI, 2021[10])*

It is vital that risk is managed throughout the audit design process. One of the main purposes of the design process is to identify, mitigate and plan for major risks. This will also include the risk that auditors will not detect any significant errors, mistakes or fraud in the evidence supporting the audit. (INTOSAI-IDI, 2021[10])

They include qualitative and quantitative factors, time frames, complexity/sensitivity of work, breadth of activities (both financial value and number of citizens served), adequacy of auditees systems and processes for preventing and detecting discrepancies, errors or fraud, and the auditor's access to records and files. As each organisation may have their methods, the risk identification and assessment can generally be addressed by the following questions:

- Does the audit team possess sufficient skills and knowledge for the audit (including specialised knowledge for specific tasks)?
- Are the time frames and resources needed to conduct the audit available and feasible (e.g., travel funds, the opportunity cost impact on other audits)?
- Is the audit topic sensitive, visible or controversial (e.g., political or media sensitivity)?
- Is the audit and subject matter highly complex, or does it involve areas traditionally prone to risk (e.g., IT systems, procurement, health, and environmental issues)?
- Are there real or perceived threats to the independence of the auditors assigned to the audit?
- Is there risk related to management integrity or relations with the auditees?
- Are there enough data available and of sufficient quality (e.g., access and reliability)?

Once there is awareness of the risks, then risk tolerance needs to be further considered. This would essentially be the acceptable level of variation in audit performance relative to the achievement of the audit's objectives. It should also be balanced with the benefits of undertaking the task.

Following the identification of audit risks and determination of tolerance levels, it is important to reduce and/or mitigate their risks. (INTOSAI-IDI, 2021[10]) This can be successfully completed by the following:

- increasing/reducing the scope of work;
- including specialists (e.g., methodologists), reviewers or additional senior staff;
- increasing resources on the engagement;
- regularly monitoring or tracking progress against interim milestones by updating audit plans, holding meetings or producing status reports;
- building in extra time, if possible, for particularly high-risk tasks;
- modifying the method to obtain additional evidence, higher-quality evidence or alternative forms of corroborating evidence;
- aligning the findings and conclusions to reflect the evidence obtained; and
- increasing supervisory or management review.

Timing and resources

When designing the audit, it is important that time frames and resource requirements are considered pragmatically. This will allow for the engagement to be performed in an economical, efficient, effective, and timely manner. Audits are often considered as a project as they involve planning, organising, securing, managing, leading, and controlling resources to achieve specific goals.

The three main areas of focus should be to:

- Determine realistic time frames the individual tasks need. These must be based on the planned methodology and other relevant factors, including internal audit processes, past audits, stakeholder perspectives, anticipated access to information, and the availability of resources;
- Identify and align a sufficient number of resources (i.e., auditors, supervisors, and stakeholders) with specific tasks to meet expected time frames. This process must take into consideration team competence;
- Determine costs associated with travel, training, equipment, external subject matter experts, and other ancillary costs. Internal staff resources are typically budgeted in terms of working days and tracked through an internal system. (INTOSAI-IDI, 2021[10])

Audit plan

It is important that a formal written audit plan is drafted to guide the audit work and ensure the audit is properly designed. The purpose of the plan is to synthesise and document the design efforts, integrating all design considerations and components. The format and components may vary but should have a design matrix, project schedule and other appropriate documentation of key decisions (i.e., objective, scope, methodology and basis for those decisions). Together, all of these items should include background knowledge of the subject, objective, criteria, scope, time period, risk assessment results, methods for gathering information, plan for conduct of work, cost of audit and other pertinent information. (INTOSAI-IDI, 2021[10])

The IIA Global Standards principle 13 (engaging risk assessment) states to develop an understanding of the activity under review and assess relevant risks, internal auditors should start by understanding the internal audit plan, the discussions that led to its development, and the reason the engagement was included. Engagements included in the internal audit plan may arise from the internal audit function's organisation wide risk assessment or from stakeholder requests. (IIA, 2024[1])

The audit design matrix will be a useful tool to provide an overview. It will provide a structure to link the elements of the design to enable a more systematic process and be used to communicate with internal stakeholders about the audit approach. The main goal of a design matrix will be:

- document and formalise the audit approach;
- present a summary overview of the audit design;
- identify and document the 'why, what, and how' of the work by establishing a clear relationship between the audit's scope, objectives and methodology;
- link the work performed to its expected results; and
- facilitate stakeholder interaction, audit supervision and review.

The project schedule and work structure should create a roadmap for performing the work and answer the question of 'how' the work is being conducted, 'when' the work will be conducted and 'who' will conduct the work. The following is a template of an audit design matrix:

Audit Question(s)	Criteria and Information Required and Source (s)	Scope and Methodology (including data reliability)	Limitations	Expected Results of the Work
Identify key audit questions (questions could be descriptive or evaluative), Ensure questions are specific, objective, neutral, measurable and doable. Broad questions followed by more pointed sub-questions help to clarify the scope and develop more substantive findings. When the audit nears its conclusion, questions may be refined to reflect findings more accurately.	Criteria: identify the criteria or plans to collect documents that will establish the criteria to be used. This may include laws, regulations, policies, best practices or other credible standards for how things should be. Information required and sources: identify the information required to answer the audit questions and the sources of this information, including documents, programme officials, databases, subject matter experts, etc. When the first column contains sub-questions, the precise one-to-one linkage is not strictly necessary. Consider what it will take to answer the question and avoid repetition.	Scope: identify the planned scope of the work associated with the research objective. The scope will define the boundaries or time frame of the work for the objective. Methodology: describe strategies for collecting required information or data, such as document review, data collection instruments, questionnaires, focus groups and case studies. Address the planned scope of each strategy, including time frames, locations and sample sizes. Describe the analytical techniques to be used to analyse the information collected, such as content analysis, case study summaries or regression analysis. Also, describe steps to be taken to assess the reliability of the various data sources.	Identify the limitations associated with the information required, planned methodology or the general ability to answer the audit question. Limitations may include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalise or extrapolate findings to the universe. Briefly discuss how limitations may affect the product and describe steps to be taken to mitigate the associated challenges. If the limitations are severe, they will materially affect the ability to answer the audit question, reword the question and/or alter the scope to minimise that risk.	Describe the expected results of the work by summarising what the audit team will likely be able to say as a result of the work performed. The expected results should answer the audit question in the first column.

Source: U.S. Government Accountability Office (INTOSAI-IDI, 2021[10])

Involvement of stakeholders

Communication with both internal and external stakeholders is essential to properly plan and conduct an audit.

The plan should be developed in collaboration with internal stakeholders. It will be helpful for all audit team members to discuss and agree on an audit plan, design matrix, project schedule and other chosen tools. As the audit progresses it will be important to maintain regular communication and management should aim to execute the audit plan. The tools should facilitate continuous stakeholder and management involvement.

Communication with the auditee should be initiated during the planning stage and continue throughout the engagement. The subject, objective, criteria, questions, and other aspects should be discussed. This will provide a clear picture and how the result may affect the auditee. While there should be a relationship, the auditee will not have any influence over the audit process. It is there to establish a positive and collaborative interaction. (INTOSAI-IDI, 2021[10])

In case the access to a large amount of electronic data is required, it is useful to establish with the auditee the best way to obtain it, e.g., it could be either one-time or cyclical access with temporary authority to access it. The required level of authority to access data should be considered. It allows to minimise communication efforts and minimise the workload of the auditee.

Box 2.3. INTOSAI Guidance on the performance auditing process (GUID 3920)

Communication in the planning phase

During the design phase and throughout the audit process, it is recommended to maintain regular contact with the audited entity and relevant stakeholders. This ensures they are continuously informed about the progress of the audit.

Communication practices can vary. Some Supreme Audit Institutions (SAIs) prefer to provide the audited entity, particularly senior management, with detailed information about the study design. Early involvement can reassure the audited entity and responsible parties about the nature and scope of the audit criteria. Other SAIs choose not to provide detailed information at this stage, preferring to do so after the audit proposal is approved. Regardless, it is generally good practice to inform the audited entity about the assumptions and rationale behind the decision to proceed with the design phase. Preliminary discussions about the design and potential audit scope are crucial.

Conversations with managers and staff at the audited entity are essential to gain a basic understanding of the audit area, its functions, and its conditions. To avoid misunderstandings, the audited entity should be informed about these contacts. Dialogues might lead to a reorientation of the original audit objectives. Additionally, discussions with internal auditors can be valuable, leveraging their experiences.

