

Performance Audit (PA) the fundamentals:

Defining PA, its objectives, and practical application

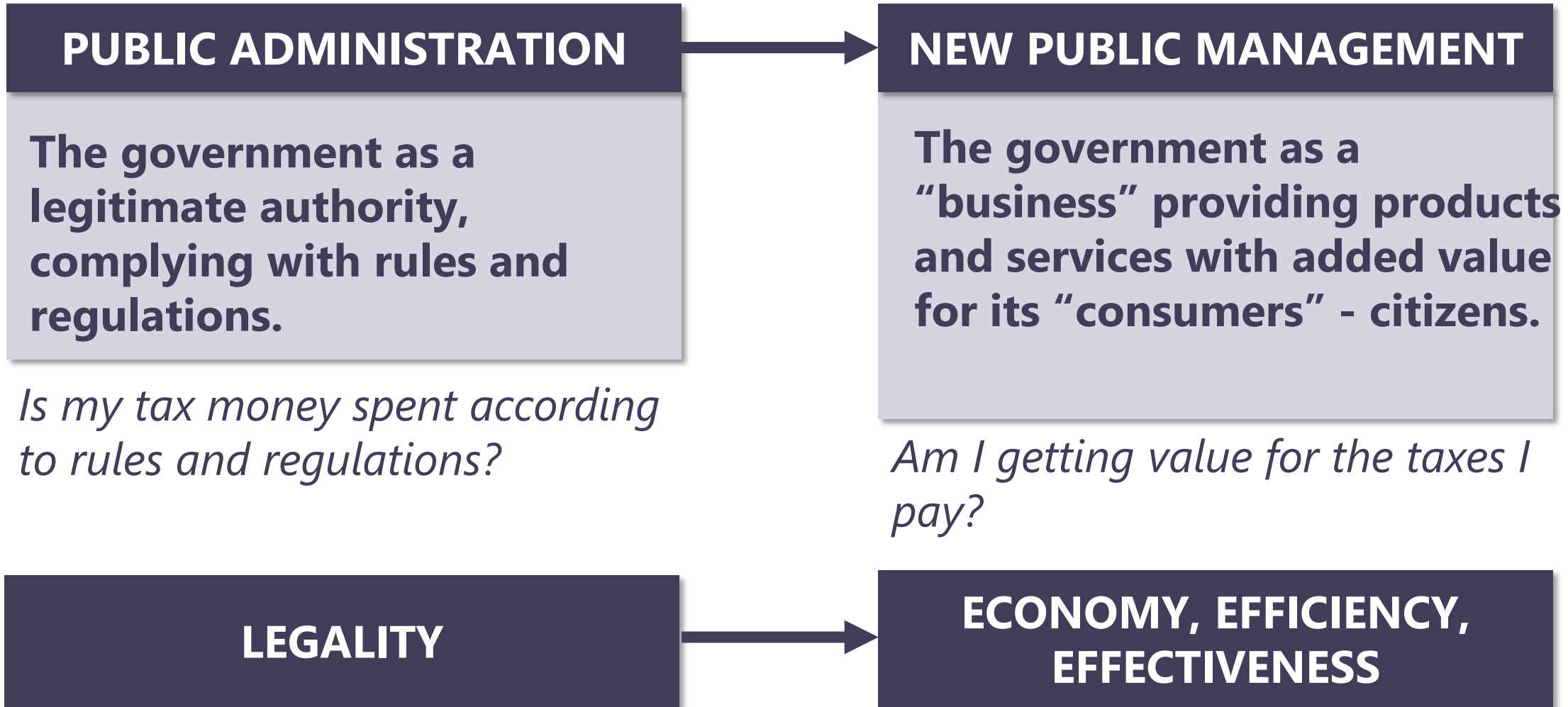
Developed within PEMPAL IACOP
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Budva: June 3, 2025



