

Chapter 4

How do you design a performance audit?



After selecting the audit topic, the second step of the audit planning is the audit design. Audit design is a key step in completing a performance audit and is a critical component of implementing an SAI's **quality control framework**. It is also one of the most important aspects of a performance audit, as the design will help ensure you obtain the knowledge you need to complete your audit work.



The Standard

The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner, and in accordance with the principles of good project management.

Source: ISSAI 3000/96

Effective design consists of establishing a strategy for completing the audit and writing a detailed audit plan that includes the audit type, timeline, resource requirements (people and money), an overview of audit topic, scope (and limitations), objective(s), questions, criteria, risks, and methodology. Developing a good audit plan is critical to laying the foundation for assessing economy, efficiency and effectiveness in a performance audit.

As described in this chapter, audit design includes many sequenced steps; however, aspects of it have to be revisited throughout the audit in response to changing information, resources and timelines.

This chapter will answer the following questions:

- How do you conduct a pre-study of the audit topic?
- How do you determine the approach for a performance audit?
- How do you develop audit objective(s)?
- How do you formulate audit questions?
- How do you determine the scope of the audit?
- How do you select audit criteria?
- How do you develop the audit methodology?
- How do you manage risk during audit design?
- How do you determine the time frames and resources for a performance audit?
- How do you document the audit plan?
- How do you involve internal and external stakeholders and management when designing a performance audit?

How do you conduct a pre-study of the audit topic?



The Standard

To ensure the audit is properly planned, the auditor needs to acquire sufficient knowledge of the audited program or audited entity's business before the audit is launched. Therefore, before starting the audit, it is generally necessary to conduct research work for building knowledge, testing various audit designs and checking whether the necessary data are available. This preliminary work can be called pre-study.

Source: ISSAI 3000/99

As an auditor, you need to take steps to ensure your audit is properly designed. To do this, you will need to gather information on the audit topic and the audited entities' business. You can start by conducting preliminary work to build knowledge, think about possible audit designs and assess whether the topic is auditable. Although your SAI already considered whether the topic was auditable when selecting audit topics (as discussed in Chapter 3), circumstances could have since changed, or you may reach a different conclusion after you conduct your preliminary work. This preliminary work can be called *pre-study*. During the pre-study step, you will try to establish whether conditions for a successful audit exist.



An internal control is a process that helps an entity achieve its objectives related to things such as running its operations efficiently and effectively, reporting reliable information about its operations and complying with applicable laws and regulations.

Source: IDI/PAS Development Team

Specifically, as assessed during the selection of the audit topics phase, you will need to determine whether the audit is still expected to add value to your SAI's strategic objectives; enhance the audit topic's economy, efficiency and effectiveness by strengthening internal controls; and uncover fraud, waste and abuse. It is also important to develop an understanding of what is not working well – the performance weaknesses or problems that the audit may address. SAIs approach pre-study differently. Some consider it to be a full-scale study conducted prior to designing the audit, while others

consider it to be a part of the design phase of the audit. You need to conform to your SAI's approach when completing this step.

It is important to develop a sound understanding of the audit topic, as well as its context and possible impacts, to facilitate the identification of significant audit issues and to fulfil assigned audit responsibilities. Performance audit is a learning process involving the adaptation of methodology as part of the audit itself. (ISSAI 3000/100).

This pre-study has to be done in a manner that conforms to your SAI's processes and be appropriately documented.

To determine whether conditions for a successful audit exist, you will need to build on work completed when you selected your audit topic; that is, by collecting additional information that enables you to understand:

- the organisational structures, roles and functions, stakeholders, activities and processes, resources and trends;
- the organisational goals;
- applicable internal controls;
- the internal and external environmental factors that affect the entities and programmes under review;
- the external constraints affecting the delivery of outputs and outcomes;
- what is working well and not working well within the entities and programmes under review;
- the criteria that exist or can be developed to assess performance; and
- the extent to which the activities are inclusive of all affected parties.

You will need to collect this information throughout the audit process; however, most of this basic information has to be collected early in the audit during the design and conducting audit work phases. Keep in mind that you and your audit team will need to be flexible and pragmatic in the collection methods you use to obtain this information. In conducting the pre-study, you will likely need to collect information from various sources, including those identified in **Figure 13**.

Figure 1: Information sources



Source: IDI/PAS Development Team

During the pre-study, it is also critical to ensure your team has documented its **independence** and begins to work directly with stakeholders inside and outside your SAI, as appropriate. To do so effectively, you may need to complete stakeholder analyses so that you can identify internal stakeholders (for example, legal experts, methodologists and technical experts), their role and interests, the anticipated degree of their involvement in the audit, and how important they are in terms of the information they can provide. You may also need to do this for external stakeholders, such as trade groups, associations and experts outside your organisation. For an example of these analyses, see Appendix 5.



Involving internal stakeholders like legal experts, economists or individuals with technical expertise early in an audit can enable you to quickly identify information and data sources, points of contact, and methodologies that can help you in planning your audit. It is critical that you document key decisions that your team reaches when meeting with these stakeholders and that you maintain them in your audit files.

Source: IDI/PAS Development Team

After identifying internal stakeholders, some SAIs bring them together to participate in an initial meeting. During this meeting, you will discuss with your stakeholders the possible approaches you will use, the audit objective(s), audit questions, design options, and potential points of contact who know about the audit topic. If you hold this meeting, you might consider whether to provide documents to stakeholders in advance to help facilitate the meeting discussion. For example, if the audit is complex or involves new issues or subject areas, the team may decide that it would be useful to provide additional materials or background information to aid the meeting's participants. By holding this meeting during pre-study, you may find that stakeholders are better able to contribute to the development of your audit's scope and methodology. It is

critical that you document the key decisions your team reaches due to the meeting and maintain them in your audit files.

It is important that audit teams meet the audited entities before starting to collect information or data. During the initial meeting with the audited entities, your team will discuss the reason for your work, introduce your team to officials, provide your information needs for the audit, and discuss offices and site locations where you anticipate conducting your work, among other things. Meeting with officials from the audited entities during the pre-study enhances your ability to obtain the information you need to determine whether the topic is auditable and whether conditions exist for a successful audit. These meetings also enable your audit team to hear and take account of officials' perspectives and input early in the audit. As with initiation meetings, it is important that you document the results of this meeting and any key decisions your team reaches during the discussion. See Appendix 5 for a sample agenda used to guide this type of meeting.



Initial meetings with the audited entity can enable you to leverage the expertise of officials to quickly identify relevant information and refine the objective(s), scope and methodology for your audit. It is critical that you document key decisions your team reaches as a result of the meeting and maintain them in your audit files.

Source: IDI/PAS Development Team

Steps that you can take when conducting the pre-study

- ✓ Review previous work on the topic by your Supreme Audit Institution and conducting background research by reviewing documentation produced by the audited entity, including policies and performance reports.
- ✓ Consult with advisors and outside organisations that have experience with the topic of the audit. Organisations could include the United Nations, donor organisations, civil society organisations, non-government organisations and others with specialised expertise.
- ✓ Analyse media reports on issues relevant to the audit topic.
- ✓ Review relevant government initiatives to understand their goals, approaches and funding.
- ✓ Review performance and accountability reports on the programme prepared by the responsible agencies. This can give the audit team a better understanding of functional and financial details of these agencies and reveal areas of primary concern.
- ✓ Hold 'initiation meetings' with key internal stakeholders to discuss possible approaches, research questions, design options and potential points of contact with knowledge of the audit topic.
- ✓ Hold a meeting with the audited entity to discuss your information needs and enhance your understanding of whether the topic is auditable or whether conditions exist for a successful audit.

Source: IDI/PAS Development Team

How do you determine the approach for a performance audit?



The Standard

The auditor shall choose a result-, problem- or system-oriented audit approach, or a combination thereof.

Source: ISSAI 3000/40

The overall audit approach is a central element of any audit, and it is an important link between the audit objective(s) and the audit questions. There are three common approaches

to conducting a performance audit: a result-, problem-, or system-oriented approach. It is important that you consider whether you anticipate using one or a combination of approaches when developing your audit objective(s) and audit questions.



A result-oriented approach seeks answers to questions like:

- What results have been achieved?
- Have the audited entities met their objectives?