Source: (INTOSAI, 2019[17])

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3 Conduct

The intention of the conduct phase of a performance audit is to obtain appropriate and sufficient evidence. Using the evidence, the auditor will develop findings to satisfy the audit objective and respective questions. As described, the questions will guide the audit activity. As a result, the information and data collected will directly respond to the audit questions.

The IIA Global Standards principle 14 (conduct engagement work) states that internal auditors implement the engagement work program to achieve the engagement objectives. (IIA, 2024[1])

The auditor should be able to determine the sufficiency and appropriateness of evidence, methods to gather information, processes to analyse information and how to document and safeguard information. Depending on the audit and various methodologies, these activities will likely occur concurrently. In practice, information should be collected, analysed, and evaluated for both sufficiency and appropriateness, at the same time. To further support, it is important to possibly identify components of potential findings while data is being collected. This will support the identification of any shortcomings in the evidence and reinforce the need for additional collection of data.

This exercise of data collection may also provide an opportunity to reconsider decisions taken during the planning phase of the audit. If there are new sources of information discovered or if some of the previous information collected is deemed to be unreliable, there may be a need to modify the scope, questions, criteria, etc. While there is an opportunity for flexibility, any changes should receive necessary approval from management and other relevant stakeholders. (INTOSAI-IDI, 2021[10])

Elements of the current state of the conduct of public auditing in Poland vary depending on the ministry. As seen in the diagnosis report, documentation standards need to be examined and harmonised, ensuring the consistent use of working papers and standard documents and monitoring the audit process. It was noted that there are differences in the methods used to reach audit conclusions. In some cases, documents and records are used to verify compliance with transaction processes and individual activities, while some internal auditors rely solely on the auditee's responses. (OECD, 2023[18])

The conduct phase of a performance audit utilises a variety of methodologies: qualitative and quantitative analysis, surveys, interviews, and case studies. It employs benchmarking, performance indicators, and best practices for evaluation. When compared to a financial or compliance audit, it usually has a broader scope, including operational practices, outcomes, and impacts. It involves the collection of evidence from diverse sources: stakeholder interviews, surveys, process observations, and data analysis (which will likely be both qualitative data and quantitative data. Financial and compliance audits will likely focus on specific sets of data or information, which may be quite narrow.

Sufficient and appropriate evidence

All audit findings must be supported by evidence. The quality and quantity of evidence are therefore quite important. There should be a good practice to continuously evaluate the evidence that is being collected and that has already been collected. Any information collected which supports a topic related to the audit questions becomes audit evidence.

To determine the sufficiency of the evidence, it refers to the quantity. There must be enough evidence to the auditor, to determine that the findings are reasonable. As an example, one interview or documentation may not suffice. Findings which are supported by multiple sources and various types of evidence would then be sufficient.

To appropriateness of evidence is determined by its quality. The evidence should be relevant, valid, and reliable. The source, content, and timing of evidence should be considered when making the determination. It is important that information and data are collected from knowledgeable and reliable sources.

Typically, evidence in performance audits will be persuasive (directing towards a conclusion) as opposed to conclusive (definitively yes or no). Through all activities, professional judgment will be required to determine if there is sufficient and appropriate evidence of findings. There will be various considerations in this process. The strengths and weaknesses of the evidence, including its source and reality, must be noted. Assessing and ensuring the sufficiency and appropriateness of the evidence collected is an integral responsibility of the auditors. (INTOSAI-IDI, 2021[10])

If there is any uncertainty in the evidence, there are various steps which can be taken to mitigate audit risks. These include:

- Independent corroboration of evidence from multiple sources;
- Presenting the findings and conclusions to depict that the supporting evidence is sufficient and appropriate for the purposes intended. Any related limitations or uncertainties with the validity or reliability of the evidence should be disclosed;
- Redefining the questions or scope to eliminate the need to use specific evidence. The auditees must be informed about any significant changes; and
- Determining if any limitations or uncertainties should be reported as a finding (including related internal control deficiencies). For example, a limitation may include incomplete data which does not allow to provide assurance that an internal control is functioning as intended.

As the audit team progresses with information collection, it is important to be sceptical about the information and documentation collected. It is important not to accept things at face value. Professional scepticism is a key component of both independence and professional judgment.

It is important to consider the credibility of the interviewees. This is vital as there may be various interests within an organisation, between managers and staff. It is important that auditors be aware of any possible tensions, in the event the information provided represents other interests as opposed to fact. Even if the information is fact, there may be a lack of context by the provider of information. It is important to have multiple interviews with staff from various parts of the organisation to allow the auditors to gain an understanding and analysis of the organisation.

All the steps will ensure there is a sufficient amount of quality evidence to support the development of strong audit findings. (INTOSAI-IDI, 2021[10])

Box 3.1. Requirements for collecting audit evidence in Korea's Public Audit Standards

Korea's Public Audit Standards specify the principles of collecting audit evidence.

- The auditor must collect audit evidence that can objectively support the auditor's judgment on the subject matter of the audit according to the following principles, to avoid additional audits or legal disputes.
- Relevance: The audit evidence must contribute to the audit purpose.
- Reliability: The audit evidence must be obtained from a trustworthy source.
- Sufficiency: The necessary and sufficient amount of audit evidence corresponding to the importance of the audit must be collected.
- If the auditor fears the destruction of evidence, they must immediately secure the audit evidence by verification methods and collect audit evidence that matches the verification purpose and timing.
- The auditor should consider the cost of evidence collection, such as the evidential ability of the audit evidence and the burden of the audited institution to collect evidence.
- The auditor must specify the source and basis for the collected evidence and verify its evidential ability.

Source: Korean Law Information Centre (Public Audit Standards, Board of Audit and Inspection Rule No. 137). (Republic of Korea, 1999[19])

Gathering of information

Gathering information will involve a close relationship with the auditee and any other related stakeholders. This includes being in regular communication with the auditee at all stages of the audit. This will be helpful in identifying additional sources of evidence and obtaining various perspectives to inform the development of findings. The auditee should be aware of how the auditors will collect the data and information, for them to collaborate and support. This regular communication can involve the auditors sharing preliminary findings, notable topics and other perspectives which may be developed through the audit. During the conduct of the work, if there are topics which require immediate action (i.e., fraud or significant internal control deficiencies), it is important that management is informed as soon as possible.

There are various ways in which auditors can collect information. The four common methods are interviews, document collection, direct observation/inspection, and surveys. Depending on the audit questions and how the evidence is used, the suggested method will vary. It is often useful to utilise as many types of evidence as possible to support findings and conclusions. As considered in all steps of a performance audit, it is important when collecting information to consider insights related to the economy, efficiency, and effectiveness of the auditee. (INTOSAI-IDI, 2021[10])

Interviews:

Interviews are one of the most important methods for gathering evidence in performance audits. They will generally be the primary avenue of testimonial evidence. Generally, interviews are a question-and-answer session with the intention to attain specific information or data. They also provide an opportunity to gain knowledge about potential sources of documentary evidence. Furthermore, the interview skills of an auditor will impact the quantity and quality of evidence that is collected. A successful interview can provide perspectives of the interviewee, documents/data provided by the interviewee and referrals to other individuals with relevant information.

There are various types of interviews. Two of the general types include:

- Unstructured: it should be designed to encourage a discussion of the interviewee's observations and knowledge about specific topics. The questions are not prescribed and the fashion in which they are asked will change.
- Structured: it should be designed for an auditor to ask a set of questions in a specific order. This approach is particularly useful if there is a desire to quantify answers or responses.

For interviews to be effective, they must be planned well, conducted with precision and skill, and accurately documented. It is important to consider stakeholders outside of the organisation as well – if applicable. The three phases of the interview include planning, conducting and documenting. It is important to interview personnel from various positions, perspectives and insights. Moreover, when possible, the information obtained should be corroborated with documentation and/or another form of evidence. This will minimise any audit risk. (INTOSAI-IDI, 2021[10])

Interviews could be used to determine what kind of data would be the most useful for the purpose of audit engagement.

Document Collection:

Document collection will be typical in any audit to support findings and conclusions. It is more reliable than testimonial evidence. With that stated it must be determined how much documentation can be used as evidence, depending on its authenticity and integrity.

