

A DISCUSSION PAPER

Approaches to Audit Selection and Multi-Year Planning



CANADIAN AUDIT
& ACCOUNTABILITY
FOUNDATION



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Approaches to Audit Selection and Multi-Year Planning – A Discussion Paper

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Highlights

The Importance of Audit Topic Selection and Multi-Year Planning

Senior audit office officials say it's challenging to design an effective audit selection and multi-year planning process. Finding a process appropriate to their office can greatly enhance the effectiveness of the audit office's work.

Designing a process for identifying and selecting audits, and developing these into a multi-year audit plan, requires deciding how to address many challenges, such as:

- Choosing whether to concentrate on certain priorities
- Finding cost-effective ways to monitor risks and identify good audits
- Choosing what to communicate about the process and resulting plan
- Keeping the plan up to date as circumstances and risks change
- Reporting meaningfully how well audit selection has worked

Our research identified four key phases in audit selection and multi-year planning:

- Phase I – Setting overall direction
- Phase II – Identifying potential audits
- Phase III – Selecting audits and developing the multi-year plan
- Phase IV – Applying the plan

Because no single best practice applies to all audit offices, this document is designed to provide Canadian and international senior officials with a decision support framework that identifies for each phase:

- the actions to take and key questions to ask when making design decisions,
- the range of options for each key question,
- key considerations in deciding among these options, and
- tips and examples on how to proceed based on the experience of practitioners from audit offices of different size and nature.

The framework allows senior officials from diverse audit offices—from small to large and recently established to mature—to design new planning processes or assess existing ones.

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Introduction

Audit offices cannot audit every aspect of government, nor is it cost-effective to try to do so. Choices must be made. These choices directly affect how an office achieves its mandate and any objectives it has established for itself. Although audit offices commonly consider factors such as relevance, significance, risk, and auditability when assessing potential audit topics, there are many other considerations and decisions required to craft a multi-year audit plan.

Compared with how to conduct audits, relatively little has been written on how to identify and select audits and develop a multi-year audit plan. The academic literature on audit selection is scant. Indeed, a recent literature review by Lonsdale, Wilkins and Ling entitled *Performance Auditing: Contributing to Accountability in Democratic Government* (2011) states “There are few academic studies of how SAs pick out topics.” Audit manuals typically describe the process used but not necessarily its rationale.

Purpose and Structure of this Discussion Paper

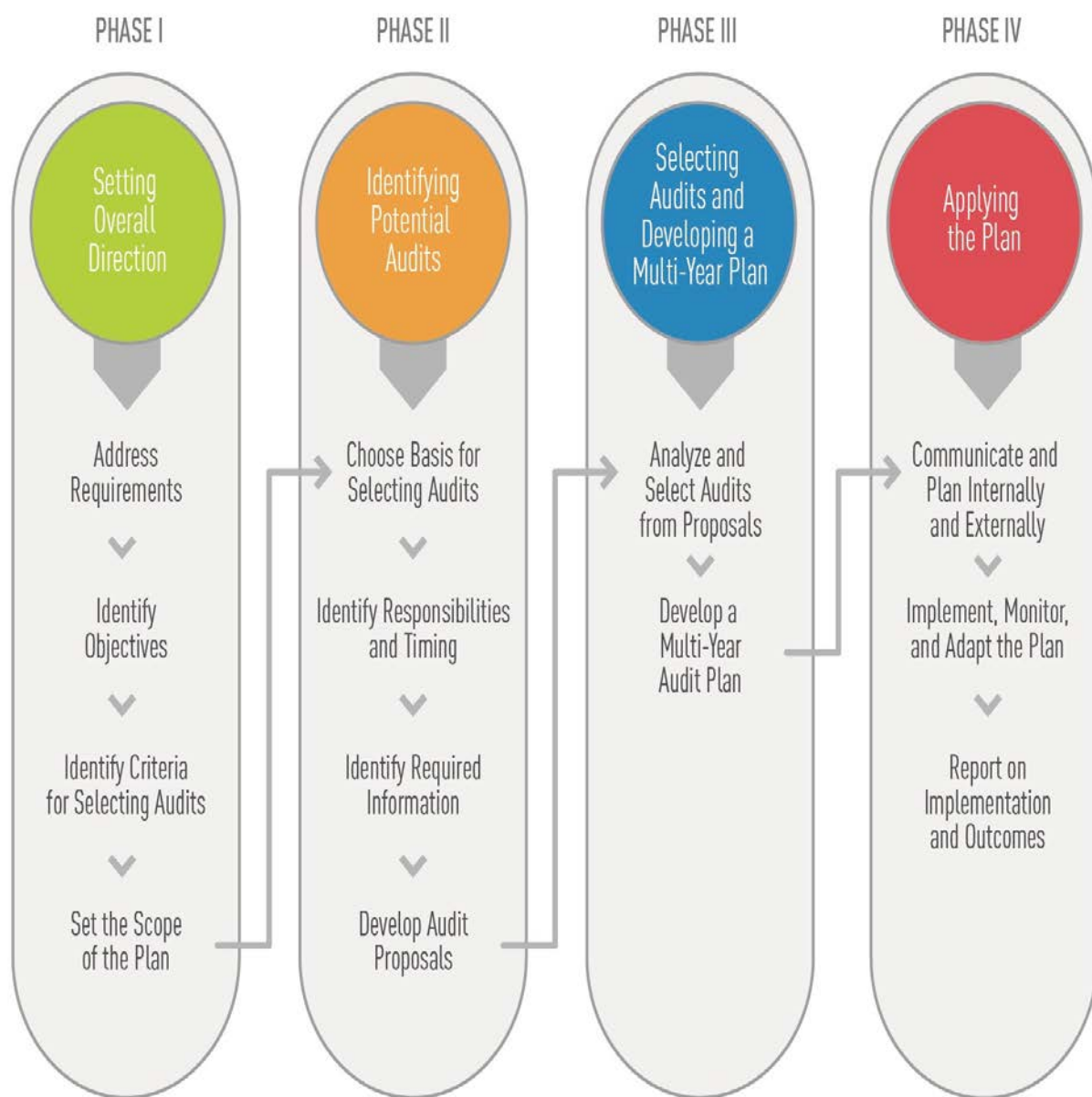
Interest in audit selection and multi-year planning originated among the Canadian Audit & Accountability Foundation’s international partner countries. They were eager to learn about good practices and experiences from audit offices from developed countries. While most of these developed country offices have well-established strategic planning processes, they demonstrated a willingness to share their experiences and to learn about practices in other jurisdictions.

We set out to capture these practices and experiences for the benefit of all. To develop this discussion paper, we reviewed existing literature, auditing and assurance standards, and documented processes made available to us. We also interviewed senior officials and auditors general from 10 provinces and states, one territory, and four national audit offices. The research focused on external legislative audit offices and their oversight committees (such as the Public Accounts Committee, other legislative committee, or audit committee). Senior audit office officials told us that it is challenging to design an effective audit selection and multi-year planning process.

Based on the belief that there is no best practice nor right or wrong choices, this discussion paper sets out a decision support framework for audit selection and multi- year planning. This framework is organized as follows:

- four **phases**,
- **Actions** to take and decisions to make in each phase,
- **Key questions** for audit offices to ask in relation to each action, and
- for each key question, the design **Options** available with related considerations, along with **Tips and examples** on how to proceed. Examples of experiences from specific audit offices are identified so that readers who may wish to make contact to ask for additional information can do so.

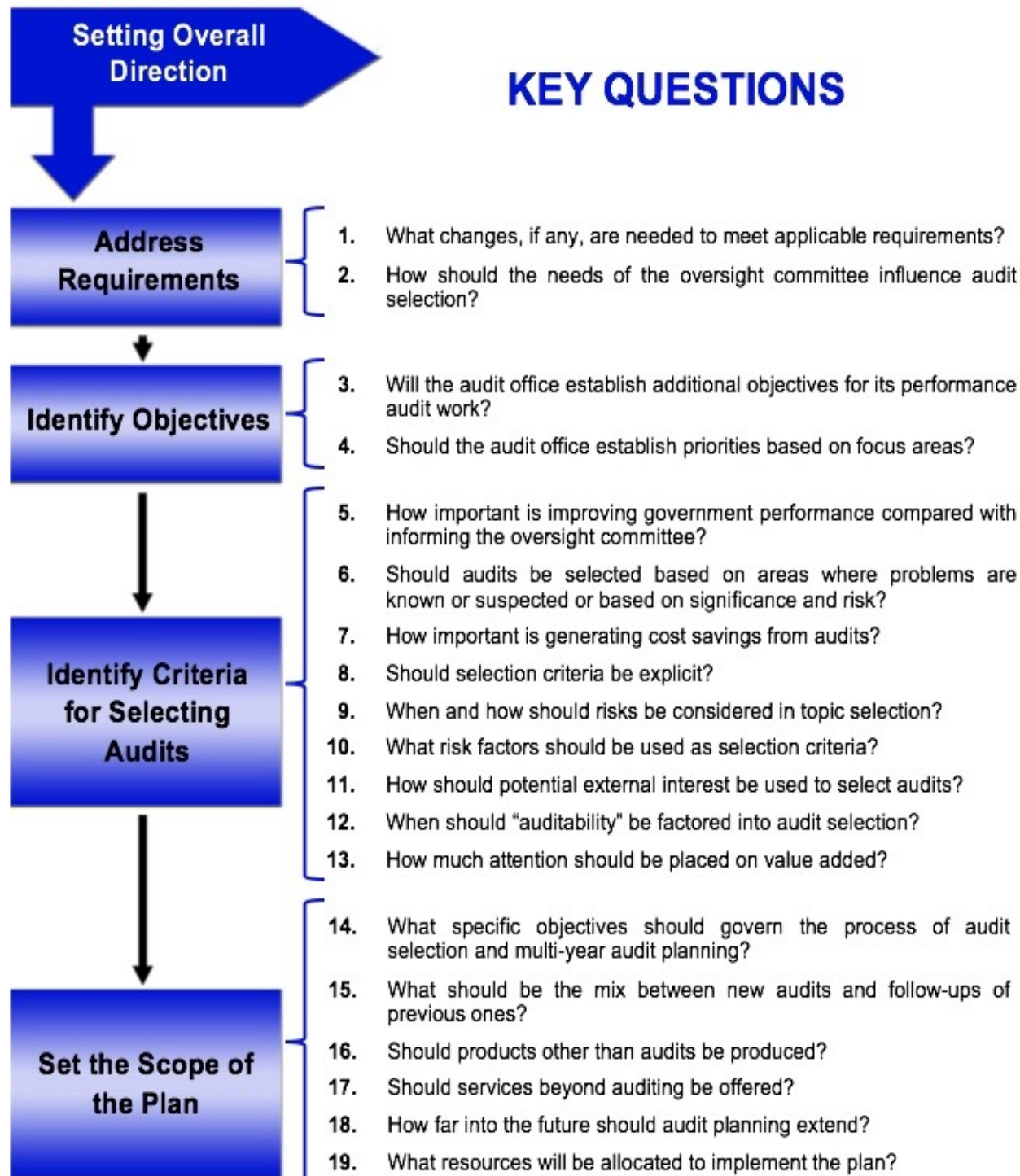
The Audit Selection Process



PHASE I

Setting Overall Direction

A planning process involves first setting overall direction in order to guide its design strategically.



1.1 Address Requirements

The mandate and standards applicable to an audit office set out the overarching requirements that must be met. They differ by jurisdiction. The characteristics of the oversight committee and its needs are also key factors that may drive audit selection.

1.1.1 Mandatory Requirements

Key question #1

What changes, if any, are needed to meet applicable requirements?

Why it's important

It is critical in designing the audit planning process to understand the audit office's legal mandate, because this will influence the topics to be selected. The legal mandate may be in the form of legislation specific to the office, and in references to the office in other government legislation.

Options

Changes to meet the audit office mandate: For audit selection, those involved should understand the audit office's mandate, including how much discretion the office has to select audits and any requirements from the oversight body or government. Those deciding on audit selection should also be aware of any performance audit issues given emphasis in the mandate, such as economy, efficiency, effectiveness, environment, equity, systems and practices, or suspected problems. It may be parts of the mandate have not been fully reflected in audit selection.

Changes to meet binding requirements: Those deciding on audit selection must be aware of binding requirements, including any requirements for communicating the plan with those audited and whether the multi-year plan needs to be externally reviewed or approved. In offices that receive funding from other outside sources, other binding requirements may also exist. For example, offices that recover audit fees may be subject to regulations or service standards. International donor organizations may stipulate certain conditions when they fund performance audit work.

Changes to meet auditing standards: Once these requirements are clear, attention can turn to identifying applicable standards and guidelines. The legal mandate or binding requirements may stipulate which standards apply to the office's performance audit work, or there may be options from which to choose.

For example, the International Standards of Supreme Audit Institutions (ISSAI; see [Appendix A](#)) contain numerous requirements of audit offices related to audit selection and multi-year audit planning, the key elements of which are:

- Being aware of and responsive to changing environments and emerging risks, notably
 - Identifying key stakeholders and establishing two-way communications
 - Being aware of the expectations of stakeholders and responding to these, as appropriate, in a timely manner and without compromising office independence

- In developing their work program, responding as appropriate to the key issues affecting society
- Using systematic research and analysis to formulate their work program, notably
 - Assessing problems, risks, significance, auditability, and relation to office mandate, with a focus on results
 - Seeking input from auditors in their field of expertise
- Maximizing the impact of audit work
- Reporting publicly on their performance in conducting audits economically, efficiently, and effectively

Chartered Professional Accountants of Canada ([CPA Canada](#)) has recently revised its audit standards (CSAE 3001; see [Appendix A](#)). These apply to Canadian performance audit reports dated from 30 June 2017 and onwards. The standards that relate to audit selection and multi-year audit planning outline the steps necessary to accept or continue an audit. These standards require that an audit not compromise the independence or ethical standards of the organization, that it be conducted by individuals with the necessary competencies, and that the basis of the engagement be commonly agreed. CPA Canada's *Canadian Standard on Quality Control* (CSQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance engagements. It requires that organizations have policies and practices governing acceptance and continuance of audits.

No changes needed. It may be the case that no changes are needed to meet mandate, other requirements, or standards.