Source: IDI/PAS Development Team

A **result-oriented audit approach** assesses whether an outcome or output objectives have been achieved or services are operating as designed. In this approach, you will express the findings in the form of a deviation from your performance criteria. Your recommendations will aim to eliminate these deviations by addressing their cause(s). In the result-oriented approach, you will study performance in the economy, efficiency and effectiveness, and relate your observations to the goals, objectives, regulations or audit criteria. If the criteria are difficult to determine, you may need to work with experts to develop credible criteria.

A **problem-oriented audit approach** generally begins with a preliminary problem that may or may not need to be further verified during the audit. Accordingly, this approach places a special emphasis on examining, verifying and analysing the causes of performance problems. You can use this approach when there is a clear consensus on a problem, even if there is no clear statement of the desired outcomes or outputs. If you use this approach, your conclusions and recommendations will be based on the process of analysing and confirming causes using criteria that allow you to assess how specific factors contribute to the identified problem. A major task in the problem-oriented audit approach is to analyse the causes of the problem from different perspectives.



A problem-oriented approach seeks answers to questions like:

- What are the causes of the problem?
- To what extent can the government solve the problem?

Source: IDI/PAS Development Team



A system-oriented approach seeks answers to questions like:

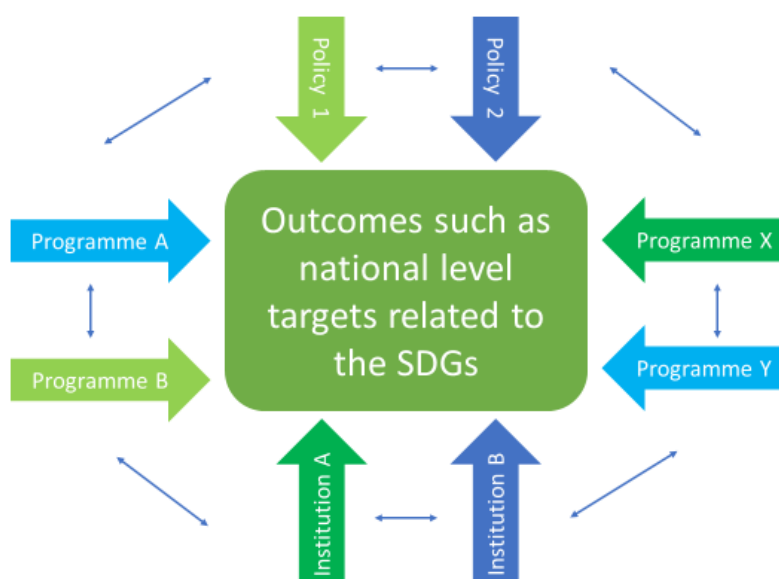
- What are individuals' roles and responsibilities?
- What are relevant information flows?
- Is there a good-quality monitoring system?
- Are processes evaluated periodically and properly?

Source: IDI/PAS Development Team

A **system-oriented audit approach** examines the proper functioning of management systems. If you use this approach, you may find that performance benchmarks and principles of good management will be helpful as criteria in assessing the conditions for the economy, efficiency or effectiveness, even when there is a lack of a clear consensus on a problem or when outcomes or outputs are not clearly stated. To help the users of reports understand the significance of weaknesses on the performance of management systems, it is important to identify reasons for the weaknesses and establish plausible links to how weaknesses affect operations. Well used, this type of audit seeks to answer a wide variety of questions to describe how the activities are functioning, the cause of any weaknesses, and the extent to which things could be improved.

As stated in ISSAI 3000/40, it is also possible to combine audit approaches. For example, an audit of the implementation of SDG targets would be a combination of result and system-oriented audit approaches. Such audit will use the Whole of Government (WoG) approach. The WoG shifts the focus of government performance towards the results that government seeks to achieve to address a societal problem or challenge rather than the operations of any single programme, agency or entity. In this case, you will have a situation shown in **Figure 14**.¹

Figure 2: Relations when auditing more than one entity



Source: Some considerations on external audits of SDG implementation (Le Blanc, David and Montero, Aránzazu Guillán, 2020)

How do you develop the audit objective(s)?



The Standard

The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness.

Source: ISSAI 3000/35

Audit objective(s) establish the reason(s) for conducting the audit. The objective(s) provide the starting point for developing the audit questions that will guide your work. As a result, the wording of the objective(s) is important and can influence the audit results. The audit objective(s) should be designed to maximise the benefits and impacts from the audit,

¹ You can find more information on WoG at ISAM (<https://www.idi.no/en/isam>) and https://www.effectiveservices.org/assets/CES_Whole_of_Government_Approaches.pdf

incorporate the concept of **materiality**, and seek to evaluate **economy, efficiency** and **effectiveness** of the audit topic (see GUID 3910/35-42 and GUID 3920/24-30). In setting the audit objective(s), you need to consider the mandate of your SAI and the reasons for the audit.

You can think of the audit objective(s) as a neutral statement of the goal(s) for the audit. It provides the basis for developing audit questions (discussed later in this chapter). Depending on the needs of your audit, you have the flexibility to state your objective(s) as a phrase or to write them as questions. Either way, you need to consider the following factors when developing your objectives:

- Are the audit objectives framed in clear and simple terms?
- Are the objectives specific, feasible, fair and objective, policy-neutral and measurable?
- Are the objectives framed in a way that allows you to come to an unambiguous conclusion?
- Do the objectives provide sufficient information to audited entities and stakeholders to easily understand why you are conducting the audit, the audit's focus and the audit's goal?

Figure 3: Examples of appropriately and inappropriately-formulated audit objectives by audit approach

Audit approach	Examples
Problem-oriented approach	<p>Protecting fish habitat</p> <ul style="list-style-type: none"> • Appropriate: Determine why the fisheries and environment department did not enforce key fisheries statutes and habitat policy. • Inappropriate: Determine how the fisheries and environment department has failed. <p><i>This objective does not provide the audited entity and stakeholders with sufficient information to understand why you are conducting the audit, the audit's focus, and the audit's goal.</i></p> <p>K-12 education: Public high schools with more students in poverty and smaller schools provide fewer academic offerings to prepare for college</p> <ul style="list-style-type: none"> • Appropriate: Examine why public high schools with more students in poverty and smaller schools provide fewer academic courses. • Inappropriate: Examine why schools in impoverished areas are providing vocational training instead of preparing students for college. <p><i>This objective implies that vocational training is a poor solution to the problem of educating poor students and does not provide the basis for coming to clear and unambiguous conclusions.</i></p>
Results-oriented approach	<p>Assessment of officers in the entertainment sector</p> <ul style="list-style-type: none"> • Appropriate: Assess the extent to which officers have implemented key income tax provisions. • Inappropriate: Assess entertainment sector compliance with the provisions of income tax rules. <p><i>This objective does not clearly identify who is being audited or the basis for the audit. It is also broadly scoped and does not position the audit to arrive at clear and unambiguous conclusions. It is more of a compliance audit than a performance audit objective. Finally, this objective does not enable the auditor to distinguish between societal problems and problems with government performance.</i></p> <p>Farmers' income stabilisation: Comprehensive set of tools, but low uptake of instruments and overcompensation need to be tackled</p> <ul style="list-style-type: none"> • Appropriate: Assess the extent that risk and crisis management tools have been implemented and are delivering intended results. • Inappropriate: Assess which risk and crisis management tools have been best able to deliver results. <p><i>This objective seeks to complete a result-oriented analysis without adequate criteria to quantify 'best deliver results'. Scope is overly broad and objective may not be achievable.</i></p>
Systems-oriented approach	<p>Assessment of use of government grants for education and monitoring of grant recipient activities</p> <ul style="list-style-type: none"> • Appropriate: Assess the extent that agency systems include controls needed to monitor how grant recipients use funds. • Inappropriate: Assess whether agencies are monitoring grant recipients to ensure that funds are being used appropriately. <p><i>This objective does not clearly establish the scope of the review and introduces subjectivity in the terminology it uses that may be difficult to support using objective criteria.</i></p> <p>Assessment of management system response to the tsunami disaster</p> <ul style="list-style-type: none"> • Appropriate: Assess the extent to which management systems and procedures permit a sufficiently rapid and appropriate response to the tsunami disaster. • Inappropriate: Assess whether additional steps could have been taken to respond to the tsunami disaster more effectively. <p><i>This objective presupposes that there was a poor response and does not specify the target of the audit, making it too broadly scoped to be actionable.</i></p>

Source: Adapted from the Office of the Auditor General of Canada; Comptroller and Auditor General of India; and US GAO

How do you formulate audit questions?