As will be the case of most audits, the auditee will be the primary data source. Possible examples include:

- Policies, guidance and any related organisational charts;
- Payment information, contracts, invoices and budgetary data;
- Quantitative data relating to the performance of the topic of the audit being audited;
- Studies and/or research pertaining to the audit topic.

Collecting and reviewing information early in the audit will support in preparing to effectively conduct interviews, surveys, and other data collection through the progression of the audit. The auditors must always assess if the information collected is appropriate, relevant, valid, and reliable. It is important to understand how the information and data were developed. As a tool, it would be helpful to maintain a record and control all documents collected during the audit. This will support in keeping track of the documents requested and what the auditee provided. If there is any issue attaining documents from the auditee, it will be important that management is notified and that these issues can be resolved in accordance with organisational policies as needed. (INTOSAI-IDI, 2021[10])

Direct Observation / Inspection:

As part of performance audits, it can be useful to observe people, activities, procedures, property, assets, and other events, in person, related to the audit. This type of evidence is referred to as physical evidence. It is often considered to be one of the strongest forms of evidence. This method will be interesting audit questions pertaining to the condition of property, accounting for inventory and/or whether an operation is being conducted as intended.

There are general steps to be taken to ensure all information collected from observations and/or inspections are relevant, valid, and reliable:

- Determine the items which will be observed;
- Determine the conditions that should exist;
- Determine the evidence that will be collected and how;
- Document the results.

Scheduling any sort of site visit will entail planning, coordination, and an understanding by the auditee of how the visit will be organised. This will ensure that a significant amount of evidence can be collected in a short period. (INTOSAI-IDI, 2021[10])

Surveys:

Surveys can be useful when collecting information to be used as evidence. It is a systematic way to collect information or data from a population that provides self-reported information about existing conditions and/or programmes. They can be administered by mail, email, or a web survey tool. As well, they could also be completed via interviews, face to face or a telephone survey. It is a method to be used when trying to gather specific information from a comprehensive group of people.

There are several important steps that should be taken when conducting a survey. They are as follows:

- Identify the survey population;
- Select a method for administering the survey;
- Analyse the survey responses;
- Document the survey results.

It is known that conducting a survey can require further expertise. This expertise can be sought out by seeking assistance from a methodological expert (internal or external) and/or other related individuals with experience conducting surveys. (INTOSAI-IDI, 2021[10])

Surveys are crucial in performance audits because they collect comprehensive data from a wide range of stakeholders, providing both quantitative and qualitative insights that enrich the audit process. They help measure efficiency and effectiveness by gathering direct feedback on performance indicators and benchmarking against best practices. Surveys identify specific issues and opportunities for improvement that might not be evident from other data sources, enhancing stakeholder engagement and buy-in by ensuring their voices are heard. This engagement fosters transparency and trust, leading to more honest responses.

Analysis of information

The information collected will have to be analysed to understand and explain what was found to produce evidence. The purpose of the analysis to use the information would be to assess the economy, efficiency, and effectiveness to answer any audit questions.

As discussed, analysis and collection of information should be conducted concurrently. Continuous analysis of the information throughout the audit will ensure the appropriate information is being collected to answer audit questions. This analysis would typically be evidence from interviews, direct observation/inspection, data sets, documentation, and surveys. (INTOSAI-IDI, 2021[10])

Qualitative Method:

As part of qualitative analysis, there are various methods to structure, compare, compile, and describe information to support reasoning and arguments related to evidence. The audit questions can provide structure on how to analyse the qualitative information collected to identify evidence. There are various types of analysis that can be completed.

Analysing documents will vary based on the objective, questions, and other available information. There will be a significant difference if there is only one document to analyse versus if there are multiple documents to analyse. When there is only one document to analyse, information can be extracted directly from it. When there are multiple documents, there may be the need for more careful planning and methodologies to analyse them.

Analysing interviews will typically be comprised of a large volume of evidence. An approach must be taken on how to identify common themes or topics. By grouping all the responses into respective topics, it would be effective to have a horizontal analysis of each of the interviewees. It may be useful to develop a summary document from the interviews specifically attributed to each topic. This would support the evaluation and understanding of the topic. Understanding that each interviewee has a different perspective based on their role, the auditor must thoroughly analyse all the information to maintain an objective analysis. (INTOSAI-IDI, 2021[10])

When surveys are used to obtain qualitative information, it is important that the questions are appropriately worded and ensure the respondents can respond to meet the survey's objectives. The auditors must be able to compile and analyse multiple responses to form an appropriate conclusion. In this scenario, sub-questions are often useful to provide direction to the respondent and provide a narrower scope. The same concept applies when attaining information via observation or via direct observation/inspection. While the information may be more subjective compared to quantitative methods, it is important that information is collected consistently, allowing multiple auditors to arrive at the same conclusion. This can be supported by ensuring the individuals participating in the observation have a clear and consistent objective of the expectations and criteria.

Quantitative Method:

As part of quantitative analysis, it can range from simple to complex activities. Performance auditing can be supported by uncovering patterns or trends in the data and identifying areas that require attention or improvement.

Statistical analysis is the science of identifying any trends or patterns within data. It may range from descriptive statistics to complex analysis. Often the analysis would require sophisticated techniques and software.

Descriptive statistics are commonly used in performance audits. This supports the understanding, summarisation, and description of distributions of data. This includes concepts such as calculating the mean, median, mode, range, variance, standard deviation, percentage, and index. Often, these concepts are combined to provide a full perspective of the data set. This ensures there is no single misleading concept.

Regression analysis is a technique used to assess the degree to which variables are correlated with one another. It can be useful in performance auditing if the auditor is attempting to test a relationship, identify relationships amongst variables, identify unusual cases and/or make predictions about values.

Trend analysis should be used when looking for patterns or changes in the quantitative data. It collects data from various time periods, typically plotting it onto a graph. This will provide a picture to show if the data has evolved over time and then determine what were the factors that led to the change. It is often used to observe changes in budgets, costs, and programme performance. It could also support examining the change in environment (i.e., new law, programme, or resource) on a particular variable. (INTOSAI-IDI, 2021[10])

When distributing surveys with the intention of collecting conclusive data or statistics, qualitative methods will be used to decipher and compile results. For example, when conducting a horizontal audit of procurement involving contracts, survey results may be used to determine if a sample of contracts meets certain requirements and regulations. The same may apply when information is gathered via direct observation or inspection. If these contracts require in person review, in the case of confirming receipt of goods, there is quantitative information which is recorded by the auditors and then later analysed. While there is an array of possibilities of how this can be conducted, it is important that the IAF is aware of and finds the most suitable method to ensure its tests are appropriately conducted.

> **Box 3.2. Analytical approaches used in the UK NAO's audit report**
>
> The UK National Audit Office's audit report on "Tackling fraud and corruption against government" provides an example of how auditors apply quantitative and qualitative analysis to produce audit findings and insights. This report outlines the latest trends observed in audits and reports, evaluates how prepared the government is to understand and address fraud and corruption, and offers insights on further measures the government can take to enhance fraud and corruption prevention.
>
> Some examples of analytical approaches used in this audit include the following.
>
> - Interviews with government officials - used to 1) explore the systemic challenges to embedding best practice counter-fraud and corruption arrangements across government and 2) triangulate evidence from other sources.
> - Data Analytics - used to synthesise estimated levels of fraud and corruption across government by collecting data from multiple government authorities.
>
> Source: (The UK National Audit Office, 2023[20])

Document and safeguard information

As the information is collected and analysed, it will be important to document and safeguard it. There should be a system which cross-references links between the documentation obtained during the audit. A proper system should provide the auditors with easy accessibility and allow supervisors to review the work throughout the audit. It will also support any internal and external quality assurance which is completed during the audit.

It is important all these steps are conducted as the audit progresses. The documented process should allow for an experienced auditor (not working on the engagement) to understand the nature, timing, scope, and results of the audit work completed to date. They should also be able to understand and follow the audit evidence obtained to support audit findings, conclusions, and recommendations. All factors which require professional judgment should also be documented.

The protection of personal or sensitive information must be adequately safeguarded. As soon as there is an indication that this type of information is being collected, the auditee should be contacted and there should be a discussion on how this type of information can be reported on (if at all). Information which is personal or considered to be classified should be noted and relevant regulations should be observed. Ultimately it may require the publication of a separate, classified, or limited-use report, which can be read and reviewed by those who are authorised by legislation or regulation. (INTOSAI-IDI, 2021[10])

4 Development of findings, conclusions and recommendations

The objective when developing auditing findings is the comparison between the audit criteria and condition to determine cause and effect (when relevant), asses the evidence, ensure findings are based on appropriate/sufficient evidence and develop conclusions (and/or recommendations when applicable). This activity should be completed while evidence is being collected or following its collection. It may be useful to identify potential findings during the conduct of audit work. This will support in the event there are any shortcomings in the evidence, which may require further audit work.

