Auditing Standard

AUS 808
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Planning Performance Audits

Prepared by the **Auditing Standards Board** of the
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Auditing Standards contain the basic principles and essential procedures identified in bold-type (black lettering) which are mandatory, together with related guidance. For further information about the responsibility of members for compliance with AUSs refer Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards".

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AUDITING STANDARD

AUS 808 "PLANNING PERFORMANCE AUDITS"

Introduction

.01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance on planning a performance audit. This AUS is to be read in conjunction with AUS 106 "Explanatory Framework for Standards on Audit and Audit Related Services" and AUS 806 "Performance Auditing". This AUS applies to all performance audits whether:

(a) the audit report is published or not; and

(b) the audit is undertaken:

(i) in the private or public sector;

(ii) by an internal or external auditor; or

(iii) on a one-off project basis or as part of an ongoing engagement.

This AUS should also be applied, adapted as necessary, to audit related services regarding performance.

.02 ***The auditor should plan the audit work so that the audit will be performed in an effective manner.*** Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit in an efficient and timely manner.

.03 Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to assistants and in co-ordination of work performed by other auditors and experts.

The Audit Mandate

.04 The performance audit mandate, whether established by legislation, by directive from the governing body or by contract, ordinarily specifies the minimum audit and reporting requirements of the performance audit. The audit mandate specifies what is required of the auditor and provides the auditor with the authority to carry out the work and report. Accordingly, the auditor is guided by the audit mandate when planning the audit.

.05 The amount of discretion the auditor has in establishing the objectives and scope of a performance audit varies. While performance audit mandates established by contract are ordinarily specific in defining the objectives and scope of the audit, mandates established by legislation or directive ordinarily provide only general direction. In such cases, the auditor will need to establish the audit objectives and scope for the particular audit within the bounds set by the mandate. For example, while providing only general direction about most aspects of the audit, such a mandate may specifically exclude consideration of policy issues.

Knowledge of the Business

.06 ***The auditor should have or obtain a knowledge of the business sufficient to enable the auditor to identify and understand the events, transactions and practices that, in the auditor's judgement, may have a significant effect on the performance information or on the audit or audit report.*** Such knowledge would include an understanding of the entity's objectives, accountability relationships, resources, programs and operations, management processes and systems, and the external environment in which the entity operates.

.07 The auditor would plan the audit based on a knowledge of the entity being audited and its environment. All members of the audit team need to possess or obtain sufficient appropriate knowledge of the entity (or the part of the entity which is to be audited) and its environment to enable them to fulfil their assigned responsibilities. The auditor would obtain or possess sufficient knowledge to, among other things:

(a) establish or assess the audit objectives and scope;

(b) identify and assess the suitability of criteria;

(c) determine the resource requirements;

(d) determine whether sufficient appropriate audit evidence is likely to be available; and

(e) determine the specific audit procedures required to achieve the objectives.

.08 Decisions made during the initial planning stage with respect to these matters may need to be modified as information is acquired in the course of performing the audit. The attached Appendix describes the major features of the entity, its environment and their interrelationships that the auditor needs to understand to adequately plan a performance audit.

Audit Objectives

.09 ***The auditor should establish or assess the audit objectives.*** The audit objectives relate to why the audit is being conducted and are based on the audit mandate. For example, an audit objective may be to assess whether an organisation uses appropriate processes to identify the human resources it needs to achieve its objectives. Audit objectives assist the auditor in identifying the matters to be audited and reported. The audit objectives and scope are interrelated, and since changes in one usually affect the other, they need to be considered together.

Audit Scope

.10 ***The auditor should establish or assess the audit scope***. In this context, the audit scope is described as:

(a) that part of the entity, management control system or organisational unit to be examined;

(b) the matters subject to the audit; and

(c) the time period of the audit.

For example, the scope of an audit with the audit objectives described in AUS 808.09 may focus on only the three most significant programs of the organisation for a specified time.