Tips and examples

Once requirements are understood, an audit office can determine its initial level of compliance with these requirements and identify any needed changes. One such tool is the pilot Performance Measurement Framework from the International Organization of Supreme Audit Institutions ([INTOSAI](#)). It is designed to "provide Supreme Audit Institutions with a framework for voluntary assessments of their performance against the ISSAIs and other established international good practices for external public auditing."

Another approach to assessing compliance with requirements is conducting a peer review. For example, the Canadian Council of Legislative Auditors ([CCOLA](#)) has developed criteria for the peer review of member audit organizations.

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1.1.2 Oversight Committee

Key question #2

How should the needs of the oversight committee influence audit selection?

Why it's important

The oversight committee plays an important role in the functioning of the office. So it is important to understand its characteristics and needs and then decide the extent and how these will be factored in to the plan.

Options

Use the oversight committee's previously expressed views: If the oversight committee has already expressed interests and needs, this can be considered in audit selection. If it has undertaken a self-assessment of its functioning, this can be valuable input into audit selection and multi-year audit planning. For example, if the committee wants to ensure that past audit deficiencies are corrected, the audit plan might emphasize follow-up audits.

Identify committee needs: Another option, if the committee has not formally self-assessed, is for the audit office to identify the committee's needs. This might occur by asking related questions during consultation on the audit plan or by relying on the office's own observations of the committee in action.

Try a mix of audit: A final option is to proceed with a mix of audits (for example, different types or sizes) to gauge which are of most interest and use to the oversight committee.

Tips and examples

The quality of the relationship with the oversight committee is a factor in deciding how its needs should be factored into planning, as is the need to maintain independence in audit selection.

If the oversight committee is concerned that it lacks awareness of emerging risks, then audits targeted on growing risks or studies describing the nature and extent of the risk might be warranted. If the oversight committee is focusing on key risks, this would be aided by broader audits, rather than single-issue ones. If the committee's research capacity is limited, more attention might be paid to non-audit products that help educate or directly assist it. An oversight committee that wants to direct more of its time to audit reports might lead the office to be more consultative and responsive in audit selection.

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1.2 Identify What the Audit Office is Trying to Achieve

Beyond following legal requirements and auditing or assurance standards, many offices establish additional objectives for themselves. These can relate to immediate outputs, long-term outcomes, and/or subject-based themes or focus areas. It is important to identify these objectives in order to guide the audit selection process and eventually evaluate its effectiveness.

1.2.1 Objectives for Performance Audit Work

Key question #3

Will the audit office establish additional objectives for its performance audit work?

Why it's important

Performance audits expect the activities of public organizations to be based on clear objectives, and this applies to the performance audit practice itself. The practice's objectives, targets and indicators need to be sufficiently clear to guide the audit selection and multi-year audit planning process: different objectives will lead to different audits being chosen. Note that this section refers to objectives set by an office for its performance audit practice; it does not refer to the objectives of individual audits.

Options

Use existing performance audit practice objectives: Objectives for the performance audit practice may be stated in various sources; for example, office strategic planning or budgeting may have created mission, vision, or goal statements. One option is to use the existing objectives if they are sufficiently clear. The clarity of objectives can be judged using the "SMART" principle: are they specific, measurable, achievable, results-focused (also relevant and realistic), and time-bound?

Add activity or output objectives: If objectives need to be clarified, an option is to use activity- or output-based objectives; for example, aiming to complete a certain number of performance audits in the year. These targets are usually under the full control of the audit office, so it can be held directly responsible for their achievement.

Add objectives based on achieving immediate audit outcomes: Some audit outcomes can be measured quantitatively, others qualitatively. Typically, these objectives cover how audits will:

- help improve government performance; for example, a target for acceptance of recommendations, or satisfactory action on recommendations and
- provide accountability information useful to the oversight committee; for example, a target for the oversight committee's satisfaction level with performance audit reports.

Such immediate outcome objectives focus on what the office hopes will be the positive impacts of its performance audit work. But they are generally not within the control of the audit office. For example, satisfactory action on recommendations is influenced by the extent of the oversight committee attention to the audit, and ultimately depends on the response of government officials.

Add objectives based on achieving ultimate outcomes: The ultimate outcome of performance auditing is having positive impacts that justify the taxpayer money spent on them. Ultimate outcomes fill in blanks left by immediate outcomes. For example, recommendations may be fully implemented, but may have not resolved the underlying problem. But often many actors contribute to ultimate outcomes, not just an audit. For example, performance audits of the education system aimed at improving student success may be very well-selected and -conducted, but results fall short due to government inaction. Often ultimate outcomes are assessed qualitatively because of the difficulty of measuring these quantitatively.

Tips and examples

Different techniques can be used to clarify existing audit office objectives or develop new ones. Backcasting is a planning method that starts with defining a desirable future and then works backward to identify the activities required to achieve this desired outcome. Another technique is called “STP,” which involves identifying the current *situation*, the *target* goals for the future, and the *path* to those goals. In performance auditing, the defined future point might be the mid-point or end of the Auditor General’s term.

A results chain is another tool to guide decisions about key activities, outputs, and desired immediate, intermediate, or ultimate outcomes. The results chain captures the logic that links each element in this progression. Logic statements can capture how outcomes may be attributable to factors other than performance audit work. For example, the Provincial Auditor of Saskatchewan has developed a results chain it publishes in its annual business and financial plan.

Examples of objectives include:

- The Office of the Auditor General of Canada has objectives and numeric targets for the proportion of audits that will receive an oversight committee hearing, and the level of oversight committee satisfaction with relevance and quality of audits.
- The Office of the Auditor General of New Zealand has three ultimate objectives in its logic chain: a high-performing public sector, appropriately responsible public sector behaviour, and a trusted public sector. The office’s targets are that New Zealand’s ranking on the Worldwide Governance Indicators list is improved above the 90th percentile, that annual surveys show improved rates of trust in public services, and that New Zealand’s score on Transparency International’s Corruption Perceptions Index is improved.

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1.2.2 Focus Areas

Key question #4

Should the audit office establish priorities based on focus areas?

Why it’s important

A key early decision is whether certain “focus areas” or themes will be given preference in audit selection. The audit literature calls this setting “strategic direction,” rather than relying on bottom-up identification of

audits. Some offices set such priorities because they believe they can have a significant impact by concentrating effort there, or to increase attention on areas that have not had enough audit coverage.

Options

Establish priorities by sector: One option is to emphasize certain sectors of government with extensive issues where audits can improve performance. For example, some offices have given priority to environmental, health, educational, or Aboriginal issues.

Establish priorities by root causes: Another option is to concentrate on certain core deficiencies that cause widespread problems elsewhere in government, such as poor governance or a lack of oversight. If the same deficiencies or underlying causes are commonly found, then audit selection and multi-year audit planning can concentrate on these areas.

For both sector priorities and root cause priorities, one consideration when choosing them is whether priorities will likely be stable or whether new issues are likely to arise that may deserve attention, making priority setting less useful.

Do not establish priorities by focus area: The other option is not to establish priorities for audit selection by focus area. If deficiencies are numerous without common underlying causes or patterns, audit selection can rely on bottom-up identification of audits.

Tips and examples

Past audits can be analyzed, and outside experts asked, whether the government has a few areas requiring improvement or numerous diversified problems. If the office relies on a few dominant issues to focus audit selection, these should be well-chosen. Otherwise, other important audit topics may be overlooked. Hence, it is important that senior officials get internal and external advice and critically challenge their own priorities and views on core deficiencies.

One strategy is to use any dominant issues that the government itself has identified as priorities, provided the government's diagnosis is persuasive.

Where specific priorities are chosen, it should be possible to identify the desired outcome that drove that choice, and to include these in the practice's objectives.

Some priorities may be used both for audit selection and for choosing issues during the planning phase of audits.

At OAG Canada, in the mid-2000s, the five focus areas then in use were dropped because deficiencies were no longer seen as systemic. Since then, audit selection has relied on individual risk analysis of each of several dozen risk areas.

The Office of the Auditor General of New Zealand identifies a theme each year, reflecting an issue that is broadly applicable across its jurisdiction, and then selects several audits within this theme, such as service delivery, governance, and asset management. Annual themes are developed at a cross-OAG planning workshop.

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1.3 Identify Criteria for Selecting Audits

The objectives that will guide audit selection form the basis of the next decision: choosing selection criteria. Selection criteria are the basis on which potential audits will be identified, and competing proposals assessed.

1.3.1 Government Performance Versus Oversight Committee

Key question #5

How important is improving government performance compared with informing the oversight committee?

Why it's important

Audits may be selected to improve government or provide accountability information. These objectives may conflict. Early decisions are needed on their relative importance, because the audits selected may be different.

Options

Offices may choose to emphasize one or the other objective, or balance the two.

Tips and examples

Determine the importance of improving governance versus accountability information: As Lonsdale *et al.* (J. Lonsdale, P. Wilkins, and T. Ling, *Performance Auditing: Contributing to Accountability in Democratic Government*, Cheltenham, UK: Edward Elgar Publishing Limited, 2011) note, audit office objectives often cover two parts: improving government and providing the oversight committee with assurance information to hold government accountable. Because audits may achieve one but not necessarily both objectives, the options are to emphasize one or the other objective or balance both. For example, an audit may reveal important information to the oversight committee, but provide no new insights to government managers. Conversely, an audit of a highly technical field or back-office function may not attract oversight committee interest, but may significantly improve government management through insightful recommendations.

Considering which types of audits have provided the greatest value can help decide whether one objective should be emphasized. This can also be a key question asked during consultations with external stakeholders.

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1.3.2 Problematic Areas Versus Significance

Key question #6

Should audits be selected based on areas where problems are known or suspected or based on significance and risk?

Why it's important

Audits can be selected where performance problems are suspected or known to exist or audits can be selected based just on the significance of the audited area without regard to existing problems. This choice is a key design decision. It reflects how the office sees its value added and objectives. It may shape the office's public image and prevailing culture. It has a significant impact on the design of other aspects of the audit selection process.

Options

Select audits based on problematic areas: An audit office may choose to select solely audits of problematic areas, where significant problems are known or suspected. For some offices, this involves considering residual risk: the risk that remains even when controls are in place to mitigate the inherent risk, which is the risk stemming from the nature of the audit area. There are numerous considerations:

- Limited capacity may favour a problem focus. An office auditing a government with many problem areas may have little remaining capacity to cover areas without apparent problems.
- Mandates often stipulate or imply a problem focus, directing offices to report exceptions where deficiencies are found. (This is not always the case; for example, OAG Canada's Crown corporation special examination mandate requires an opinion as to whether systems and practices are without significant deficiency.) Performance audit historically focussed on reporting problems.
- Media often focus on negative audits, so awareness of the office's work may be enhanced by a problem focus.
- Expectations may favour a problem focus. There may be a strong public and oversight committee view of the office as a watchdog, rather than as an inspector that assesses both good and bad situations.
- Significant appropriate evidence may be easier and less costly to obtain to substantiate problems than to confirm the absence of problems, which may require more extensive testing to rule out the range of potential issues that may exist.
- If the office decides to communicate the extent it selects audits only where problems are suspected, and it clearly explains this, it is less likely that negative audits will leave the impression of widespread government problems.
- The cost-effectiveness of the approach can be demonstrated, because selected audits should help improve government management where problems exist, as well as assist accountability by informing the oversight committee.

Select audits based on significance and inherent risk: A second option is to audit significant areas based on inherent risks, whether or not there are indications of problems. The following are key considerations:

- A more balanced public view of government may result. A problem focus may project an excessively negative view of government performance: if all audits report significant problems, a strong impression is left that this is true throughout government.
- A significance focus may improve relations with organizations that see the treatment as balanced.
- An oversight committee may want cyclical coverage of all significant areas of government. A significance focus results in both negative and positive audit reports, which provides both supporters and opponents of the government with audits they can use for their purposes. This may result in the oversight committee giving greater attention to Auditor General reports than if only opponents find the reports useful.

- Less investment in gathering information for audit selection is needed. A problem focus depends on good knowledge about the extent of problems and root causes, and the ability to differentiate between trivial and significant problems. A focus on significant areas demands only good judgment about what areas are important to citizens and the oversight committee.
- A focus on significant areas may uncover unexpected problems.

Select audits based on well-performing areas: A final option used by some offices is to audit some areas believed to be performing particularly well, in order to highlight success and the factors that contribute to it. One consideration is whether the resulting work will be sufficiently publicized, particularly by media that favour bad news. A further consideration is the risk of a falsely positive conclusion.

Tips and examples

If the existence of suspected problems is a prerequisite, then it becomes a filter before other selection criteria are considered. Otherwise, the extent of suspected problems becomes one of various selection criteria.

The Office of the Auditor General of British Columbia is one office using selection criteria that do not restrict selection to areas with suspected problems. In the 2000s, OAG Canada adopted and publicized the overall guiding principle that audits would be selected based on the significance of the area.

One common source of confusion is in describing selection as “risk based,” language commonly used in audit manuals. This may mean that selection is based purely on residual risk or on inherent risk. For the sake of clarity, it is important to be specific about which type of risk is being referred to.

Offices that have chosen a problem-based selection approach face some additional decisions:

- They need to decide on the extent of evidence about problems needed to make selection decisions. The challenge is that sufficient appropriate evidence is only available later, once the audit testing is complete.
- They need to decide how to proceed when suspected problems prove unfounded. Should the audit proceed to reach a positive conclusion or be terminated? The latter approach may be difficult, because it may be only late in an audit that suspicions are shown to be unfounded, when the evidence collection and analysis is complete. In our research, we found one office that proceeds with an audit regardless, once the audited departments are informed. Another office terminates such audits, but notes in the next report that initial audit work in the area had revealed no significant issues.

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1.3.3 Generating Cost Savings

Key question #7

How important is generating cost savings from audits?

Why it's important

Audits can improve government performance by identifying cost savings opportunities. But not all audits provide this opportunity, and some may actually lead to increased government expenditures; for example, an audit may find that a program needs to invest in management controls.

Options

Offices have the option to emphasize or not the potential for cost savings in selecting audits.

Tips and examples

The extent of emphasis on cost savings needs to be decided in the objectives for the audit selection and multi-year audit planning process. Mandates of audit offices often direct attention to economy and efficiency, and sometimes specifically to cost savings.

The relative importance of identifying cost savings can be discussed as part of any external consultations.