After developing your audit objective(s) and approach, you will formulate specific audit questions to guide your audit work. Audit questions should flow from the overall audit

objective(s) and typically are more specific to address the topics you will describe or evaluate during the audit. The aim is for your audit questions to cover all aspects of the audit objective(s). Each of the approaches described above may lead you to formulate your audit questions differently. As was the case when developing your audit objective(s), it is critical that your team thinks carefully about the wording of the audit questions because it will have implications for your decisions, the types of information you will collect, your information and data collection methods, your analytical approach, and the types of findings and conclusions you will reach. If you choose to decompose your audit questions into sub-questions, ensure they are complementary, not overlapping, and collectively exhaustive in addressing the overall audit question (GUID 3000/37).

Audit questions are either descriptive (meaning they describe a condition) or evaluative (meaning they evaluate a condition against criteria and can be normative or analytical) (GUID 3920/31-37). Descriptive audit questions can take multiple forms. Some are easily answered, while others are more difficult. For example:

- What are the characteristics of recipients of the rural school programme?
- What is known about the number of workers involved in activity X, both those employed directly by the government and those employed by companies contracted with the government?
- What are the institutional arrangements put in place by the government to achieve vertical and horizontal coherence of the activities related to sustainable public procurement?
- How is the government engaging with non-government stakeholders to implement initiatives related to the elimination of violence against women?

Evaluative audit questions can vary widely, ranging from assessing a programme's current economy to prospective analysis of future events. There are five types of evaluative audit questions, as shown in **Figure 16**. The use of such audit questions is not mutually exclusive. For example, a performance audit with a question to evaluate effectiveness may also include evaluating internal controls.

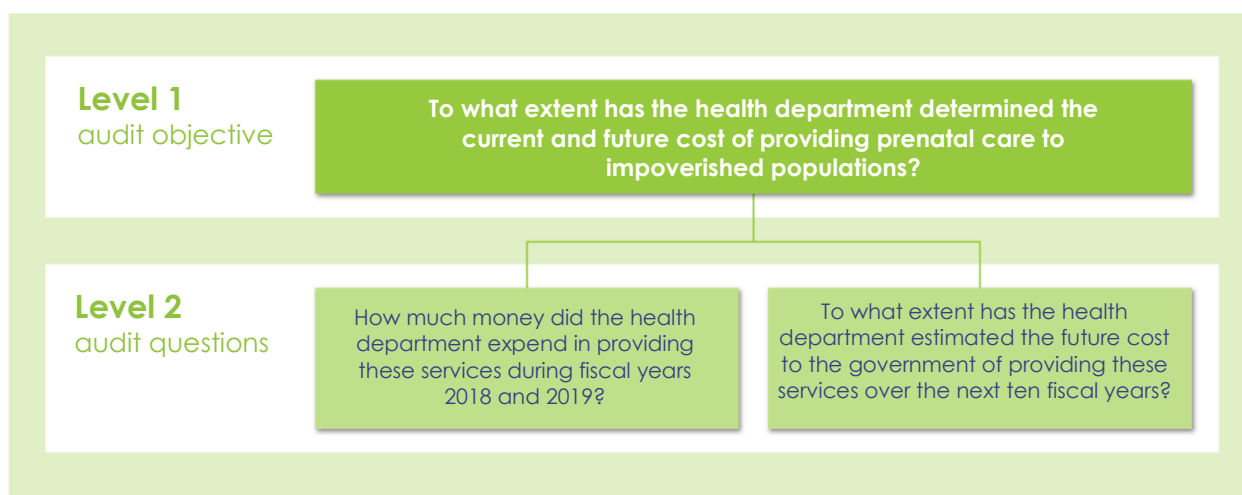
Figure 4: Types of evaluative audit questions by audit approach

Type of question	Description	Audit approach and example
1 Programme economy and efficiency	Questions that focus on economy and efficiency address the costs and resources used to achieve programme results.	Problem-oriented approach: <ul style="list-style-type: none"> What factors explain the variation in costs of patient care among public hospitals?
2 Prospective analysis	Prospective analysis questions provide analysis or conclusions about information that is based on assumptions about events that may occur, along with possible actions that the audited entity may take in response to future events that may affect economy, efficiency or effectiveness.	Problem-oriented approach: <ul style="list-style-type: none"> What challenges, if any, will students in high-poverty schools face when preparing to attend college in the next 20 years? Results-oriented approach: <ul style="list-style-type: none"> How might proposed federal standards for youth camp safety affect overall rates of child injury and illness?
3 Programme effectiveness and results	Questions that focus on programme effectiveness and results typically measure the manner and extent to which a programme is achieving its goals and objectives, and thus may also examine the quality of programme implementation.	Results-oriented approach: <ul style="list-style-type: none"> To what extent do international school food aid programmes follow good practices for these programmes established by the United Nations? Systems-oriented approach: <ul style="list-style-type: none"> To what extent have management systems and procedures permitted a sufficiently rapid and appropriate response to the disasters?
4 Internal controls	Internal control questions relate to an assessment of an organisation's system of internal control that are designed to provide reasonable assurance of achieving effective and efficient operations and reliable financial and performance reporting.	Results-oriented approach: <ul style="list-style-type: none"> To what extent do established internal controls help ensure the achievement of desired results? Systems-oriented approach: <ul style="list-style-type: none"> To what extent does the Ministry of Labour ensure that performance measures for its employment training programmes are valid, reliable and complete?
5 Compliance	Compliance questions relate to compliance with criteria established by laws, regulations, contract provisions, grant agreements and other requirements that could affect the acquisition, protection, use and disposition of the entity's resources and the quantity, quality, timeliness and cost of services the entity produces and delivers. As discussed, a performance audit may include elements of a compliance audit.	Systems-oriented approach: <ul style="list-style-type: none"> To what extent have projects funded under the Highway Emergency Relief Program complied with federal programme eligibility requirements?

Source: Office of the Auditor General of Canada; Comptroller and Auditor General of India; and US GAO

There are several techniques you can use to craft audit questions. One way is to prepare an issue analysis pyramid, such as the one modelled in **Figure 17**. The purpose of this tool is to break the audit objective into a number of more detailed questions to form a pyramid. This allows you to consider all dimensions of your audit questions. The audit objective, shown at Level 1, seeks to evaluate the extent to which the health department has identified current and future costs of providing prenatal care to impoverished populations. Level 2 identifies the audit questions the team will need to answer during the audit to address the audit objective.

Figure 51: Example of issue analysis



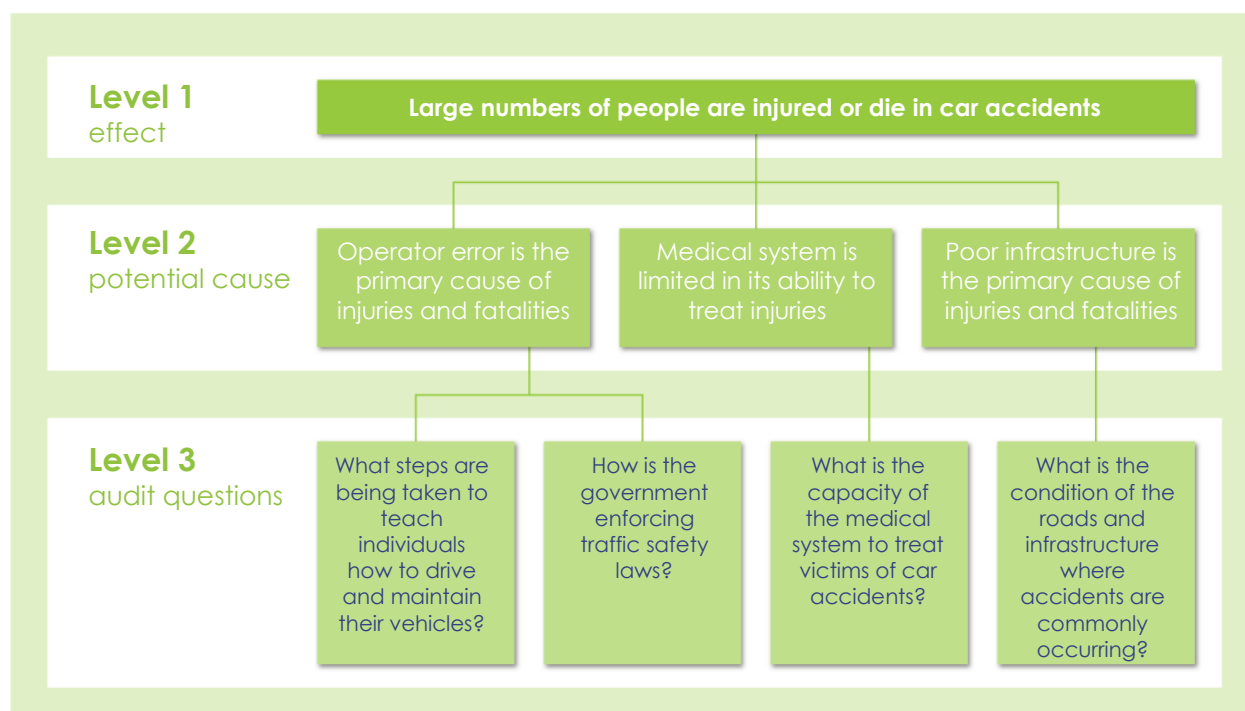
Source: IDI/PAS Development Team

This technique can enable you to assess the feasibility of answering the audit question(s) and develop the logic underlying your audit activity.

