

Auditor-General's Auditing Standard 5

Performance Audits

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Introduction

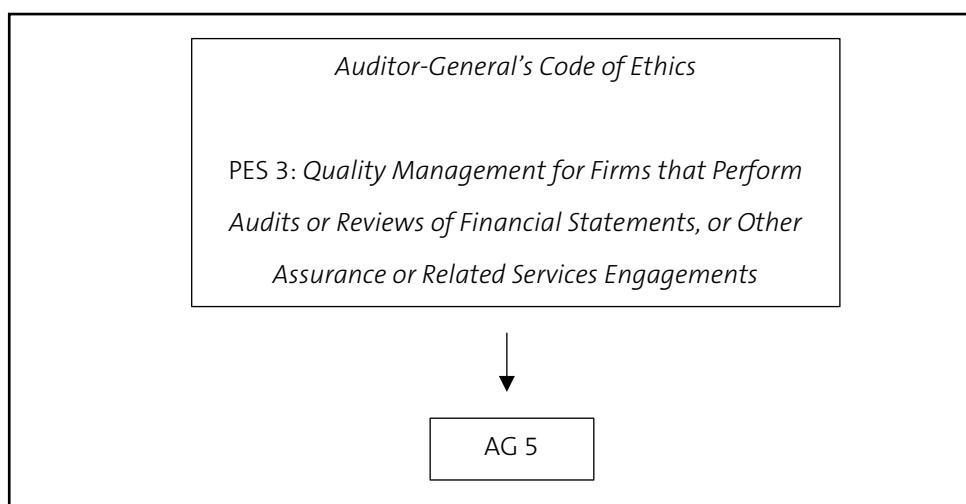
Scope of this Standard

1. This Auditor-General’s Auditing Standard establishes principles and requirements, and provides application guidance, where appropriate, for auditors carrying out performance audits under section 16 of the Public Audit Act 2001 (the Act).
2. Under Section 16(1) of the Act (*Performance audit*), the Auditor-General may at any time examine:
 - (a) the extent to which a public entity is carrying out its activities effectively and efficiently;
 - (b) a public entity’s compliance with its statutory obligations;
 - (c) any act or omission of a public entity, in order to determine whether waste has resulted or may have resulted or may result;
 - (d) any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or 1 or more of its members, office holders, and employees.

Application

2. Compliance with this Standard is mandatory for the Auditor-General, the Deputy Auditor-General, their staff, and Appointed Auditors and their staff – collectively referred to as the Auditor in this Standard.
3. In planning and in carrying out a performance audit, the Auditor shall note that the Act permits an examination of effectiveness and efficiency as long as that examination takes into account any applicable government or local authority policy.

Figure 1 – Application of the Auditor-General’s Auditing Standards



4. This Standard applies to all performance audits which have commenced on or after 1 April 2023.

Objectives

5. The objectives of the Auditor are to:
 - (a) plan and carry out a performance audit to develop findings, or recommendations and, where appropriate, conclusions in accordance with the terms of the work; and
 - (b) clearly communicate any findings, recommendations and, where appropriate, conclusions.

Principles

6. Performance audits are required to be carried out in accordance with the following principles in the *Auditor-General's Code of Ethics* (Ref: Para. A1):
 - (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

Definitions

7. For the purpose of this Auditor-General's Auditing Standard, the terms listed below have the following meanings:

Audited entity	means a public entity (or entities), as defined in section 5 of the Public Audit Act 2001, that is responsible for the subject matter of the performance audit.
Auditor	means the Auditor-General, the Deputy Auditor-General, and their staff and Appointed Auditors and their staff.
Terms of the work	means the documentation outlining the nature and scope of the performance audit.
Relevant party	means any party, other than the audited entity, who, in the opinion of the Auditor, may be directly affected by, and/or may have information material to, the performance audit.

Requirements

Applying the principles

8. Auditors shall apply the principles in paragraph 6 when carrying out their work (Ref: Para. A1).

Determining whether a performance audit should be carried out

9. Decisions on which performance audits will be carried out shall be made through OAG processes (Ref: Paras. A2-A4).

Formulating the terms of the work and communicating this to the audited entity

10. The terms of the work for performance audits shall be formulated by the OAG. Where the performance audit is to be carried out (in part or in total) by an auditor external to the OAG (an external auditor), the terms of the work shall be formulated by the OAG in consultation with the external auditor.
11. Once the terms of the work have been formulated in accordance with paragraph 10, they shall be made available in writing to the audited entity and to any relevant party, where appropriate (Ref: Paras. A5-A7).