Assessing the nature of government activities subject to audit can help determine the extent that audits should emphasize cost savings. If a significant proportion of government activities are non-operational in nature, audits may not be able to identify saving.

The root cause of performance issues in some audited areas may be a significant shortfall in resources, and any recommendations may require resource increases. An audit office needs to decide its comfort level with such audits.

Where cost savings are a key objective, this can be translated into targets. The United States Government Accountability Office and United Kingdom National Audit Office have a target of generating cost savings that are several times greater than the cost.

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1.3.4 Explicit Selection Criteria

Key question #8

Should selection criteria be explicit?

Why it's important

Offices face the choice of whether or not to articulate criteria to be used in selection, or to leave these implicit, as discussed below.

Options

Use implicit criteria: One option is to not identify specific criteria but instead identify potential audits and whatever arguments favour their selection. The choice among proposed audits is made based on the decision

maker's preference. This may be workable where the number of proposed audits is not so numerous that a common framework is needed to sort through them. Some argue that avoiding explicit selection criteria keeps the focus on the merits of each proposal, preventing the selection exercise from becoming a mechanical exercise of rating and comparing different criteria.

Use explicit criteria: On the other hand, the option of making the selection criteria explicit achieves the following:

- Makes it easier to explain externally how audits are selected.
- Communicates to staff what the office considers the key attributes driving audit selection, helping ensure that different parts of the office use a common perspective to propose audits.
- Facilitates comparisons, making it easier for decision makers to compare a large number of proposed audits.
- Facilitates consistency of selection over time. For one office, a key goal of its audit selection design was to ensure the repeatability of the process.

Where explicit selection criteria are used, they can be grouped into:

- risk factors,
- problem factors,
- potential interest,
- auditability, and
- value added.

Tips and examples

Offices wishing to move to explicit selection criteria can analyze past proposals to identify the common factors that led to decisions to proceed with an audit or not. Or, the exercise can simply involve asking why some audits look more desirable than others.

Offices may choose to disclose or not the selection criteria they employ.

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1.3.5 Risk Analysis

Key question #9

When and how should risks be considered in topic selection?

Why it's important

Most offices analyze the risks apparent in the area where audit work is proposed. However, risk analysis can play different roles, depending on the timing and focus.

Options

Identify audits, then risks: One option is to identify potential audits, and then assess each using inherent or residual risk factors to determine which are most desirable.

Identify risks, then audits: Another option is to identify the inherent or residual risks in a particular audit area, and then identify specific audits that would examine how these risks have been managed. This approach keeps the focus on risk, and allows consideration of the merits of different audits that can shed light on these risks. It also reflects the fact that a particular audit may cover a number of risks in the audited area.

Use no risk analysis: A contrasting approach is to not use risk analysis in audit selection. Lonsdale *et al.* (2011) argue that the value of risk analysis in audit selection has neither been empirically confirmed nor invalidated.

Tips and examples

The Office of the Auditor General of Canada conducts a strategic audit plan (SAP) of various subject areas. An SAP first identifies the likelihood and impact of the key risks in the subject area, and then identifies a series of audits that address one or more of these risks.

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1.3.6 Risk Factors

Key question #10

What risk factors should be used as selection criteria?

Why it's important

Selection criteria need to align with prior decisions on objectives, themes, and whether only problematic areas are selected.

Options

Identify problem-based (or residual risk) factors: Another approach, used by offices that focus on known or suspected problems, is to identify selection criteria that reflect residual risk. This requires asking questions about the nature and extent of problems, and their likely impact. Key questions are:

- Is the problem flagrant? The importance of some issues is self-evident, such as fraud, cases of activities without legal mandate, or major commitments unfulfilled. There may be one dominant issue in an area, or numerous smaller ones.
- Is the problem likely to get worse? Some issues reflect emerging problems, where impacts are just starting and where there is an evident risk that the situation will deteriorate.
- Is the problem possibly the tip of the iceberg? There may be reason to suspect that problems may extend to other activities or other departments, or be symptomatic of a deeper root cause. (If so, the scope of the proposed audit may need to be extended.)
- Is the impact or “so what” of the problem worrisome? This is a particularly critical consideration, because auditors are sometimes accused of focusing too much on breaches of rules with little actual consequences. Is there an actual or possible impact on financial resources, clients, achievement of objectives, confidence in the public sector, or reputation? Assessing inherent risk may help identify these impacts.

Identify significance (and inherent risk) factors: One approach is to identify selection criteria that reflect inherent risk. Typical criteria used by audit offices include:

- financial expenditure—the extent of taxpayer money potentially at risk;
- non-financial significance; for example, the nature and extent of impacts on citizens;
- the possibility of not achieving economy, efficiency or effectiveness, or meeting legal mandates or commitments made;
- the absence of recent coverage by audit or other similar reviews; and
- where audit priorities have been identified, alignment with these priorities will be an important consideration to ensure sufficient audit work is conducted.

Tips and examples

Some offices are making greater use of government data to identify performance gaps, for example program data that indicates whether the same clients make repeated use of the service. The Office of the Auditor General of Canada has conducted pilots where data from large government databases has been obtained and analyzed to assess performance issues.

The members of [AFROSALE](#) often develop a problem tree during audit planning to identify key problems and underlying causes. This technique may be useful in audit selection too.

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1.3.7 External Stakeholder Interest

Key question #11

How should potential external interest be used to select audits?

Why it's important

A key factor in audit selection is the potential interest of users, which affects how much the audit work is useful to the oversight committee and other stakeholders. Offices need to decide how to take this into account while guarding their objectivity and independence.

Options

Consider oversight committee interest: In some cases, there may be past oversight committee interest in the same area or problem. That interest may range from something widely held, such as debates or committee reports, to interest by specific members. Or the interest may be suspected, based on reaction to similar issues in the past. That said, past interest may not indicate future interest, particularly if membership has changed.

Consider other stakeholder interest: The nature and extent of public and media interest can similarly be assessed, based on media reports, Internet postings, and social media references. Public polling results may be available in some subject areas. There may be common interest among these groups—if not, decisions are

needed on the relative weight to give different groups in audit selection. Potential interest partly depends on the visibility of the area to be audited. Public, media, and oversight committee awareness of an area will likely generate more interest in the audit report. One measure of visibility is the extent that the area is a stated government priority. There may be stakeholders within government that should be considered, for example central agencies or public service unions.

Tips and examples

Oversight committee interest can be determined through a combination of review of debates and reports, along with consultation with members. Internet searches can quickly shed light on areas of widespread visibility and interest.

The Office of the Auditor General of Canada is conducting pilot projects to analyze social media postings to identify public interests.

The Office of the Auditor General of Nova Scotia assesses potential audits against government priorities, such as the protection of vulnerable people and an improved economy. The Office of the Auditor General of New South Wales similarly cross-references selected audits with the state government's plan and priorities.

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1.3.8 Audit Feasibility

Key question #12

When should “auditability” be factored into audit selection?

Why it's important

Offices determine the feasibility of an audit, often called “auditability.” They ask the questions: “Are widely accepted and appropriate audit criteria readily available? Are relevant audit testing approaches and audit programs easy to obtain? Are testing approaches straightforward and cost justified? Do available staff have the requisite experience, knowledge, and capabilities to obtain sufficient appropriate evidence and meet the requirements of standards concerning team competence? Are the risks that the testing will result in false positives or negatives manageable?” Assessing auditability is important because certain topics may be difficult and costly, or even impossible, to audit.

Options

Consider auditability later, in audit planning phase: One option is to leave determination of auditability to the audit planning phase, after audits are selected. This may be appropriate if it is reasonably certain that an appropriate audit approach can be found.

Consider auditability when selecting audits: The other option is to make an initial assessment of auditability at the audit selection phase for all or some proposals. This may be appropriate if audit proposals involve novel approaches with significant project risks that, if known during selection, would have screened out the proposal.

Tips and examples

The ISSAI 300 (28) standard notes that auditability risks may include not possessing the competence to

conduct sufficiently broad or deep analysis, lacking access to quality information, obtaining inaccurate information (because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

At the same time, ISSAI 300 (28) warns, “While simply avoiding such topics may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of adding value.”

Offices may find that internal constraints are a major determinant of auditability. One office excludes at an early stage proposals where the office does not have staff capacity or that could not be covered by its modest consulting budget. A lack of extensive experience might suggest planning simpler audits with well-established audit criteria and approaches, at least at the outset. Some offices relying on financial auditors noted that audit selection is constrained by the need to find short-duration audits to fit staff availability between financial audits.

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1.3.9 Value Added

Key question #13

How much attention should be placed on value added?

Why it's important

A final selection criterion is the likelihood that the audit will add value that justifies its cost. Offices can consider three types of benefits that an audit can provide that will help the office meet its objectives:

- the value of information provided by the audit to the oversight committee and others;
- the extent that the audit triggers improvements that would not otherwise result; and
- secondary benefits, such as helping educate the oversight committee and the public, enhancing auditor knowledge, and identifying criteria and approaches for future audits.

Options

Do not consider value added: One option is to not explicitly consider value added. This may be appropriate for practices recently established. The lack of past performance audits may make it hard to gauge value added. Plus, if few performance audits have been conducted, it is likely that any audit of significant issues will justify the associated costs. If not much is yet known about the proposed audit area, it may be difficult to assess the potential to add value.

Do consider value added: The other option is to explicitly consider the potential to add value when selecting audits. This is particularly important if there is extensive existing public information about the area, either from past performance audits or other reviews. The types of value that could be added by an audit include the information provided, improvements triggered, and other benefits, such as education and undertaking new audit approaches. By their nature, benefits are difficult to quantify and are usually assessed qualitatively using professional judgement.

There are several considerations involved in considering value added; in particular, assessing the audit's likely impact against its cost. An audit may have self-evident value by finding significant problems not known to management or the oversight committee, and making insightful recommendations that resolve those problems. Even if problems are well-known to management, and corrective action is underway, the audit may justify its cost by drawing the oversight committee's attention to the situation. Or an audit of a truly significant area where few problems are evident may be justified by the assurance it provides management and the oversight committee. The ISSAI 300 (28) standard notes "the risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors and, as a consequence, not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance."

Tips and examples

One office identified high-risk subjects, but the final selections were not necessarily the top ones after the potential to add value was considered. Some of the highest risks were recognized by government officials and internal audit already, so these would likely be addressed without an audit.

One office is putting increasing attention on what information is already in the public domain, to ensure it is not just duplicating existing sources. Another office that focuses on the potential to add value noted that it helps properly size audits by relating audit cost to value added.

The Office of the Auditor General of New Zealand requires for each proposed audit that the potential value added be identified. The proposer is required to rank the impact as high, medium, or low, and justify the ranking by describing the potential for public benefit, performance improvement, significance, and fit with the office's role. The Office of the Auditor General of Canada has a similar requirement at the stage of audit selection, and requires that potential value added be refined at subsequent stages of approved audits, including assessment after the audit is reported of whether the anticipated value added was achieved.

Case Example

The Office of the Auditor General of Canada assesses the value added of all audit proposals through a series of questions. Questions to be considered include:

- Will the audit add value by providing assurance on the subject matter? For example:
 - Why does Parliament need assurance on the proposed subject matter (e.g., important subject matter or financially material)?
 - Is the Office the sole provider of that assurance?
- Has internal audit or program evaluation assessed the subject matter area recently? If so, will that assessment affect the value added of the proposed audit?
- If the audit focuses on known deficiencies, how will it add value?
- Will the audit add value by providing advice on the subject matter? For example:
 - Given the identified or suspected issues, what type of advice can the Office provide that would lead to significant improvements in accountability or government operations?
- Without carrying out the proposed audit, would the organization likely fix the problems?
- Will the audit add value by providing information on the subject matter? For example:
 - Would the audit provide new insights by, for example, disclosing information not currently public?
 - Would the information provided in the report build or increase the awareness, grasp the importance or scale of a subject, issue, or identified deficiency?
 - Would the information provided be timely in relation to a public policy matter or debate or matter of significant risk to Parliament and/or the public?
 - Would the audit quantify the impact of shortcomings, e.g., case illustrations, quantification of cost savings, and quantification of results gap?
 - Would the audit demystify myths?
 - Is the audit likely to reveal information that management or government would not wish to become public?
 - Would the audit provide information on the consequences of poor performance (so what) as well as the root causes (why so)?
- Will the audit add value by providing other benefits concerning the subject matter? For example:
 - What additional knowledge will the audit acquire, such as criteria, approaches that may lead to other audits, or be useful to other product lines?
 - Other than Parliament and management, will other parties benefit from the audit (e.g., interest groups, academics)?
- Is it likely that management would take action in areas not scoped for the audit?

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1.4 Set the Plan's Scope

Setting the plan's scope is needed to define the plan's strategic direction. (Note that this section refers to the scope, objectives, and criteria of the audit selection process, not the scope, objectives, and criteria of individual audits.)

1.4.1 Specific Objectives

Key question #14

What specific objectives should govern the process of audit selection and multi-year audit planning?

Why it's important

Specific objectives may be necessary to drive the design of the planning process and ultimately decide if it is effective.

Options

Identify principles: One option is to identify the principles that will guide the audit selection and multi-year audit planning process itself, such as transparency and inclusiveness.

Identify objectives: Another option, not mutually exclusive, is to identify strategic objectives that can be accomplished through audit selection and multi-year audit planning. One objective might be to use audit selection to increase staff engagement or improve stakeholder relations.

Tips and examples

One possible objective of the audit selection and planning process is to define key risks and to include ways to manage those risks. For example, the office could determine its risk tolerance for missing an important emerging topic, where someone could later ask "Where was the Auditor General?". If an office has a low risk tolerance for missing such a topic, its specific objective would be to ensure emerging issues are audited early enough to avoid significant negative impacts. Other offices see this as less of a risk, and their objective would be ensuring that they select audits that add sufficient value to justify the cost.

Offices wanting to determine their tolerance for risks can also consider the risk of:

- Choosing audits insufficiently relevant to the oversight committee
- Conducting audits with impact insufficient to justify their costs
- Selecting audits that provide management with no new insights

Case Example

The Office of the Auditor General of New Zealand established a series of principles to guide the audit selection process, which it states as:

- “Our focus is on where we can add the most value, and optimise the value of the investment of the Office’s resources.
- Planning is an open, transparent, and inclusive process.
- We involve the right people at the right time.
- Decisions will be clearly communicated throughout the process.
- Our process is integrated, flexible and dynamic.
- Our processes will be simple, streamlined, and fit for purpose.”