A second technique is to complete a cause-effect problem analysis, such as the one modelled in **Figure 18**. Depending on your audit, this may entail completing two discrete steps. The first step is to determine whether the expected results have been achieved or if a system is operating as expected. If this is not the case, there may be a performance problem, and you would need to consider whether the analysis could be brought a step further to hypothesize and analyse the causes. In the problem-oriented approach, the main performance problem and preliminary identified main factors causing it can be part of the original audit design.

The effect, shown at Level 1, provides the starting point for evaluating hypothesized causes identified at Level 2. Potential causes provide the basis for developing audit questions, which are identified at Level 3.

Figure 6: Example of cause-effect problem analysis



Source: AFROSAI-E Performance Audit Handbook, 2016

The formulation of audit questions is an iterative process in which you repeatedly specify and refine the questions, taking into account known and new information of the subject and the feasibility of obtaining answers. It is important that you allow your audit to evolve to obtain additional information and further insights into sub-problems and causes. In doing so, it is also critical that you document when, how and why you modify your audit questions so as to provide a complete record of your audit. If significant changes are made, it is necessary to inform the audited entities about the changes.

How do you determine the scope of the audit?

The scope defines the boundary of your audit and addresses such things as specific questions you intend to ask and the type of study you will complete. In particular, the audit scope defines the subject matter the auditor will assess and report on, the documents or records to be examined, the period reviewed, and the locations that will be included. The scope is directly impacted by the audit's objective(s) and questions. As a result, you may need to modify the scope as you collect information and become more knowledgeable about the subject of the audit. You will also need to consider the impact that any changes in your audit objective(s) or questions may have on the scope of your audit. Developing the scope of your audit is a critical part of audit design. See GUID 3910/24-26 and GUID 3920/21-23 for additional information.

You can establish the scope of your audit by answering the questions listed in **Figure 19**.

Figure 7: Scope questions

What?	<ul style="list-style-type: none">• What specific questions or hypotheses are being examined?• What are the key processes relevant to your 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?	<ul style="list-style-type: none">• 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 your audit?• Which organisations or persons will be excluded?
Where?	<ul style="list-style-type: none">• What are the locations to be covered?• Where are the documents and records that need to be examined?• What locations will be excluded?
When?	<ul style="list-style-type: none">• What is the timeframe to be covered?

Source: IDI/PAS Development Team

You will also need to consider many additional factors when deciding on the scope of your audit. For example, you may need to limit your scope based on the availability of reliable sources and data. You may also need to refine your scope based on:

- the resources available to execute the audit, including access to auditors with the skill sets needed to implement complex methodologies, such as methodology experts;
- access to subject matter experts;
- the costs associated with travel; and
- the time constraints of the audit.

The scope of your audit may include any issues that led to recommendations in prior audit reports if those issues remain relevant. The examples of scope below are adapted from various published performance audit reports.

Examples of audit scope

1. Protecting Fish Habitat from 2009 Spring Report of the Commissioner of the Environment and Sustainable Development.

Report of the Office of the Auditor General of Canada, 2009.

The audit included the Administration of Fish Habitat Protection, the pollution prevention provisions of the Fisheries Act, and the two policies (the Habitat Policy and the Compliance and Enforcement Policy) that set out the government's intentions relating to these provisions. The audit included the policies, programmes and activities of fisheries and oceans programme and certain arrangements with others that support the administration and enforcement of these provisions. The audit did not focus on the environmental assessments required by the Environment Assessment Act that may be triggered by ministerial authorisations under the provisions of the Fisheries Act.

2. Managing the expansion of the Academies Programme.

Report of the National Audit Office UK, 2012.

The audit evaluated the Education Department's implementation of the programme expansion since May 2010 and the adequacy of its funding and oversight framework across the academic sector (including academies established before May 2010). The expansion was still in an early phase, and there was limited trend data on how schools had performed academically since joining the expanded programme. The audit examined this aspect of academies' performance as part of the future value-for-money programme. The report did not cover capital funding nor assess in depth the impact of the expansion of local authority finances or services.

3. Management of Consumer Complaints.

Report of the Office of the Auditor General of Botswana, 2008.

The audit focused on the activities undertaken by the Consumer Protection Office to manage consumer complaints during the financial years 2003-2006. The audit coverage was nationwide. Consumer complaints data for 2003-04 financial years were not available.

Source: IDI/PAS Development Team

How do you select audit criteria?



The Standard

The auditor shall establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness.

Source: ISSAI 3000/45

Once you have determined your scope, it is time to consider the criteria that will allow you to measure the audited entities' performance against what is expected.

What are audit criteria?

Audit criteria identify the required or desired state or expectation with respect to an audit topic, representing reasonable and attainable standards of performance against which you can assess the **economy**, **efficiency** and **effectiveness** of activities. In short, they are the standards against which your audit evidence should be judged. In this sense, criteria provide a context for evaluating evidence and understanding the findings, conclusions and recommendations of an audit report (see GUID 3910/55-60 and GUID 3920/38-43).

Criteria are needed in all audits where performance is being evaluated. As stated, such evaluations may include aspects of compliance when it is relevant to the performance of the audited entities. Audit criteria can represent an expectation of ‘what should be’ according to laws or regulations, ‘what is expected’ according to best practice or ‘what could be’ given better conditions. Accordingly, criteria can be qualitative or quantitative, general or specific, or a normative model (that is, norms related to aspects of compliance, when relevant to performance, or economy/efficiency) for the subject matter under review. Examples of criteria include:

- laws and regulations applicable to the operation of the audited entities;
- goals, policies and procedures established by the audited entities;
- technically-developed standards or norms;
- expert opinions;
- procedures for a function or activity;
- defined business practices;
- contracts or grant agreements;
- benchmarks or performance indicators set by the SAI, the audited entities or other relevant entities or sectors;
- prior periods’ performance; and
- criteria used in similar audits or by other SAIs. (Note: You will need to ensure these criteria are still valid.)

How do you choose audit criteria?

