The performance audit: Are there differences in the planning approach and practices followed within the South African public sector?

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ABSTRACT

The importance of a formal, documented approach and methodology as part of the audit process is well-recognised. In South Africa, only a few national departments have dedicated performance audit sections within the Internal Audit Function (IAF), and limited performance audits are being conducted. The limited execution of performance audits and the lack of information on performance audit methodologies adopted within the public sector by IAFs prompted this research. The research objective was to identify the differences in the performance audit planning practices followed by internal auditors within the South African public sector, as well as the reasons behind these differences, by critically comparing the performance audit methodologies within the IAFs in selected national departments with the methodology followed by the AGSA. The results indicated that, although differences do exist between the performance audit planning practices of these institutions and those of the AGSA, numerous similarities also exist. Research on the different planning activities prescribed by the methodologies adopted by national departments and the AGSA provides valuable information that may contribute to the growth of the performance audit discipline in the public sector and could enable the performance audit process itself to become more effective and efficient. It is recommended that national departments and the AGSA consider these differences and the rationale behind these differences when compiling or updating their performance audit methodology.

Key words  
Performance audit; economy; efficiency; effectiveness; planning phase; Auditor-General; public sector; internal audit

1 INTRODUCTION

This article evaluates the requirement for, and evolution of, the performance audit audit principle. This audit discipline came into being in response to the pressure placed on public sector entities by the increasing demand for their limited resources, along with the requisites to evaluate how these are utilised, to measure performance, and to ensure accountability (Jacobs 1998; Fakie 1999; Witthoft 1999; Ferdousi 2012; Loots 1989). There was an observable need for an audit discipline to be established (extending beyond financial auditing and financial management), in order to improve accountability and efficiency (De Jager 1999; Roos 1999; Al Athmay 2008).

The implementation of the performance audit discipline in South Africa at the Auditor General of South Africa (AGSA) is still relatively new, compared to traditional ‘regularity’ or ‘external’ auditing. Anecdotal evidence and personal experience in the field indicates that performance auditing within national departments in South Africa is still in its infancy. Only a few national departments have dedicated performance audit sections within their Internal Audit Functions (IAFs) and only a limited number of performance audits are being conducted. Although the performance audit is still a relatively new audit discipline at the AGSA, the performance audit methodology is well established and documented. The lack of information on performance audit methodologies adopted within the public sector by IAFs prompted this research. Initial analyses indicated differences between the performance audit methodologies adopted within the public sector and those followed by the AGSA.

Performance audits are required to determine whether stakeholders are getting value for money from the public sector (Guthrie & Parker 1999); if public funds can be better expended (Goolsarran 2007); and whether the right actions and activities are being undertaken by this sector. In addition, performance audits assess if these actions and
activities are being undertaken correctly and efficaciously (Bi 2011), and whether service delivery is being conducted in the most economic, effective and efficient manner possible (Guthrie & Parker 1999; Al Athmay 2008; Reichborn-Kjennerud & Johnsen 2011; Van der Knaap 2011). Research on the differences in methodologies adopted by national departments, in comparison with the methodology followed by the AGSA, could provide valuable information which may contribute to the growth of the performance audit discipline in South Africa, and could enable the performance audit process itself to become more effective and efficient.

The mandate of the performance audit was originally established by the Supreme Audit Institutions, with the United States of America being the first to embrace this type of auditing in 1921. The USA was followed by Austria in 1948 and France in 1967. In 1974 the performance audit discipline was internationally accepted, with South Africa implementing the discipline in 1975, the Netherlands in 1976 (Pretorius & Botha 2013/14), Australia in 1976 (McCrae & Vada 1997), Canada in 1977, and the United Kingdom in 1983 (Pretorius & Botha 2013/14). Although the performance audit discipline was accepted by the AGSA in 1975, with the principles of the performance audit being incorporated into the Exchequer and Audit Act of 1975, it was only formally adopted and implemented in 1986, when the first performance audit was undertaken in the Department of Education and Training by the AGSA (Kluver 1999; Roos 2009). In 1987, Dr JH de Loor, the then Auditor-General of South Africa, indicated that the move towards implementing performance auditing by Supreme Audit Institutions was one of the most significant transformations in the roles and responsibilities of auditors, and would be the most value-adding support these state auditors could provide to the public sector (De Loor 1999).

2 RESEARCH OBJECTIVES

This research article aims to identify the differences in the performance audit planning practices followed by internal auditors within the South African public sector (as well as the reasons behind these differences), by critically comparing the performance audit methodologies within the IAFs in selected national departments with the methodology followed by the AGSA.

The key research question centres on determining whether there are differences between the performance audit planning practices of the AGSA and those of the IAFs currently conducting performance audits in selected national departments. If differences are identified, what are these differences and what is the reasoning behind the different approaches and practices?

3 METHODOLOGICAL FRAMEWORK

Research is described as

“[the] process of critical analysis to solve a problem. Research has three important components: • Critical knowledge enquiry. • Discovery of new knowledge.

• Implementation and application of new knowledge.” (Lategan, Uwah & Swanepoel, 2011).

Firstly, with reference to the “critical knowledge enquiry” component, a detailed literature study was conducted to determine the meaning and mandate for performance auditing and the audit approach this requires.