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1.4.2 Mix of New Audits and Follow-ups

Key question #15

What should be the mix between new audits and follow-ups of previous ones?

Why it's important

Offices face a challenge in achieving the right audit balance, with a tendency sometimes to focus on new audit work, rather than follow-ups of previous work. This may be due to a combination of reluctance of a new audit team to be bound by the work of another or, if the team has not changed, fatigue with the previous topic and a desire for something new. Determining the right mix of new audits and follow-ups is important so that sufficient attention is paid to unresolved issues previously identified.

Options

Pre-establish a target for the mix of new audits and follow-up audit work: Follow-up audit work can be determined by estimating what proportion of new audits will justify follow-up work: some offices follow up only selected audits, while others do so all the time. The resources involved is a consideration. Part of the estimate involves deciding whether follow-ups will be based on self-reporting by the audited organization, and whether the follow-up work will be conducted to an audit or review level of assurance. The volume of outstanding recommendations will be a factor. One office found it had a significant number of recommendations to follow up, and now has a target of 10 recommendations per audit, to make follow-up manageable.

Determine mix based on judging proposals: If there are enough appropriate follow up proposals, follow-up and new audits can be chosen without favouring one type.

Do not make a sharp distinction between new and follow-up audits: Offices with a long history of performance audits may find few new areas not yet audited, apart from new government programs. So the more appropriate option may be not to make a distinction between new and follow-up audits, but to ensure that any proposed audit includes a follow-up of any previous work that is still relevant.

Tips and examples

The Office of the Auditor General of Nova Scotia has received considerable interest in its follow-up work, and has decided to dedicate a separate report to follow-ups.

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1.4.3 Non-Audit Products

Key question #16

Should products other than audits be produced?

Why it's important

Offices need to decide the range of products that will be covered by its selection process and multi-year plan. They may choose to produce only audits, or to extend to other types of value-added products, as discussed below.

Options

Use only audit products: An office may decide to use only audit products for the following possible reasons:

- Its mandate may not extend beyond auditing.
- Limited capacity may make it impractical to tackle projects beyond an audit.
- Non-audit products may be seen as a non-legitimate role for the office or as a compromise to its independence.

Use both audit products and non-audit products: Offices may choose to use a variety of tools other than audit to achieve objectives. Non-audit products include:

- Best practice guides, which educate government officials, the oversight committee and others on good management practices in an area.
- Studies, which do not contain audit findings or recommendations, or reach audit conclusions. They do not make use of audit criteria. Indeed, a study may be undertaken where there are no accepted audit criteria, with the purpose of developing such criteria. Studies may also identify best practices or educate the oversight committee and other stakeholders on the nature and importance of the study's subject.
- Auditor General comments provide an overall commentary about audits that have been conducted. These have been likened to the Op-Ed page of a newspaper, where individuals provide commentary beyond the factual accounts found in newspaper articles. This may take various forms: an opening chapter in the audit report, a press release, opening statements read by the Auditor General, or a

web page summary. They may be explanations of the significance of trends reported in audited financial statements; for example, if deficits or pension liabilities are growing.

- End-of-term reports, which have been issued by some auditors general, providing a similar commentary over the span of their term.
- Symposia, a tool used occasionally by offices. A symposium can be used to gather information during a study or audit, identify constraints to better performance, discuss means to address previous findings, or identify issues for future audits. The resulting discussion may be useful if published.

Key considerations in using non-audit products are:

- The possibility of confusing non-audit products with audits. For example, users may expect conclusions and recommendations in a study.
- The extent of engagement risk. Users may assume that non-audits are conducted to the same rigour as an audit, which may not be true. If they are not conducted with the same rigour, it may be difficult to communicate this difference to users. Products and approaches new to the office may increase the risk of quality lapses.

Extend approach using only audit products: A third option is to widen the approaches used in audits without producing non-audit products. An extensive introduction may be used to educate the oversight committee. One example is directly communicating issues to management. This can involve informal discussions or written communications about matters beyond those in reports. A key consideration is whether the oversight committee and the public expect all issues to be made public.

Tips and examples

One way to proceed is to consider the office's value proposition: what is the unique value that it provides? This can help identify products other than audit that are feasible and appropriate for the institution.

In areas of government subject to intractable problems, it may take a range of tools that complement auditing in order to make significant progress on difficult issues.

The Office of the Auditor General of New Zealand, in its template for audit proposals, requires that alternatives to an audit product be identified and assessed. A non-audit product may be deemed appropriate if the office can answer questions by a document review, analysis of performance data, or survey.

One example of an office that uses non-audit products is OAG British Columbia, which has issued good practice guides, such as on [preparing public sector financial statements](#). Another is Audit Scotland, which recently expanded its use of non-audit products. The Office of the Auditor General of Canada, in its sustainable development work, has conducted symposia on the social dimensions of sustainable development and management of science. The Auditor General of New Brunswick has issued reports on financial risks faced by the province. One office noted that, rather than conducting studies or informational products, it provides links to other sources of information in audit reports.

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1.4.4 Non-Audit Services

Key question #17

Should services beyond auditing be offered?

Why it's important

Offices may choose to provide services beyond audit. It may make sense to include these initiatives in the selection process and multi-year plan.

Options

Directly assist the oversight committee: Given that the oversight committee is usually the key client for performance audit, directly assisting the oversight committee can be an effective service. This assistance may include:

- Briefing committees on issues related to audits
- Assisting committees in the choice of hearing topics
- Seconding individuals to assist committees
- Providing orientation and guidance on the committee's mandate and activities to new members

Provide advisory services to government organizations: Another option is to provide advisory services to government organizations. These services may include:

- Explaining how an audit might assess a particular area; for example, the likely audit criteria that might be used
- Briefing officials on audit findings in similar areas that might apply
- Participating in joint demonstration projects, where an office may work with other stakeholders to explore best practices

With the above options, key considerations in deciding to provide additional service are whether:

- The nature of the office's mandate permits other services.
- There is sufficient capacity in an office to provide services beyond audit.
- Such services are seen as a legitimate role for the office and not compromising its independence and objectivity.

Tips and examples

The field of internal audit distinguishes advisory from audit services, and has standards that may be useful to legislative auditors considering this type of work.

The Office of the Auditor General of Canada has seconded staff to work for parliamentary committees. Also, in its sustainable development activities, it has participated with government departments in projects to develop performance measurement indicators.

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1.4.5 Planning Timeline

Key question #18

How far into the future should audit planning extend?

Why it's important

the longer the plan extends into the future, the more clarity is provided to those affected, but more effort is involved and it may constrain flexibility.

Options

Do annual audit planning only: Some offices plan one year in advance. This helps maintain flexibility. The timing of audit selection can immediately precede audit work.

Do multi-year fixed planning: Planning for the next two or three years is common, with the degree of precision beyond the first year varying.

Do multi-year rolling planning: In this case, the plan is renewed at regular intervals, usually annually, by adding a new final year. A rolling plan creates a built-in cycle for reviewing and renewing the plan.

In both types of multi-year planning, the longer the plan extends into the future and the greater its detail, the more clarity is provided to those affected by the plan. Internally, staff will have an idea of audit assignments available. Government officials may act to make improvements in advance, enhancing the office's impact. Internal auditors may be able to plan their work to enhance reliance by the audit office. An office that selects audits according to priorities may want a longer time period in order to consider related audits at the same time.

However, a longer planning period takes more time to plan, and may not provide needed flexibility, if there is resistance to modifying the plan as circumstances and risks change. Another consideration is matching the audit planning horizon with the government budgeting process. One office has a three-year plan internally, but publishes the list of audits only for the upcoming year covered by the government budgeting process. As well, the planning period might be chosen to align with the Auditor General's term.

Tips and examples

The audit offices of British Columbia, New Zealand, and New South Wales each publish a performance audit plan covering three future years.

The Office of the Auditor General of New Brunswick maintains a list of audits equivalent to three years of audit effort but without deciding timing. Each year it chooses which audits will be completed in the next year, and replenishes the list with new topics to maintain a three-year pool.

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1.4.6 Resource Allocation

Key question #19

What resources will be allocated to implement the plan?

Why it's important

In order to properly resource the implementation of a performance audit plan, decisions are needed on what resources to allocate to the plan, and whether this is fixed, or just a notional resourcing until the extent of needed work is determined.

Options

Use a pre-established allocation: Offices may have a pre-established level of resources for performance audit.

Use a flexible allocation: Offices may not have a fixed allocation among performance audit, financial audit, and other expenditures, and adjust it based on factors such as the number of requests or extent that important performance audits are identified. Constraints on the degree of flexibility include the ease of obtaining budget increases, availability of performance audit staff, and ability to reduce other expenditure needs.

Use a single budget: Resources can be managed as a single budget, where all audit proposals are considered together, and those with the most merit are chosen to the extent the budget permits.

Allocate resources to key priorities or organizational groups: Where the performance audit practice is large and where it can be difficult to compare the value added among quite different audits, resources can be allocated to individual elements in advance. This is a well-accepted principle in other fields, notably in information technology and portfolio management. Potential disadvantages are that allocating in advance may create rigidity and that some valuable audits in one area might not be resourced while less value-added audits in another area proceed.

Tips and examples

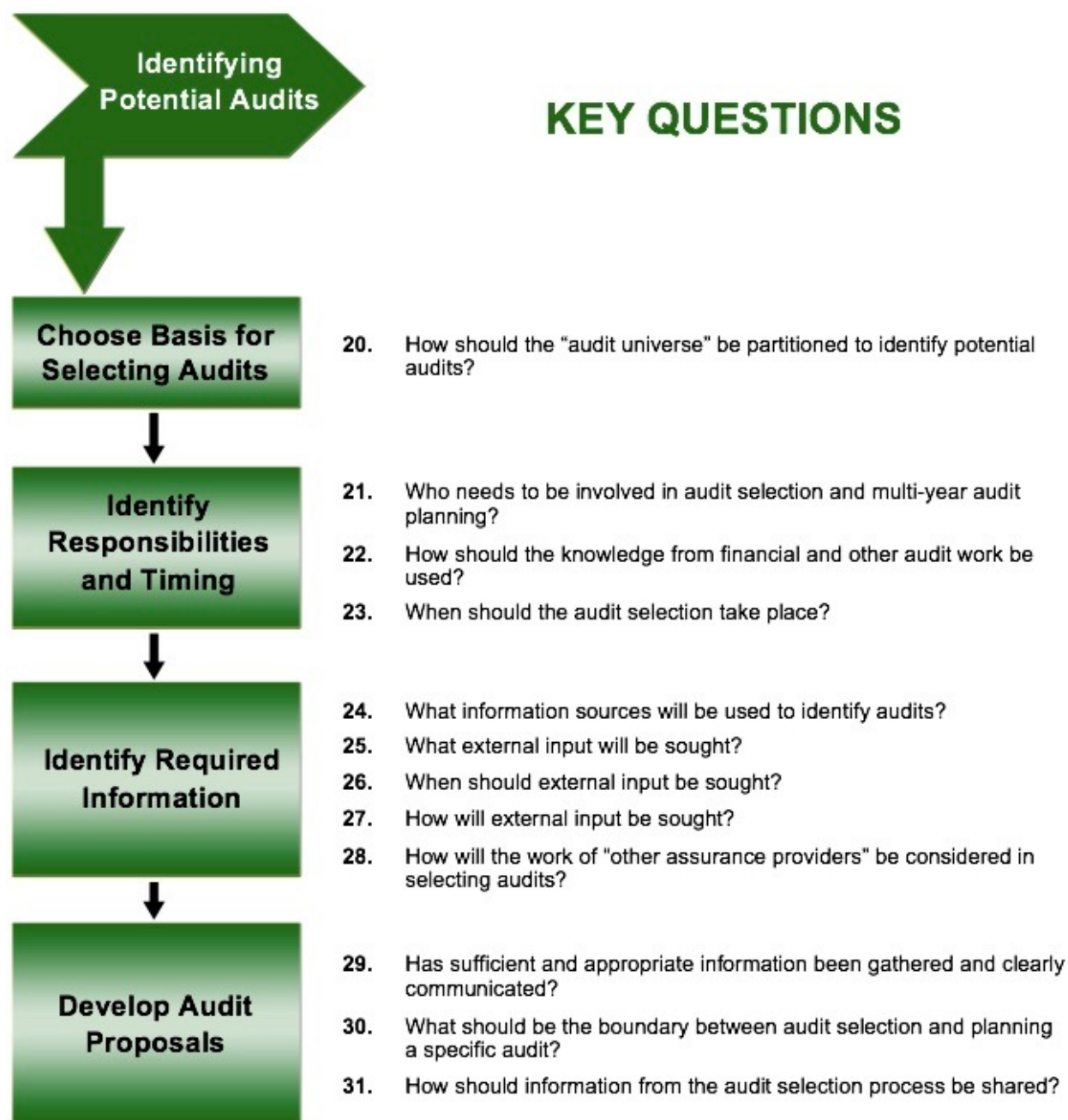
The Office of the Auditor General of Alberta is increasing the proportion of resources devoted to performance audit to reach a target of 30 percent, and developing budget envelopes for each of its focus areas. The Office of the Auditor General of Manitoba has allocations for information technology audits and investigations separate from other performance audits.

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PHASE II

Identifying Potential Audits

Once strategic decisions have been made to guide the planning process design, design of the process for identifying potential audits begins.



2.1 Choose the Basis for Selecting Audits

Choosing the basis for selecting audits involves deciding how to partition the audit universe. The “audit universe” is the population of government activities subject to audit, as permitted by the office’s legal mandate. Offices identify a number of audit proposals by analyzing individual elements of their audit universe.

2.1.1 Partitioning the “Audit Universe”

Key question #20

How should the “audit universe” be partitioned to identify potential audits?

Why it’s important

Deciding how to partition the audit universe is important because it will yield different types of audit proposals. For example, partitioning by government organization is less likely to identify a lack of coordination among departments than grouping together activities with common objectives.

Options

Partition by government organization: One option is an audit universe based on how government organizes itself—the elements of such a universe are the departments and agencies of government.

Partition activities by programs or clients: Yet another option is to break out activities by common objectives, such as grouping all health-related programs across departments, or by client group, such as services to the Aboriginal population, small businesses, or refugees.