When selecting performance audit criteria, it is important to do so objectively. The process requires rational consideration and sound **professional judgement**. Sometimes audit criteria are easy to define, such as when the goals set by the legislature or government are clear, precise and relevant. However, this is not always the case. For example, relevant criteria may not be apparent at the outset of the audit, and applicable performance goals may be vague, conflicting or non-existent. Similarly, you may find the criteria or standards set by the audited entities do not equal good performance, requiring you to select, adapt or even develop additional criteria that can provide more appropriate benchmarks of performance. In many cases, you may find that a mixture of criteria from the audited entities and other sources provides the right framework for assessing

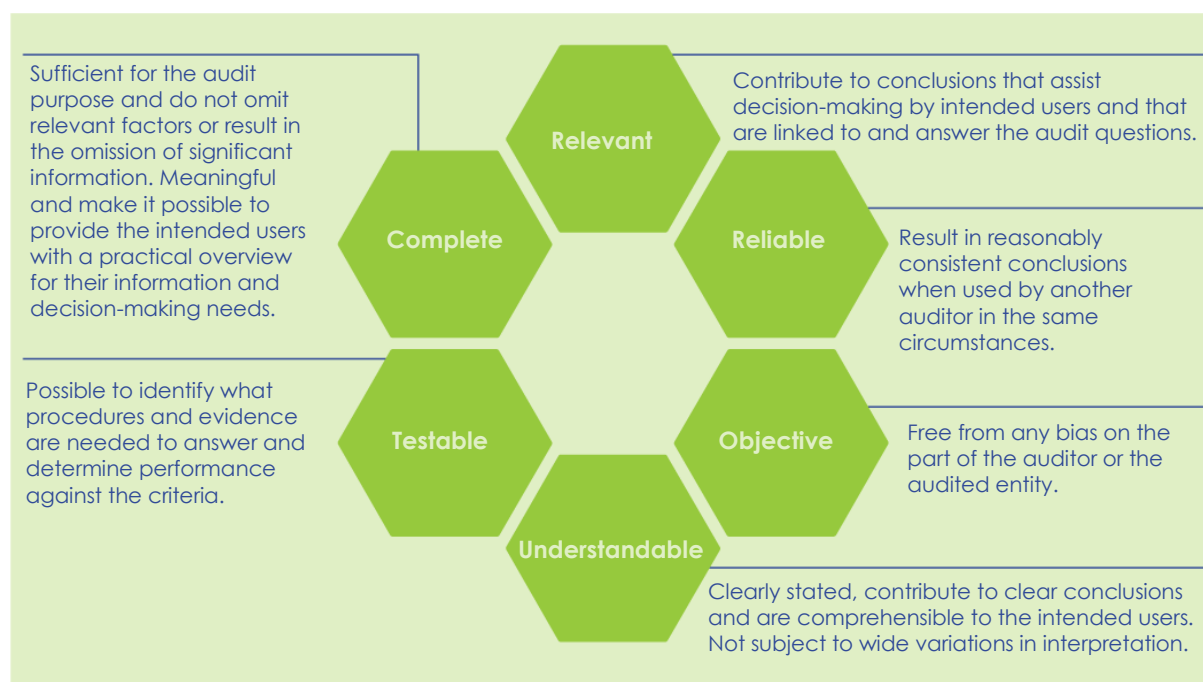
performance. However, in all such instances, it will help if you perform some audit work before selecting your criteria in order to ensure materiality and to enable you to become more knowledgeable about the issues and associated best practices.

To objectively select audit criteria, it is important to have:

- a general understanding of the area to be audited and familiarity with relevant legal and other documents, as well as recent studies and audits in the area to be audited;
- good knowledge of the motives and the legal basis of the audit topic and the goals set by the legislature or the government; and
- a general knowledge of practices and experience in other relevant or similar government programmes or activities.

It is essential that the criteria you select are suitable to the audit topic and objective(s). Suitable criteria are relevant, reliable, objective, understandable, testable and complete. The relative importance of these characteristics is a matter of ***professional judgement*** that should be considered during the selection process. These attributes are shown in **Figure 20**.

Figure 82: Attributes of suitable criteria



Source: GAO and GUID 3910: Central Concepts for Performance Auditing, 2019



Some criteria may be highly legitimate in the eyes of the audited entity, such as its own goals, policies or procedures. However, you must be critical when considering the suitability of such criteria and not assume that the entity meeting its own standards is a sign of good performance. Organisations may set internal standards too low in order to achieve them. In such cases, look for additional criteria to assess performance, such as relevant benchmarks used in the sector.

According to ISSAI 3000/49, the auditor shall discuss the selected audit criteria with the audited entities as part of designing and conducting the audit. Doing so helps to ensure a shared and common understanding of what criteria will be used as benchmarks when evaluating the subject matter. It can help address questions regarding their legitimacy and applicability. Such discussion can be especially helpful in instances where you select criteria different than those used by the audited entities to measure their own performance. However, while transparency and obtaining relevant input from the audited entities are important, it is ultimately the auditor's responsibility – not the audited entities' – to select suitable criteria for the audit based on the nature of the audit and the audit questions.

Source: IDI/PAS Development Team

Figure 21 shows examples of audit criteria in relation to their corresponding audit questions.

Figure 9: Criteria and corresponding audit questions

Audit question	Criteria
To what extent is the environmental management agency meeting the requirements of the Water Act?	Under the Water Act, the agency is required to prepare an annual report to Parliament on the operation of the Act.
To what extent is the education agency meeting timeframes for awarding contracts?	The agency has established internal timeframes for awarding different types of contracts.
To what extent has the agricultural management agency established processes to ensure that assistance payments are properly awarded?	The agency's policies require that processes be established to determine the eligibility of potential payment recipients and recoup any monies erroneously awarded.
To what extent is the health agency ensuring that potable water providers are performing water quality testing, as required?	Water testing regulations prescribe the type and required outcomes of tests on water intended for human consumption.
To what extent is the information technology office of the defence agency taking steps to safeguard sensitive employee information?	Technically-developed standards dictate steps the agency should follow to safeguard sensitive employee information.
To what extent has the justice ministry's grant programme contributed to desired outcomes within the target population?	Programme goals describe desired outcomes and associated measures to assess progress in achieving such goals.
To what extent has the environmental agency's carbon reduction programme achieved target reductions in carbon emissions?	Carbon emissions reduction targets specify the desired levels of reductions across a period of five years.
Are there established mechanisms to raise stakeholders' awareness and ownership of the SDGs and 2030 Agenda in the country?	According to the 2030 Agenda reference guide, the countries should establish various communication strategies to engage/inform different segments of the society as well as integrate the public.

Source: IDI/PAS Development Team

As noted earlier, sometimes criteria do not exist, are not appropriate or are not readily measurable. In such cases, you may adapt or develop new criteria. New criteria are usually not created from scratch; rather, they are often derived from existing criteria, existing principles of social science research or standards of professional practice. For example, you can: look for and potentially adapt existing criteria used in similar audit topics or operations; review existing literature and identify the measurement criteria used by experts in the field; or meet with officials, experts, consultants or focus groups to determine performance benchmarks based on circumstances and comparable practice, including in the international environment. When you develop criteria, they need to be valid and convincing to a reasonable reader. Validating the criteria you develop is usually accomplished by obtaining the views of independent, experts broadly representative of the field.

It is important to also discuss the criteria with the audited entities, explaining why the additional criteria were needed and how they were validated. The audited entities may have views regarding their applicability or identify other relevant information regarding the appropriateness of the criteria you may not be aware of. It is also helpful to obtain the audited entities' feedback on the use of the criteria, as it may increase the likelihood that the entities will agree with the findings and recommendations of the report and take actions accordingly. Should the audited entity not agree with the criteria you selected, you may wish to involve third party experts to reconcile the different perspectives. However, while engagement and feedback from the audited entities are important, remember that it is ultimately the audit team's responsibility to develop suitable criteria. Accordingly, in sustained disagreement, the audit team may choose to retain its criteria and disclose its rationale in the audit report.



If you choose to develop criteria, be sure to consult with internal and external stakeholders, as appropriate. Also, consider the time and staff resources to develop and validate new criteria and whether they are proportionate to the audit's overall cost and importance.

For example, if you are developing criteria based on expert opinions, it is especially important that the process of selecting them is transparent and defensible. Factors to consider as part of this process include:

- how the audit team will identify and collect information from the experts (for example, panels, surveys, focus groups, etc.);
- the appropriate mix of experts to ensure the desired mix of perspectives, organisations or sectors;
- the experts' certifications, reputation and experience;
- the experts' actual and perceived level of independence based on potential conflicts of interest relating to position, affiliation, assets, sources of income and other relevant circumstances; and
- factors the expert will consider in forming their opinion.

Source: IDI/PAS Development Team

How do you develop the audit methodology?



The Standard

During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s) and question(s).

Source: ISSAI 3000/101

Once you have determined your audit objective(s), questions, criteria and scope, you will need to consider what methodologies are appropriate for your audit, as well as the time and resources available. Your methodology has to describe how you will collect and analyse information to answer your audit questions. You can use a range of methods, the most common of which are discussed in **Figure 22**.