As this study only focused on the performance audit within the public sector of South Africa, it was possible to obtain the performance audit methodologies of the AGSA and two national departments through formal approval processes. The advantages of multiple case study research include that it improves theory-building and, by comparing two or more cases, the researcher is able to establish the circumstances in which a theory will or will not be upheld (Bryman 2004). Both of the national departments selected for this study have fully implemented in-house internal audit units, each with a performance audit function and a formally implemented performance audit methodology.

In order to identify the differences between performance audit planning practices, a comparative analysis was conducted between the performance audit methodologies of the AGSA and the two selected national departments. The comparative analysis method aims to identify the similarities and differences between the methodologies implemented (Mouton 2001). The comparative analysis was informed by the utilisation of an assessment tool developed using the performance audit methodology of the AGSA as its baseline. Peer revision was sought from experts in the field to ensure the robustness and completeness of the assessment tool. Although the performance audit process consists of planning, fieldwork, and reporting phases, the assessment tool focused only on the planning phase. The fieldwork phase was specifically excluded from this research study due to the generic nature of the activities constituting this phase. The reporting phase, along with recent developments in the performance audit arena, will be addressed in a forthcoming article. The assessment tool was successfully utilised to review the performance audit methodologies of the national departments and the results were analysed to identify the differences. Follow-up interviews were conducted with senior managers responsible for performance auditing within the AGSA and in Department B, and with a director responsible for performance auditing within Department A, to identify reasons for differences and to validate the information obtained from the assessment tool, and the results.

As the performance audit discipline is still in an evolutionary phase within national departments, the results of the research could be utilised to enhance their respective methodologies. The AGSA could also use the information as part of their continuous assessment and improvement of the performance audit methodology they use and advocate. IAFs within national departments that have not yet instituted the performance audit discipline, or are in the process of instituting this mechanism, can utilise the results of the research in the compilation of a performance audit methodology. Utilising others’ experiences and drawing from lessons others have
learned could expedite the growth of the performance audit discipline, ensuring greater efficacy and efficiency in its processes and activities.

4 LITERATURE REVIEW

The research focuses on identifying the differences between the performance audit methodology followed by the AGSA and those of the IAFs in the selected national departments. To be able to answer the research question it is necessary to analyse what is meant by performance audit, along with the methodology employed in pursuit of this phenomenon, and to investigate its development and implementation. This literature review describes the meaning and mandate for performance auditing, and the audit approach thereof.

4.1 Description and mandate for the performance audit

The International Organization of Supreme Audit Institutions (INTOSAI) defines the performance audit (in the International Standard 300 of SAI), as “an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement” (International Organization of Supreme Audit Institutions 2013). The definition provided by The South African Institute of Chartered Accountants (SAICA) extends the reference to ‘room for improvement’ made by INTOSAI by indicating that the performance audit should include a confirmation that appropriate managerial measures have been implemented to achieve the desired improvement (SAICA 2006).

Performance audit results should be conveyed in a detailed report to management, Parliament and other legislative stakeholders, should identify inadequate or non-existent managerial measures, and should include areas for improvement, as well as the corrective measures that will enable the public sector entity to improve its operations and control environment (Fakie 1999; Kluever 1999; Barret 2012). Ultimately, the result of a performance audit should “act as a catalyst for change” (Lourens 1999), through contributing to the improvement of public sector management, information, and accountability (Witthoft 1999).

The mandate for the performance audit in the South African public sector is strongly supported in legislation and guidelines, through the inclusion of the principles of performance auditing, viz., economy, efficiency and effectiveness (SAICA 2006; Prinsloo & Roos 2010). The Constitution of the Republic of South Africa (Section 195), identifies as one of the principles of public administration the fact that the “efficient, economic and effective use of resources must be promoted” Sections 38(1)(a)(i) and 51(1)(a)(i) of the Public Finance Management Act (National Treasury 2010) require the accounting officer of a department, trading entity, or constitutional entity, or the accounting authority of a public entity, to ensure that it “maintains effective, efficient and transparent systems of financial and risk management and internal control”.

Section 20(3) of the Public Audit Act (The Presidency 2005) indicates that the “Auditor-General may report on whether the auditee’s resources were procured economically and utilised efficiently and effectively.” Batho Pele, the White Paper on transforming public service delivery, includes as one of its eight service delivery principles “Value for money – public services should be provided economically and efficiently” (Department of Public Service and Administration 2007). The Batho Pele principle refers to the achievement of a cost effective public service through the identification of opportunities that will result in savings and an improvement in service delivery (National Treasury 2014).

The performance audit can be seen as a management tool (Ferdousi 2012) that focuses on current situations, circumstances and activities (Bi 2011) within a programme, activity or project (Ferdousi 2012), and aims to assist the organisation in improving future activities relative to the economical, efficient and effective procurement and use of its resources (De Loor 1999). The following section briefly summarises the purpose of a formal performance audit approach and methodology.