The IIA Global Standards principle 15 (communicate engagement results and monitor action plans) states that internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans. (IIA, 2024[1])

In the development of audit findings, performance audits differ from other types of audits by focusing on analysing and interpreting a broad range of data to assess the economy, efficiency, and effectiveness of operations. Performance audits use qualitative and quantitative data, stakeholder feedback, and benchmarking against best practices to identify strengths, weaknesses, and opportunities for improvement. This comprehensive approach contrasts with financial audits, which primarily verify the accuracy of financial statements, and compliance audits, which focus on adherence to regulations. Performance audits aim to provide actionable recommendations for enhancing operational performance.

Audit findings

Following the collection and analysis of evidence, the next step will be to develop audit findings. In simplified terms, an audit finding is 'what is' relative to 'what should be'. An ongoing process throughout the audit involves analysing and assessing the evidence in how it relates to the audit questions. Audits may address different related issues based on theme, where the full context of each issue or obstacle may be presented as one finding. If that is the scenario, an audit finding can be described as containing one of the four elements:

- Criteria: what should be?
- Condition: what is?
- Cause: why is there a deviation from the criteria?
- Effect: what are the consequences?

Depending on how findings may be linked to one another, their context may be presented in the report, as opposed to individual findings. In that scenario, the report would then cover the four elements listed above. The elements must be considered during the audit. They may provide the framework for the quantity of evidence that should be collected and how it would be analysed.

Audit findings must be composed with a clear and logical framework that should allow all management and relevant stakeholders to comprehend the audit criteria applied. This will also include the conditions and analysis of the nature, significance and causes of the situation found. It is important to remember to consider the findings in the context of economy, efficiency, and effectiveness.

An important part of a sound audit report is that both positive and negative points are included. Findings must be placed in the proper context therefore it is understood that there will be activities or programmes which are operating well. An objective assessment should incorporate this and not focus only on shortcomings or issues.

Materiality must be considered, and professional judgment should be reiterated. (INTOSAI-IDI, 2021[10])

Whenever it is possible internal auditor should calculate losses or benefits related to the deviations from evaluation criteria.

Criteria to condition, cause and effect

The key components of the audit findings are the criteria and the conditions. To develop the findings, the following should be completed:

- Review the entirety of information attained during the audit;
- Determine the items that are most important to answering the audit questions;
- Conclude how the items logically relate to one another.

The assessment of evidence process includes combining all the various data sources of information (e.g., interviews, analysis of data records, surveys, field studies, etc.). The assessment of the evidence allows for a comparison of the criteria to the factual situation or condition.

It is important to note that if a deviation exists between the criteria and condition, then an audit finding may lead to a recommendation, which will be drafted. If the evidence assessment shows that the auditee is not meeting the criteria, it would identify an area where an improvement is needed. It is important to analyse and confirm the cause which may then confirm the area needing improvement. Moreover, the criteria may be the base of what would be pragmatically expected, considering the relevant context. Often the lack of information about the audit objective or question may be a finding in itself. The auditee may need to collect information to support a specific area, function, or activity.

If there is no discrepancy between the condition and criteria and the auditee is meeting or exceeding the criteria, then they may identify a positive finding. The findings should be included in the report.

There should be sufficient and appropriate evidence to determine cause and effect. The cause should be the factor(s) responsible for the variation between the condition and criteria. It may also be the basis for recommendations for corrective actions. Some typical factors may be inadequate policies or procedures, as well as inconsistent, incomplete, or incorrect implementation; or factors beyond the control of programme management. It must be emphasised that establishing cause and effect does not imply causation.

When identifying the cause, it may require that a link be developed. This will demand that the auditor continues to analyse until it can identify the specific items which most need improvement. If the cause is not reasonable, further discussion with the auditee may be required.

The effect can be devised by comparing the current condition to an ideal condition; if the criteria had been met. There may be positive or negative effects. Both types will have an impact on their ability to achieve or not achieve a specific economy, efficiency, and effective outcome. (INTOSAI-IDI, 2021[10])

Develop conclusions and recommendations

The purpose of a conclusion is to support a convincing argument that action should be taken to address a deficiency and/or take advantage of an opportunity for improvement. This will set the stage for possible recommendations. The conclusion should provide the opinion based on the evidence, while clarifying any specific findings and include more details than the findings that will be in the final audit report.

Standards state that recommendations should be developed in the reporting phase of the audit. (INTOSAI-IDI, 2021[10]) With that stated, it is good practice to understand the connection between the findings, conclusions, and recommendations. If needed, recommendations should be developed to correct deficiencies. Recommendations should be specific, measurable, attributable, relevant and time bound. They should address the causes of the deficiencies and support in improving the auditee's programmes, operations, and performance. (INTOSAI-IDI, 2021[10])

Recommendations should be aimed at eliminating or reducing the deviation between the evidence and audit criteria. They should:

- Target the causes of weaknesses or problems;
- Be pragmatic and add value;
- Be structured and flow logically from findings/conclusions;
- Be phrased appropriately;
- Be addressed to the responsible auditees with clearly stated recommended actions.

And if possible, they should consider:

- The prioritisation of recommendations;
- Resources required to complete the recommendations;
- If the expected benefit of the recommendation is worth the cost to implement it;
- If the recommendation requires follow-up, how it will be completed.

Draft report preparation

Following the development of findings, conclusions, and recommendations, as needed, there should be discussions to determine the key messages and themes that should be emphasised. This may include a meeting with auditee to agree on audit findings.

Prior to entering the reporting phase of the audit, it is vital that the auditors communicate the audit findings to the respective auditee. This will include their perspective and they should note if the auditee has had any notable changes since the beginning of the audit. The meeting with the auditee will support the audit by:

- Determine if conclusions appear to be valid;
- Request any further evidence, if needed;
- Identify potential factual errors in the audit findings;
- Include additional material to the audit findings to include the auditee's input, if needed;
- Refine the wording of the recommendation, if needed.

While it is useful to include the auditee prior to the preparation of the report, it is important that independence and professional scepticism are maintained. Discussions with the auditee may require changes to the draft audit report. It is integral that any changes are supported by sufficient evidence. (INTOSAI-IDI, 2021[10])
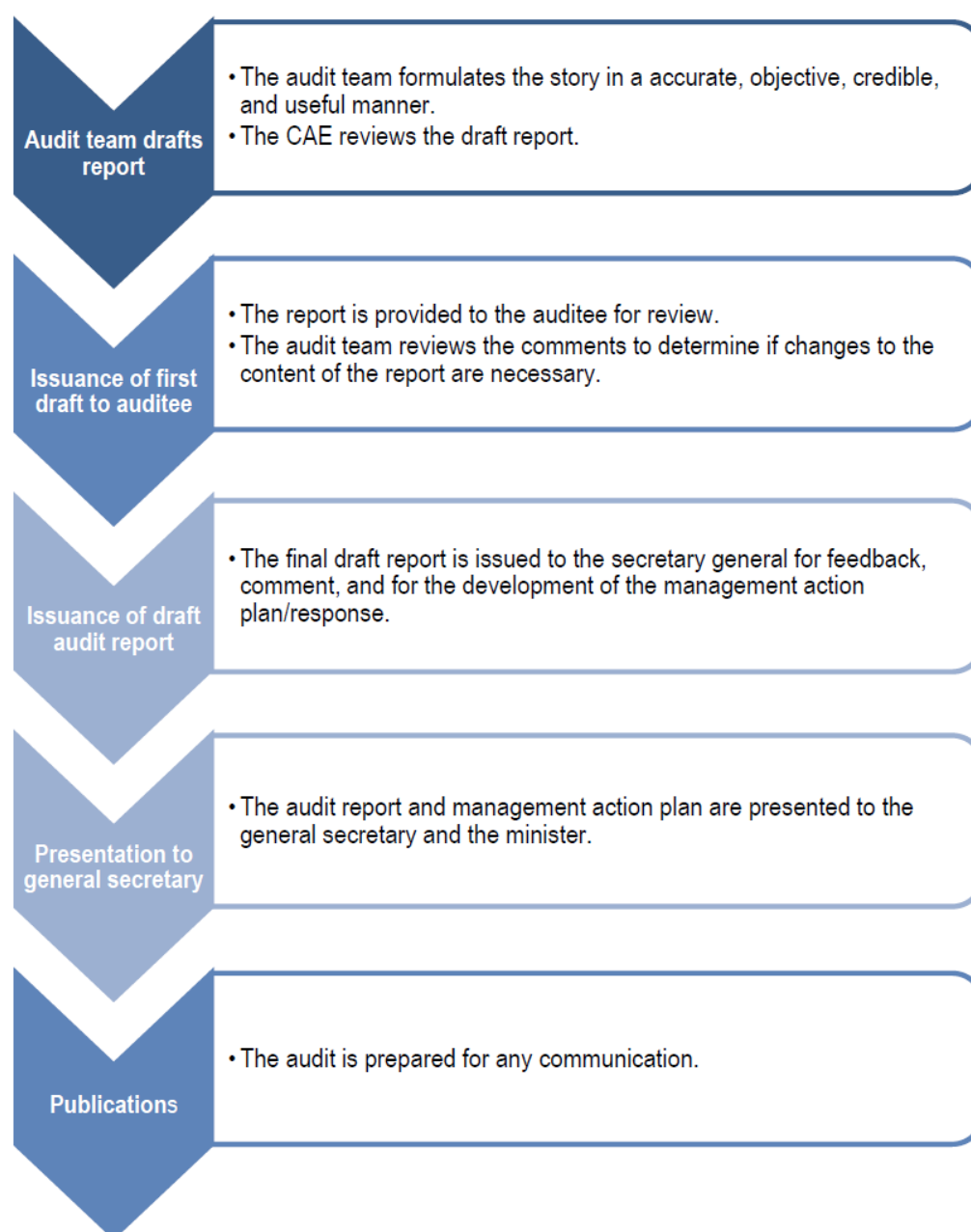
5 Reporting