Figure 10: Benefits and considerations of select information collection methods

Method	Benefits	Considerations
Interview Discussion with one or more people, by phone, internet or in person, to obtain their perspectives on a programme or activity.	<ul style="list-style-type: none"> • Enables in-depth understanding of the interviewee's perspective. • Can be oftentimes set up and completed relatively quickly. • Enables information collection on sensitive topics. • Can allow flexibility to quickly pursue information in response to statements made during the interview. 	<ul style="list-style-type: none"> • Needs to be carried out thoughtfully to ensure consistency and enable comparison. • Does not support statistical analysis. • Takes time to identify and analyse patterns or trends across several interviews.
Document collection Review of documents gathered from the audited entity and other sources.	<ul style="list-style-type: none"> • Generally considered to be more reliable than testimonial evidence collected during interviews. • Usually provides good depth and range of information. 	<ul style="list-style-type: none"> • Source integrity, authenticity, authority, and reliability must be carefully considered (more info on Chapter 5). • May encounter difficulty gaining access to information wherein the audited entity does not readily provide documentary evidence.
Direct observations and inspection Physical observation of programmes, people, property and events related to the audit to collect qualitative information.	<ul style="list-style-type: none"> • Allows you to directly observe the programmes, people, property or events related to your audit. • Can provide context for the issues related to the audit. 	<ul style="list-style-type: none"> • Observations intended to directly or partially answer your audit question(s) may be complex. • Requires detailed planning and careful scheduling. • The observation could affect the behaviour of the person or situation being observed. • May require significant resources for travel and staff participation.
Surveys Approach to information or data collection that is used to collect evidence from a population using a standard set of questions.	<ul style="list-style-type: none"> • Way to gather information from multiple people. • Data can be used for different types of analysis. • Data on selected variables may be generalisable and precise. 	<ul style="list-style-type: none"> • Resource and time intensive. • Requires careful planning and testing. • Can require time consuming analysis.
Site visits Involves travel to a geographic location to perform audit methods.	<ul style="list-style-type: none"> • Can combine different methods including interviews, document review and direct observations or physical inspections. • Can improve cost efficiency by combining multiple methods during one visit. 	<ul style="list-style-type: none"> • Requires detailed advanced planning and careful scheduling. • May require significant resources for travel and staff participation. • Requires detailed understanding of how the audited entity or subjects of the visit(s) are organised.
File reviews and structured observations Information or data collection instruments used to systematically record observations and information extracted from records.	<ul style="list-style-type: none"> • Results in a structured and reliable data set that can 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 generalisable to a programme or population. 	<ul style="list-style-type: none"> • Requires significant time and resources to execute this approach. • Requires detailed advanced planning and the development of valid data collection tools. • May not enable the determination of the cause of identified deficiencies.
Small group methods Collection of information from a group of people using tools like focus groups (facilitated small group conversations) and panels of experts.	<ul style="list-style-type: none"> • Discussion can reveal issues not addressed in individual interviews. • Adaptable for a variety of audit needs. • Experts can provide consensus perspectives on issues or activities. 	<ul style="list-style-type: none"> • Can be costly in terms of travel or fees to convene expert panels. • Analysis can be difficult and time consuming due to volume and diversity of information.

Method	Benefits	Considerations
Secondary data Data collected by someone else, such as government agencies, universities or research organisations.	<ul style="list-style-type: none"> • May be faster than other data collection methods. • Data may be more complete than if you collected it yourself. • Quality checks may have already been completed. 	<ul style="list-style-type: none"> • Data may not match the audit objective. • Data may be difficult to access. • May require significant time to assess the reliability of the data.
Case studies In-depth collection of data for one or more complex events, incidents or locations that seeks to answer complex 'why' or 'how' questions.	<ul style="list-style-type: none"> • 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. • Approach can enable corroboration of evidence and increase the reliability and validity of findings. 	<ul style="list-style-type: none"> • May require substantial time and resources. • Analysis can be time-consuming. • Case study selection will significantly impact information collection and findings.

Source: IDI/PAS Development Team

Once information and data are identified, you will need to give some thought during the planning phase to how you intend to analyse the data. There are some analysis methods that you can consider in developing your methodology, including those discussed in **Figure 23**.

Figure 11: Benefits and considerations of select data analysis methods

Method	Benefits	Considerations
Content analysis Method for structuring and analysing complex qualitative information obtained from multiple sources, such as interviews or a large number of documents.	<ul style="list-style-type: none"> • Enables the identification of patterns or trends in data that are meaningful for the audit questions and objectives. • Allows data to guide the development of analytic categories. • Can be used to inform the use of other methods. • Enables unstructured data to be summarised, analysed and reported. 	<ul style="list-style-type: none"> • Labour and time intensive. • Can lead to unusable results if implemented incorrectly. • Requires planning and training of staff.
Statistical analysis and modelling Use of software and computer models to identify trends, patterns and correlations in large data sets.	<ul style="list-style-type: none"> • Enables the identification of patterns and correlations in large quantities of data. • Provides an efficient and structured means of analysing large amounts of quantitative data. 	<ul style="list-style-type: none"> • Requires significant expertise in the use of data analysis software. • May require significant time and resources to structure the data so that it can be analysed using data analysis software. • Typically does not identify the cause of patterns or correlations.

Source: IDI/PAS Development Team

When designing your data collection and analysis methods, you will need to ensure the approaches you use will enable your team to obtain evidence that addresses your audit objective(s) and answers your audit questions. Additionally, you will need to consider risks and limitations that result from your team's expertise, cost and time limitations, and the availability and reliability of the data (see the Managing risk section below for more information). In most instances, you will find it beneficial to use multiple methods to collect and analyse data to help you corroborate information from multiple sources.



Remember, although you will make initial decisions about your audit methodology during the planning phase, you may need to refine or adjust your methodology as you perform the audit. This will be discussed in greater detail in Chapter 5.

Source: IDI/PAS Development Team

Examples of applying audit methods

The Packaging Recycling Obligations; 2018.

In completing this audit, the audit team used a number of information collection and analysis methods including:

- 1. Interviews** with stakeholders to understand their view of the purpose of the scheme, its performance, the level of fraud and error present, and the oversight government has had over it.
- 2. Direct observation** of the Environment Agency's central packaging compliance team to develop an understanding of how the scheme operates and is monitored.
- 3. Content analysis** of legislation, policy papers, department briefing notes, audit reports, industry reports and relevant published audit reports.
- 4. Statistical analysis** of the National Packaging Waste Database to determine the number of companies registered and accredited with the scheme, the amount of revenue reported as generated through the system and trends in the reported weight of packaging recycled.

Federal Monitoring and Evaluation Guidelines Incorporate Most but not All Leading Practices; 2019.

In completing this audit, the audit team used a number of data collection and analysis methods including:

- 1. Content analysis** drawing upon documentation and interviews to agency guidelines against 28 leading practices.
- 2. Content analysis** and document review of agency policies, guidance and operating procedures against requirements established in government guidelines.
- 3. Interviews** with agency officials.

Source: IDI/PAS Development Team

Ultimately, you will need to not only consider how you will collect evidence and how you will analyse it to address your audit questions but also how you will assess the evidence to ensure it is reliable. Collectively, these steps establish the methodology for your audit, something we discuss in greater detail in Chapter 5.

How do you manage risk during audit design?



The Standard

The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions and recommendations, providing unbalanced information or failing to add value.

Source: ISSAI 3000/52

It is important to manage risk throughout the audit design process. A key purpose of audit design is to identify, mitigate and plan for major risks; accordingly, all design decisions have to be risk-based.

Audit risk is 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 (GUID 3910/61). This includes the risk that auditors will not detect a mistake, inconsistency or significant errors – or fraud in the evidence

supporting the audit. Risk involves the probability of an event occurring combined with the seriousness of the event if it occurs.

How do you identify and assess risk?

Identifying and assessing risk during audit design requires sound, up-to-date knowledge of the audit area, including a thorough understanding of the audit topic objectives, policy and processes, along with key stakeholders and controls. The identification of audit risk involves consideration of both qualitative and quantitative factors, including time frames, complexity and sensitivity of the work; the size of the activities in terms of financial value and number of citizens served; adequacy of the audited entities' systems and processes for preventing and detecting inconsistencies, significant errors or fraud; and auditors' access to records.

You should identify and assess risks for the audit overall and each potential audit approach so that you have a clear understanding of the costs, benefits and limitations of potential methodologies. Risk identification and assessment can take many forms but may generally be addressed by considering the following questions (GUID 3920/61):

- 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 (for example, travel funds, opportunity cost impact on other audits)?
- Is the audit topic sensitive, highly visible or controversial (for example, political sensitivity, media sensitivity)?
- Is the audit and subject matter highly complex, or does it involve areas traditionally prone to risk (for example, 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 audited entities?
- Are there enough data available and are the data of good quality (for example, data access and reliability)?

