

## Chapter 3

### How do you select performance audit topics?



According to ISSAI 3000, performance audit planning has two parts: selection of topics and designing the audit. This chapter is about selection. It explains how Supreme Audit Institutions (SAIs) can choose which topics to audit. Chapter 4 is about performance audit design.

The selection process may vary between SAIs. It is important for you, the auditor, to understand how topic selection occurs as you conduct your work. This chapter offers general guidance based on the requirements of performance audit International Standards of Supreme Audit Institutions (ISSAI) and common SAI practices.

This chapter will answer the following questions:

- What is the strategic planning process?
- How do SAIs scan the audit environment to identify possible topics for performance audits?
- How do external stakeholder requests arise?
- Why might a SAI consider auditing a topic that is not the responsibility of a single audited entity?
- What criteria do SAIs use to select topics for performance audits?

## What is the strategic planning process?



### The Standard

The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify audit risks and problems.

Source: ISSAI 3000/89

Strategic planning is the process of determining the long-term goals of the SAI and identifying the best possible approach to achieving them.<sup>1</sup> The SAI's strategic planning process may be understood as the first step in topic selection because it comprises the analysis of potential areas for audit and defines the basis for the efficient allocation of audit resources (ISSAI 3000/92). As part of this process, the SAI researches to identify major risks and problem areas considered important. The SAI analyses these subjects to identify which performance audits are of most interest to the public, government and the legislature; and which ones can add the most value.

The strategic planning process used varies between SAIs. Plans normally cover several years and guide SAIs in selecting topics for performance audit. The strategic plan will normally result in a lower-level operational audit plan, indicating which topics will be addressed in the next one or more years.

### The objectives of a strategic audit plan are usually to ...

... provide a firm basis for the SAI's senior management to set the direction for future audit coverage;

... understand the risks facing audited entities and take these risks into account in audit topic selection;

... identify and select performance audits with the potential to improve public sector accountability and administration;

... communicate the SAI's performance audit priorities to audited entities and the legislature;

... produce a work programme that can be achieved with the available resources; and

... provide a basis for SAI accountability.

Source: IDI/PAS Development Team

## How do SAIs gather information for the strategic planning process?

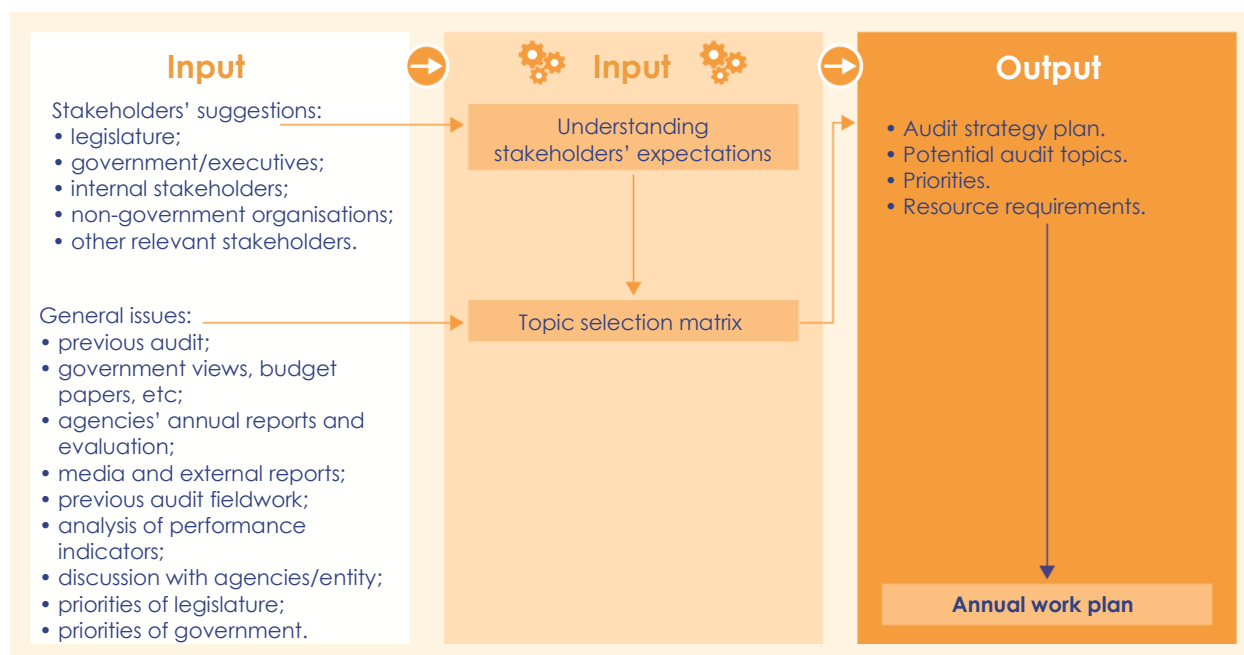
Audit topics derive from two main sources:

