

March 2015



PERFORMANCE AUDIT

in the public sector



INFORMATION PAPER

WHAT IS PERFORMANCE AUDIT?

The International Organisation of Supreme Audit Institutions (INTOSAI) describes performance audit¹ 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 effectiveness² and whether there is room for improvement’.³ ISSAI 3000 (*Implementation Guidelines for Performance Auditing*) directs the assurance-provider to respond to the following questions:⁴

- Do the inputs chosen represent the most economical use of public funds?
- Are entities getting the best services from the available resources?
- Are the aims of the government policy being fully met, and are the impacts the result of this policy?

In many countries, performance audits are carried out by the national supreme audit institutions (SAIs) or regional audit institutions (RAIs). Performance audits are carried out in different ways in different countries and sometimes even different approaches exist within a specific jurisdiction.

Three approaches exist in examining the performance of an audited entity:

- Result-oriented approach (predefined objectives achieved as intended);
- Problem-oriented approach (verification and analysis of causes of particular problems); and
- System-oriented approach (examination of proper functioning of management systems).

In a number of countries, governments arrange for performance audits to be carried out by external private-sector audit firms. In many cases, when private-sector audit firms are engaged to carry out the audit, they do so on behalf of the SAIs or RAIs. In some cases they provide additional expertise or capacity, whereas in other cases it may be a matter of government policy that a proportion of this work is carried out by independent private-sector auditors. Where performance audits are carried out on behalf of the SAIs or RAIs, there are often arrangements in place to share expertise and best practices.

WHY IS PERFORMANCE AUDIT IMPORTANT?

Like financial audit, performance audit helps make public-sector bodies accountable to citizens, taxpayers, government entities providing funds, elected representatives and other stakeholders. However, as summarised in the box below, the objective and focus is different.

According to ISSAI 300,⁵ performance audit delivers new information, knowledge or value by:

- Providing new analytical insights (broader or deeper analysis or new perspectives);
- Making existing information more accessible to various stakeholders;
- Providing an independent and authoritative view or conclusion based on audit evidence;
- Providing recommendations based on an analysis of audit findings.

	FINANCIAL STATEMENT AUDIT	PERFORMANCE AUDIT
OBJECTIVE:	Express an opinion on the financial statements	Accountability of those who operate a programme and evaluation of the current operations. The objective is also to provide recommendations to improve the economy, efficiency and effectiveness of operations
AUDIT APPROACH:	Highly standardised	More flexible
FOCUS ON:	Historical financial information, applying a risk-based audit approach	Current performance and future improvements to: policy, programme, organisation, activities and management systems

WHAT SKILLS ARE NEEDED FOR A PERFORMANCE AUDIT?

Although a performance audit is different from a financial statement audit, qualified auditors and many professional accountants already possess key skills and other characteristics that can be utilised in this area:

- Their education generally includes knowledge of business operations and processes;
- They are trained in exercising professional judgment and professional behaviour in general;
- Through membership of their professional accountancy organisations, they are committed to ethical behaviour, applying the fundamental principles of professional competence and due care, professional behaviour, integrity, objectivity and confidentiality as established by the IESBA Code of Ethics.⁶

Performance auditors should also possess additional skills and knowledge, such as:⁷

- Advanced analytical skills;
- Ability to exercise qualitative judgement about the effectiveness of the execution of policy programmes, service delivery and management practices;
- Ability to logically and thoroughly describe complex issues in writing; and
- Familiarity with the specific governance structures, organisational context and subject matter (sometimes even a specialist expertise of the service area is needed).

In some countries, specific education or training is provided to performance auditors, for example by professional accountancy organisations or SAIs (see appendix).

Needless to say, in order to provide this type of assurance in the public sector, professional

accountants are required to have an advanced knowledge and understanding of the public policy applicable.

IN WHICH COUNTRIES ARE PERFORMANCE AUDITS CARRIED OUT?

In Europe, performance audit is being undertaken in all countries except Greece. Long-term experience⁸ exists in the Nordic countries (Denmark, Finland, Norway and Sweden), the Netherlands and the UK, but also Belgium, Italy, France, Portugal and Slovenia. As an EU institution established to audit the EU's finances, the European Court of Auditors⁹ also carries out performance audits.

Outside Europe, Australia, Canada, New Zealand and the USA are seen as leading countries (see appendix). Performance audits are also carried out quite widely across the world, even in a few developing countries.

WHAT GUIDANCE AND INFORMATION IS AVAILABLE?

A number of national SAIs and RAIs have established guidance for conducting performance audits which explains how performance audits are planned, conducted and results reported (see appendix).

INTOSAI has published generally accepted principles of performance auditing in its implementation guidelines (ISSAI 3000). The European Court of Auditors has also developed a 'performance audit manual' for its audits which aims at the sound financial management of the European Commission and the programmes funded through the EU budget.

APPENDIX:

Separate web page with links to international, European and national guidance, accessible [here](#).

FOOTNOTES

¹ Performance audit can also be referred to as 'value-for-money (VFM) audit', 'best-value audit' or 'management audit'. The word 'audit' is used here as a customary name for the 'performance audit' service and does not bear the same meaning as an audit of financial statements as the reference framework is different.

² Often referred to as 'the three Es'.

³ ISSAI 300 (*Fundamental Principles of Performance Auditing*), para 9, available at: www.issai.org/media/69911/issai-300-english.pdf

⁴ ISSAI 3000, page 29

⁵ ISSAI 300, para 10

⁶ More information available at: www.ifac.org/ethics

⁷ ISSAI 300, para 30 and ISSAI 3000, page 7

⁸ An early comparative study of performance audits by the national audit offices of Finland, France, the Netherlands, Sweden and the UK was published in 1999 (*Performance or compliance?*, Oxford University Press).

⁹ More information available at: www.eca.europa.eu/en/Pages/ECAWork.aspx



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