In identifying and assessing risk, you may benefit from evaluating whether the audited entities have taken appropriate corrective action to address findings and recommendations from previous audits that are significant in the context of the current review. This information can be used to determine the nature, timing and extent of current audit work, including how testing the implementation of corrective actions applies to the current audit.

Once you are aware of risks, you have to carefully consider your **risk tolerance** – that is, the acceptable level of variation in audit performance relative to the achievement of your audit’s objectives. Risk tolerance should also be balanced against the benefits of undertaking the task. For example, if conducting a survey, you need to consider your tolerance for risks – such as a low response rate or limited access to staff with the expertise needed to properly design and administer the survey – about the potential benefits of the survey.

When determining your tolerance for risk, focus on the risks most likely to affect the audit’s critical path, which comprises the tasks that will delay the completion of the project if they are not performed as expected and on time.



Plan the steps you will take to assess data quality. Possible steps include:

- reviewing information about the data from reports, studies, system manuals and knowledgeable parties;
- testing the data (for example, checking the total number of records, testing for missing values or elements, looking for invalid or duplicate records and following-up on anomalous data such as extremely high values or dates outside of valid time periods);
- assessing internal controls of the data system; and
- tracing a sample of data to the source documents to ensure accuracy.

See Chapter 5 for additional information on assessing data quality.

Source: IDI/PAS Development Team



Key risks can be captured in the design matrix, and sufficient time should be included in the project schedule or work breakdown structure for risky tasks and to further assess risk as the audit evolves. The project schedule can also help you determine which tasks are critical and therefore most in need of mitigation. See the ‘How do you document the audit plan?’ section for additional information on these important design tools.

Source: IDI/PAS Development Team

Your approach to assessing risk during the audit design phase can vary and is a matter of **professional judgement**, depending on the audit’s circumstances and approach. See Appendix 5 for tools that can enhance knowledge of the subject matter and facilitate the analysis of audit risks.

How do you mitigate audit risk?

After identifying and assessing audit risks and tolerance levels, it is important to manage any significant risks by planning steps to reduce them or mitigate their effects (GUID 3920/62). This can be accomplished through various actions, including:

- increasing or reducing the scope of work;
- adding specialists (for example, methodologists), reviewers or additional senior staff;
- increasing resources;
- 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 risky tasks;

- changing 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.

For example, if your team has concerns about data quality, you could plan to mitigate the risks associated with its use by: collecting additional evidence from other sources to supplement or corroborate the data; and including information in the report about the source and quality of the data, along with any associated limitations in its use or interpretation. Remember, you should only use data that you determine to be sufficiently reliable for the intended purpose of your audit.

When considering ways to mitigate risks, remember that risks and mitigating steps associated with audit approaches should always be balanced against the benefits of those approaches in order to clearly understand their value and optimise the return on invested resources. Chapter 2 discusses the broader process of managing risk across the entirety of the audit.



Your plans for mitigating key risks can be captured in the audit design matrix, which is described in the 'How do you document the audit plan?' section.

Source: IDI/PAS Development Team

How do you determine the time frames and resources needed for a performance audit?

When designing your audit, it is critical that you determine realistic time frames and resource needs so that the work can be performed in an economical, efficient, effective and timely manner, in accordance with the principles of good project management. To perform a high-quality audit within a limited time frame, it can be helpful to think of the audit as a project because it involves planning, organising, securing, managing, leading and controlling resources to achieve specific goals. In particular, this requires that you:

- determine realistic time frames for the audit and individual tasks that need to be completed. These have to 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 auditors, supervisors, and internal and external stakeholders with specific tasks to meet expected time frames for completing the work. This process has to account for their collective knowledge, skills, abilities, independence and developmental needs. See Chapter 2 for additional information on ensuring **audit team competence**; and
- determine costs associated with travel, training, equipment and external subject matter experts, and other ancillary costs. Internal staff resources are typically budgeted in terms

of working days and tracked through an internal recording system, whereas external stakeholders may involve separate costs.

How do you document the audit plan?

What is an audit plan?

It is important that auditors prepare a written audit plan to guide their work and ensure the audit is properly designed (see GUID 3920/56-58). The intent of an audit plan is to synthesise and document the design efforts discussed earlier, tying together all design considerations and components. The form and content of an audit plan may vary among audits but often includes a design matrix, project schedule and any other appropriate **audit documentation** of key decisions about the audit objectives, scope and methodology, and the auditors' basis for those decisions. This could include a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) and Risk Verification Diagram (RVD), the results of the audit pre-study and data collection plans and tools, among other items (see Appendix 5). Collectively, these items should encompass:

- background knowledge and information needed to understand the subject matter and the entities being audited;
- the audit objective(s), questions, criteria and scope, including the period to be covered;
- results of the risk assessment;
- methods for gathering evidence and conducting audit analysis;
- the plan for conducting the work, including key tasks, time frames, milestones, resources (including team members and need for external expertise) and control points; and
- the estimated cost of the audit, with or without staff costs depending on the planning system of the SAI.

A written audit plan provides an opportunity for your SAI management to supervise audit design and to determine, among other things, whether: the proposed audit objectives and questions are likely to result in a useful report; the audit adequately assesses risks; the proposed scope and methodology are adequate to address audit objective(s), and the available evidence is likely to be sufficient and appropriate for the audit.

The plan is also a tool to help management determine whether sufficient staff, supervisors and specialists with adequate collective professional competence and other resources can conduct the audit and meet expected time frames. Therefore, it is important to submit audit plans to SAI management for approval, as discussed in the *How do you involve internal stakeholders, external stakeholders and management when designing the performance audit?* section below. The approved plan will then guide your team in the audit and provide the basis for management to regularly monitor its progress. To do so effectively, the plan has

to allow for flexibility so it can be adjusted as circumstances change and knowledge deepens during the audit.

How do you develop the design matrix?

The audit design matrix is a key tool for providing an overview of and documenting the audit design. It provides a structure for synthesising and linking the elements of your audit design, enabling a more systematic and directed design process, as well as communication with internal stakeholders within your SAI about the audit approach. The design matrix helps document and link your audit scope, objective(s), criteria and methods, assuring a logical chain of reasoning between the audit's approach and likely results. It provides the basis for stakeholders to develop a common understanding of the audit's design and ultimately agree on the planned approach. While the matrix is initially to be prepared during the design phase, it is a living document reviewed and updated, as necessary, as the audit work progresses.

The main goals of the design matrix are to:

- 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.

When preparing the matrix, make sure to explicitly identify the intended users of the report so that their needs and interests can be considered. Doing so will help ensure the report is useful and understandable to its intended audience. However, such considerations should in no way undermine the independence and objective attitude of the audit team, which remains responsible for conducting a well-balanced and independent performance audit.

Figure 24 provides an example design matrix template, along with instructions for completing each section.

Figure 12: Design matrix template

- Put the issue into context; state why it is important.
- State why the audit is being conducted.
- Identify the audit team and intended users of the audit report.
- Introduce the overall audit objective(s).

Audit question(s)	Criteria and information required and source(s)	Scope and methodology including data reliability	Limitations	Expected results of the work
<p>Identify key audit questions.</p> <p>Audit questions may be descriptive or evaluative.</p> <p>Ensure each question is specific, objective, neutral, measurable and doable. Ensure key terms are defined.</p> <p>Broad questions followed by more pointed sub-questions sometimes help to clarify scope and develop more substantive findings. Limit the number of sub-questions to no more than three.</p> <p>As the audit nears its conclusion, audit questions may be refined to reflect your findings more accurately.</p>	<p>Criteria: Identify the criteria or plans to collect documents that will establish the criteria to be used.</p> <p>As discussed, this can include laws, regulations, policies, best practices or other credible standards for how things should be.</p> <p>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.</p> <p>When the first column contains sub-questions, precise one-to-one linkage is not strictly necessary. Consider what it will take to answer the question and avoid repetition.</p>	<p>Scope: Identify the planned scope of the work associated with the research objective. Scope will define the boundaries or time frame of your work for the objective.</p> <p>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.</p> <p>Describe the analytical techniques to be used to analyse the information collected, such as content analysis, case study summaries or regression analysis.</p> <p>Describe steps to be taken to assess the reliability of data sources.</p>	<p>Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question. Limitations could 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.</p> <p>Discuss how each limitation may affect the product and describe steps to be taken to mitigate the associated challenges.</p> <p>If the limitations are so severe that they will materially affect your ability to answer the audit question, consider rewording the question and/or altering the scope to decrease that risk.</p>	<p>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.</p> <p>The expected results should answer the audit question in the first column.</p>

Source: US GAO

The design matrix can also be documented in other formats. One such format is the design paper, which presents the same information in narrative form outside a structured matrix. The design paper itself can take multiple forms, depending on audit circumstances and staff/management preferences. If used, see the checklist in Appendix 6 to help ensure your design paper includes the necessary information.