- General issues that the SAI identifies through scanning the audit environment.
- Requests or suggestions from stakeholders.

<sup>1</sup> This is different from an operational or organisational strategic plan. The strategic audit plan will, however, inform the organisational plan.

**Figure 8** is an example that shows how these two sources can help the SAI select audit topics.

**Figure 1: How SAIs could select audit topics**



Source: IDI/PAS Development Team

## How do SAIs scan the audit environment to identify possible topics for performance audits?

SAIs normally treat the identification of new performance audit topics as an ongoing process rather than a discrete activity. Fruitful ideas can arise at any time and from many sources. Your SAI and you, the auditor, have to remain alert for new challenges, risks and events that affect government entities.

Audited entities face internal and external pressures that might make their work appropriate for a performance audit. Examples of typical pressures include:

- budgetary constraints;
- economic, social and demographic trends;
- launch of new and complex programmes;
- availability of sufficiently-skilled staff;
- media focus on the entities' activities; and
- changes in senior management.

It is important that SAIs evaluate changing and emerging risks in the audit environment and respond to these in a timely manner (INTOSAI-P-12/Principle 5). During the strategic planning process, techniques such as risk analysis or problem assessments can help structure the process. However, they need to be complemented by professional judgement to reflect the SAI's mandate and to ensure that significant and auditable audit topics are selected (ISSAI

3000/93). If you identify risk early and, through a performance audit, make recommendations to mitigate it, you will hopefully have a significant impact on the effectiveness of your audited entities. Chapter 4 provides more details on how to identify and assess risks.

Many SAIs carry out an annual programme of updating risk assessments for the entities they audit. This process helps them identify topics where they are likely to have a positive impact. There are many different techniques for identifying possible audit topics. **Figure 9** lists some of the most common ways, while **Figure 10** describes how the process operates at the SAI in Zambia.

**Figure 2: Methods of identifying possible audit topics**

<b>Scanning the public sector environment</b>	<p>SAIs monitor key issues in the public sector to keep abreast of developments that might merit further scrutiny via a performance audit. For example, you might:</p> <ul style="list-style-type: none"><li>• read relevant publications and previous reports relating to performance, financial and compliance audits;</li><li>• listen to the experience of other auditors;</li><li>• review transcripts of parliamentary debates;</li><li>• attend conferences and seminars;</li><li>• have discussions with colleagues, stakeholders and specialists; and</li><li>• consider media coverage of issues.</li></ul> <p>Area watching is a continuous process that ensures that you and the SAI are always in possession of updated information about what is happening in society and what areas may require further examination.</p>
<b>Reviewing official announcements</b>	<p>SAIs look out for official announcements and publications that will affect their audited entities. The following list of information might be inspected by you:</p> <ul style="list-style-type: none"><li>• The international community's sustainable development goals (SDGs).</li><li>• Resolutions by the country's Committee on Public Accounts or comparable committee.</li><li>• A speech from the Head of State that marks the opening of the parliamentary year.</li><li>• Legislation and legislative speeches.</li><li>• National budgets and guidelines.</li><li>• Other public policy documents (for example, ministerial strategy papers, white papers).</li><li>• Annual reports of audited entities.</li><li>• Global developments, such as themes identified by INTOSAI.</li></ul>
<b>Financial analysis</b>	<p>Basic financial analysis includes being aware of how money flows into and out of the audited entity. You may choose to look more closely at material features such as:</p> <ul style="list-style-type: none"><li>• complex financial arrangements;</li><li>• new sources of income and expense; and</li><li>• areas where spending is high or changing rapidly.</li></ul>