Use a hybrid structure: Lastly, the audit universe may be a hybrid, combining several of these approaches. Elements in a hybrid structure may include key departments, administrative functions, common programs, and focus areas. Certain activities may be part of several elements within the audit universe.

For all of these options for partitioning, the structure should align with decisions taken elsewhere in designing the process, for example:

- If certain priorities are chosen, then the audit universe needs to reflect these. The priorities might themselves serve as elements, or as a way to group elements.
- Certain structures may facilitate action on audit findings and recommendations. For example, if considerable responsibilities rest with central agencies, then a structure that cuts across departments may reflect central agency interests and ability to act. One office favours a cross-departmental structure because it finds that risks within individual departments already get attention by departmental management and internal audit.
- If the nature and extent of problems differ significantly among departments, then an audit universe based on government organizations may be best, because audits can be tailored to department-specific issues.
- If an office is moving from a management practice to a results focus, then this would be facilitated by a universe partitioned by clients or common program objectives.

- The audit universe structure will be reflected in the division of roles and responsibilities within the office.

Tips and examples

Some offices use the list of government organizations as the audit universe because it helps guard against undercoverage of small and medium-sized organizations.

One constraint in partitioning the audit universe is the availability of information. One office lacked a complete list of government programs, so was using the list of government organizations as an audit universe, until learning a program list was maintained by the Cabinet office.

The audit universe may evolve as the performance audit practice develops. For example, OAG Canada's audit universe began as the list of federal departments and agencies, and audits in the 1980s covered entire departments. Certain cross-departmental functions were added, such as program evaluation, internal audit, and human resource management. In 2011, a hybrid audit universe was adopted, elements of which include key departments (such as the Department of National Defence), common program objectives (such as the health of Canadians, which comprises all health-related government activities), common client groups (such as services to Aboriginals), and administrative functions (such as human resource management).

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2.2 Identify Responsibilities and Timing

Deciding who within the audit office should be involved in planning and when is important so that an assessment can be made of the contribution that different groups and individuals can bring relative to the costs of doing so.

2.2.1 Identifying Who Will Be Involved

Key question #21

Who needs to be involved in audit selection and multi-year audit planning?

Why it's important

Different groups and individuals will bring unique perspectives to audit selection. Involving various staff can help create internal buy-in for the plan.

Options

Rely on the Auditor General and senior auditors: One option is to rely on the Auditor General and the most senior officials of the audit office to identify and select performance audits. Auditors general usually are personally involved in audit selection decisions, recognizing that this is a key determinant of audit office effectiveness and that they have to personally present and defend the audit report. The Auditor General and senior officials are likely to have a broad perspective on the significance of areas, and the experience to exercise good judgment in audit selection. They have the position to establish and maintain relationships with the oversight committee, senior government officials, and opinion leaders in society, and will gain information from these contacts. One office relies on the head of the performance audit practice to develop contacts among senior officials and civil society. The head identifies potential audits and these are reviewed with the Auditor General, who makes selection decisions.

Involve lower-level auditors: A second option is to broaden involvement to lower levels, which ISSAI 300 notes as valuable. Considerations are:

- Working-level auditors may have less sense of the broad context of activities, but may have a unique perspective on government performance from their daily observations and contacts. They establish and maintain relationships with the working level in government, where valuable information on issues often originates.
- Audit managers will often have a strong sense of the context of the areas they have audited, and knowledge of performance from their own observations and contacts at middle management levels and with experts. Also, they may provide a valuable communication channel by conveying knowledge from auditors to senior levels.
- Specialists in the office will have important knowledge about their subject area and the auditability of related audit topics.
- Corporate staff may have critical information on resource availability and scheduling that affects resourcing.

Establish a specialized intelligence-gathering unit: A final option is to establish a specialized intelligence-gathering group, with primary responsibility for identifying risks and related audits. One advantage is that such a group may be better able to understand the broad risks affecting government. A variation is to involve outside experts who have insights on government risks.

Considerations in deciding among the options above include:

- The need for sufficient diversity of input. Some offices noted that this was critical to good audit selection.
- The cost of involving many individuals in the process, particularly the opportunity cost if this significantly reduces the time available to conduct the actual audits.
- The need for individuals capable of identifying good audits. Just as professional skepticism is key to properly evaluating audit evidence, professional curiosity is key to good audit identification. Sometimes it may involve intuition. One office stresses the need to think like a citizen, not a bureaucrat. Lastly, a strategic mindset is important: not everyone is good at seeing the opportunities for adding value with the right audit. Individuals need a strategic perspective to guard against chasing enticing issues that are relatively unimportant.
- Developing staff competencies. Not involving staff in audit identification may mean they do not develop the skills needed for advancement.
- Managing self-interest and cognitive biases. Individuals may lean toward subjects and approaches that are familiar. They may interpret empirical observations based on stereotypes or past experience. Self-interest may lead them to identify only audits that interest them or those likely to be assigned to them. These risks usually argue for having those with multiple perspectives and motivations involved, and to build rigorous challenge into the process. Senior managers, peers and specialized units may be chosen to play a challenge role.
- Engaging staff sufficiently to build buy-in, so that audit staff will be motivated to execute the plan well. One office noted a concern where heavy reliance is placed on outside expertise. Audit staff may consider that their input is not valued. One strategy for avoiding this is to have the audit staff involved in the external consultation. Some offices emphasized that staff expect to be assigned an audit that interests them, and the smaller the office, the greater the likelihood that an audit won't proceed due to lack of interested staff.

Tips and examples

Some offices had difficulties in effectively engaging junior staff and noted that previous attempts had not yielded much input. In one office, the Auditor General and Deputy Auditor General develop a draft list of audits and circulate it to managers and staff for comment. They find this a more cost-effective way to get input than involving others earlier in the process.

The New South Wales audit office identifies a number of major cross-cutting issues, and assigns each to a strategic issues group. Each group comprises financial and performance auditors at the director, audit leader, and senior auditor level from across the office. The group is tasked with identifying potential issues within the

issue area, and analyzing them against prescribed selection criteria (for example, quantitative and qualitative materiality, known issues for improvement, and whether it is a state priority).

The Office of the Auditor General of New Zealand extensively involves all performance audit staff in brainstorming workshops, not only for the knowledge they bring, but so that all staff are “ambassadors” able to explain how and why audits are selected. “All-staff” forums have been used at OAG British Columbia to solicit ideas for the office’s plan.

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2.2.2 Financial Audit Expertise

Key question #22

How should the knowledge from financial and other audit work be used?

Why it’s important

Financial, compliance and other types of audits can provide valuable input to performance audit selection. These audits may have identified issues, for example, financial auditors may have noticed matters outside the scope of financial audits that can be pursued in a performance audit.

Options

Involve financial and other auditors: One option for ensuring that knowledge from financial and other audits is used in performance audit selection is to involve these staff in the audit selection process. They may also have valuable documents, data and files to share.

Gather performance audit information during other audits: Another option, not mutually exclusive, is to add procedures to financial or other audits to gather information useful in performance audit selection. These audits may also be able to pursue identified issues that are not ultimately selected for performance audit work.

Tips and examples

One office that gathers information for selecting performance audits during financial audit work found that useful information can be gathered at little cost, because financial audits already look at key risks, controls, and management integrity.

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2.2.3 Audit Selection Timing

Key question #23

When should the audit selection take place?

Why it’s important

Decisions on the timing of audit selection may affect the cost, convenience, and effectiveness of audit selection.

Options

Do the audit selection once a year: One option is to conduct audit selection at a specific point in the year. For offices that conduct multi-year planning, in latter years of the plan this may involve refining previous choices made, in light of changing circumstance and new information.

Some offices time their selection to occur just before starting the year's audits. This is particularly the case for offices relying on financial auditors to conduct performance audits between financial audits. One office found that it was very difficult to get audit staff and managers to concentrate on potential performance audits when they were in the latter "crunch" stages of a financial audit. Timing selection just before commencement also provides a clearer idea of staff availability than would be the case earlier.

Do the audit selection continuously: The second option is to make the process continuous. Several offices, including smaller ones, said that successful audit selection depends greatly on staff thinking about potential audits throughout the year, not just during the annual planning process. One way is to collect issues identified in audits underway that are not pursued. For example, AFROSAI-E (African Organization of English-speaking Supreme Audit Institutions) member audit offices typically identify several alternative audit scopes, from which an audit scope is chosen. The other audits identified may warrant selection in the future. Collecting this information systematically can feed the audit selection process.

Tips and examples

One office developed a tool to collect topics when identified by media or internally during the year, but found it consumed too many resources, so it resorted to an exercise once a year. Another noted that it simply does not have enough staff to keep abreast during the year of emerging issues throughout government.

Auditor General of New Brunswick auditors send emails and ideas throughout year to the director who oversees audit selection.

The Office of the Auditor General of New Zealand has a five-phase process that is continuous through the year, beginning in July and ending the following June. The five phases are: strategy, scoping, design, testing and refining, and implementation.

The Queensland Audit Office has formalized the capture of ideas throughout the year with a software tool. Staff have access to a link to "suggest an audit topic." Submissions go to the strategic audit plan coordinator, who verifies its viability. The system automatically routes viable topics to the sector research director. The person assigned completes a topic brief that is captured in the software tool.

At Audit Scotland, all performance audit staff are expected to work on research and proposals throughout the year. The management group consider and approve proposals at each meeting (every two months). This has been successful in developing a broad commitment to ongoing programme development and external engagement activity across the group.

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2.3 Identify Required Information

Audit selection decisions require information, which can come from existing internal knowledge, or additional efforts to analyze available information and seek external input. So it is important to develop a plan for what information will be needed and from whom.

2.3.1 Information Sources

Key question #24

What information sources will be used to identify audits?

Why it's important

The internal and external information required for planning is that which helps identify potential audits and allows decision makers to assess proposals against selection criteria. For example, if an office selects audits based on problematic areas, it will need to have enough information on the performance of activities to know what is problematic. If an office selects audits based on significant areas, it needs to understand the context of government activities to determine which are most important and why.

Options

Rely on existing knowledge and information: One option is to be primarily reactive: to rely on existing staff knowledge, plus requests for audits and information sent to the audit office. Requests may be formal or informal. Formal requests may come from the oversight committee, government (some audit offices have specific legal requirements to consider requests from government), or civil society. Or information and requests may be informally provided, some of which may be anonymous. (While potentially useful, anonymous sources may require steps to confirm their reliability.) Anonymous information can include that submitted by “brown envelopes,” telephone hotlines, or online contact forms. (Some hesitate to use web-based information submission for fear that the source can be traced, but recent software products offer anonymous means for individuals to submit information to organizations.) Several offices regularly share these inquiries at management meetings. Offices need to decide how much to encourage such information. Some worry that hotlines may be seen as “snitch lines” and the office would be perceived as encouraging unethical disclosure of information. But several offices use contact telephone lines or website forms, finding these inexpensive ways to seek input that result in good audit ideas.

Conduct informal and/or formal monitoring: A second option is to proactively monitor organizations and their activities. Some offices refer to this as building “knowledge of the business,” “external scanning,” or “area watching.” This monitoring builds an understanding of how a government organization or key organizations in a sector operate, along with their corporate culture, business challenges, and external environment. Monitoring may be formal or informal. Formal monitoring can involve ongoing collection and subsequent analysis of written documentation originating in government (such as policies, plans, announcements, and internal audits) or from other observers (such as reports from the media, think tanks, interest groups, and watchdog organizations). Informal monitoring comes from relationships established by staff—inside information from government managers or employees, interests expressed by the oversight committee members and their staff, and emerging risks identified by knowledgeable experts.

Case Example

The Office of the Auditor General of Canada has issued guidance on monitoring in its performance audit manual. The guidance identified the following questions to consider:

- What are the organization's mission, mandate, authorities, key programs, priorities?
- What are its key objectives, business processes, and performance measures—inputs, outputs, outcomes?
- Who are the primary clients and stakeholders?
- How are programs governed, organized, and resourced?
- What are the critical information management/information technology systems? What are the systems of internal control?
- What are the essential knowledge sources, centres of expertise, and key quantitative and qualitative data sources?
- What key challenges/risks/constraints does the organization face?
- Who are key players and stakeholders? To what extent are they interdependent? What are the coordination mechanisms?

The Office of the Auditor General of Canada has identified a series of red flags relevant in audit selection that could indicate risks, such as the following:

- a management tone at the top that is autocratic;
- lack of internal management reporting or performance measurement;
- dissatisfaction by major business users/stakeholders of key decision-making information available, resulting in the use of unofficial record-keeping systems;
- recent major key systems failures or security breaches;
- changes in the organization, policies, authorities, or programs, such as
 - high management turnover or long-term vacancies;
 - significant increase in spending but a decline in performance outputs;
 - significant variance in revenue or payment streams;
 - programs or activities introduced or removed in a short period of time;
 - systems or practices that have not changed in a long time despite changes in the environment;
 - high employee grievance rates;
 - service delivery delays or high error rates;
 - lawsuits, contingent liabilities, settlements by the Crown;
 - non-responsiveness to audits or resistance to being audited;
 - budgets exceeded or under-spent by large amounts;
 - authority/approval overrides or bypasses;
 - lack of acknowledgement of risks by management.

Tips and examples

Keeping track of the source of selected audits can help determine which sources are most useful.

Several offices are increasingly relying on advice from observers over written documentation. Outside experts often spend a career in the subject being audited, so have extensive knowledge of both government context and performance, and sometimes even valuable advice on audit methodology.

Some Canadian provincial offices found that audits in other provinces were particularly useful in identifying potential audits. They make use of the [Audit News Database](#), which provides information on the objectives of audits issued in various jurisdictions. One provincial office said that problems found in other provinces were usually also found in theirs. Similarly, several offices noted the value of [CCOLA](#) study groups in identifying potential audits.

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2.3.2 Seeking External Input

Key question #25

What external input will be sought?

Why it's important

Seeking input from such external sources as members of the oversight committee, government officials, experts, or civil society can yield good information, which is needed for selecting audits well. External consultation also builds external support, so that the oversight committee and stakeholders are more likely to see the plan as a cost-effective use of taxpayer funds.

Options

Rely on previous external discussions: Some offices do not seek external input for their audit selection decisions, but rely instead on the existing knowledge of staff and any unsolicited input received previously.

Consult specific stakeholders: Some offices consult with selected stakeholders during audit selection.