Planning the work

12. The Auditor shall plan the performance audit so that it will be performed effectively (Ref: Paras. A8-A10).
13. The Auditor shall consider materiality and any significant risks when planning and carrying out the performance audit (Ref: Paras. A11-A12).

Obtaining and substantiating evidence (Ref: Paras. A13-A16)

14. The Auditor shall obtain sufficient appropriate evidence on which to base the Auditor's findings, recommendations, and, where appropriate, conclusions.
15. The Auditor shall evaluate the evidence obtained as the basis for clearly expressing the Auditor's findings, recommendations, and, where appropriate, conclusions.
16. If the Auditor has identified information that is inconsistent with the Auditor's final conclusions regarding a significant matter, the Auditor shall document how they addressed the inconsistency in forming their findings, recommendations, and, where appropriate, conclusions.

17. The Auditor shall provide the audited entity and, where appropriate, any relevant party with sufficient information in order to seek comments on:
 - (a) the factual accuracy of the Auditor's findings, recommendations, and, where appropriate, conclusions;
 - (b) whether any facts material to the Auditor's findings, recommendations, and, where appropriate, conclusions have been omitted; and
 - (c) the balance and fairness of the Auditor's findings, recommendations, and, where appropriate, conclusions.
18. The Auditor shall consider any feedback received from the audited entity and any relevant party from whom comments have been sought and, if necessary, make such changes to the Auditor's findings, recommendations, and, where appropriate, conclusions that the Auditor considers necessary to achieve a report that is factually accurate and also balanced and fair.
19. If relevant to the work, the Auditor shall consider the effect of events occurring:
 - (a) between the period subject to the performance audit (if the work relates to a specific period) and the release of the Auditor's findings, recommendations, and, where appropriate, conclusions; or
 - (b) between the completion of the formal evidence-gathering procedures and the release of the Auditor's findings, recommendations, and, where appropriate, conclusions.

Documentation

20. The Auditor shall prepare documentation for filing on a timely basis that is sufficient and appropriate to provide:
 - (a) a basis for the Auditor's findings, recommendations, and, where appropriate, conclusions; and
 - (b) evidence that the work was carried out in accordance with this Standard (Ref: Para. A17).

Reporting

21. The final report shall contain a clear expression of the Auditor's findings, recommendations, and, where appropriate, conclusions.

Identification of additional matters for follow-up

22. Any matters that have come to the attention of the Auditor through the performance audit that are both of relevance to the Auditor-General and are outside the terms of the work shall be referred elsewhere within the OAG for follow-up.

Communication of other matters arising during the performance audit

23. The Auditor shall consider any other reporting obligations to regulators and other parties in relation to matters arising during the performance audit. (Ref: Paras. A18-A19)

Application and other explanatory material

Applying the principles (Ref: Paras. 6-8)

- A1. Auditors may also need to comply with an ethical code (or equivalent) that applies to them because they are members of a profession or occupational group other than a recognised accounting body. Where a conflict arises, or may arise, because of a conflict between the Auditor-General's principles in paragraph 6 and any other ethical code (or equivalent) that the Auditor is required to comply with, then the Auditor is expected to raise the actual or perceived conflict with the individual ultimately responsible for the performance audit with a view to resolving the conflict.

Determining whether a performance audit should be carried out (Ref: Para. 9)

- A2. Performance audits are initiated at the discretion of the Auditor-General or by an employee of the Auditor-General under delegation. The exercise of the discretionary power is provided for by the Act and guided by internal processes.
- A3. Specifically, in determining whether to carry out a performance audit, consideration should be given to whether:
- the performance audit is within the Auditor-General's statutory authority. For example, if the subject matter of the performance audit concerns issues of policy, then this may be outside the Auditor-General's statutory authority;
 - there are significant matters that indicate that the performance audit should not be undertaken, notwithstanding that the ability to carry out the performance audit is within the Auditor-General's statutory authority.

- A4. Having determined that a performance audit will be carried out, responsibility for the terms of the work (and the subsequent report) will be assumed by the Auditor-General or their delegate.