.11 Determining the scope of a performance audit is a critical part of the planning process, since it directly affects the procedures that will be required during the conduct of the audit, the audit resources needed and the matters that will be reported. Since there are usually a great many activities that could be examined in a performance audit, the auditor must exercise careful judgement in selecting appropriate matters to be examined.

.12 The auditor ordinarily establishes the scope of the audit based on information obtained in previous audits and on information gathered during the planning process. Decisions on an appropriate audit scope are often changed as new information is obtained. The scope would be explicitly stated at the completion of the initial planning stage so that decisions on resource requirements and appropriate audit procedures can be made.

.13 In some audits, information obtained during the conduct of the audit may require changes in the scope. This could occur if preliminary information used to make decisions on the audit scope during initial planning turn out to be inaccurate or incomplete. The auditor would discuss with management significant changes in the audit scope that occur after the initial planning stage.

.14 Where the performance audit mandate defines the audit scope in broad terms, the auditor would use professional judgement to establish more specific terms. This enables the auditor to design audit procedures to achieve the audit objectives. Where the audit mandate defines the audit scope in specific terms, the auditor would use professional judgement to assess whether it is appropriate.

.15 The auditor would consider such factors as materiality, risk and auditability when establishing or assessing the audit scope.

Materiality and Risk

.16 The auditor would identify those areas of the entity that are material and/or high risk to assist in identifying or assessing that part of the entity, management control system or organisational unit to be examined and the matters subject to audit. The auditor ordinarily assesses materiality and risk together and would plan to examine material areas where the risk is assessed to be high. An area that is material but where the risk is assessed as low may also be selected for examination because any significant failure to meet the audit criteria in that area could have a material effect on the entity.

.17 In assessing materiality and risk, the auditor would consider both quantitative and qualitative factors such as:

(a) the importance of the operations to achieving the entity's objectives;

(b) the financial impact the operations have on the entity as a whole;

(c) the nature of transactions, for example, high volumes, large dollar values and complex transactions;

(d) the extent of interest shown in particular portions of the entity by, for example, the legislature or other governing body, regulatory authorities or the public;

(e) the economic, social, political and environmental impact of the operations;

(f) the extent of management's actions regarding issues raised in previous audits;

(g) the diversity, consistency and clarity of the entity's objectives and goals;

(h) the nature, size and complexity of the operations;

(i) the complexity and quality of management information and external reporting;

(j) the effectiveness of the internal control structure, including the level of internal audit coverage;

(k) the nature and degree of change in the environment or within the entity; and

(l) management's effectiveness in a particular area.

Auditability

.18 Auditability relates to assessing whether particular matters can be included within the audit scope in terms of whether:

(a) suitable criteria are available or can be established;

(b) audit evidence is likely to be available; and

(c) appropriate audit approaches and methodologies are available or can be developed.

Time Period of the Audit

.19 A performance audit may be planned to cover the duration of a project or a period of on-going activity, and would need to be planned to enable the audit results to be reported in time to meet any specified or agreed reporting deadlines. Consideration would be given to allowing sufficient time to receive management's comments in response to audit findings, conclusions and recommendations, particularly if these comments are to be included in the audit report.

.20 Decisions on the appropriate time period for the audit will depend on decisions made by the auditor as the audit progresses and on evidence gathered during the audit. For example, information obtained from interviews during the audit may lead to a lengthening of the time period beyond that originally contemplated.

.21 When establishing or assessing the appropriateness of the time period of the audit, the auditor would consider:

(a) the audit approach, including the nature of the matters to be audited, for example examining processes or examining results;

(b) the circumstances of the audit entity, for example, changes in programs or systems prior to or during the audit; and

(c) the nature and availability of evidence. For example, audit evidence obtained from more recent processes or programs will result in more useful and credible conclusions, but would need to be gathered from a time period of sufficient length so that adequate support is provided for audit findings and conclusions.