Conduct extensive external consultations: Some offices consult extensively in developing their multi-year audit plan.

For all these options, one consideration is the likelihood of useful input, which depends on the availability of knowledgeable outsiders willing to share insights. Another key consideration is the need to balance being responsive to stakeholders and guarding independence. Advice and requests may be motivated by political or self-serving interests at odds with the public interest. Or advice and requests may reflect questions about the merits of policy, rather than policy implementation, where performance audit typically focuses. As well, the interests of stakeholders may change before a performance audit can be completed. One office found that requests are often too broad and vague to take action.

Given the importance of the oversight committee, it would normally be a key part of external consultation. The Canadian Audit & Accountability Foundation has provided [guidance](#) on relations with the oversight

committee. Other stakeholders play an important role in taking action on audits. Hence, consultation with senior government officials, employee associations or unions, civil society, the media, and academics may be warranted (the diagram below highlights all the relevant stakeholders).

Stakeholders Mapping



Tips and examples

One way to proceed is to assess the nature of relationships with key stakeholders. For example, a strained relationship with government might affect the extent of consultation with and responsiveness by senior government officials. Based on this diagnostic, a stakeholder engagement strategy can be developed. It is a

valuable tool for setting the office's objectives and priorities for engaging externally. Consultation undertaken for audit selection should align with the Office's strategy for stakeholder engagement, if it exists.

In any consultation, it is important that competing perspectives have an equal opportunity to be heard, for example both government supporters and opponents from the oversight committee. Otherwise, the audit office may be overly influenced by one perspective, or be so perceived.

One tool for deciding the extent of external consultations is to analyze from where the ideas for recently completed audits came, to determine where external advice was most useful.

The Office of the Auditor General of New South Wales notes consultation as critical to successful audit selection and does so extensively with the oversight committee and heads of departments. It has found that consultation with other watchdog agencies is particularly useful, since these agencies often have identified similar risks. The Office of the Auditor General of British Columbia, in developing its plan, consulted extensively with the public service, government, and members of the opposition.

Audit Scotland developed a new approach to long-term work programming over the last year. Among other changes, it has put much greater emphasis on broader and more wide-ranging external stakeholder and parliamentary engagement.

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2.3.3 External Input Timing

Key question #26

When should external input be sought?

Why it's important

The type of information sought varies by stage of the audit selection and multi-year planning process.

Options

Input can be sought at one or more stages of the audit selection and multi-year audit planning process.

Tips and examples

Because the questions for discussion vary by stage, multiple rounds of consultation may be warranted. Legislation in some cases requires consultation in certain forms and times, such as publishing a draft plan, which is the case for OAG New Zealand.

At the outset, the questions to pose to stakeholders are broad, such as "where can the office most add value to your work?" and "are there particular types of audits deserving more or less effort?" Near the end of the process, the questions become more specific, often based on reaction to a draft multi-year audit plan.

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2.3.4 External Input Methods

Key question #27

How will external input be sought?

Why it's important

There are different means to obtain input, each with advantages in certain circumstances.

Options

Use written communications: Several offices find written communications an effective means of seeking input. This can be written correspondence to the oversight committee, government, or other stakeholders requesting response. It can also involve invitations on the office's website for on-line input. Written requests can be particularly useful with civil society groups, which may have relevant written briefs already prepared, or will invest the time to do so to influence an office's choices. Some offices found that post-audit questionnaires from oversight committee members and senior officials are a valuable source of ideas for future audits.

Use direct contact: Another option is direct contact. Several offices found that written questionnaires were less effective than directly contacting those they wish to consult. Some questionnaires resulted in low response rates and cryptic responses. Direct contact can be by telephone, video conferencing, or face-to-face meetings. Contact can be with individual groups or collectively in focus groups, which allows the office to hear different sides of an issue. Some offices use regular planning meetings with the oversight committee or its steering committee to seek input for audit selection. Direct contact can help build relations between the office and key stakeholders.

Use written communications and direct contact: A variant is following up written responses with direct contact to get elaboration of particular answers. This requires that written responses not be anonymous.

Establish an advisory panel: Another option is to establish an advisory panel representing a cross-section of stakeholders.

Tips and examples

Some offices did not have the resources required for consultation, but have used Internet searches as a cost-effective way to identify what interests stakeholders and which stakeholder groups are active and worth contacting. The Office of the Auditor General of Canada has conducted a pilot exercise of analyzing social media streams to see what comments citizens are sharing about a potential audit area.

The Office of the Auditor General of Nova Scotia, in developing its plan, consulted with a number of consumer and business interest groups.

There is an extensive literature on how to conduct consultations. The process used is a key determinant of buy-in even when the outcome is different from what individuals would choose themselves.

The Office of the Auditor General of Canada has an Auditor General's Senior Panel to provide strategic

advice, including potential areas for audit. It is composed of former senior politicians, former public servants, and veteran observers from think tanks and research institutes. The panel meets at different stages of the audit process. The Office of the Auditor General of Alberta has established a similar advisory committee.

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2.3.5 The Work of “Other Assurance Providers”

Key question #28

How will the work of “other assurance providers” be considered in selecting audits?

Why it’s important

In certain jurisdictions, there may be other organizations conducting reviews similar to performance audits. These are sometimes called “other assurance providers.” This might include internal auditors, program evaluators, research organizations or watchdog agencies. It is important to consider the work of other assurance providers to possibly rely on some of their work to reduce the audit effort, and to avoid duplication of work.

Options

Include other assurance providers in consultations: Where other assurance providers exist, one option is to consult with them as part of external consultation. Discussions can cover risk, relevant past work, and/or future work.

Rely on the work of other assurance providers: If there is a possibility that existing or future work by other assurance providers might overlap with any planned performance audits, one option is to place reliance on the work of the other assurance provider, where the results of that work become an integral part of the performance audit. A consideration is the extent of inquiry necessary to confirm that the work is of sufficient quality to permit reliance. Another consideration is the broader benefits that may result. For example, reliance by the external auditor may boost the profile and credibility of internal audit.

Avoid areas reviewed by other assurance providers: Audit offices can seek to reduce duplication by avoiding areas undergoing review by another assurance provider. A consideration is whether this would serve the public interest equally well as a performance audit.

Tips and examples

The Office of the Auditor General of New South Wales conducted consultations with various watchdog agencies and found that their perspective on risk was similar.

The CSAE 3001 standard specifies standards for assessing during an audit whether reliance can be placed on the work of another assurance provider.

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2.4 Develop Audit Proposals

Once information has been collected, it is synthesized by identifying potential audits that will be considered for selection. It is important that enough information of the right quality be collected, judgment be used to identify good candidates for potential audits, and proposals be clearly communicated to decision makers.

2.4.1 Information Gathering and Communication

Key question #29

Has sufficient and appropriate information been gathered and clearly communicated?

Why it's important

Both the quantity and quality of information collected needs to be enough for selecting audits without being excessive. Insufficient information means that something material might be missed: either a good audit is not identified or the rationale is not fully communicated to decision makers. As well, offices can waste time collecting and communicating information that may be required in the audit planning phase but is not necessary in audit selection, when a number of proposals will not be approved.

Options

Collect information in a single stage: One option is to develop a template for audit proposals that is completed and submitted. Initially, the information required to apply the selection criteria is identified for the template or, if selection criteria are not explicit, just potential audits and arguments favouring their selection. A subsequent lessons learned exercise can determine where information was insufficient or excessive, or where information was of insufficient quality.

Collect information iteratively with increasing detail: Another approach is to collect information several times before selection decisions. At initial stages, when audit ideas are numerous, the information collected is minimal. As the process progresses, and some ideas are discarded, more detailed and precise information is added for those that remain.

Collect information iteratively to clarify proposals: This applies the concept of triage: beginning with a long list of potential audits, then separating them, for example, into “non-starters,” “unclear potential,” and “high potential.” Attention in the next round is placed on elaborating proposals in the middle category to clarify scope and the arguments favouring their selection. Once enough information of sufficient quality is assembled, audits are selected.

Tips and examples

A test of whether information is sufficient is to ask “Do we understand enough about root causes?” An audit’s proposed issues and rationale may be symptomatic of a deeper or different cause. For example, a lack of textbooks in schools may be symptomatic of a deeper problem – for example, the curriculum is dated.

One office recently concluded that staff were spending too much time on proposals that were not accepted. Another office tasked an auditor to complete an in-depth analysis that identified multiple audits in an area,

but there were many more potential audits than was warranted by office capacity and balanced coverage across government.

One office, after finding that detailed proposals were often not being used, asks just for a paragraph that captures the essence of proposed audits. The Provincial Auditor of Saskatchewan tried developing an audit objective for each proposal, but it was taking too much effort, so it now asks for a short write-up on the potential topic.

The Office of the Auditor General of Quebec has refined its template to focus on the most useful information. Staff first describe the potential audit topic in a one pager that requires about three hours to prepare. With this one pager, the objective is not to convince management of the topic's significance but rather to rely on the knowledge and priorities of management to decide which topics should be further considered. A second more detailed document is prepared after more research and significance analysis to decide which audits should be approved. The Auditor General of New Brunswick starts with about 100 audit ideas, and culls these to an intermediate list of about 30, each of which is assigned to someone to develop a proposal.

The Office of the Auditor General of British Columbia identified 140 possible audits from which 47 were chosen for subsequent analysis in its most recent plan.

In 2014, the Canadian Audit & Accountability Foundation published guidance on how to identify root causes at various stages of performance audits – [*Better Integrating Root Cause Analysis into Legislative Performance Auditing: A Discussion Paper*](#).

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2.4.2 Audit Selection Versus Planning Specific Audits

Key question #30

What should be the boundary between audit selection and planning a specific audit?

Why it's important

Deciding which information will be developed during the audit selection phase and which will be delayed until the planning of individual audits starts is a key design decision. Another decision is the extent that scope decisions will be taken during audit selection or later. Related to this is the decision about whether audits, once approved during the audit selection process, should always proceed to completion barring exceptional circumstances.

Options

Define the scope largely at selection phase: One option is to gather sufficient information on selection criteria, such as risk, stakeholder interest, auditability and value added, to make most scope decisions at the audit selection phase.

Delay choosing audit scope until audit planning phase: Another approach used in some offices is to leave audit scope largely undefined during audit selection, and add to the typical planning phase an initial stage that refines the audit scope before detailed planning begins. One office puts two staff on audits for this stage, to provide a sounding board for scoping decisions, after which a single auditor completes the planning, examination, and reporting phases.

Delay final topic selection until audit planning phase: An approach used in some offices is not to make final decisions during the audit selection phase but to start audit planning on a larger number of audits. “Go, no go” decisions are taken at the mid-point of audit planning. Reasons for not proceeding with a particular audit topic may include the discovery of extensive change underway in the audited area, a concurrent review underway, or the absence of obvious issues (in offices that select audits only where problems exist).

Both these approaches delay the final selection decisions until more information is available. The downside of these options is the additional expenditure of resources by planning audits that are terminated. There may be reluctance to terminate an audit once started. Other considerations are whether this will have a detrimental effect on staff morale in those teams whose audits are terminated, and reaction among those being audited.

Tips and examples

Some offices stipulate a fixed time period for exploratory work, such as a week, after which they make go, no go decisions. Some offices stated that the ability to quickly size up whether there are issues is critical, particularly when performance audits need to be completed in a tight time frame between financial audits.

One office includes a note in the following report when an audit was started but did not proceed.

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2.4.3 Information Sharing

Key question #31

How should information from the audit selection process be shared?

Why it's important

It is important that information gathered for audit selection and decisions taken be communicated not just to decision makers. Others need information for two key purposes:

- Teams need both background information and the rationale for an audit's selection to hit the ground running. There can be a loss of valuable information, particularly if significant time passes before the audit begins or if those conducting the audit are different from those who developed the proposal.
- Those involved in audit identification and selection in future years need to understand what was considered and the reasons for not proceeding, to avoid duplicating past work.

Options

Document key information: Where the audit selection process collected documentation, it is relatively easy to organize it in an accessible form. Developing a permanent file with key background is one strategy, but requires a commitment to maintaining it. It may be difficult to document the rationale for decisions, because

reasons are not always well-articulated or may be sensitive. One strategy is to try to identify parties with an interest in providing documentation. For example, interest groups will often write a brief if given the possibility of influencing the audits selected by the office.

Consult with selection team: Another approach is to talk when needed to the individuals involved in the selection process. But this depends on their ability to recall key information after time has passed, and is vulnerable to the loss of key individuals.

Tips and examples

One way to manage this is to have an audit team work with those involved in selection for a transitional period. Another strategy is to involve multiple people in the selection process, to increase the chance that some are available when an audit begins and during future planning cycles.

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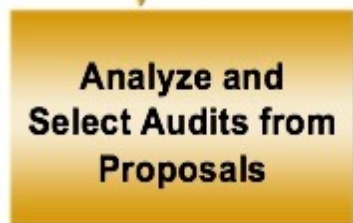
PHASE III

Selecting Audits and Developing a Multi-Year Audit Plan

Once audit proposals are complete, attention turns to audit selection and developing a multi-year plan.



KEY QUESTIONS



- 32. How should proposals be analyzed and chosen?
- 33. Are the audits timed for maximum effectiveness?



- 34. What should be the mix of audits in the plan?
- 35. Are audits sized appropriately?
- 36. Are there enough resources and capacity to implement the plan?

3.1 Analyze and Select Audits from Proposals

Once audit proposals have been completed, it is important that they be fully considered in order to choose audits that will achieve the objectives for performance audit work. This is where decisions may result in the right audits being chosen or valuable audits being overlooked.

3.1.1 Analysis Approach

Key question #32

How should proposals be analyzed and chosen?

Why it's important

Given the importance of selection decisions and the volume of information being considered, choosing an analysis approach that provides the information needed for the decision at hand is critical.

Options

Use an informal and qualitative decision process: This option may simply involve the Auditor General reviewing any potential audits identified, judging them in light of selection criteria (implicit or explicit), and choosing the number of audits that can be realistically completed.

Use a formal and qualitative decision process: Another option involves the Auditor General and others in the office using “Delphi” techniques. Each in the group independently reviews and chooses their preferred audits or ranks them in descending order of preference. They then meet to discuss the reasons for their selections, possibly modifying them in light of arguments made by others. The group may try to reach a consensus, or the Auditor General may make the final choice.