The goal of a performance audit report is to describe and communicate the results of the audit to the appropriate authority and the auditee. The report should objectively describe the findings and conclusions of the audit questions. When applicable, it will also include achievable recommendations. The report should be written with understandable and clear language allowing the reader to understand the activities conducted to perform the audit, the reason it was completed, and the associated methodology.

Each IAF will have a different process for who is involved in the drafting of the audit. Some units may have dedicated auditors to draft while others may have a single person. With the variation in the process, it is important that there is a clear report structure that shows where each finding will be placed, ensuring the process will have minimal errors and be smooth.

As there are often multiple individuals involved in the preparation of the report, there must be a sufficient level of consistency to ensure the report maintains a similar tone and style. As a good practice, the IAF should designate an individual (i.e., team leader or manager) to ensure the report has a consistent tone and style. While the report will go through various levels of review and approval, assigning one or multiple dedicated individuals for this task will ensure the report is clear for its users. The depth of the review will be at the discretion of the IAF. The review for tone and style may also be a component of the quality control process (discussed later in this chapter).

In the audit reporting phase, performance audits differ significantly from financial and compliance audits by focusing on providing a detailed analysis of the internal control system and the economy, efficiency, and effectiveness of operations, along with actionable recommendations for improvement. Performance audit reports often include case studies, stakeholder feedback, and benchmarking results, offering a comprehensive view of operational performance. In contrast, financial audit reports primarily present an opinion on the accuracy of financial statements, and compliance audit reports focus on adherence to specific laws and regulations. (INTOSAI-IDI, 2021[10])

The following is an example of the key activities of the reporting phase from the government of Canada.

Figure 5.1. Key activities of reporting phase

Audit team drafts report
- The audit team formulates the story in a accurate, objective, credible, and useful manner.
- The CAE reviews the draft report.

Issuance of first draft to auditee
- The report is provided to the auditee for review.
- The audit team reviews the comments to determine if changes to the content of the report are necessary.

Issuance of draft audit report
- The final draft report is issued to the secretary general for feedback, comment, and for the development of the management action plan/response.

Presentation to general secretary
- The audit report and management action plan are presented to the general secretary and the minister.

Publications
- The audit is prepared for any communication.

Note: CAE: Chief Audit Executive, who is typically the head of the Internal Audit function and should report to the head of organisation or ministry.
Source: (Adapted from Government of Canada (2016), Audit Manual, Human Resources and Development Canada, Government of Canada.) (OECD, 2018[21])

Main attributes

When creating a performance audit report, there are five main attributes which should be included. While each IAF may take a different approach in structure, these attributes should be present. (INTOSAI-IDI, 2021[10])

Attribute	Description
Comprehensive	• It is important to ensure that all information needed to address the audit objective and audit questions are placed in the report. With that stated, the report should also include details for the reader to sufficiently comprehend the subject matter, audit findings and any related conclusions. It is necessary that the report has appropriate evidence to support the audit's objective findings, conclusions, and recommendations.
Convincing	• The user of the audit report should be convinced by the argument directed towards the conclusions and recommendations. The report should be well structured and display a clear link between the objective, questions, criteria, findings, conclusions, and recommendations. The findings should be presented well, address the various arguments and be accurate.
Timely	• The report should be issued in a timely manner. This will ensure that the information is useful to all relevant stakeholders involved. Without a timely issuance of the report the findings may lose their relevance as time goes on.
Reader-Friendly	• The report should be written in a language that is simple, clear and in a fashion that is understood by all respective stakeholders. It is important that the tone of the report is professional and neutral. • For a report to be reader-friendly, the intended audience of the report must be clear. Having reviewers of the report who are external to the audit team can provide an assessment as to whether the report can be understood. • The use of graphics and visuals throughout the report may also improve the reader-friendly aspect of it. These ways of presenting information can support the reader in understanding complex concepts and making links between ideas.
Balanced	• A balanced report requires that it be impartial in content and tone. The audit evidence should be presented in an unbiased manner (including both, positive and negative findings). There is often a tendency for reports to focus on issues, which lead to recommendations for improvement. While it is important to understand the depth of the issues, it is important that the full context of the audit activity is provided. Therefore, both positive aspects and areas of improvement should be noted.

Report structure

Considering the five main attributes, the report structure used to formally communicate the audit findings, conclusions, and recommendations to the users may vary. While there are numerous formats that can be used for a report, it is important that a report outline is developed by the IAF. An efficient report structure will ensure the user is engaged, issues are clearly communicated, and results are appropriately interpreted. The structure of the report must consider who the intended audience is and the key points they must be aware of, which were discovered during the audit. While the report format may change depending on the topic, having a consistent structure will allow the various entities within an organisation to become familiar with the process and management expectations. This would allow standardised sections to be required while still allowing the IAF a level of flexibility. Possible outline of an audit report may include:

Section	Description
Title	• A sufficient title appropriately communicates the message. The title may include the auditee or possibly a preview of the recommendations.
Table of Contents	• The style of the table of contents will vary depending on the structure. Some reports may include headings which include one sentence summaries of the audit findings.
Executive Summary	• The executive summary is a chapter designed to provide a concise synopsis of the primary points and key messages of the report. It is common that users will only read this section of the report. Therefore, it is integral that this section is clearly written and summarises the most important aspects of the report. There are IAFs which do not include an executive summary. Rather some functions include a one-page summary. It is important that there is some sort of summary present in the report.
Introduction	• This section should provide context for the audit, providing a better understanding of the audit to the user. This section should be brief and appropriately describe the responsibilities of the various auditees.
Audit Objectives and Questions	• The audit objective and questions should be described. This will allow the users to understand the purpose, nature and extent of the work which was performed. It may also include any notable limitations.

Section	Description
Audit Scope and Methodology	• There are various users of an audit report, and they will all have different needs. The scope will allow them to be aware of what to expect from the report, how to use the findings/conclusions and the degree of trust that can be placed in them. The scope should include the time period, geographical area, the subject and any other relevant limitations. • The methodology used in the report to address the objective must be described. This will include the approach, sources of data, gathering methods of information, limitations in data use, etc. If required provide more details in an appendix, allowing the user to have access to that information.
Audit Criteria and Sources	• When stating the audit criteria, it should be stated how they were developed and the sources that were used. The criteria are present to provide the user with the standard against which the performance will be judged. This will provide the user have an idea of how much weight to give to the evidence and conclusions in the report.
Audit Findings	• The report should be drafted in a way which allows the user to understand how the audit findings relate to the audit criteria and evidence gathered. It is common practice for a report to organise the findings to the audit questions. A question may become a chapter of the report, containing the relevant findings. Ultimately the user must understand the condition, criteria, cause, and effect of the findings.
Conclusions	• It is common practice for reports to include a conclusion that summarises the findings and information presented in the report. It is up to the author to determine the format in which that will be completed.
Recommendations	• Reports will often contain recommendations to the auditees. The wording of the recommendations should be balanced. They should not be too ambiguous but also not influence the responsibility of management.