How do you develop the project schedule and a work breakdown structure?

The project schedule and work breakdown structure create a roadmap for performing the work and answering the detailed questions of ‘how’ the work is being conducted, ‘when’ the work will be conducted and ‘who’ will conduct the work. Like the design matrix, the project schedule and, if used, a work breakdown structure (a work breakdown structure is not always necessary) has to initially be prepared during the audit design phase. However, since the auditing process is not static, you have to continuously monitor your schedule and work breakdown structure and take corrective actions, when appropriate, to ensure the plans reflect the work being performed and that the audit proceeds in an efficient manner.

Collectively, the project schedule and work breakdown structure will help you define and document:

- the specific tasks the team will perform;
- when tasks will occur (timing and sequence) and how long they will last;
- how the tasks relate to each other;
- who is needed and available, and for what periods;
- other required resources (for example, travel funds, training costs);
- milestone dates (that is, key decisions or progress assessment dates); and
- the detailed activities associated with each major task.

The project schedule and work breakdown structure are similar tools, but they provide different types of information and varying levels of detail. Specifically, the project schedule – which is typically developed for all audits – focuses on the audit’s key activities, durations and associated staff, allowing you to define and sequence audit tasks, allocate resources and closely monitor their usage. Alternatively, the work breakdown structure allows you to divide the work into distinct increments and describe the tasks that will be performed to the level of detail necessary to define the scope of work and enable its oversight. Unlike the project schedule, the work breakdown structure generally does not emphasise time frames associated with the work. This may be particularly useful when you need to define in detail the work associated with a major line of effort, such as developing a survey and focus oversight on the execution of specific detailed steps instead of overall timeliness. Whether you choose to use a work breakdown structure or just the project schedule, it is important to carefully monitor audit progress, along with the expenditure of staff time and budgeted resources.

See Appendix 7 for templates, examples and detailed descriptions for the project schedule (basic and detailed variants) and work breakdown structure.

How do you involve internal and external stakeholders and management when designing a performance audit?

Effective **communication** with internal stakeholders (that is, technical experts, legal experts, methodologists) and your management, as well as external stakeholders – such as the audited entities, legislature, the media and other concerned actors – is essential in order to properly plan and conduct your audit.

How do you communicate with internal stakeholders and management?

Your ability to develop and maintain a sound audit plan depends to a large degree on the extent to which you communicate with internal stakeholders and SAI management throughout the initial and ongoing design processes. As discussed, your audit plan needs to be developed in conjunction with internal stakeholders and submitted to SAI management for approval. As part of this process, it is helpful for the audit team, supervisor, internal stakeholders, and management to collectively discuss and reach an agreement on the audit plan, as documented in the design matrix, project schedule and other chosen tools. Doing so

will help ensure all parties agree on the approach and accept the audit risks that may exist because the audit plan has not yet been tested. Often this is accomplished through a formal meeting that is required by SAI policy.

As discussed throughout this chapter, design is a continuous process. It is therefore important that you plan to have regular meetings with your management to inform them of audit progress and the use of

assigned resources. This will allow management to guide any necessary changes to the audit plan and continuously ensure that assigned resources are adequate to successfully conduct the audit. Similarly, it is equally important that you plan to consult often with internal stakeholders, drawing upon them for their expertise. This can be accomplished through periodic meetings, milestone discussions, status checks and ad hoc consultations.

As the audit unfolds, your ongoing communication with both stakeholders (such as methodologists and legal experts) and management should focus on the execution of the audit plan and the emerging preliminary findings. Accordingly, tools such as the project schedule, design matrix and work breakdown structure provide mechanisms for coordinating continuous stakeholder and management involvement.

Source: IDI/PAS Development Team



Key decisions, communications and changes made to the audit plan need to be documented in the audit plan or other documentation, as appropriate.

How do you communicate with external stakeholders?



The Standard

The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process.

The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.

Source: ISSAI 3000/55 and ISSAI 3000/59

When designing your audit, it is important that you also communicate with external stakeholders – which include the audited entities, the legislature and other relevant government offices – and, when appropriate, non-government stakeholders such as the media.

Communication with the audited entities should begin during the audit planning stage and continue throughout the audit process (GUID 3910/64). It is important that you engage the audited entities early to discuss the audit subject matter, objective(s), criteria, audit questions and information needed, along with the period to be audited and the government activities, organisations and/or programmes to be included (GUID 3910/65). Discussing these key aspects will provide a clear picture of what the audit is about and why you are doing it, what the result might be, and how the audit will affect the audited entities. Further, it creates a basis for exchanging views, avoiding misunderstandings and facilitating the audit process. This does not mean that the audited entities dictate conditions or in any way control the audit process. Rather, it helps establish a constructive process for interacting with the audited entities that are essential to performing an effective audit. (GUID 3910/66)

Determining the form, content, and timing/frequency of communication with management or those charged with governance of audited entities is a matter of **professional judgement**. However, a combination of written communication and in-person meetings are generally preferred. For example, you may wish to use a letter to inform the audited entities of key information as the audit is initiated and hold a meeting to discuss key aspects of the audit, as discussed. Additionally, some SAIs prefer to provide the audited entities with detailed information on the design of the study as early as possible to help reassure the audited entities about the nature and scope of the audit, while other SAIs prefer to provide such information only after the audit plan has been approved by management. Organisations accustomed to working with SAIs and participating in the audit process may have established protocols they want you to follow when working with them. For example, audited entities may want you to send requests for information through specific points of contact. Similarly, many SAIs have established protocols that clearly define policies and practices for how you are to engage with the entities you are auditing. The exact timing of such communications is

a matter of professional judgement and the requirements of your SAI; however, it is helpful to consider providing the audited entities with as much information as early as possible to develop a mutual understanding of the audit's purpose and scope.

Communication with other external stakeholders during the design phase is shaped by each party's role, needs and interests, and internal SAI protocols. For example, if the audit is being conducted at the request of the legislature, it may be helpful to contact the requesters when initiating the audit in order to obtain clarifying information, follow-up to explain the audit design and schedule, and provide periodic briefings on the status of the audit and preliminary findings. It is also important to gain the trust of the audited entities to ensure cooperation throughout the audit. See GUID 3910/70-73.

While communication with the media generally occurs after an audit report is issued, the SAI or audit team may need to be prepared during the design phase to respond to media enquiries or even develop a strategy for engaging the media as needs dictate, such as when the audit topic is controversial or high-profile. For ongoing work, it is generally appropriate to share only a limited amount of information with the media such as: the audit objective(s), scope and methodology; the source of the work; and the expected completion timeframe. Audit details or potential findings are usually not shared with the media until work is completed and the audit report is issued.

When designing a performance audit, remember to...

... communicate with the audited entity and other knowledgeable actors to obtain the information necessary to develop a sound audit plan;

... develop sufficient understanding of the audit area, weaknesses and challenges in it, what data will be available during the audit, the materiality of the audit questions and what criteria will be considered for assessing performance;

... consider resource availability and audit team competence when determining the who, when and how work will be conducted;

... communicate continuously with internal stakeholders (and external stakeholders as appropriate) to ensure the audit plan reflects legal, subject matter and methodological expertise;

... consider the independence of audit team members to ensure that work plans are objectively constructed and can be soundly executed;

... assess the risks associated with different audit questions and methodologies (for example, time, data quality) and take appropriate mitigating steps (for example, adding reviewers, obtaining corroborating information) to ensure that efforts will produce findings, conclusions or recommendations that are accurate, complete and add value. Remember that all design decisions are risk-based decisions;

... apply professional judgement to all planning decisions to ensure sound decision-making based on relevant factors; and

... document key planning considerations and decisions via tools such as the design matrix, project schedule and work breakdown structure.

Source: IDI/PAS Development Team