Use a formal and quantitative decision process: Another option, where the list of potential audits is long and the risk of overlooking a valuable audit is high, is to use quantitative analysis. A potential audit can be given scores of how well it meets each selection criterion. The total scores of each potential audit can be compared with those of other audits. A Delphi method can be used here, too, in order to reach agreement on scores.

Tips and examples

Different techniques may be used at different stages. For example, after an initial quantitative analysis, the top-scored audits could then be the ones selected. However, in practice, offices usually switch to qualitative considerations, because judgmental factors that are hard to quantify come into play. Some offices use quantitative scoring to reduce a long list of identified audit topics into a list from which audit proposals are developed.

The Delphi method was developed as an interactive forecasting method for expert panels. The experts answer questionnaires in multiple rounds. After each round, a facilitator provides an anonymous summary of the experts’ forecasts and reasoning. Experts are encouraged to revise their earlier answers in light of the replies of other members of their panel.

The Provincial Auditor of Saskatchewan has members of the executive committee independently rank proposals. Some members rely on their own knowledge; others involve their staff. They then share rankings. Where there is no consensus on a proposal's rank, those with divergent opinions discuss their reasoning. A second round of ranking is conducted with the benefit of this discussion.

The Office of the Auditor General of Nova Scotia uses quantitative scoring of potential audits in their selection process, and presents the information on a spreadsheet that allows them to quickly scan the merits of potential audits.

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3.1.2 Audit Timing

Key question #33

Are the audits timed for maximum effectiveness?

Why it's important

Audits can be thought of as interventions, which depending on the timing and context can have a greater or lesser effect.

Options

Review the timing of individual audits: Selected audits can be reviewed to confirm that the proposed timing maximizes their impact. Considerations include:

- How will the flexibility of timing be constrained by factors such as resource availability? Will the audit be completed in time for anticipated decisions? There may be predictable points when major decisions will be made; for example, a program may have a “sunset” deadline for a legislated review.
- What is the likelihood of an impending event that would bring oversight committee or public attention to the audited area? Many events cannot be predicted, and whether a related audit is timely is a matter of chance. In other cases, while the exact timing of an event is unpredictable or its occurrence uncertain, monitoring can give strong indications of an impending event that would accentuate the audit's impact. The election cycle can have an impact: there may be stronger incentive for an incumbent government to act on certain issues before an election.
- Will the area be more stable in the future? It is common that areas being audited are undergoing changes. If changes have been recently completed, there may be more added value by waiting until the situation stabilizes. That said, many areas seem to be in perpetual change, so there is no ideal time for an audit.

Review the timing of related audits: where there is a relationship among selected audits, their sequencing can be reviewed. Possible scenarios include:

- **Conduct audits concurrently:** In some situations, the maximum impact might come from scheduling related audits concurrently. However, it is often difficult to do so. There may not be enough staff with the required expertise. And, it may place too much burden on one part of government to deal with numerous auditors and to act on the resulting recommendations.

- **Conduct audits consecutively, with the major audit first:** Another scenario is to spread out related audits, starting with a major audit, followed by smaller specific ones that can sustain interest and action.
- **Conduct audits consecutively, with smaller audits first:** The reverse scenario is to start with small audits to build knowledge and test interest.
- **Conduct audits consecutively, delving progressively deeper:** Another scenario can be considered like layers of an onion, with each successive audit digging into new or deeper levels. This might involve progressively exploring root causes. For example, an initial audit might examine Aboriginal education achievement gaps, with subsequent audits looking at root causes such as the cultural appropriateness of curriculum, attendance trends, and employment opportunities.

Tips and examples

The Office of the Auditor General of New Zealand sets an annual theme and selects audits for that year related to the theme. In its proposal template, it asks “What are the strategic advantages in staging a programme of work on a topic over a number of years? Will we get more value if we prioritise this work and begin immediately? Will we get more value if we start research/analytical work or annual audit work in this fiscal year and undertake more substantive work in the future?” To enhance the impact of the themed approach, it publishes afterwards a summary called “Reflections on our Audits,” noting “We use this to encourage debate, challenge and expand thinking, and identify and highlight examples of good or poor practice to help improve public sector performance.”

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3.2 Develop a Multi-Year Audit Plan

Once the selection of audits is made and timing decided, the resulting roster of audits becomes a draft multi-year audit plan. The content and resourcing of the draft plan then needs to be tested before finalizing the plan.

3.2.1 Mix of Audits

Key question #34

What should be the mix of audits in the plan?

Why it's important

Adjustments to the draft plan may be necessary depending on choices about the desired mix of audits.

Options

Include divergent content: If ensuring that audits match divergent stakeholder interests is important, then the selection criterion would be diversity in the audit topics.

Conduct audits on a single theme: The contrasting option is to have audits related to a single theme, in which case, there would be no mix of audits.

Align audits with government characteristics: Another potential selection criterion is alignment with characteristics of government. The draft selection of audits can be checked against the pattern of government expenditures to ensure that the relative significance of different activities is respected. The audits can also be checked to see how well they match government priorities.

Tips and examples

The Office of the Auditor General of Canada uses selection criteria to ensure divergent interests are served in each planned report. The criteria include considering the complexity of subject matter and selecting a range of topics of public and regional interest with good diversity and subject matter. The Office of the Auditor General of New South Wales aligns its planned audits to priorities in the state government plan.

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3.2.2 Audit Size

Key question #35

Are audits sized appropriately?

Why it's important

It is important that proposed audits be appropriately sized. If audits are larger than necessary, costs may be excessive relative to value added, and it may be difficult to report the findings concisely. If audits are too small, important related issues may be missed.

Options

Conduct similarly sized audits: Some offices tend to scope audits to a similar size. The advantage is that the office can maintain a similar staffing model for audits. This is also an advantage in offices that conduct performance audits in a limited period between financial audits.

Conduct variously sized audits: Another option is to vary the size of audits, depending on the situation. Optimizing value added may suggest that the audit plan have a wide range of audit sizes.

Under both options, consideration should be given to the particular size of the audits. Smaller audits may be useful to start work in an area, allowing junior staff more authority and building knowledge and testing interest. Because these audits often cover a single issue, there is more project risk if testing can't conclude on the issue or if the issue proves less interesting than expected. Single-issue audits may be seen as cherry picking, if the chosen issue is negative and not seen as representative. The scope may be too narrow to meet the expectations of the report users. One office is adding more smaller-sized audits that can be completed by financial auditors between audits. Its current plan was geared to larger audits staffed by performance auditors.

Larger audits are appropriate when users expect that highly related issues would be covered at the same time, or where having wide-ranging recommendations at the same time would add value. As well, there may be economies of scale. It may be relatively inexpensive to broaden an audit scope once a team is assembled and knowledgeable in an area.

Tips and examples

One office that focuses on the potential to add value during audit selection noted that it helps properly size audits by adjusting audit cost given likely value added.

After tending to scope large audits, OAG Canada gave priority to adding small and medium-sized audits. It conducted several pilot small audits, and concluded they created significant interest and impact.

It is critical to remain flexible in audit size, and to avoid having the size locked in during audit selection. Audit size may be significantly affected by knowledge gained in the audit planning phase.

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3.2.3 Resources and Capacity

Key question #36

Are there enough resources and capacity to implement the plan?

Why it's important

A common challenge faced in finalizing the audit plan is confirming there will be sufficient appropriate resources available to implement the plan. Resources include financial and human resources. Human resources include audit staff, management, support staff and experts.

Options

Estimate the type and extent of resources available versus needed: Once audits have been selected, the type and extent of required resources can be estimated. A common challenge is that detailed budgeting usually only starts later when planning for an audit is underway. Estimates may be based on past experience (e.g. the average for past audits) or rough estimates based on the characteristics of selected audits.

The available supply of resources can be estimated and compared to requirements. This involves ensuring that the required expertise and experience is available. It also involves ensuring the number of personnel is sufficient, after taking into account other demands on their time.

Identify which resourcing risks have the greatest likelihood and impact: Risks will vary among offices and in the same office over time. Principal risks include the risk of:

- Systematically underestimating audit costs. A tendency to underestimate the audit costs will mean not all audits can be conducted. Offices need to decide the required certainty around resource estimates for proposed audits, since rarely are these as precise as resource estimates developed in the later audit planning phase. One technique is to analyze the differences over time in these estimates against actuals, to ensure there is no systematic underestimation at the audit selection stage.
- Wrong personnel qualifications. Offices need to ensure they have appropriately qualified staff and at the appropriate level.
- Delays in staff availability. Offices need to ensure that staff are available when required. Where budgets and time schedules are frequently exceeded, staff may not be freed in the required time for the next audit, creating slippage in the plan.
- Unanticipated unavailable time. Adequate allowance is needed for staff time spent on purposes other than the audit, including training, leave and administrative tasks.
- Constraints in seasonal availability. Seasonal availability is a related challenge, especially where offices use financial audit staff for performance audits. Because government fiscal year ends are often coincident, large numbers of financial auditors may become available at the same time, and the performance audit schedule needs to accommodate this. This is also a factor in audits requiring remote fieldwork.

Measure indicators: Offices with recurring problems in delayed staff availability can regularly measure and report on indicators of staff availability.

Mitigate risks during audit selection: Actions can be added during plan development to mitigate risks. For example, if there is a routine problem that available staff do not have required expertise, the office may need to identify any specialized knowledge or experience at the audit selection stage.

Tips and examples

The Provincial Auditor of Saskatchewan developed a template to estimate staff availability, which was also adopted by OAG Nova Scotia.

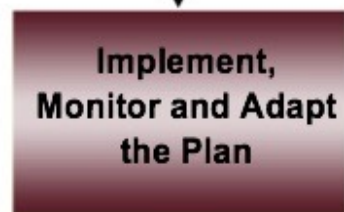
These variables can become difficult to analyze in larger offices, requiring quantitative analysis. The Office of the Auditor General of Canada developed models that allow capacity checks each year of the proposed plan to confirm that there are sufficient staff at the right levels to conduct the planned audits.

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PHASE IV

Applying the Plan

The final phase is critical, as it requires that the plan be properly communicated, implemented, monitored, and adjusted, with an accounting after the fact.



KEY QUESTIONS

- 37. To whom should the plan be communicated?
- 38. What should be disclosed?
- 39. What next steps should be communicated?
- 40. What further steps are needed internally to implement the plan?
- 41. How should the plan be monitored and adapted?
- 42. Has the implementation of the plan been appropriately reported?
- 43. How should the achievement of the performance audit practice's objectives be reported on?
- 44. How should the effectiveness of audit selection and multi-year audit planning be reported on?

4.1 Communicate the Plan Internally and Externally

Internal and external communication of the plan is critical to ensuring sufficient support for the plan. It is an opportunity to engage the office's key stakeholders.

4.1.1 Plan Distribution

Key question #37

To whom should the plan be communicated?

Why it's important

Decisions about communicating the plan involve considering who needs to know, and why. This is important because the plan will affect internal and external parties. It can also raise the profile of planned work. Awareness of an impending audit can spur management to make improvements before the audit starts.

Options

Communicate only internally: One option is to distribute the plan only to staff in the office. Informing staff gives them an idea of future assignments, and the disposition of any proposals. It helps ensure that audit staff will be motivated to execute the plan well. Internally, as one office emphasized, a precise plan creates discipline to stick to it. Because the plan is not publicly disclosed, this option can provide more flexibility to alter the plan as risks or staff availability changes. It also avoids the effort to notify those who should be informed in advance of public disclosure; for example, departments implicated in planned audits.

Communicate internally and externally: The other option is to disclose some or all of the plan externally as well. In some cases, such as in New Zealand, legislation sets requirements to publish the draft plan and consult with the oversight committee. In other cases, this decision will rest entirely with the office. This might take the form of tabling the plan with the oversight committee, and/or publishing it as part of the office's planning documents. External distribution helps generate support, so that the oversight committee and stakeholders see the plan as a cost-effective use of taxpayer funds. One office that recently started making its plan public found that it helped manage outside requests, by initiating a discussion of what would have to be removed from the plan to accommodate a new audit. It was also useful in the office's budget request, by helping to explain what would need to be dropped if resources were reduced. Another consideration is that access to information legislation may require that the plan be released in response to a request, so it may end up in the public domain.

Tips and examples

The Office of the Auditor General of British Columbia recently began publicly issuing a [three-year audit plan](#). The office issued a news release publicizing the plan, which garnered news coverage. The office sees the advantages of a public plan as increasing public transparency, accountability, influence, engagement, and feedback.

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4.1.2 Disclosure

Key question #38

What should be disclosed?

Why it's important

Offices can consider the “what, why, and when” in deciding what to disclose internally and externally. This is important because it can provide a good answer to the perennial question of “How do you choose what to audit?”

Tips and examples

Decide what to communicate: Key to deciding the “what” to communicate is deciding the degree of precision about individual audits. The plan might simply state the element of the audit universe (for example, the health of Canadians), the intended audit scope (for example, drug regulation), or the nature of the issues to be pursued (for example, the timeliness and quality of drug approvals). It might include a short description of the planned objective and scope. The more precise the information, the more staff and stakeholders will understand what will be covered.

Communicate the “why”: Communicating the “why” involves explaining the rationale for selection. This could involve explaining the process and key factors used to arrive at the plan. This description may be graphical or textual, high-level or detailed. Detailed descriptions may be warranted internally and with those in government that closely follow the office’s work, whereas high-level information will suffice elsewhere. A fuller explanation of the “why” would disclose key design decisions taken and their rationale. A related decision is whether to explain the rationale for individual audit selection. In cases where the oversight committee actively discusses the plan with the office, whether because of legislation or interest, it may be important to disclose this rationale, at least in response to questions. The same holds true for discussions with senior officials responsible for areas that will be audited.

Decide when to communicate: Decisions about “when” to communicate include deciding how much in advance to disclose the plan. A key consideration is sequencing the disclosure to reflect the expectations of each audience. For example, the principle may be to not disclose the plan to government officials before it has been vetted by the oversight committee. Decisions are also needed on whether the full time period covered will be disclosed. It is common for a multi-year audit plan to be less definitive in the later years covered, because more can transpire to alter the plan before then. Stakeholders may react negatively to changes in the plan. This may result in a decision to disclose only the near-term schedule. In some cases, the period of time disclosed is matched to what government departments disclose in their plans, particularly where the office follows government practice for its budget and oversight committee estimates. The downside of disclosing only the near term is that a long lead time may be necessary for collaborating with others, such as internal auditors. It also detracts from the deterrent effect of audit: organizations with ample warning of a coming audit may make improvements beforehand. In such situations, the audit may have considerable value-added even before it starts, provided that the improvements are not just “window dressing”.