Quality control of audit's work

Quality control procedures must be integrated into the typical process of a performance audit. This will encourage consistency and minimise the risk of error. This includes properly sourcing and ensuring there is an audit trail that demonstrates the source of all numbers, facts and judgements that will appear in the published report prior to publication. All parts of the report and related working papers should be referenced to an original source. This can include interviews, policies, guidance documents, process maps, etc.

As a good international practice - from the reporting aspect, all draft reports should be reviewed internally, if possible. While each IAF will have their process, there are several stakeholders which could participate in the review. This includes colleagues working in the communication division, other auditors independent of the core audit team and possibly an external expert. These reviews should provide the IAF that the report is fair and balanced. This would signify that the report is supported by objective evidence, provides substantiation that both positive/negative evidence was considered and that the evidence is presented in an unbiased manner. All stakeholders who review the report should have the required competencies to make an independent professional judgement. All types of relevant reviews should be formally documented and included in the audit file. (INTOSAI-IDI, 2021[10])

The following is an example of a quality control role in the Office of Audits in the United States Department of State.

> **Box 5.1. An example of a dedicated quality control role in the Office of Audits of the US Department of State**
>
> The Office of Audits (AUD) supports the Department of State (Department) and the U.S. Agency for Global Media (USAGM) in their efforts to improve management; strengthen integrity and accountability; and ensure the most efficient, effective, and economical use of resources.
>
> With its four audit divisions, AUD has a dedicated quality control division. The Audit Operations, Quality, and Compliance Division (AOQC) conducts quality control reviews of audits, performs workforce planning and analysis for AUD, performs contracting officer's representative duties, develops and manages budget information in coordination with OIG's budget office, recruits and hires qualified employees, and manages the continuing professional education requirements for AUD employees.
>
> Besides its operational support roles, AOQC provides 4 key functions for audit quality management.
>
> - Editing services for all published and official AUD documents and provides a full range of administrative support.
> - Compliance follow-up on AUD recommendations and periodic reporting of corrective actions.
> - Statistical sampling and technical methodology support for AUD teams
> - Reviews draft reports for statistical and methodological soundness, clarity, and recommendation consistency.
>
> Source: Office of Inspector General of United States Department of State) (OIG, 2024[22])

Auditee comments

The findings of the audit should be discussed with the auditees before it is finalised. This includes attaining their perspective and making any changes (if appropriate). Providing a draft of the report to the auditees should provide the auditor with feedback on the report's factual accuracy, interpretation of facts and any implications of recommendations. While in the previous phase of conduct, the findings should have already been discussed with the auditees, it will provide them another opportunity to respond, after they have seen the findings in a new report format. This review by the auditees should be formally documented within the audit file and any changes, comments and amendments should be included – with explanation. (INTOSAI-IDI, 2021[10])

Communicate results

The IIA Global Standards principle 15.1 (final engagement communication) requires that internal auditors must develop a final communication that includes the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions. They must also include the findings and their significance and prioritization, an explanation of scope limitations and a conclusion regarding the effectiveness of the governance, risk management, and control processes of the activity reviewed. (IIA, 2024[1])

The practices related to the publication and communication of the audit report will vary. It is important to be aware that the distribution of the audit report will promote the overall credibility of the IAF. (INTOSAI-IDI, 2021[10])

Box 5.2. Examples of internal audit reports from various ministries within the Government of Canada

Agriculture Canada

- Audit of Information Management - (2023-2024)
  - https://agriculture.canada.ca/en/department/transparency/audits-evaluations/audit-information-management (Agriculture Canada, 2023[12])

Environment and Climate Change Canada

- Audit of ECCC risk management practices - (2023-2024)
  - https://www.canada.ca/en/environment-climate-change/corporate/transparency/priorities-management/internal-audits/risk-management-practices.html (ECCC Canada, 2023[13])

Global Affairs Canada

- Audit of Internal Control over Financial Management - (2022)
  - https://www.international.gc.ca/transparency-transparence/audit-evaluation-verification/2022/2022-06-icfm.aspx?lang=eng (GAC Canada, 2022[14])

Royal Canada Mounted Police

- Audit of National Standards - (2021)
  - https://www.rcmp-grc.gc.ca/en/audit-national-standards (RCMP Canada, 2021[15])

Department of Finance Canada

- Audit of Safeguarding of Sensitive Information - (2018)
  - https://www.canada.ca/en/department-finance/corporate/transparency/audits-evaluations/2019/audit-safeguarding-sensitive-information.html (Finance Canada, 2018[16])

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6 Follow-up

Follow-up in this context refers to the evaluation of the corrective activities taken by auditees directly related to the findings and/or recommendations of the respective audit. It is typically the last phase of an audit process and should commence after an appropriate amount of time is given for findings to be addressed and recommendations to be implemented. Often recommendations will have a determined time frame, agreed upon by management, of when they will be completed.

The IIA Global Standards principle 15.2 (confirming the implementation of recommendations or action plans) requires that internal auditors must confirm that management has implemented internal auditors' recommendations or management's action plans following an established methodology. (IIA, 2024[1])

The follow-up process provides the opportunity for the IAF to monitor if the issues were addressed, determine if the root cause was remedied, and the recommendations effectively implemented. Even if the recommendation itself is not directly completed but other actions were taken to address its intent, then it will be addressed. There may also be scenarios where the context has changed, and the report recommendations would be obsolete.

As part of the whole audit process, it is important that a positive relationship is maintained with the auditee. This will inherently increase the probability that the recommendation is implemented. The evidence should display that the recommendation will have significant benefits to the auditee and other related stakeholders. It will also be important to emphasise any positive effects they had. Each recommendation will have a different period of time of what it determines to be reasonable for its respective implementation. (INTOSAI-IDI, 2021[10])

The follow-up will be completed for several purposes. Some of them may include (INTOSAI-IDI, 2021[10]):

- Noting the extent to which auditees implemented changes regarding the respective findings and recommendations.
- Determining any impacts which occurred as a result of the audit. Examples may be possible cost efficiencies or qualitative improvements.
- Recognising possible areas that could be useful to examine in future audits. It may provide information on another topic which could benefit from an audit.
- Assess the performance of the IAF. While acting as a quality assurance tool, it will help the IAF contribute to its own knowledge and practices.
- Deliver feedback to the head of the entity on any possible impacts that were a result of the audit.

In the audit follow-up phase, when internal auditors conduct a performance audit, the focus remains on evaluating the implementation and impact of the recommendations provided in the audit report. Internal performance audits emphasise continuous improvement and operational efficiency, involving ongoing communication with management to track progress and address any challenges in implementing changes. This contrasts with financial audits, where follow-up may primarily verify the correction of accounting errors, and compliance audits, which focus on ensuring that specific regulatory issues have been resolved. Internal performance audits aim to ensure sustainable improvements and enhanced organisational performance.

How to conduct

It is necessary for all IAFs to develop a process to formally conduct a follow-up on the findings and recommendations of audits. It is important to emphasise that all audit documentation including relevant work papers and sources, play an important role in this process. This is because the auditors who conduct a follow-up may not be the ones who were part of the original audit. The follow-up should be conducted using the same standards and methods used by the team in the audit. There are various methods that could be used to conduct the follow-up. (INTOSAI-IDI, 2021[10]) Some of them include:

- Participate in meetings with the auditee after a period to determine actions which have taken place with regard to the findings and recommendations.
- Formally request that the auditee provide information on the actions it has taken to address findings and recommendations.
- Conduct any necessary in person visits to collect information on the respective actions completed by the auditee.
- Include other assurance teams from the IAF (i.e., financial or compliance) to provide a response to the information collected in the follow-up process. This will allow for enhanced analysis of the information and documents received.
- Conduct further performance audits, if deemed to be necessary.