Skills, Competence and Knowledge

.22 ***The auditor should assess whether the audit staff have adequate skills, competence and knowledge to undertake the audit, and where knowledge of a specialised area is essential, whether it is appropriate to engage an expert or include specialists as part of the audit team.***

Planning to Use the Work of a Specialist or Expert

.23 It may be appropriate to:

(a) include a specialist as part of the audit team; or

(b) engage an expert,

where knowledge of a specialised area is essential, for example the inclusion of an economist in the audit team to assess the appropriateness of economic forecasting models used by the entity. When using an expert or a specialist, in addition to considering the guidance below, the auditor would adapt the basic principles and essential procedures and the guidance in AUS 606 "Using the Work of an Expert" to meet the circumstances of the audit.

Specialists

.24 ***When assessing the competence of a specialist, the auditor should establish that the specialist's knowledge of, and competence in auditing is commensurate with their responsibilities.*** Although specialists need not possess the same degree of knowledge of, and competence in auditing as does an experienced auditor, they would require an understanding of the basic objectives of auditing and the audit process sufficient to understand and apply the AUSs in the context of their responsibilities.

Experts

.25 ***When planning to use the work of an expert, the auditor should assess the professional competence and objectivity of the expert.*** The auditor would consider the expert's professional certification or licensing, experience or reputation. The auditor would also make enquiries, both of the expert and of persons familiar with the expert's work, about the existence of relationships that could impair the expert's professional judgement or objectivity. In addition, the auditor would obtain from the expert a written representation that no relationship exists which might cause such impairment.

.26 ***The auditor and the expert should agree on the terms of the engagement.*** The agreed terms of the engagement would ordinarily be recorded in a contract or an engagement letter. The auditor would consider including the following matters in the contract or engagement letter:

(a) the expert's representation that no relationship exists that would impair the expert's professional judgement or objectivity in relation to the audit;

(b) the standards of conduct, including the requirements for confidentiality of information about the entity;

(c) the objectives, scope and timing of the expert's involvement;

(d) the methods, assumptions and source data to be used by the expert;

(e) the reporting relationship of the expert to the auditor;

(f) the auditor's review of the expert's work;

(g) security and ownership of working papers prepared by the expert;

(h) the intended use of the expert's work, advice and/or findings;

(i) limitations on the future use of the expert's work, advice and/or findings for other purposes without the auditor's consent; and

(j) the basis for the expert's fee and billing arrangements.

Criteria

.27 Criteria are reasonable and attainable standards of performance against which the extent of economy, efficiency and effectiveness of activities can be assessed.

.28 Criteria may range from general to specific. General criteria are broad statements of acceptable and reasonable performance. Specific criteria are derived from general criteria and are more closely related to the entity's governing legislation, objectives, programs, systems and controls. The level of detail of the audit conclusions is affected by the level of detail at which the criteria are specified.

Suitable Criteria

.29 Suitable criteria are those that are relevant to the matters being audited and appropriate to the circumstances. If suitable criteria are not used inappropriate conclusions may be drawn about the entity's operations. ***In planning the audit, the auditor should identify suitable criteria to enable the auditor to assess the matters subject to audit.*** At the initial planning stage, criteria may be identified at a relatively general level, however, more specific criteria will need to be identified for use during the audit process.

.30 The suitability of criteria depends on factors such as:

(a) the audit objectives. For example, criteria that are suitable for matters related to economy are different from those related to efficiency; and

(b) the portion of the entity, management control system or organisational unit to be examined. For example, criteria that are suitable for human resource management are different from those related to capital asset management.

.31 Some characteristics of suitable criteria include:

(a) *Reliability:* Reliable criteria result in consistent conclusions when used by an other auditor in the same circumstances;

(b) *Objectivity*: Objective criteria are free from any bias of the auditor or management;

(c) *Usefulness*: Useful criteria result in findings and conclusions that meet the users' information needs;

(d) *Understandability*: Understandable criteria are clearly stated and are not subject to significantly different interpretations;

(e) *Comparability*: Comparable criteria are consistent with those used in performance audits of other similar entities or activities and with those used in previous performance audits within the entity; and

(f) *Completeness*: Complete criteria are all significant criteria appropriate to assessing performance in the circumstances.

These characteristics would be considered together in identifying criteria and in assessing their suitability. The relative importance of the characteristics in different circumstances is a matter of professional judgement.