Performance audit: the key elements



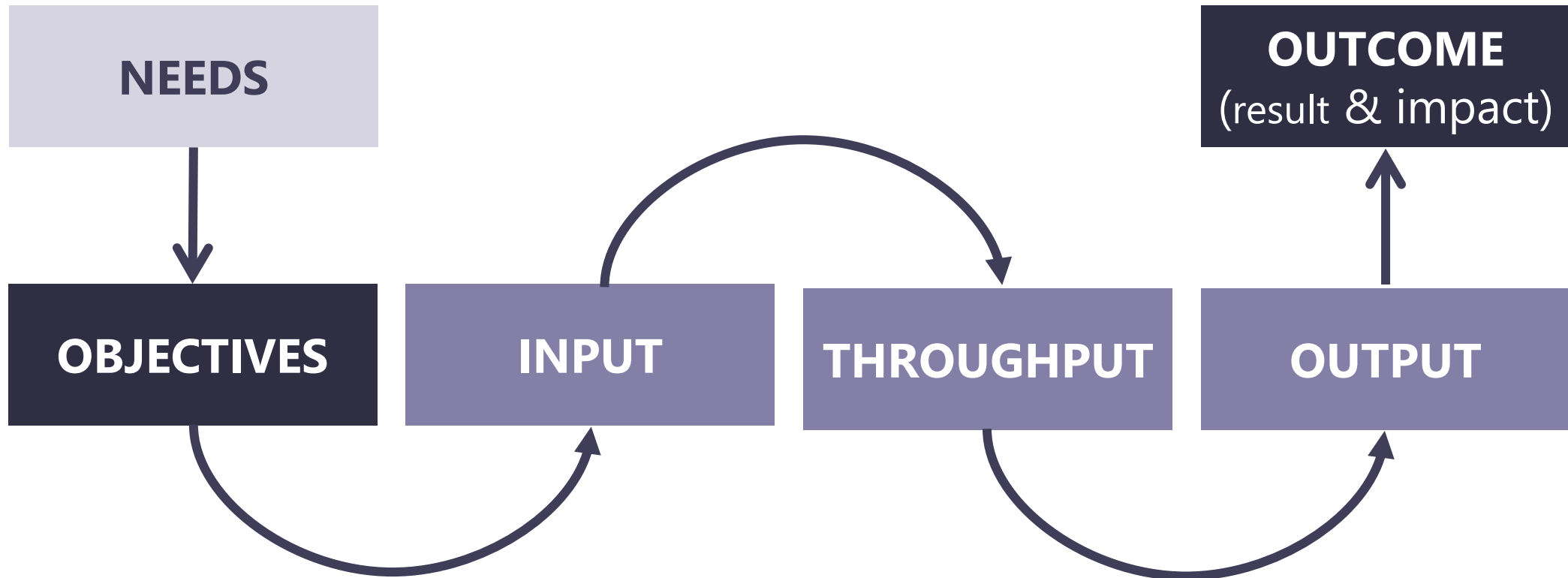
Principles of performance rooted in public management