## Media monitoring

SAs monitor the media (for example, newspaper articles, broadcast news and social media) to identify concerns that the public or commentators are raising about public services. It is important for you to consider a wide range of media so that you can detect issues that may only affect certain segments of the population. For example:

- Publications aimed at older people may provide clues to emerging issues in areas such as pensions or treatment of health conditions that are more prevalent among the elderly.
- Regional publications may draw more attention to the allocation of funding from central government for activities such as public transport, sanitation and telecommunications.
- Publications aimed at specific genders, ethnic groups or other similar segments of the population may identify public service issues (such as health outcomes) that are having a disproportionate impact on their readers.

## General overviews

A general overview (also known as a general survey) typically provides you with an understanding of an audited entity's objectives, main activities, and the level and nature of resources used in carrying out its functions. You can assemble and evaluate information on the background, objectives, activities, plans, resources, procedures and controls in the entities or areas concerned.

The general overview aims to:

- identify and review those areas absorbing a significant level of resources;
- identify potential risks to achieving optimal use of resources;
- highlight areas for continuing audit attention; and
- propose areas or subjects for auditing.

You may carry out general overviews that cover:

- a whole audited entity;
- a group of related activities; and
- major projects or programmes of expenditure or receipts.

The general overview can be a valuable source of reference when making proposals for inclusion in the strategic audit plan. When you gather information in your general survey work, it is important to record all relevant facts and assessments in easily-accessible working folders and keep them up to date.

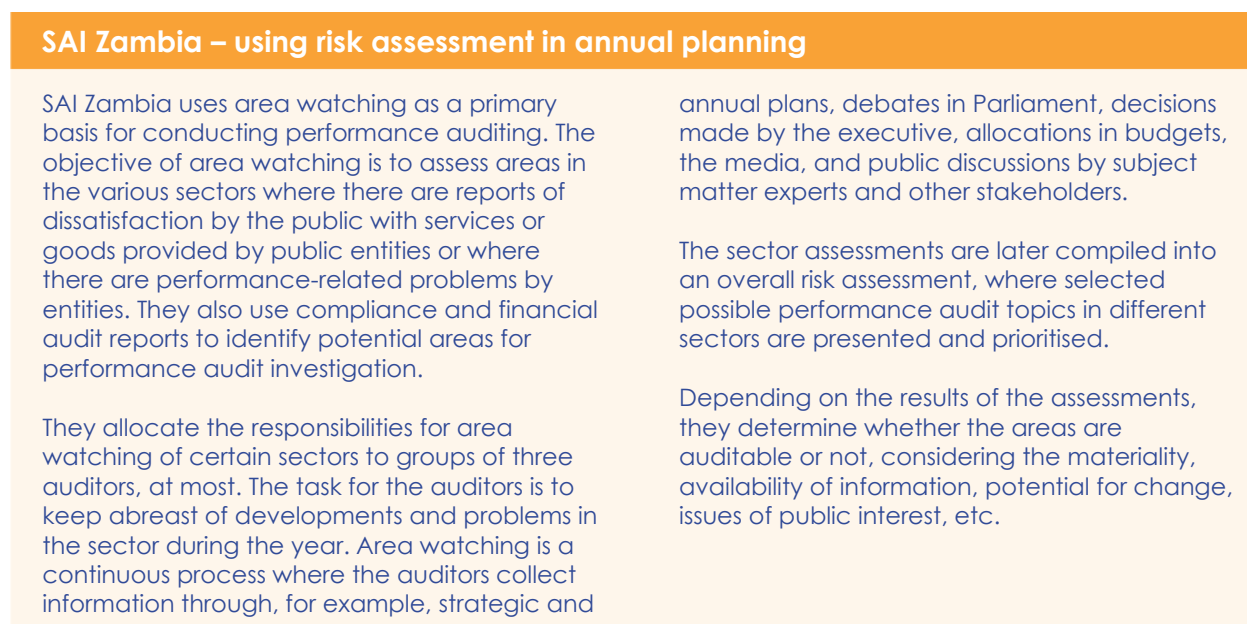
A general overview typically covers:

- Background information on the audited entity.
- Significant legislative authority.
- Objectives of the audited entity.
- Organisational arrangement.
- Accountability relationships.
- Activities carried out.
- Nature and level of resources used.
- Procedures and control systems in place.

<b>Consideration of views of citizens</b>	<p>SAIs aim to be aware of how citizens view the performance of the audited entity and how their interests are affected by this performance.</p> <p>Citizens can be a source of ideas for performance auditing, a source of demand for performance auditing and, at the same time, the users of performance audit reports. SAIs aim to maintain relevant information outlining the views of the public on the operation of government organisations or programmes.</p> <p>In your analysis, you should consider inclusiveness – consider how the performance of the audited entity affects different sectors of society. For example, when looking at a programme to promote business skills, you could consider whether men and women have similar access to the programme and how male and female participants feel about their experience of the programme. If you identify material differences in the experiences and outcomes for different social groups, you could then investigate whether there are any changes that would make the services more inclusive.</p> <p>When considering whether a study topic is material, you might consider stakeholder concerns, public interest, regulatory requirements, and consequences for society.</p>
<b>Liaison with other external stakeholders</b>	<p>SAIs can build relationships with external stakeholders and interact with them frequently to identify and discuss possible audit topics.</p> <p>You may obtain input on audit topics from subject experts, relevant parties in government and the audited entity's internal auditors.</p> <p>The academic community contains people with expert knowledge in specific audit areas. Such academics may provide a more objective view, less restricted by personal interest. Academics may thus serve as suitable discussion partners and sometimes also consultants at all stages of an audit.</p> <p>Non-government organisations can be a useful source of ideas. They may have conducted their own research through surveys and case studies and may have a range of relevant contacts.</p>
<b>Internal discussions and assessments within the SAI</b>	<p>You can engage with other performance, financial and compliance auditors within your SAI to identify possible audit topics. For example, financial auditors may have found financial weaknesses that suggest that a programme has not been implemented effectively.</p>

Source: IDI/PAS Development Team

**Figure 3: How SAI Zambia scans the environment to identify potential audit topics**



Source: AFROSAI-E Performance Audit Handbook, 2016

## How do external stakeholder requests arise?

A ministry may ask the SAI to take an early look at how well a new programme works. SAIs may also receive specific requests for investigations or audits from the legislature. In responding to external stakeholders, the SAI is normally free to accept suggestions. However, while respecting the laws enacted by the legislature that apply to them, the SAI must ensure that it retains its independence. Unless specified otherwise by national law, the ultimate choice on whether to conduct an audit and how to define the key research objectives of the audit should always lie with the SAI, not the external stakeholder. (INTOSAI-P-10/Principle 3)

It is important for you, the auditor, to consider the needs and interests of your audit report's audience as you consider external requests. By taking these requirements into account, you can ensure the audit report is useful and understandable. For example, you have to consider which issues and findings are material to readers of the report. As noted earlier, materiality can be defined as the relative importance or significance of a matter within the context in which it is being considered. Besides monetary value, materiality includes social and political significance, compliance, transparency, governance and accountability. (ISSAI 3000/84)

To deliver as much value as possible, the auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter (ISSAI 3000/83). A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. Determining materiality is a matter of professional

judgement and depends on the auditor's interpretation of the users' needs. Your judgement may relate to an individual item or a group of items taken together.