The framework used to document evidence in the audit should be used in the follow-up as well. It is important that there is a similar structure in how to assess the evidence and then ultimately determine the findings addressed and recommendations implemented. Using a similar framework when developing audit working papers. (INTOSAI-IDI, 2021[10])

An important step of this process will be to determine whether the auditee has met the requirements for a recommendation to be fulfilled. To support this activity there should be a system to specify to which degree a recommendation has been implemented. Possible examples include:

Rating	Description
Fully Implemented	• Auditee took actions that address the intent of the recommendation, including other possible actions not recommended by the audit.
Partially Implemented	• Auditee took partial actions but has not yet fully implemented the recommendation.
Not Implemented	• Auditee has not taken action to implement the recommendation, even after sufficient time has passed.
Obsolete	• Recommendation has been weakened by events or circumstances and is no longer valid.
Unable to Verify	• Status of the implementation of the recommendation could not be determined for various reasons.

Impact of audit

Depending on the type of audit and the activities of the IAF, follow-up is typically completed whenever deemed appropriate. The IAF must have the capacity to complete the required follow-up. The potential of conducting a follow-up may be considered during the original audit, especially when completing the findings and recommendations. Upon completion of the audit, the team should have discussions with the auditee's management to describe any required procedures for a follow-up. This will be necessary as the auditee should provide a timeline of when they expect the recommendations to be completed. This may be part of an action plan but that will be the decision of the auditee and require the agreement of all relevant stakeholders of the audit.

The timing of the follow-up will vary depending on each IAF. Some groups may choose to complete an exercise annually while others will include it strategically in their audit plan. Other IAFs may require a more efficient follow-up process for the auditee to provide information on how the recommendations were

implemented. It is important that all processes and procedures used are consistent and understood by the IAF and the auditee. (INTOSAI-IDI, 2021[10])

Results of follow-up

It is the decision of the IAF to report the results of follow-ups individually or collectively. There are benefits to both methods. Compiling the results together may allow for a holistic analysis of common trends and themes. In other instances, it would be beneficial to report the results individually. For example, when conducting an audit of a large capital project with high material value, there may be significant recommendations with a large impact.

By reporting it individually, it should receive greater exposure and attention from senior management. Furthermore, it will demonstrate to the other entities in the organisation that the IAF will conduct follow-ups to ensure its recommendations have been implemented. This will support credibility and instil confidence in the IAF. The individual follow-up report, which will inherently contain greater detail, will also allow the auditors to self-assess their methodology and practices when conducting engagements.

When reporting follow-ups collectively, this should involve compiling a report which would encompass information relating to the recommendations from more than one audit. The report will briefly describe how each of the recommendations have been implemented. If there are recommendations which are deemed obsolete, there should be justification as to why it is no longer relevant. This collective follow-up would provide management an opportunity to holistically analyse implemented and outstanding recommendations.

To allow for consistency, there should be a structure used for all follow-ups. Typically, it can include a variety of sections. Some of them include but are not limited to an introduction, overview, methodology, audit findings, response from the auditee, added value impact and a conclusion. The following is an example of the structure of a follow-up internal audit report, conducted within the Government of Canada:

Box 6.1. Department of National Defence: Follow up on internal audit of the joint support ship (summarised)

1. Introduction
   - This section introduced the operations and stakeholders which were part of the original audit completed seven years prior. It discussed the funding and the strategic necessity of joint support ships. Further paragraphs discussed the most significant opportunities for improvement in the original audit, including the formal recommendations.

2. Objective
   - This section describes the objective, which was to assess the level of progress made against implementing the management action plan from the original audit completed.

3. Scope and Methodology
   - This section discussed the approach of the audit. It described that it would only address the recommendations which were not yet deemed to be implemented and it was not a re-performance of the original audit. It included the methods used and the timeline of the information received.

4. Overall Assessment
   - This section describes the progress made in the implementation of the management action plans developed in response to the original audit conducted. It provided a rating for each remaining item, e.g., fully implemented, obsolete, and preparation for the implementation stage.

Annex A - Assessment Criteria

- o This section provided a description of each of the criteria used to assess the level of completion of each item. Six criteria were used, which included: Obsolete or Superseded, No Progress of Insignificant Progress (0-24%), Planning Stage (25-49%), Preparation for Implementation (50-74%), Substantial Implementation (75-99%), Full Implementation (100%)

Annex B - Management Action Plan Scorecard

- o This section included a summarised table which described each recommendation, the respective management action plan, the responsible unit and the formal assessment of the progress.

Annex C - Detailed Assessment of Management Action Plan Progress

- o This section included a detailed table which described each recommendation, the respective management action plan, the responsible unit, the timeline target date, detailed information on the progress to date and the formal assessment of the progress.

Source: Audit - (DND Canada, 2011[23])
Follow-up Audit: (DND Canada, 2018[24])

Box 6.2. Examples of follow-up Reports from various ministries within the Government of Canada

Public Services and Procurement Canada

- Follow-up to the audit of information technology security: Summary - (2021-2022)
  - o https://www.canada.ca/en/public-services-procurement/corporate/transparency/internal-audits-report/follow-up-audit-information-technology-security-summary.html

Transport Canada

- Follow-up audit of Oceans Protection Plan (2021)
  - o https://tc.canada.ca/en/corporate-services/transparency/corporate-management-reporting/internal-audit-reports/follow-audit-oceans-protection-plan

Global Affairs Canada

- Follow-up Audit of the Diplomatic Mail Service - (2016)
  - o https://www.international.gc.ca/gac-amc/publications/audits-verification/2016/Diplomatic_Mail_Service_Audit-Service_Courrier_Diplomatique.aspx?lang=eng

Innovation Science and Economic Development Canada

- Follow-up Final Report of Management of Communications Research Centre (CRC) Building Systems (April 2006) - (2009-2010)
  - o https://ised-isde.canada.ca/site/audits-evaluations/en/internal-audit-reports/follow-final-report-management-communications-research-centre-crc-building-systems-april-2006

7 Principles required for performance audits

To summarise the guidance of completing a performance audit, there are several principles which are to be considered and reiterated. While these principles are integral to all types of audits, they will ensure a successful performance audit. They are as follows (INTOSAI-IDI, 2021[10]):

- Independence and ethics: independence is being free from circumstances or influences that compromise, or may be seen as compromising, professional judgement, and acting in an impartial and unbiased manner. Ethics is defined as the moral principles of an individual that include integrity, professional competence and due care, professional behaviour, and confidentiality.

  Institutions should maintain policies and procedures to describe ethical requirements and emphasise that auditors comply. Institutions should consider declarations (i.e., written) from their employees to validate compliance with ethical requirements. There should also be a process for employees to have an avenue to report any violations of ethical requirements and/or misconduct.

  All conflicts, issues of independence or ethical concerns should be regularly considered throughout the audit. If there are any doubts or possible breaches, consult the appropriate policy and discuss the issue with the respective superiors. It is also important to consider the behaviour of colleagues as the reputation of the institution rest of the collective group of auditors. (INTOSAI-IDI, 2021[10])

  In the context of being particular to performance audit, independence and ethics are important due to the nature of the work. Typically, the results of financial and compliance audits yield more objective results. For example, verification of signature cards or delegated authorities leaves minimal area for interpretation. Performance audits may require analysis of large arrays of information or data. This heavily relies on the judgement of the auditors involved. Therefore, their independence is relied upon to not be impaired when making those judgements.

- Professional judgement and scepticism: professional judgement is the act of applying knowledge, skills, and experience – in a way that is informed by standards, laws, and ethical principles – to develop an opinion or decision on an issue. Professional scepticism means maintaining a professional distance from the auditee or auditees and an alert and questioning attitude when assessing the sufficiency and appropriateness of audit evidence obtained throughout the audit.

  Institutions should have policies and procedures in place to support auditors in applying judgment and scepticism. As an example, policies should include guidance for the identification of threats to independence (including perceived ones), which should also include controls to mitigate those threats.

  In the context of being particular to performance audits, they typically include evidence, which is persuasive as opposed to conclusive, therefore they especially require judgement, interpretation, and scepticism. The constant reassessment of professional judgement and scepticism are integral to critically evaluating the evidence obtained through the course of an audit. The evidence and information obtained should always be challenged and questioned. (INTOSAI-IDI, 2021[10])

- Audit team competence: the quality of an audit is dependent on the skills, abilities, and knowledge of the audit team. Performance auditing is a team effort. Performance audit issues are often complex, and not all team members need to possess every needed skill. Rather, the audit team is ideally comprised of team members with a variety of skills, abilities, and knowledge to ensure it is positioned to carry out the audit work.