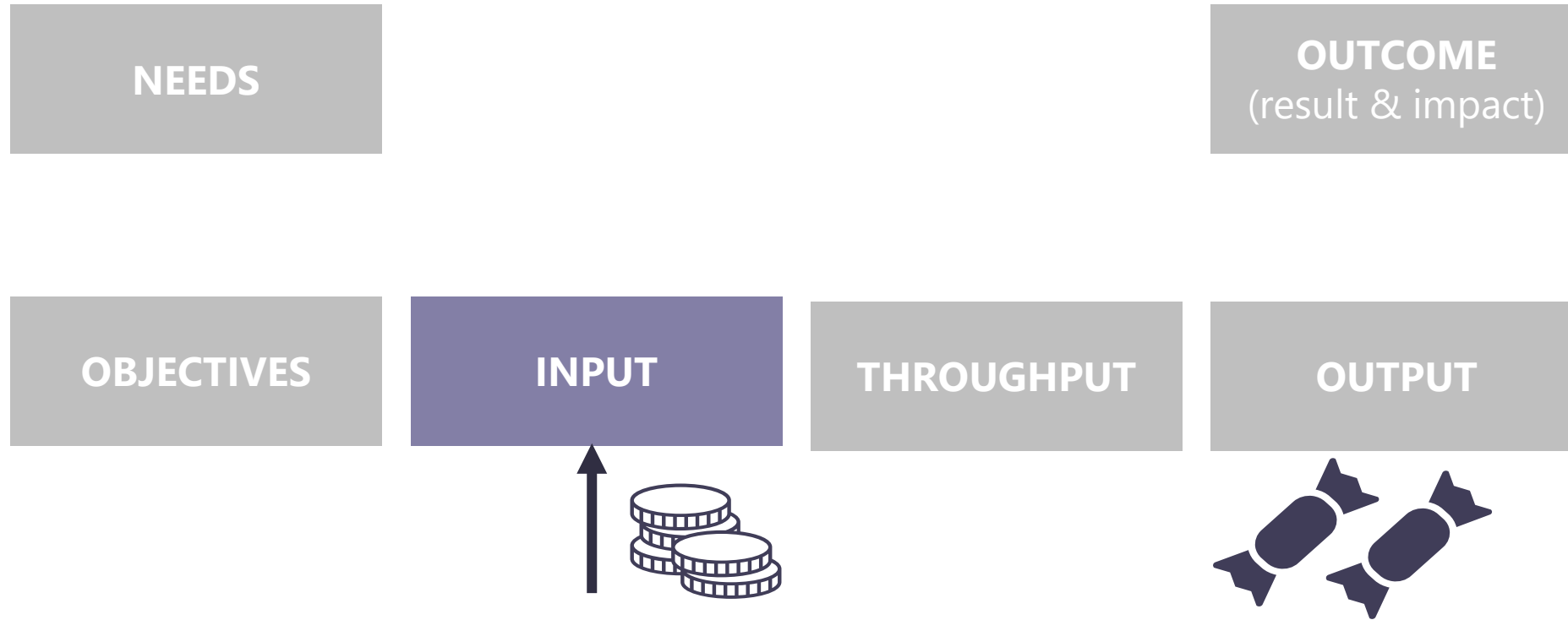
Performance Audit Definition

A performance audit is an independent, objective, and reliable examination of whether public sector undertakings, systems, operations, programs, activities, or organizations are operating in accordance with the principles of **economy**, **efficiency**, and **effectiveness** and whether there is room for improvement.

Fundamentals of performance: Result Chain (Logic Model)



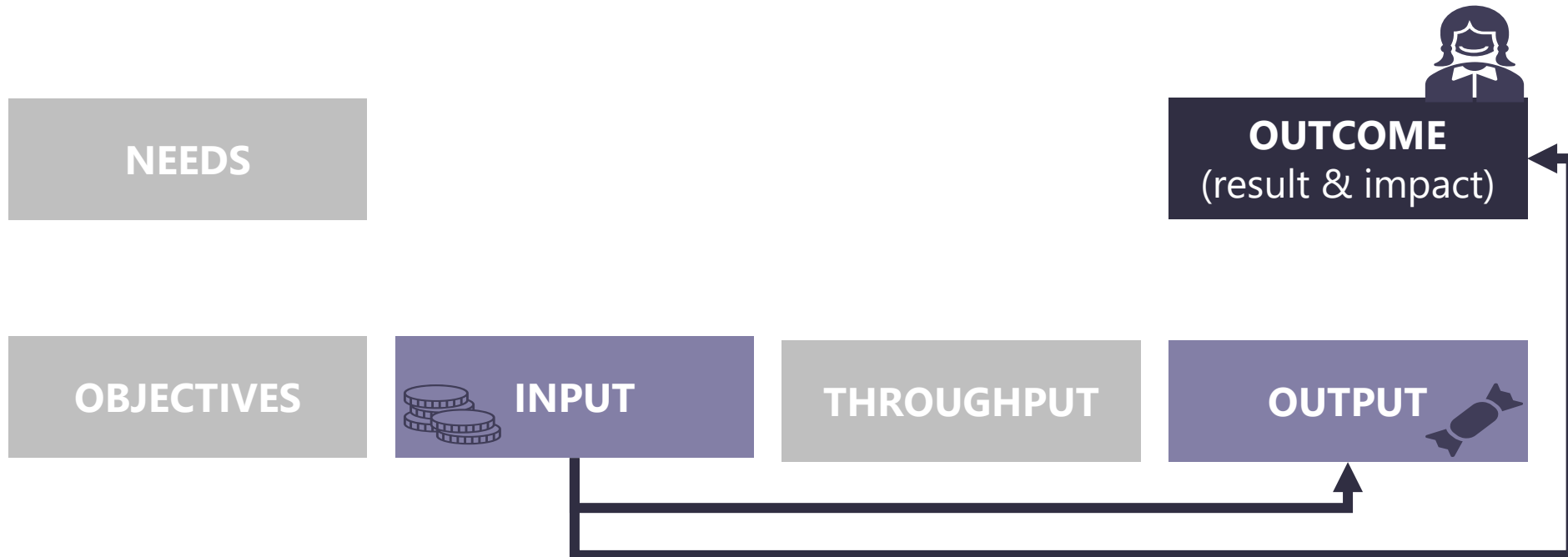
Focus-points of performance (audits)