4.2 Performance audit approach

The analysis of the performance audit approach is considered a key element of the research process. Prior to this approach being discussed in detail, it is important to consider whether there is a difference between a performance audit conducted by external auditors (i.e. the AGSA) versus one undertaken by internal auditors (i.e. the in-house IAF of a national department). The regularity audit, also known as the financial audit or external audit, specifically focuses on financial statements, and accounting systems and procedures, together with compliance with legislation and financial standards (De Loor 1999). In contrast, the internal audit predominantly centres on improving the manner in which risks are managed and the value it will add to the organisation’s operations (The Institute of Internal Auditors (IIA) 2012). However, the performance audit discipline, no matter by whom it is to be conducted, focuses on the principles of cost-effective and economical procurement of resources and the efficient and effective utilisation thereof (SAICA 2006; INTOSAI 2004). There should, therefore, be minimal differences between the manner in which and methodology by which the performance audit is conducted by the external auditors and the internal auditors.

The importance of a formal, documented approach and methodology as part of the audit process is well-recognised within the context of the performance audit; the purpose of a methodology being to ensure that a structured and uniform approach is undertaken, ensuring the principles of performance auditing are maintained (SAICA 2006). The performance audit methodology should provide the performance auditor with sufficient guidance regarding audit selection, the audit approach, audit protocol, the reporting model to be used, and the process of quality assurance (Raauw & Campbell Jr 2006). Audit protocol should include, for example, the tools, techniques and studies to be utilised throughout all phases of the
performance audit (Pollitt 2003); by what manner the managerial measures implemented by the entity should be evaluated; what means should be employed to obtain sufficient audit evidence; how this evidence should be analysed; and in what mode should value-adding recommendations be made (Jin’ e & Dunkia 1997).

The performance auditor should be able to refer back to the methodology when an audit is being conducted; through this a uniform approach is ensured, while maintaining compliance with the guidelines and requirements of legislation and professional standards. However, the methodology should allow for flexibility in the design of a specific performance audit, as a performance audit is an individual undertaking, not a clear-cut ‘one-size-fits-all’ approach, and thus must allow for creativity and professional judgement (AFROSAI-e 2013). The Performance Audit Business Division, established at the AGSA, recognised early the importance of the process. They established guidelines in 1998, which included an approach to be followed during the planning, execution, reporting, and follow-up phases of a performance audit, as part of the first formal performance audit methodology (Pretorius 2014a; Kluever 1999; Lourens 1999).

Balkaran (2013) emphasises the importance of reviewing and updating audit methodology to ensure that the audit process incorporates all the latest technology and recent developments in the organisation and in the audit profession, as well as any amendments to legislation and standards with which compliance is required. The continual reviewing and updating of performance audit methodology is equally important because the performance audit discipline is a constantly developing, evolving and changing area (Independent Commission of Aid Impact 2011). The need for the review of and change to the performance audit methodology was also recognised by the AGSA and the performance audit methodology was amended in 1993, 1997, 2002, and 2007.

With the performance audit discipline within South Africa still in its infancy, regular reviews of and amendments to the methodology allow for any ineffective and inefficient processes to be amended (before becoming immovably embedded), and will thereby contribute to the performance audit becoming a value-adding, widely-accepted audit discipline performed in the most effective and efficient manner possible. Findings noted during the comparative analysis will be discussed in the subsequent section.

5 FINDINGS

As the methodology of the AGSA is utilised as a foundation for this analysis, a brief overview of the planning methodology is provided. The preparation and strategizing activities for a performance audit consist of a strategic planning process and the planning of individual performance audits.

The strategic planning activities concentrate on the identification and selection of performance audit focus areas where significant potential for weaknesses have been identified (AFROSAI-e 2013) and where the performance auditor will be able to add the most value when applying the principles of economy, efficiency and effectiveness. During this phase the AGSA takes into account the whole of the government to identify the principal focus areas and themes to be audited, including a focus area or theme specific to a government entity, or a transversal theme, which can be audited at more than one government entity.

The planning of individual performance audits will take into account the high level overview information obtained during the strategic planning phase, and will include a more detailed assessment of the selected focus area, to ultimately define the audit criteria against which the performance of the department, programme or project will be assessed (International Organization of Supreme Audit Institutions 2004). This assessment will also identify which specific aspects of the selected area are to be investigated in greater detail, in parallel with the sample of transactions or activities to be reviewed. The planning of individual performance audits consists of the following key activities:

**Figure 1: Outline of the AGSA planning phase**

![Outline of the AGSA planning phase](Image)

As the methodology of the AGSA is utilised as a basis for comparison, it was considered necessary and prudent, for purposes of this study, to complete a high level comparison of the AGSA methodology with the other frequently used methodology in South Africa, that of Prinsloo & Roos (2010), as described in their book “Performance Auditing: A Step-by-Step Approach”. The results of the high level comparison between AGSA and Prinsloo & Roos are discussed briefly as part of this section, after which the findings on the comparison between the AGSA and the IAF at national departments (being the primary objective of this article) are presented and discussed. Although the initial comparison of the planning methodology of the AGSA and Prinsloo & Roos revealed a number of differences, further investigation revealed that in essence the same methodology is recommended.