  Institutions must ensure their respective audit units collectively have the necessary knowledge, competencies, abilities, and skills to perform the required audits. This includes recruiting individuals with the qualifications, which include areas of study and knowledge of the needed disciplines. As well, there may be a requirement to ensure auditors are trained in the necessary skills and abilities.

  As part of competencies, auditors must be flexible and open to innovation throughout a performance audit. While historical audit processes (related to both compliance and financial) have been heavily structured and rigid, the current environment requires that auditors be receptive to new methods and ideas and suggest them as well. This creativity will encourage new and improved approaches to collecting, interpreting, and analysing information. (INTOSAI-IDI, 2021[10])

- Materiality: the relative importance (or significance) of a matter within the context in which it is considered. It can influence the decisions of users of the report, such as legislatures or executives, to deliver as much added value as possible. In addition to monetary value, materiality includes social and political significance, compliance, transparency, governance, and accountability. It is important for the auditor to keep in mind that materiality can vary and can depend on the perspective of the intended users and responsible parties.

  An item's inherent characteristic may represent its material by its nature. It can also be material based on its context. The extent of audit procedures and assessment of audit results is affected by materiality considerations. The section of an audit subject will often need to consider the concept of materiality. This includes identifying and defining criteria, evaluating evidence, and managing the risks of producing audit findings with minimal impact.

  An institution's policy and procedures must include the principle of materiality when discussing performance audits. All auditors must ensure materiality is considered throughout an audit. This can be considering the materiality of operations, document discussions, etc. Each phase of an audit will have its own materiality considerations. (INTOSAI-IDI, 2021[10])

  In the context of being particular to performance audit, materiality may play a significant role in the prioritisation of criteria and objectives of the audit. Materiality encompasses both quantitative and qualitative factors, focusing on the significance of issues related to the efficiency, effectiveness, and economy of operations. Each audit will be different but often in the context of a financial audit, materiality is used as a determining factor in what is included in the scope of an audit.

- Audit documentation and audit supervision: records of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as 'working papers' or 'audit trail' are also sometimes used). Audit supervision involves providing sufficient support, guidance and direction to staff assigned to the audit to ensure the audit objective(s) are addressed, methodologies are applied appropriately, evidence and analysis are sufficiently documented, and the report is of high quality. Supervisors must stay informed about significant problems encountered during the audit and continually review the work performed to ensure a quality audit. An important part of audit supervision is providing effective on-the-job training to members of the audit team so that all auditors are developing their capacity to carry out audits effectively.

  Institutions should have policies and procedures that describe minimum standards for audit related documentation for all engagements performed. This will include standards relating to documentation retention (i.e., type, length of time, etc.). Training should be provided to employees to ensure that there is consistency and adherence to policies and procedures. This is important as the documentation for each respective audit is the evidence of the auditor's source for a conclusion. Appropriate policies and procedures also ensure there is compliance with applicable legal and

regulatory requirements. The most important aspect of audit documentation is that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand decisions made and how the audit results were obtained. (INTOSAI-IDI, 2021[10])

The need for supervision varies and depends on an array of factors. These include the size of the organisation, experience of individuals, complexity of tasks, materiality, the significance of tasks, etc. Regardless of the factors mentioned, the audit work should be reviewed by senior personnel and management throughout the course of the audit process. The onus is also on the auditors themselves to follow requirements and have their supervisor provide feedback and input on their work. This will inherently allow for coaching and to continuously improve the competencies and performance of the auditor.

In the context of being particular to performance audits, the audit trail will be important as it will be a compilation of many types of information. Performance audit documentation may be more comprehensive than financial or compliance audits, therefore associated working papers will require the appropriate level of detail. Performance auditing requires comprehensive documentation of diverse data sources, including qualitative and quantitative analyses, stakeholder feedback, and benchmarking results. This contrasts with financial audits, which focus on documenting financial records and compliance audits which primarily record adherence to regulations. Audit supervision in performance audits involves ongoing guidance and review to ensure that the audit objectives related to efficiency, effectiveness, and economy are met and that the findings and recommendations are actionable and aligned with organisational goals.

- Quality control: a system of policies and procedures put in place by an institution to ensure that the audit reports are appropriate, balanced, fair, add value, and follow national regulations and international standards. Quality control should be present in all phases of the audit process: planning, execution, reporting, and follow-up. Such policies and procedures should be set by the head of the institution, who retains overall responsibility for the system of quality control. Quality assurance refers to establishing a monitoring process designed to provide the institution with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively in practice. The purpose of quality assurance is to conduct the review to ascertain if the audit was conducted following international standards.

  An institution's strategy, culture, policy, and procedures must integrate a system of quality control to be effective. Quality is often inherent to the institution's work and production of the report, as opposed to being an additional step following the completion of a report. Procedures in place relating to quality should include supervision, review, direction, and ad-hoc consultations (when needed to agree upon complex or critical matters).

  While important for an institution to have policies and procedures in place, it must be ensured that the quality control system is monitored via a regular assessment of operations and output (i.e., audit work and reports). This regular monitoring helps to determine if the system is well designed and effective. It also demonstrates whether policies and procedures are being followed. Monitoring can be completed both internally and externally. These review activities help institutions validate that the work being performed meets standards and is of the desired quality. The institution must ensure that the policies and procedures that organise the habits and practices expected are part of a quality control framework and that they are appropriately communicated to all involved. (INTOSAI-IDI, 2021[10])

  In the context of being particular to performance audit, quality control is important due to the methods which are used to conduct the audit. As performance auditing requires greater analyses completed by the judgement of the respective auditors, quality control is needed to assure that conclusions are consistently reached and that any risk of bias is minimised.

- Audit risk and assurance: auditors should actively manage audit risk. The management of risk should allow the IAF and the audit team to provide assurance that the intended users can be

confident about the reliability and relevance of the information provided by the audit and that the results can be used as the basis for making decisions. The concept of audit assurance is inseparable from the concept of audit risk. Performance auditors are not normally expected to provide assurance as an overall opinion, comparable to the opinion on financial audits, on the auditees' achievement of economy, efficiency, and effectiveness.

The audit risk should be actively managed by both the auditors and the institution. This will allow the intended users to receive assurance and confidence about the reliability and relevance of the audit and the information it provides. It also will demonstrate that audit results can be used to support decision-making.

When discussing assurance in relation to audit, the users must have confidence that report conclusions are reliable and valid. For the information to be so, conclusions on the matter should be logically linked to the audit objective(s) and criteria and be supported by sufficient and appropriate evidence. This must be done appropriately for the user to have the required level of assurance. (INTOSAI, 2019[3])

Performance audits provide assurance on the efficiency, effectiveness, and economy of operations, focusing on whether resources are being used optimally to achieve organisational objectives. This assurance involves detailed analysis, stakeholder engagement, and benchmarking against best practices, offering insights into operational improvements. In contrast, financial audits provide assurance of the accuracy of financial statements, while compliance audits ensure adherence to laws and regulations. Thus, performance audits deliver a broader and more strategic form of assurance aimed at enhancing overall organisational performance.

In the context of being particular to performance audit, there are numerous risks associated which should be managed on an ongoing basis. They include but are not limited to, incorrect/incomplete conclusions, unbalanced information, limited added value to users, difficulties in obtaining quality information, insufficient analysis, omission of relevant information/arguments, presence of fraud/abuse of resources or irregular practices and substantial complexity or political sensitivities. (INTOSAI-IDI, 2021[10])

- Communication with auditees, external stakeholders, and the public: the audit team does not work alone in conducting a performance audit. The audit team should maintain effective and proper communication with the auditees to obtain the necessary information to conduct the analysis and reach appropriate conclusions. An audit may focus on one auditee or several auditees. Communication with all relevant entities involved is important.

  There are usually several other groups involved in performance auditing and therefore, communication is integral. Performance audits will typically have more interviews with the auditee, as compared to financial or compliance audits, which typically may involve a greater focus on documentation review. While relying on appropriate communication with all related stakeholders, the most important factor is to maintain independence.

  When communicating with auditees, an open line of communication which keeps the auditee involved is extremely important. They must be engaged and involved in all pertinent aspects of the audit. This will help facilitate a positive working relationship and the objectives of the audit can be met. Maintaining interactions with auditees can include sharing preliminary findings and viewpoints throughout the audit.

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