economy

usage of lower-cost inputs, given a specific output

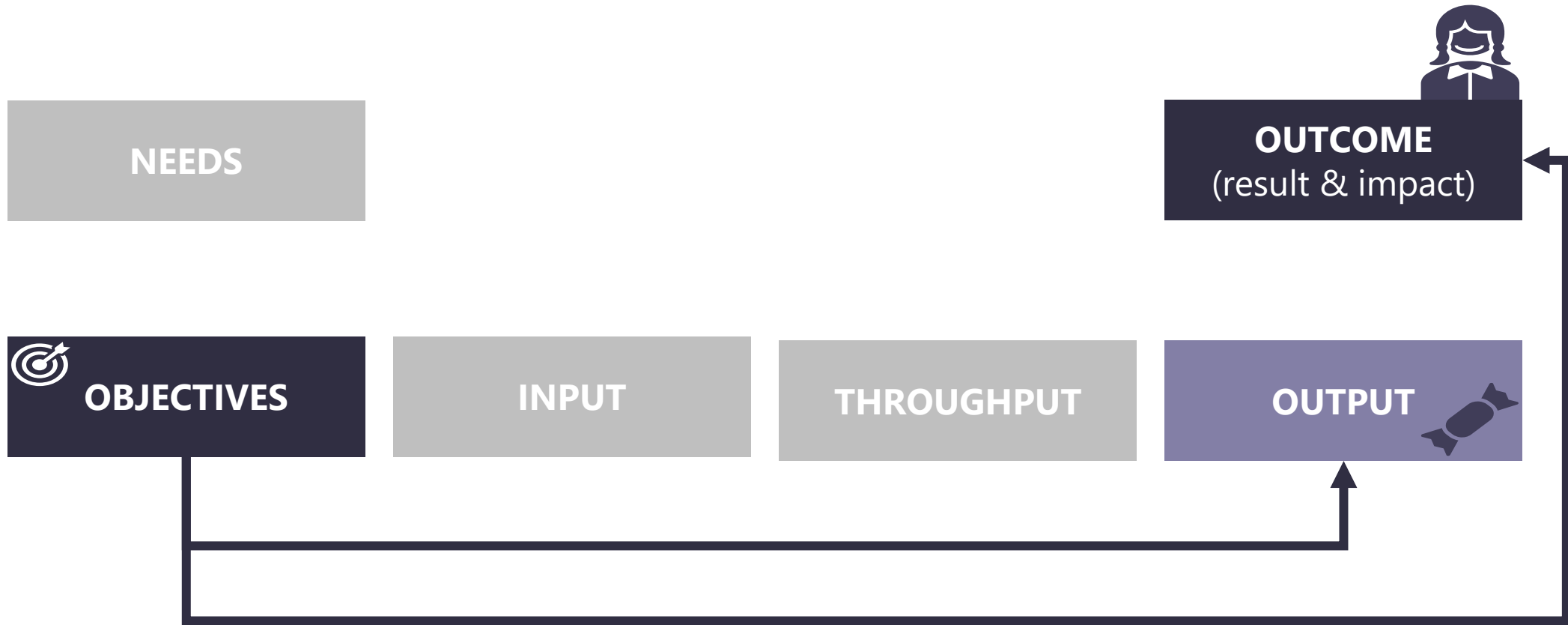
Focus-points of performance (audits)



efficiency

*best possible relationship between resources used and output/outcome produced (**productivity**)*