The planning phase for individual audits as outlined by Prinsloo & Roos (2010) consists of the following activities:

- Setting up a contact meeting
- Draft and sign engagement letter
- Obtain sufficient knowledge of the business
- Identify symptoms and causes
- Develop audit objective and audit criteria
- Obtain input on criteria from management
- Draft a work plan

*Figure 2: Outline of the Prinsloo & Roos planning phase*


The major differences noted relate to the AGSA’s requirements for communication with the auditee; selecting focus areas for the specific performance audit; performing quality and pre-issuance reviews; and lastly, monitoring and supervision throughout the audit. While the methodology of Prinsloo & Roos (2010) includes the setting up of a contact meeting, compiling the engagement letter, and obtaining inputs on the criteria from management as individual steps in the planning process, the AGSA groups these activities under the single requirement for continuous communication with the auditee. The AGSA requires selection of focus areas for the specific performance audit (i.e., sub-focus areas), which is not specifically addressed by the methodology of Prinsloo and Roos. Performing quality reviews, as well as monitoring and supervision throughout the audit, is not specifically covered by Prinsloo & Roos as part of their methodology, but these are covered in separate sections in the book. These differences are understandable in light of the methodologies having been developed in different contexts. The approach described by Prinsloo & Roos is more methodical and introductory and, as the title of the book suggests, provides "a step-by-step approach". The methodology described by the Auditor-General includes more information on the specific methods to be used during each of the different steps of the performance audit. The AGSA also needs to consider all the public sector departments and entities when selecting the focus areas during the strategic planning phase. It is therefore deemed reasonable that they would perform a more detailed assessment of the administration-wide focus areas selected during the strategic planning phase in order to decide on the focus or sub-focus areas for the individual performance audits. The AGSA planning methodology is considered to be a solid (comprehensive) basis for comparison with those of the IAFs in the selected national departments, and the results of this comparison are reflected below.

Comparing the key activities of the planning phase followed by the AGSA to the activities constituting the planning phase of the two national departments revealed certain variances. The table below highlights the differences noted, indicating whether or not the specific requirement was included or partially incorporated into the methodology of the national department. Although the table includes all the variances noted, due to space limitations for this article only those variances that might have the most significant impact on the performance audit methodology were selected for further discussion. With reference to the table below, the specific sections selected include: strategic planning (section 2); obtaining knowledge of the business (section 4.1); identifying symptoms (section 4.2); selecting the potential focus area (section 4.3); preparing the audit planning memorandum (section 4.5); quality and pre-issuance reviews (section 4.7), and monitoring and supervision (section 4.8).
The methodology requires the audit scope be determined once the focus area has been approved and that this planning memorandum should include the following: (1) Audit problem/overall audit objective; (2) Final audit approach; (3) Possible results of the audit and an indication of the contr