In OAG British Columbia's recently released [three-year audit plan](#), the office explains the selection process and selection criteria used and provides a short description of each audit's scope and objective. The office described the stakeholder response as positive, resulting in invitations from several stakeholder groups to discuss proposed projects.

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4.1.3 Communicating Next Steps

Key question #39

What next steps should be communicated?

Why it's important

Once the plan is disclosed publicly, those implicated may wish to know what lies ahead.

Tips and examples

The office needs to decide what to communicate to government officials about the steps subsequent to the plan. It may involve explaining when work will start. Also key is explaining what consultation will occur during the audit. If many of these officials have not recently participated in the audit, it may require a primer on the audit process.

Internally, information to provide may include how staff will be assigned and the final audit budgets determined.

One technique for deciding what information to provide is to identify what is likely on the minds of those implicated in the audit plan, and proactively answer such frequently asked questions.

The Office of the Auditor General of Canada has prepared information to explain the audit process called [What to Expect: An Auditee's Guide to the Performance Audit Process](#).

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4.2 Implement, Monitor, and Adapt the Plan

Properly implementing the plan requires making consequential decisions and sometimes adjustments to the plan, based on monitoring its implementation and changing circumstances.

4.2.1 Internal Implementation

Key question #40

What further steps are needed internally to implement the plan?

Why it's important

Implementation of the plan may require consequential internal decisions.

Options

Assign remaining responsibilities: Decisions may be needed to assign any remaining responsibilities.

Selected audits may not yet have been assigned if not automatically assigned to those who identified and proposed them. It may be necessary to set clear expectations for those involved in audit selection about transferring knowledge obtained to those who will conduct the audit. Staff who support audits may need to be assigned, both specialists and administrative staff.

Adjust to the new plan: As well, existing management systems and practices may need to adjust to the new plan. This may involve updating budgeting and staff scheduling systems to include newly planned audits. It may also require revising annual objectives in the performance management process to reflect newly assigned responsibilities.

Tips and examples

One approach for ensuring that no consequential implementation decisions are missed is to map out the implementation process. The Office of the Auditor General of Canada has developed a process map and clearly assigned responsibilities for updating its project tracking system after the plan is approved by the Auditor General.

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4.2.2 Monitoring and Adaptation

Key question #41

How should the plan be monitored and adapted?

Why it's important

Decisions are required about how plan implementation will be monitored and any adjustments made.

Options

Ensure plan is implemented as designed: One type of monitoring ensures the plan is implemented as designed and that any variances are justified. This requires decisions about monitoring responsibilities. As with any internal monitoring, this will involve formal and informal observations and information. The degree of formality and frequency will depend on management's information needs weighed against the costs of

monitoring. Monitoring responsibility may be assigned to a specific unit, and/or responsibility may be delegated to managers to inform superiors of any variance from the plan, and rationale.

Validate and modify the design as circumstances change: Further monitoring is required to regularly validate or modify the plan's design. Some offices do this informally, while others have established cycles for reviewing the plan. This can be thought of as keeping the plan "evergreen" in light of:

- Unfolding events. Risks and opportunities are not static, requiring regular formal and informal environmental scans. An audit plan can be significantly affected by changes of government, economic crises or booms, environmental accidents, security or safety incidents, public scandals, and international developments.
- Changing oversight committee and stakeholder interests. Regular consultation with the oversight committee and other stakeholders may unearth new interests, particularly in light of unfolding events. The release of the audit plan can generate interest and new requests.
- New knowledge. Knowledge is never perfect, and key assumptions and information on which audits were selected may prove inaccurate. To manage the risk of new knowledge affecting the plan, offices can require teams to regularly revisit approved but not yet begun audits, or have the same done by an independent reviewer.
- Lessons learned. Critical reflection comes from the lessons learned after audits are completed. Since information and perspectives vary, the lessons learned exercise should capture the experience of all—from the auditor level to the Auditor General, including support functions that were involved. Some questions to ask to determine lessons learned in the audit selection process include, "Did the audit prove to be the right audit? Was the timing appropriate? Were major scope changes needed, suggesting that more information should have been gathered before selection?" Related to this, in the case of a focus on problems, questions to ask include, "Were suspected problems borne out by audit testing? If not, could this have been reasonably foreseen?"

In adapting the plan over time, it is important to ensure that changes build on the work done, rather than start afresh. In other words, the objective is to renew the plan, not abandon it.

Tips and examples

Offices can assess whether other audits should have been selected instead of those that were. This can involve assessing past plans to determine if any significant topics might have had more impact than those chosen. It can also involve assessing how well the audit selection process detected emerging issues where the oversight committee might ask, "Where was the Auditor General?" The level of effort will depend on the extent of risk tolerance for missing significant topics.

The Provincial Auditor of Saskatchewan tracks progress against planned milestones and budget utilization. At OAG Canada, the Executive Committee monitors quantitative metrics of timeliness and compliance to project budget. Information for some of the metrics is provided by the finance group, and other information is the responsibility of managers to report.

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4.3 Report on the Implementation and Outcomes of the Plan

As proponents of accountability, audit offices can lead by example in publicly reporting how the plan was implemented and adjusted as necessary, plus what was achieved by the performance audit work.

4.3.1 Appropriate Reporting

Key question #42

Has the implementation of the plan been appropriately reported?

Why it's important

Decisions are needed about how to report on the implementation of the audit plan.

Tips and examples

A key consideration is to match the extent that the original plan was communicated. The more precise the details of the plan, the more extensive this reporting becomes.

The focus here is on explaining the extent to which the plan was implemented as designed, and explaining any variance and underlying reasons. Key information for this will come from the monitoring and adjustment process put in place, such as what changes were made to the plan and what lessons were learned and acted on.

When they are consulted during the audit plan development, stakeholders can be asked the extent of information on plan implementation that they wish to see.

The Office of the Auditor General of New South Wales has won awards for its online interactive annual report. In the report, it explains any shortfalls on the published three-year audit plan.

The Office of the Auditor General of British Columbia publishes its refreshed plan annually in which it reports on progress to date and identifies what has changed from the previous plan and why, including which projects have been deferred, added, cancelled, and changed.

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4.3.2 Reporting on Achievements

Key question #43

How should the achievement of the performance audit practice's objectives be reported on?

Why it's important

Reporting on achievements facilitates accountability and provides an opportunity for the office to lead by example.

Tips and examples

For each objective, decisions are needed about what measures will demonstrate its achievement. Some may be quantitative; others based on qualitative judgments. Some of these decisions are obvious: for example, if

the objective was to produce a certain number of performance audits, the quantity of audits actually completed would be the measure.

It is often impossible or impractical to measure ultimate achievements. A substitute is to explain the logic of how outputs and immediate outcomes should lead to ultimate outcomes, and why the office believes it has contributed to these outcomes. The results chain discussed in [section 1.2.1](#) is a useful starting point. Reporting can be based on quantitative or qualitative information on the extent that each stage in the results chain occurred. It is sometimes described as “telling your results story,” based on the combination of empirical evidence and logic in the results chain. Offices can also consider identifying unintended consequences, positive or negative. One office has received positive feedback that it has helped to clarify complex program issues to the oversight committee and senior officials. Another found that process maps developed for an audit have helped managers understand the essence of their processes.

Where objectives are based on outcomes, factors other than the audit conducted may be involved. One way to report this is to describe the challenges in establishing attribution. This can also be examined at the level of individual audits by answering the question “What kind of difference did key audits make?” If particular themes have been chosen, then there may be an expectation that the overall impact of audits related to each theme be reported. This is typically a central component of the end-of-term reports issued by some auditors general.

Reporting on the achievements of the performance audit work should match decisions taken at the outset to base objectives on activity, output, immediate outcome, or ultimate outcomes. Reporting can be part of whatever performance reports are regularly issued by the office, and/or in an end-of-term report by the Auditor General.

Extensive guidance on reporting on the achievement of objectives can be found in CPA Canada’s *Statement of Recommended Practice* (SORP 2).

A useful source of information is the government’s own outcome measures, which can serve as a baseline to assess if results improved subsequent to an audit. For example, audits by provincial audit offices have identified a gap in Aboriginal education attainment that could be subsequently tracked after audit recommendations are implemented.

The Office of the Auditor General of New South Wales reports include excerpts from management responses to particular audits which describe the impacts resulting from the audits. The Office of the Auditor General of Canada is piloting a process to measure the value added of audits after completion, by having the audit team identify impacts in detail and validate these with the audited organization.

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4.3.3 Reporting on Effectiveness

Key question #44

How should the effectiveness of audit selection and multi-year audit planning be reported on?

Why it's important

Within performance reports, it may be difficult to separate the role that audit selection played in the achievement of objectives for the performance audit work. Audit selection is just the first of what is commonly described as the four phases of an audit; the remaining three—audit planning, examination, and reporting—also play an important role. Hence, decisions are needed on how to assess the particular role played by audit selection.

Options

Report on the relevance of audits chosen: Audit selection raises the question “Did we choose the right audits?,” while the remaining stages cover “and did we do these audits right?” Choices on information that can demonstrate the role of audit selection include:

- Is there evidence from satisfaction surveys of the oversight committee members, stakeholders, and government officials that the topics selected were relevant and reports available in time for key decisions?
- Do such users agree that related audits were well-sequenced?
- Did audits indeed provide the value added that originally justified their selection?
- What lessons were learned to improve selection in the future, and were these acted upon?

Report on achievement of objectives: Another option is to report how well objectives have been met, both those that governed the plan and overall performance audit practice objectives

Case Example

The Office of the Auditor General of New Zealand identified criteria to assess the quality of its multi-year plan:

- Contributes to the delivery of our strategic objectives
- Is endorsed by stakeholders
- Maximizes value-add including contributing to organizations’ effective and efficient use of resources
- Coherent and future focused
- Robust
 - Based on a sound understanding of the environment in which we are operating, analysis of themes and trends across the public sector
 - Based on a sound understanding of our historical performance and strategic objectives
 - Underpinned by integrated budget/business plans

Tips and examples

One office tracked and reported the percentage of audits that resulted from outside requests as one way to demonstrate the relevance of its work.

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Appendix A: Excerpts of Applicable Standards and Guidelines

The International Standards of Supreme Audit Institutions ([ISSAI](#)) contains several requirements related to audit selection and multi-year audit planning:

- **ISSAI 1** states (4): The SAI has set priorities for performance auditing based on the notion that economy, efficiency and effectiveness are audit objectives of equal importance to the legality and regularity of financial management and accounting.
- **ISSAI 12** includes Principle 5: Being responsive to changing environments and emerging risks:
 1. SAls should be aware of the expectations of stakeholders and respond to these, as appropriate, in a timely manner and without compromising their independence.
 2. SAls should, in developing their work programme, respond as appropriate to the key issues affecting society.
 3. SAls should evaluate changing and emerging risks in the audit environment and respond to these in a timely manner, for example by promoting mechanisms to address financial impropriety, fraud and corruption.
 4. SAls should ensure that stakeholders' expectations and emerging risks are factored into strategic, business and audit plans, as appropriate.
 5. SAls should keep abreast of relevant matters being debated in domestic and international forums and participate where appropriate.
 6. SAls should establish mechanisms for information gathering, decision making and performance measurement to enhance relevance to stakeholders
- **ISSAI 20** includes Principle 6: SAls manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters.
- **ISSAI 100** states (16) "An SAI may make strategic decisions in order to respond to the requirements in its mandate and other legislative requirements. Such decisions may include which auditing standards are applicable, which engagements will be conducted and how they will be prioritised."
- **ISSAI 300** states (29) Auditors should maintain effective and proper communication with the audited organizations and relevant stakeholders throughout the audit process and (36) Auditors should select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify risks and problems. Determining which audits will be pursued is usually part of the SAI's strategic planning process. If appropriate, auditors should contribute to this process in their respective fields of expertise. They may share knowledge from previous audits, and information from the strategic planning process may be relevant for the auditor's subsequent work. In this process, auditors should consider that audit topics should be sufficiently significant as well as auditable and in keeping with the SAI's mandate. The topic selection process should aim to maximise the expected impact of the audit while taking account of audit capacities (e.g. human resources and professional skills).
- **ISSAI 3000 (3.2)** states Strategic planning is the basis for the selection of audit topics. Linked to a SAI's annual planning system, it may be a useful tool in setting priorities and selecting audits. It may

serve as a mechanism for selecting future audit themes, and a basis for detailed planning. Finally, it may serve as an instrument for strategic policy decisions on the future direction of the audit. Planning might be carried out in the following steps: determining potential audit areas; establishing the selection criteria to be used; and identifying the main sources of information for the potential audits. The strategic planning exercise would normally result in a coherent and cogent audit program for the SAI and serve as a basis for operational planning and resource allocation.

- **ISSAI 3100 (11)** states Auditors should select audit topics that are significant, auditable, and reflect the SAI's mandate. The audit should lead to important benefits for public finance and administration, the audited organization, or the general public. Where there is an overlap between other types of audit and performance auditing, classification of the audit engagement will be determined by the primary purpose of that audit. Aside from audits carried out under legal mandate at the request of the Parliament or other empowered organization, performance audit topics should be selected on the basis of problem and/or risk assessment and materiality or significance (not only financial significance, but also social and/or political significance), focusing on the results obtained through the application of public policies. The selection process for audit topics should aim to maximise the expected impact from the audit while taking account of audit capacities. The processes of strategic planning and establishing the annual audit programme, are useful tools for setting priorities.
- **ISSAI 3200 Exposure Draft (8-10)** states The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify risks and problems. The auditor shall select topics that are significant and auditable, and reflect the SAI's mandate. The auditor shall conduct the process of selecting audit topics to maximise the expected impact of the audit while taking account of audit capacities.

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This Discussion Paper aims to assist public sector audit institutions in designing effective performance audit selection and multi-year planning. We hope you find it helpful and we welcome your feedback.

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² Comments, suggestions and new ideas can be provided to John Reed at the Canadian Audit & Accountability Foundation (jreed@caaf-fcar.ca)