Formulating the terms of the work and communicating this to the audited entity

(Ref: Paras. 10-11)

- A5. In formulating the terms of the work, the OAG should consult with the audited entity and any relevant party, where appropriate. Such consultation assists in achieving balance and fairness in the terms of the work.
- A6. On occasions, it may be necessary to revise the terms of the work. Other than for minor and inconsequential changes, the same or a similar process should be followed as the process used in determining the original terms of the work.
- A7. It is desirable that a formal acknowledgement of the terms of the work is obtained from the audited entity. The purpose of this process is to seek (as a minimum) the acknowledgement by the audited entity of the criteria that the Auditor will be applying in making their assessment or examination.

Planning the work (Ref: Paras. 12-13)

- A8. The Auditor should plan and carry out the work with professional scepticism, recognising that circumstances may exist that cause the audited entity and/or any relevant party to portray the matter in a favourable (or unfavourable) light.
- A9. The Auditor should obtain an understanding of the audited entity or activity, the subject matter of the performance audit (including any supporting policies, systems, and processes), and other relevant information. This understanding should be sufficient to identify and assess the key risks surrounding the work, and sufficient to design and carry out evidence-gathering procedures.
- A10. The Auditor should determine what information is needed to ensure a fair process is followed when carrying out the work. For example, information would normally be obtained from the audited entity and any relevant party.
- A11. A matter would be considered material if, in the Auditor's judgement, it is significant to users' overall understanding of the Auditor's findings, recommendations, and, where appropriate, conclusions.
- A12. Considering materiality requires the Auditor to understand and assess what factors are likely to influence users' understanding of the Auditor's findings, recommendations, and,

where appropriate, conclusions. Auditors should use their judgement to assess whether matters are material. A matter may be considered to be material if it:

- indicates a serious threat to, or lack of, financial viability of a public entity or an activity;
- indicates that a public entity or an activity is not achieving, or is unlikely to achieve, its objectives;
- undermines basic accountability arrangements of a public entity or an activity;
- is outside the capacity of, or undermines the purpose of, a public entity or an activity;
- represents a significant abuse or misuse of powers conferred by Parliament;
- calls into question the probity of a major part or all of a public entity or activity;
- relates to an activity that could be of significant interest to the public;
- affects public health and safety;
- has disadvantaged the public (for example, through actual or opportunity cost to the taxpayer or ratepayer); or
- indicates a significant departure from an accepted standard, or good practice.

Obtaining and substantiating evidence (Ref: Paras. 14-19)

A13. The Auditor should give the audited entity and, where appropriate, any relevant party the opportunity to provide information relevant to the performance audit. Providing this opportunity is essential to ensuring that a fair process is followed in obtaining evidence.

A14. When the work of experts is used, the Auditor should:

- ensure that the expert is independent or, if independence in fact or in appearance cannot be achieved, take measures to ensure the work of the expert is objective and unbiased. For instance, the Auditor may need to engage their own expert to assess the work carried out by an expert employed or engaged by a public entity
- specify, in writing, the following matters with the expert:
 - the nature, scope, and objectives of the expert's work;
 - the respective roles of the Auditor and the expert; and
 - the nature, timing, and extent of communication between the Auditor and the expert, including the form of any report to be provided by the expert;

- adopt appropriate quality management procedures covering the work of any experts the Auditor engages in the collection and evaluation of evidence; and
- be involved in and understand the work for which the expert is used, to an extent sufficient to:
 - obtain sufficient appropriate evidence that the expert's work is adequate for the purpose of the performance audit; and
 - be able to accept responsibility for the findings, recommendations, and, where appropriate, conclusions expressed in the expert's report.

A15. The Auditor should not attempt to limit or reduce their findings by including reference in those findings to their dependence on the work carried out by an expert. This is because the Auditor should have formed a view on the work of the expert in accordance with paragraph A14.

A16. Where the work involves subject matter that can only be appropriately audited or examined by an expert, the Auditor may disclose details of the expert's work, including the name of the expert, in order to add credibility to the report. However, the Auditor should not refer to the expert in the auditor's findings, recommendations, and, where appropriate, conclusions.

Documentation (Ref: Para. 20)

A17. The Auditor should document discussions of significant matters, including when and with whom the discussions took place.

Communication of other matters arising during the performance audit (Ref: Para. 23)

A18. Significant matters that come to the auditor's attention as a result of the performance audit should be reported in writing, in a timely manner, to the audited entity and/or to any relevant party.

A19. Any reporting to regulators and other parties in relation to matters arising during the performance audit should only be carried out following consultation with the Assistant Auditor-General – Legal, Policy and Inquiries.