.32 As there is no body of generally accepted criteria for all aspects of performance auditing, suitable criteria may be developed by management or by the auditor, and may be derived from:

(a) regulatory bodies, legislation or policy statements;

(b) standards of good practice developed by professions, associations or other recognised authorities;

(c) statistics or practices developed within the entity or among similar entities; and

(d) criteria identified in similar circumstances.

Criteria from these sources may require interpretation and modification to ensure their relevance to the entity being audited.

.33 Criteria may need to be amended as the audit proceeds. For example, more information may become available or the circumstances of the entity may change.

.34 If suitable criteria cannot be identified for some of the matters subject to audit, the scope of the audit would be correspondingly reduced and the limitation on scope addressed in the audit report.

Criteria Developed by Management

.35 The auditor may use criteria developed by management for assessing activities if, in the auditor's opinion, they are suitable. Management may have developed a system of performance assessment and monitoring incorporating the use of internally developed criteria. In attest audits, this system of performance assessment may form the basis of management's written assertions regarding economy and/or efficiency and/or effectiveness.

.36 If the auditor believes that criteria proposed by management are not suitable, they would attempt to resolve the difference in opinion. If the difference cannot be resolved, the auditor would consider the alternative courses of action available, which may depend upon the audit mandate. Some audit mandates, particularly some of those in the public sector, oblige the auditor to complete the audit. Therefore, in the event that differences cannot be resolved, the auditor would select suitable criteria and proceed. Other auditors may limit the scope of the examination to those areas in which agreement on criteria can be reached or, depending on the extent and significance of the disagreement, they may have to consider resigning from the engagement.

Audit Evidence

.37 When planning the audit, the auditor would identify the probable nature, sources and availability of audit evidence required. The auditor would consider such factors as the availability of other audit reports or studies and the cost of obtaining the audit evidence.

Audit Plan and Audit Program

.38 ***The auditor should develop and document an audit plan describing the expected scope and conduct of the audit.*** The auditor ordinarily communicates pertinent information contained in the plan to management and the entity to ensure there are no misunderstandings as to the work planned and the auditor's responsibilities. ***The auditor should develop and document an audit program setting out the nature timing and extent of planned***

audit procedures required to implement the audit plan. The audit plan and audit program should be revised as necessary during the course of the audit.

Operative Date

.39 This AUS is operative in relation to the first reporting period commencing on or after 1 July, 1996 and later reporting periods, although earlier application is encouraged.

Compatibility with International Standards on Auditing

.40 There is no corresponding International Standard on Planning Performance Audits.

APPENDIX

KNOWLEDGE OF THE BUSINESS IN PLANNING PERFORMANCE AUDITS

Introduction

.01 This Appendix describes the interrelationships of the major features of the entity and its environment that the auditor needs to understand to adequately plan a performance audit. The features of the entity and its environment identified in this Appendix are the entity's:

(a) objectives;

(b) accountability relationships:

(c) resources;

(d) management processes;

(e) programs and operations;

(f) performance goals; and

(g) external environment.

.02 Obtaining the required knowledge of the business is a continuous and cumulative process of gathering and assessing information, and relating the resultant knowledge to audit evidence and information at all stages of the audit. For example, although information will be gathered at the initial planning stage, it is usually refined and added to in later stages of the audit as the auditor and the audit staff learn more about the entity.

Features of the Entity and its Environment

Objectives

.03 An understanding of the entity's objectives will assist the auditor in establishing or assessing the appropriateness of the audit scope, for example by identifying the operations important to achieving the entity's objectives, or developing or assessing suitable performance criteria.

.04 The objectives of an entity may be expressed in financial terms (for example, in budgets or financial reports) and in non-financial terms (for example, expected outputs, outcomes and impacts). The auditor would be alert to any conflicting objectives as these may affect the entity's ability to achieve economy, efficiency or effectiveness.