### **Why might a SAI consider auditing a topic that is not the responsibility of a single audited entity?**

The strategic audit plan may include topics that are not easily assigned to a single audited entity. A performance audit may focus on a single programme, policy, entity or fund, or may focus on outcomes or systems, looking across programmes, policies and entities that contribute to the outcome or system. Following an assessment of the complexity of the subject matter and mapping of responsible entities (including the relationship between them), the SAI has to decide on the objective and scope of the audit. This activity may or may not happen already at the strategic planning stage.

In some cases, there will be more than one entity responsible for the audit topic. For example, a programme to use new technology to improve the productivity of agriculture might involve the ministries that cover farming, the environment, finance, training and international trade and will need them to coordinate to achieve the intended results.

The risk of performance problems is greater when different organisations with at least partly different objectives contribute to the implementation of the same policy or activity. When you consider the 3Es (economy, efficiency and effectiveness), this translates into a heightened risk of underperformance. For instance, consider the case of a government that wants to enhance public health by increasing the protein intake of the population. To do so, two ministries – health and agriculture – will need to work together. It is quite possible that the Agriculture Ministry wants to enhance earnings for farmers by selling meat products abroad, whereas the Health Ministry wants the meat to be consumed domestically. It is easy to see how these tensions might undermine the efficiency and effectiveness of the overall government policy.

When considering the audit topic across programmes, policies or entities, it is important to adjust the audit process accordingly, from identifying the audited entities and their responsibilities to establishing scope, criteria and methodology.

By taking care to identify these activities as viable audit topics, SAIs can:

- meet expectations that performance audits will cover all public bodies responsible for spending public money and other public resources;
- promote closer collaboration between public bodies; and

- identify topics where no one is taking responsibility. To help find these gaps, a useful exercise can be to map out the lines of responsibility that exist for a given activity or theme. You can use RACI analysis to do this.<sup>2</sup>

SAIs will also want to consider whether their selection of individual topics fits in with any longer-term strategy the SAI may have, such as providing balanced coverage across government. The SAI may also aim to cover one large topic in several reports. For example, both the International Organization of Supreme Audit Institutions (INTOSAI) and the United Nations have stressed, as countries start to implement the SDGs, that SAIs can contribute to the success of the Sustainable Development Agenda by auditing preparedness to implement the SDGs and tracking progress. To do so effectively, SAIs might, for instance, produce a series of performance audit reports that make timely recommendations.

## What criteria do SAIs use to select topics for performance audits?



### The Standard

The auditor shall select audit topics that are significant and auditable, and consistent with the SAI's mandate.

The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities.

Source: ISSAI 3000/90-91

Once the potential audit topics are identified, the SAI prioritises them to deploy its resources and time efficiently and effectively. In selecting a performance audit topic, ISSAI 3000 states that the SAI has to consider:

- the significance (including the financial, social and political aspects) of the subject matter;
- the auditability of the chosen topic;
- whether the SAI has the resources and skills to carry out the audit;
- whether the audit topic would be consistent with the SAI's mandate; and
- how to maximise the impact (financial or otherwise) of the audit.

SAIs can develop their selection criteria and procedures in line with the requirements of the ISSAIs. Two such methods – using a scoring matrix and comparing short summaries – are described below.

### Using a scoring matrix to select audit topics

<sup>2</sup>A RACI analysis is a tool that identifies, for a set of activities, who is **R**esponsible, who is **A**ccountable, who has to be **C**onsulted, and who has to be **I**nformed.

A scoring matrix uses scores, supplemented naturally by professional judgement, as one indicator of which audit topics might be chosen. The SAI chooses selection criteria, then scores each potential audit topic against those criteria.

The criteria presented in **Figure 11** are examples that may be considered in prioritising and selecting the most viable audit topics. Please note that the criteria discussed here may not be exhaustive or necessarily relevant to all SAIs. The relative importance of each criterion will depend on the unique circumstances and context of each SAI.