**Table 1: Comparison of key activities during planning phase**

<table>
<thead>
<tr>
<th>Requirement as per the methodology of the AGSA</th>
<th>Dept A</th>
<th>Dept B</th>
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<tbody>
<tr>
<td>1 Legislation, standards and guidelines</td>
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<td>2 Strategic planning</td>
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<td>The methodology differentiates between strategic planning and the planning for the individual performance audits.</td>
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<td>The purpose of the strategic planning process is indicated as the process to facilitate the selection of performance audit focus areas.</td>
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<td>Formal selection criteria to be used when selecting focus areas are prescribed.</td>
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<td>The selection criteria include, inter alia, the following: (1) The value that can be added by conducting the performance audit; (2) Any problems or problem areas that have been identified; and (3) Any instances of risk or uncertainty that are inherent to that specific focus area. These focus areas can include aspects such as a significant budget and/or expenditure override; areas inclined to problems, such as procurement, new activities or changes in the environment; complex management structures and responsibilities; and the lack of accurate, complete, and reliable information.</td>
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<td>The strategic planning process includes the following activities: (1) Obtaining an understanding of the potential focus area, which includes obtaining knowledge of the policies, strategies, budgets and operations of the focus area; (2) Monitoring the environment in which the focus area operates; (3) Continuous analysis of the performance audit areas; (4) Obtaining inputs from role players through a formal consultation process; (5) Preparing documentation to support and facilitate the approval to include the identified focus area in the annual performance audit coverage plan; (6) Maintaining proper methodology relating to the risk analysis and reporting; and (7) Identifying subject matter experts to be used during the proposed performance audit.</td>
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<td>3 Annual coverage plan</td>
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<td>The methodology requires the department to compile an annual coverage plan indicating all the performance audits to be conducted during a specific financial year.</td>
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<td>4 Planning of the individual audits</td>
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<td>The planning phase includes all of the following steps: (1) Obtain knowledge of the business; (2) Identify symptoms; (3) Select potential focus area; (4) Motivate potential audit focus area; (5) Prepare audit planning memorandum; (6) Prepare audit questions; (7) Prepare audit criteria; (8) Communication with the auditee (continuous); (9) Quality and pre-issuance reviews (continuous); and (10) Monitoring and supervision (continuous).</td>
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<tr>
<td>4.1 Obtaining knowledge of the business</td>
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<td>The process of obtaining knowledge of the business includes review and analysis of the following: (1) Legislation and relevant policies; (2) General programmes and performance goals; (3) Organisational structure and accountability relationships; (4) The objective, mission, and expected results; (5) Internal and external environment in which the entity operates, including major control systems and stakeholders; (6) External constraints affecting programme implementation; (7) Previous investigations and/or audits highlighting prior deficiencies or known problems; (8) Management processes and resources (including key personnel); and (9) Spending levels and revenues.</td>
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<td>4.2 Identifying symptoms</td>
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<td>The methodology describes the various approaches the auditor can utilise to identify symptoms, i.e. results-oriented approach or problem-oriented approach.</td>
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<td>The methodology requires the symptom identification to be properly documented and supported by sufficient evidence.</td>
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<td>The methodology requires that all symptoms are followed up and reasons to be provided should specific symptoms not be included in the final report.</td>
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<td>4.3 Selecting a possible focus area</td>
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<td>The methodology indicates how possible focus areas will be identified and that the following criteria should be utilised when comparing the potential focus areas: (1) Performance targets are not being met; (2) Known problems exist; (3) Unauthorised over-expenditure or rising costs resulting in demands for more resources; (4) Fraud or other irregularities and deficiencies were indicated by previous audits or investigations; (5) A matter of special interest to Parliament, provincial legislature, or the public has been identified; (6) Internal control systems and evaluation are lacking; (7) Projects are not completed on time; (8) Delegations are not completed or exceptional freedom is being allowed; (9) Inefficient, lengthy, obsolete, or useless procedures are being followed; (10) Unusual service conditions or fringe benefits are granted to personnel; (11) Complaints from staff or high staff turnover; (12) Misuse of machinery, equipment and other assets; and (13) The planning within the institution is weak.</td>
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<td>4.4 Motivating a potential focus area</td>
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<td>The methodology requires the planning procedures be documented in a structured focus area memorandum.</td>
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<td>The methodology requires the focus area memorandum to be approved by a delegated authority or committee.</td>
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<td>The methodology describes the layout and content of the focus area memorandum and includes the following: (1) Background information on the audited entity/function/programme/activity; (2) An evaluation of the risks identified, as formulated in the symptoms. (A detailed list of symptoms should be attached to the memorandum); (3) Materiality - which includes an assessment of the extent to which the symptoms or risks affect the service delivery objectives and the public; (4) Audit objectives and audit questions; (5) Proposed audit scope and a general description of the proposed audit approach; (6) Possible results of the audit and an indication of the contribution/impact the audit report will make; (7) Auditability with reference to the audit team’s ability to carry out the audit in accordance with professional standards and audit policies; and (8) Recommendations.</td>
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<td>4.5 Preparing an Audit Planning Memorandum</td>
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<td>The methodology requires that a detailed planning memorandum is compiled once the focus area has been approved and that this planning memorandum should include the following: (1) Audit problem/overall audit objective; (2) Final audit scope; (3) Audit questions; (4) Audit criteria; (5) Description of the audit approach and methodology; and (6) Resource planning, i.e. human resources, final cost &amp; hours, timing of audit &amp; preliminary report format.</td>
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<td>The methodology requires that an appropriately delegated authority approve the planning memorandum.</td>
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<td>The methodology requires any changes to the objective, scope, budget, cost, and timing of the audit to be resubmitted for approval by the same authority.</td>
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**4.5.1 Audit problem/overall audit objective**

The methodology provides guidance on what defines an audit problem or audit objective. |        |        |

**4.5.2 Audit scope**

The methodology provides guidance on what defines the audit scope. |        |        |