Accountability Relationships

.05 There are two types of accountability relationships, internal relationships and external relationships. The most important accountability relationships involve the governing body. The key external relationship is between the governing body and those who have an interest in the performance of the entity, for example parliament and the public at large in the public sector, and owners, creditors and employees in the private sector.

.06 The governing body delegates to executive management the authority for acquiring and using the entity's resources. Executive management is responsible for administering those resources and is accountable to the governing body for meeting the objectives set out in the entity's governing charter.

.07 Accountability relationships within an entity depend on the powers that the governing charter grant to management. Within those powers, senior levels of management hold their staff accountable for certain elements of the entity's performance. The auditor would identify how and to whom authority is delegated within the entity, and the degree of decentralisation of that authority.

Resources

.08 Organisations use physical, financial, information and human resources to achieve their objectives and meet performance goals. The auditor needs to understand the relationships between the entity's resources and its objectives and performance goals.

.09 The auditor would identify the resources management has allocated among the entity's programs, operations and activities and may compare such allocations to those in other similar organisations. These allocations may indicate priorities and the relative significance of specific divisions or branches or of specific programs or operations within an organisation.

.10 *Physical resources* include inventories and other assets. The auditor would determine the source, nature and value of the physical resources and how the entity uses its physical resources in its various activities.

.11 *Financial resources* are reflected in the revenue, expenditure, assets and liabilities of the entity. Knowledge of the financial resources enables the auditor to understand the entity's financial magnitude (i.e. the amounts of its transactions and balances) and its constituents (i.e. resource providers).

.12 *Information resources* comprise both internally and externally generated information to which management has access. Access to relevant and reliable information and effective use of it is a vital element of performance for many activities.

.13 *Human resources* include management and other employees of an entity. Human resources are affected by budgetary pressures and constraints on the capability of personnel which may in turn affect the entity's controls and performance.

Management Processes

.14 The auditor needs a knowledge of the entity's management processes to understand their suitability for the entity's programs and operations and to identify the risks the entity faces.

.15 The auditor would identify factors such as the elements of performance assessed by management, the nature and frequency of reporting, the performance criteria, the methods of data collection and analysis and the use of performance information. For example, the auditor would consider:

(a) the systems and controls in place for safeguarding and controlling the entity's physical, financial, information and human resources; and

(b) the extent of internal audit involvement in performance auditing.

This knowledge will enable the auditor to identify the probable nature, sources and availability of audit evidence.

Performance Goals

.16 The auditor needs a knowledge of the entity's performance goals to understand such matters as the relevance of the entity's activities to its constituents, trade-offs among conflicting objectives, goals and inputs, quality, level of service and constituent satisfaction.

.17 The auditor would assess the suitability of the audit entity's performance goals. For example, when assessing the suitability of performance goals, the auditor would consider whether those goals are consistent with the governing charter. Suitable performance goals may be useful sources of criteria.

Programs and Operations

.18 An understanding of the entity's significant programs and operations enables the auditor to determine whether the entity is operating within its powers and how it achieves its objectives and performance goals. The auditor would obtain information about the entity's organisational structure and the characteristics and intended outputs, outcomes and impacts of the entity's significant programs and operations.

.19 The characteristics of programs and, operations include the source, nature and amount of resources used in program delivery, the method of program delivery and the pricing or fee structures.

.20 Outputs such as the goods or services provided, may be defined by the objectives set out in the entity's governing charter. Output may be subject to constraints imposed by competition or by regulation regarding service or pricing levels. Outcomes and impacts may be the positive or negative effects of a program or operation and they may be intentional or unintentional.

.21 The organisational structure of the entity shows how its programs and operations are organised to fulfil its objectives and meet its performance goals. Understanding the entity's organisational structure involves identifying its significant divisions and branches, and determining their responsibilities and degree of autonomy.

External Environment

.22 The entity's external environment includes factors over which management has relatively little control, such as economic, political and social influences and the activities of outside interest groups. The auditor needs to acquire a knowledge of the external environment because changes in that environment may significantly affect the entity's objectives, accountability relationships, resources and management processes. For example, changes in economic conditions may change the type and nature of services demanded.