**Figure 4: Illustrative list of selection criteria for audit topics**

<b>Materiality</b>	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.
<b>Auditability</b>	Can the topic be audited? Is it practical to audit? Does it fall within the legal mandate of the SAI? Does the SAI have the capability to audit the topic (for example, does it have access to experts who understand the audit topic)?
<b>Possible impact</b>	Will the topic have a powerful effect on enhancing the economy, efficiency and/or effectiveness of government undertakings?
<b>Risks to the SAI</b>	Is there a strategic or reputational risk if an audit topic was not examined?
<b>Legislative or public interest</b>	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?
<b>Relevance</b>	Does the topic have some bearing on, or importance for, real-world issues, present-day events or the current state of society?
<b>Timeliness</b>	Is this the right or appropriate time to audit the topic? For example, is it too early to examine progress of a new activity?
<b>Previous audit work</b>	Has the topic been audited in the past? Is it worth auditing it again? Is there a new audit approach you could take?
<b>Other major work planned or in progress</b>	Is other work being planned or done on the topic?
<b>Request for performance audits</b>	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 parliament, beneficiaries or other external stakeholders.

Source: IDI/PAS Development Team

Based on the criteria discussed above, the potential audit topics can be ranked and prioritised. It is important to highlight the need for your **professional judgement** in the selection process. Appendix 4 provides an illustration of audit topic selection using an audit topic selection matrix. The mathematical score presented there is a tool that can help to identify important topics to audit, but it is not a substitute for your professional judgement.

### Comparing short summaries of each possible audit topic

This approach does not use a scoring system. Instead, audit teams prepare simple, short summaries of the possible audit topics using a standard template. Senior management can then easily review each option to see which ones fit with their strategic priorities. **Figure 12** illustrates how a summary can be used.

**Figure 5: Sample summary of an audit topic**

<b>Title</b>	Waste management
<b>Context</b>	Solid waste management is a vital quality-of-life and health issue for citizens. The government is spending an increasing amount on it, often dealing with private sector providers.
<b>Rationale</b>	SAI has not looked at the topic in the last eight years. The government has recently awarded a large contract for the next five years to a company that has performed poorly in other public service contracts and is in a weak financial position.
<b>What the audit could achieve</b>	The audit would look at whether the ministry is getting good value from its contracts with private sector suppliers, with important lessons for the future. For example, we would examine the efficiency of the procurement process. Early intervention might also lead to improving health outcomes for citizens.
<b>Key risks</b>	<ul style="list-style-type: none"> <li>• Our audit may be seen as coming too early in the life of the new contract.</li> <li>• Our in-house expert on commercial contracting is shortly due to go on a one-year secondment, so will not be available to assist with the audit.</li> <li>• We already have two audits planned at the ministry, so they may feel that the audit burden is too high.</li> <li>• We will need to find a convincing international comparator against which we can benchmark performance.</li> <li>• When assessing performance, it may be challenging to estimate what would be a 'fair' price for the services, as the ministry has never provided the services in-house. As mentioned above, we would need to find a suitable international comparator.</li> <li>• When estimating the cost to public health of service failure, we will need to provide strong evidence of a direct causal link between poor waste management and national disease levels. We need to be very alert for other factors that may contribute to increased incidence of disease.</li> </ul>
<b>Public Accounts Committee/ Parliamentary interest</b>	Parliament is very interested in the topic. Several members of parliament have mentioned in recent debates that the current system is poor and they frequently get complaints from their constituents about poor customer service and failure to carry out vital repairs.
<b>Type of output</b>	Performance audit
<b>Indicative budget</b>	\$300,000
<b>Indicative timing</b>	Audit will take nine months, reporting by September 2020.

Source: IDI/PAS Development Team

### When selecting performance audit topics, remember to ...

*... select audit topics through the SAI strategic planning process by analysing potential topics and conducting research;*

*... ensure that audit topics are significant, auditable and consistent with the SAI's mandate;*

*... select audit topics that would maximise impact while taking into account the SAI's audit capacities;*

*... use a wide source of information to scan the environment to select the most appropriate audit topics; and*

*... use appropriate criteria to help you evaluate and select audit topics.*

Source: IDI/PAS Development Team