The methodology requires that the audit scope be determined by asking What, Who, When & Where.
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<table>
<thead>
<tr>
<th>Requirement as per the methodology of the AGSA</th>
<th>Dept A</th>
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<td>4.5.3 Audit questions</td>
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<td>The methodology requires the auditor to compile detailed audit questions, broken down into specific and audible sub-questions, once the scope has been determined.</td>
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<td>4.5.4 Audit criteria</td>
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<td>The methodology provides guidance on what defines audit criteria.</td>
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<td>The methodology indicates the following as potential sources of audit criteria: (1) Laws, regulations and other requirements governing the operations of the audited entity; (2) Decisions made by the legislature or the executive; (3) Standards developed by recognised professional organisations that follow due process; (4) Key performance indicators and performance standards set by the auditee or the government; (5) New or established scientific knowledge and other reliable information; (6) Criteria used previously in similar audits or by other SAIs; (7) Independent expert advice and know-how; (8) Organisations (local or foreign) carrying out similar activities or having similar programmes; and (9) General management and subject-matter literature.</td>
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<td>The methodology requires the auditor to discuss the audit criteria with the auditee and to formally document evidence of such discussions.</td>
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<td>4.5.5 Audit approach and methodology</td>
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<td>The methodology requires that the audit approach should be based on the audit objectives, scope, and criteria, and should include procedures that will determine the causes and effects of any findings noted.</td>
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<td>The methodology indicates that the audit approach can include, <em>inter alia</em>, the following data-gathering techniques: (1) Surveys; (2) Interviews; (3) Observations; and (4) Desktop review of relevant documentation.</td>
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<td>4.6 Communication with the auditee</td>
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<td>4.6.1 Contact meeting</td>
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<td>The methodology requires a contact meeting to be held with the project sponsor and senior officials before commencing with the audit.</td>
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<td>The methodology requires that the following should be discussed during the contact meeting: (1) Details of the performance, for example the audit budget; (2) The principles of the performance audit; (3) The process that will be followed; (4) A request that the audit committee be informed of the pending audit; (5) Background of the business/programme/project/activity being audited; (6) Establishment of a steering committee for the audit; (7) Appointing a contact person on behalf of the auditee; (8) Arrangements to introduce the audit team to the senior officials of the auditee; and (9) Logistical arrangements in terms of access to the building and office space.</td>
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<td>4.6.2 Steering committee</td>
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<td>The methodology indicates that a steering committee should be formed for the audit and that the following individuals should form part of this committee: (1) The senior members of the audit team; and (2) Two senior officials from the auditee, one of whom should act as the Chairperson.</td>
<td>⬤</td>
<td>✗</td>
</tr>
<tr>
<td>The methodology requires that detailed minutes of the steering committee meetings should be maintained.</td>
<td>⬤</td>
<td>n/a</td>
</tr>
<tr>
<td>4.6.3 Engagement letter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The methodology explains the purpose of the engagement letter and requires that the engagement letter be sent to the auditee prior to the commencement of the engagement.</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>The methodology prescribes the layout of the engagement letter, which includes, <em>inter alia</em>, the following: (1) The mandate of the performance audit team; (2) The objective of the performance audit; (3) Management’s responsibility regarding the implementation of management measures to ensure the economic, efficient and effective use of resources; (4) The scope of the audit, including reference to the applicable legislation and regulations; (5) The reporting structure or other means of communication of the results of the engagement; (6) Access to records and documentation required for the audit; and (7) Any other specific details regarding the audit.</td>
<td>⬤</td>
<td>✗</td>
</tr>
<tr>
<td>4.7 Quality assurance and pre-issuance review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The methodology requires that a detailed quality assurance review be conducted prior to the commencement of the execution phase.</td>
<td>⬤</td>
<td>✗</td>
</tr>
<tr>
<td>The methodology requires the results of the quality assurance review to be formally documented in a working paper.</td>
<td>⬤</td>
<td>✗</td>
</tr>
<tr>
<td>4.8 Monitoring and supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The methodology requires that proper monitoring and supervision of the work performed by the audit team should be conducted to ensure that the audit objective is achieved.</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>


Tick legend
✓ Requirement was addressed in the methodology of the national department.
✗ Requirement was not addressed in the methodology of the national department.
⊙ Requirement was partially addressed in the methodology of the national department, either by only including some of the aspects, or by only incorporating the aspects as part of the templates included in the methodology.

Differences identified in Table 1, with specific reference to strategic planning, obtaining knowledge of the business, identifying symptoms, selecting the potential focus area, preparing the audit planning memorandum, quality and pre-issuance reviews, and monitoring and supervision, are further analysed and discussed in the following subsections.

5.1 Strategic planning

The AGSA utilises specific criteria (as indicated in Section 2 of Table 1) when identifying and selecting critical areas. Comparison of the selection criteria employed by the AGSA and Department B revealed certain distinctions. Additional selection criteria included by Department B are: public complaints; the potential for cost savings and service improvements; financial conditions; visibility of the programme or sub-programme; risk of loss, fraud or corruption; public welfare; management interest; legislative interest; public interest; recent audit coverage; new developments; and areas of non-performance identified during the audit of predetermined objectives.

5.2 Planning of individual performance audits

Initial consideration appears to indicate inconsistency and omission when comparing the different planning activities of the three entities. Further analysis reveals that the same activities are performed, although different terminology is used and some of the activities are consolidated with other steps as part of the planning process. To ensure a more detailed and comprehensive testing of consistency the different key activities incorporated in the planning process of the three entities were compared and the significant
differences are reflected below.

5.3 Obtaining knowledge of the business

In the AGSA’s methodology, obtaining knowledge of the business, as seen in Section 4.1 of Table 1, involves considering various aspects which, with the exception of legislation and relevant policies, refers to the information that can be obtained within documents and not the documentation itself. The methodology of Department A does not provide guidance on the specific aspects that should be considered when obtaining knowledge of the business, but provides an overview of the methods that should be used to obtain this knowledge, in consort with the documentation that should be reviewed. The methodology of Department B incorporates both aspects.

As noted in Table 1, the methodology of neither national department explicitly requires the auditors to document the results of obtaining knowledge of the business in a working paper; however, discussions with the director and senior manager responsible for performance auditing in the respective departments revealed that this information is documented. The auditors of Department A record this information in their symptom identification document (which is not mentioned in the methodology), and those of Department B detail this information as part of the record of symptoms and management measures, which is included as an annexure to the methodology. One of the departments’ procedures included documented detailed process descriptions for the focus area that can then be used during future audits, although this is not specifically stated within the methodology.

5.3.1 Identifying Symptoms

The methodology of the AGSA indicates that the identification of symptoms should be performed via either the result-oriented or the problem-oriented approach. Similarly, the methodology of Department A refers to these two approaches; however the advocated methodology of Department B makes no reference to either. The senior manager responsible for performance auditing within Department B indicated that the reason no reference is made to the problem-oriented and results-oriented approaches is so the auditors are not constricted or limited to one specific method. Either approach may be employed in any performance audit performed by the department.

5.3.2 Selecting a potential focus area

When selecting the potential focus areas (sub focus areas) within the primary focus area identified during the strategic planning phase, the AGSA methodology prescribes the consideration of certain factors as part of the process to determine the sub-focus areas when evaluating the identified symptoms. Comparing the criteria used by Department A to select the potential focus areas of the individual performance audits to those prescribed by the methodology of the AGSA, as seen in Section 4.3 of Table 1, revealed numerous similarities: however, two aspects were excluded and four additional facets incorporated. The additional criteria encompassed in the matrix employed by Department A included: “no performance audit being carried out in the last three years”; “results of previous audits revealed various discrepancies”; “important services are rendered that are aligned to the strategic objectives of the department”; and “services provided by the department have been extended or new services have been added”. The additional selection criteria are intended to ensure that all key services and activities of the department are subjected to a performance audit and all aspects which could be incorporated in a performance audit (for instance any risks or deficiencies identified during other types of audits), have been considered during the selection of the focus area.

5.3.3 Preparing an audit planning memorandum

The required planning memorandum in the methodology of the AGSA encompasses various aspects, including the audit objective, scope, questions, criteria, and approach and methodology. Although neither of the methodologies makes specific reference to a planning memorandum, some of these factors are addressed separately in the methodologies of the national departments, as reviewed below.

Only the Department A methodology supplies direction as to what defines the audit scope. The methodology of the AGSA indicates that the auditors should determine the scope by asking “what, who, when and where”, while the methodology of Department A specifies that the scope be determined by considering the systems, records, personnel, and physical properties. The senior manager responsible for performance auditing within Department B did, however, mention that the template for the engagement letter, included as an annexure to the methodology, includes a section for the audit scope, and also provides guidance on what the scope should entail.

Although both methodologies provide direction as to what defines audit criteria, only the methodology of Department A indicates what can be utilised as criteria sources, and is in this regard similar in methodology to that of the AGSA. Comparing the sources of criteria outlined in the methodology of Department A to those prescribed by the methodology of the AGSA (as indicated in Section 4.5.4 of Table 1) revealed significant differences. The criteria sources indicated in the methodology of Department A exclude five of those prescribed by that of the AGSA. These encompass: decisions made by the legislature or the executive; new or established scientific knowledge and other reliable information; criteria used previously in similar audits or by other SAIs; independent expert advice and know-how; and general management and subject-specific literature. Additionally, the sources indicated in the methodology of the department incorporate one aspect not mentioned in the methodology of the AGSA, namely the historical performance of the department, division, or local institutions.

5.3.4 Quality assurance and pre-issuance review

The methodology of the AGSA incorporates a specific section indicating the requirements for quality
assurance and pre-issuance review. However, both national departments’ methodologies omit any reference to this. The director responsible for performance auditing within Department A indicated that aspects relating to the quality and pre-issuance reviews are addressed in the primary internal audit manual of the IAF. The methodology of Department A incorporates a quality assessment review checklist as an annexure to the methodology.

5.3.5 Monitoring and supervision

Similarly to the findings of the analysis on quality assurance and pre-issuance review requisites, the methodology of the AGSA incorporates a specific section indicating the requirements for monitoring and supervision during the planning phase of the performance audits. Although it is not specifically mentioned in either department’s methodology, both individuals responsible for performance auditing indicated that monitoring and supervision is fundamental to the approach followed by the audit team.

6 DISCUSSION

The preceding analysis clearly demonstrates that there are differences between the performance audit methodologies of the AGSA and those of the national departments selected for this research. In the course of the analysis various themes and trends emerged providing possible explanations for the differences in the adopted methodologies. The most significant contributing factor to the differences in performance audit methodologies can be ascribed to the different objectives of the external audit (AGSA) versus the internal audit (within the two departments forming part of this research). An additional significant reason is that the performance audit methodology forms part of the primary internal audit methodology adopted within national departments, whereas it is a stand-alone methodology at the AGSA. Furthermore, the guidelines that inform which performance audit approach is to be adopted differ between the AGSA and the departmental IAFs. The departments incorporate templates of working papers that guide the performance auditors and provide additional information, as part of their methodology, whereas the methodology of the AGSA is explained in a performance audit manual that is without templates. Discussions also revealed that many activities and tasks are performed, although not specifically included or explicitly required in the formal documented performance audit methodology of the IAF. The above-mentioned contributing factors are discussed in more detail below.

The focus of both the external and IAFs is on economy, efficiency, and effectiveness as part of the performance audit process; however, the objectives, audience or users, reasons for conducting performance audits, and accountability structures differ. The AGSA performance auditors are external to the entity being audited, while the performance auditors employed in the IAFs of the national departments are seen as part of the organisation. The purpose of performance auditing within the AGSA is to facilitate improvements to public administration within the public sector, by providing parliament and government entities with value-adding recommendations, in consort with the provision of impartial and trustworthy information as to how these entities are performing, in order to promote public transparency and accountability (Auditor-General of South Africa 2014). The audience and users of the performance audit reports issued by the AGSA would therefore be the legislature and management of the entity being audited. Conversely, the purpose of the performance audit within the IAF is based on the principle of improvement, as it is their responsibility to add value and suggest improvements to the operations of the organisation (The Institute of Internal Auditors 2013).

The performance auditors form part of the IAFs of the national departments and need to comply with the prescriptions included in the overall Internal Audit Methodology. As a result, many activities included in the AGSA performance audit methodology form part of the overall Internal Audit methodology and are not duplicated in the performance audit methodology.

In addition, the detailed comparison revealed different approaches to strategic planning. The AGSA and one department include strategic planning as part of the overall planning process specific to the performance audit, while performance audit planning for the other department is incorporated into the formal planning for the IAF, with the detailed development of the performance audit only performed once the focus area has been selected.

Both national departments’ methodologies include specific templates to be utilised by the performance auditors, whereas the methodology of the AGSA is not prescriptive in this regard. The AGSA has templates that are available on the electronic audit management system. Despite the existence and use of templates within the departments, however, it was noted that in certain instances the methodologies do not refer to them. The purpose of including the templates as part of the audit management system at Department B is to ensure compliance with the performance audit methodology requirements. The senior manager is of the opinion that general templates will make the audit process more efficient, but cautions against incorporating templates in the performance audit methodology as this may restrict the performance auditors when conducting the various tasks and activities, and reduce or negate innovative and original thinking (Pretorius 2014b).

An additional theme worth mentioning is that some activities prescribed by the methodology of the AGSA were not included in those of the national departments. The director and the senior manager responsible for performance auditing within these entities are of the opinion that these are activities and procedures any performance auditor should be aware of, or which are integral to the audit process.

7 CONCLUSION AND AREAS FOR FUTURE RESEARCH

The purpose of the research was to identify differences in the performance audit planning practices followed by internal auditors in the South African public sector. This was undertaken by critically comparing the audit methodologies within the IAFs in

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南方非洲审计与问责制研究：南非公共部门绩效审计是否存在差异规划方法和实践？
the selected national departments with that followed by the AGSA. When this study was commenced there were very few IAFs within the national departments that had formally adopted and implemented the performance audit discipline. As a result, the number of methodologies that could be utilised for purposes of this research was limited. The underlying reasons and causes for the limited implementation should therefore be investigated. An initial explanation could be the lack of readily available standards and guidelines on the methodology to be utilised by the IAF when performance audits are conducted.

Despite the limited number of methodologies utilised for the research, the analysis of the methodologies of the two national departments that were selected provided valuable information and insights. The results indicate that, although differences do exist between the performance audit planning practices of these institutions as compared to those of the AGSA, they also share numerous similarities. The basic building block of performance auditing (the identification of symptoms and the articulation of findings in accordance with the three ‘Es’ of economy, efficiency, and effectiveness), was present in all three methodologies. All three entities strive towards accordance with the requirements of the IAF when performance audits are conducted.

A recurring theme throughout the results is that not all activities are specifically included as part of the performance audit methodology. The primary reasons appear to be that these are incorporated in the overall internal audit manual of the IAF, or in the templates of the working papers, or it is expected of performance auditors to conduct these activities whether or not they are specifically included in the formally documented performance audit methodology. The danger of not explicitly incorporating these activities as part of the methodology, or of failing to specifically refer to requirements contained in the primary internal audit manual, increases the potential for overlooking or omitting important principles and activities of performance auditing. In addition, to enable adequate quality control it is considered a requisite to have a complete, comprehensive baseline or control against which actual performance can be measured. Further research could thus be conducted to determine the extent of performance auditors’ awareness of the full spectrum of audit activities not specifically addressed as part of the methodology.

Overall, the results of this research could be valuable not only for the participants in this study but also for any other public sector entities considering implementing the performance audit discipline within their IAFs. Those with existing performance audit methodologies could gain from the experiences and lessons learnt in this article in order to update and improve their processes.

ENDNOTES

1 A variety of terms for performance auditing have been utilised from its inception, with the two most common being value-for-money auditing (Kells & Hodge 2010; Lonsdale 2000) and operational auditing (Flesher & Zarzeshi 2002). At the Twelfth International Congress of Supreme Audit Institutions in April 1986, however, the term performance auditing was formally accepted by all Supreme Audit Institutions (Witholt 1999) and will be used for purposes of this article.

2 INTOSAI is an international organization of the Supreme Audit Institutions from a significant number of nations that includes the National Audit Office of Australia; Office of the Comptroller and Auditor-General of Bangladesh; Office of the Auditor-General of Canada; National Audit Office of Denmark; The State Audit Office of the Estonia; The Ghana Audit Service; State Comptroller’s Office of Israel; Netherlands Court of Auditors; Office of the Auditor-General of Norway; The Philippine Commission on Audit; National Audit Office of Sweden; and the State Audit Office of Thailand, amongst others.

3 The AFROSAI-e Performance Audit Manual dated November 2013 indicates the methodology should “contains generally accepted guidance and good practice, and cover on a more detailed level performance auditing in different sectors, or certain methods to be used in the performance audit process”.

REFERENCES