Focus-points of performance (audits)



effectiveness

extent to which objectives are achieved, by assessing output and/or outcome

Two Approaches

APPROACH

FOCUS OF THE AUDIT OBJECTIVE

Auditing performance directly

Input, Process, Output, Effect/Outcome: as separate elements or as a chain

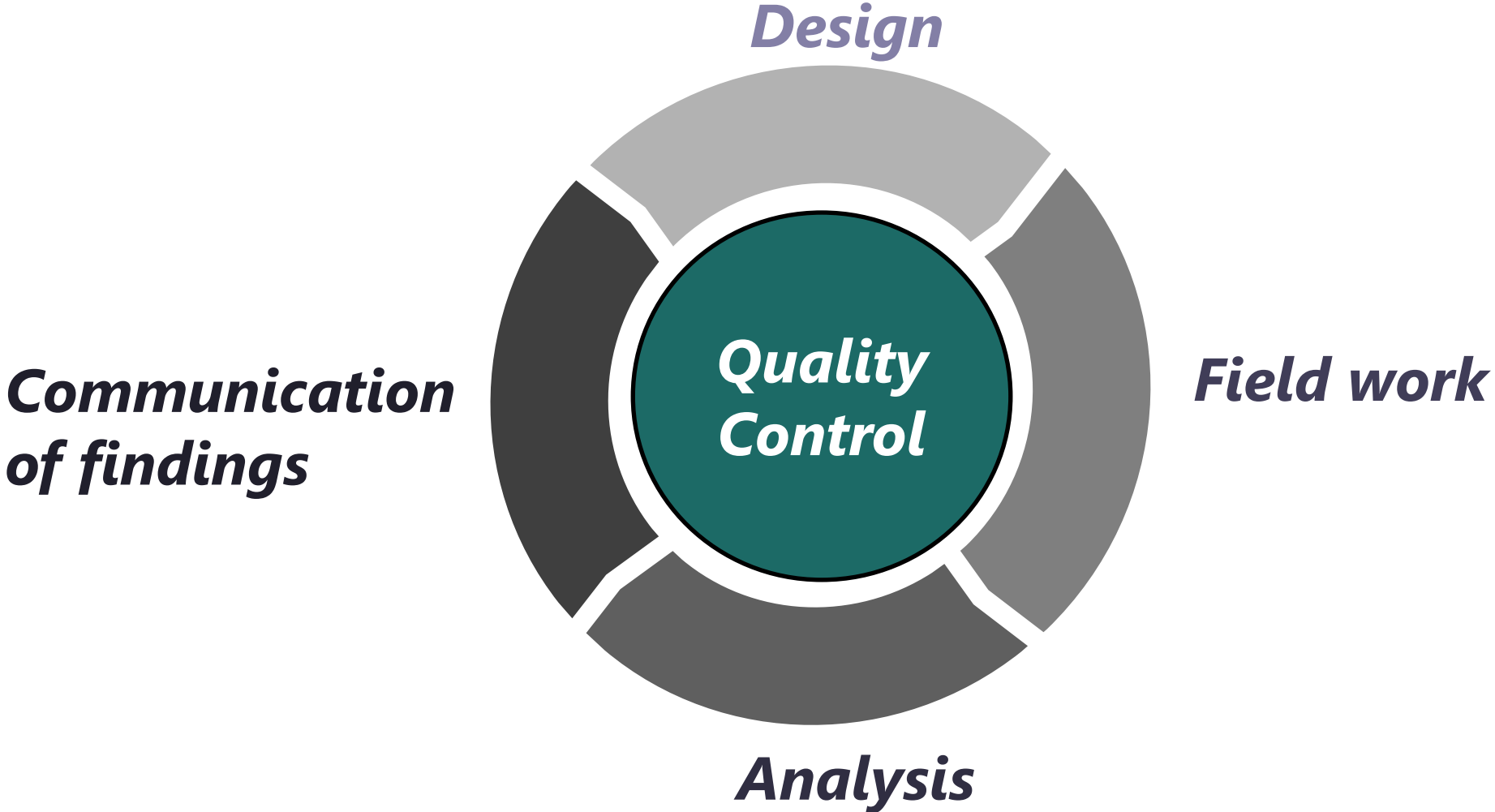
Key aspects to audit: efficiency (and, less common for internal audit: economy and effectiveness); the impact of the regulatory or institutional framework can be part of the audit

Auditing control systems that should ensure adequate performance

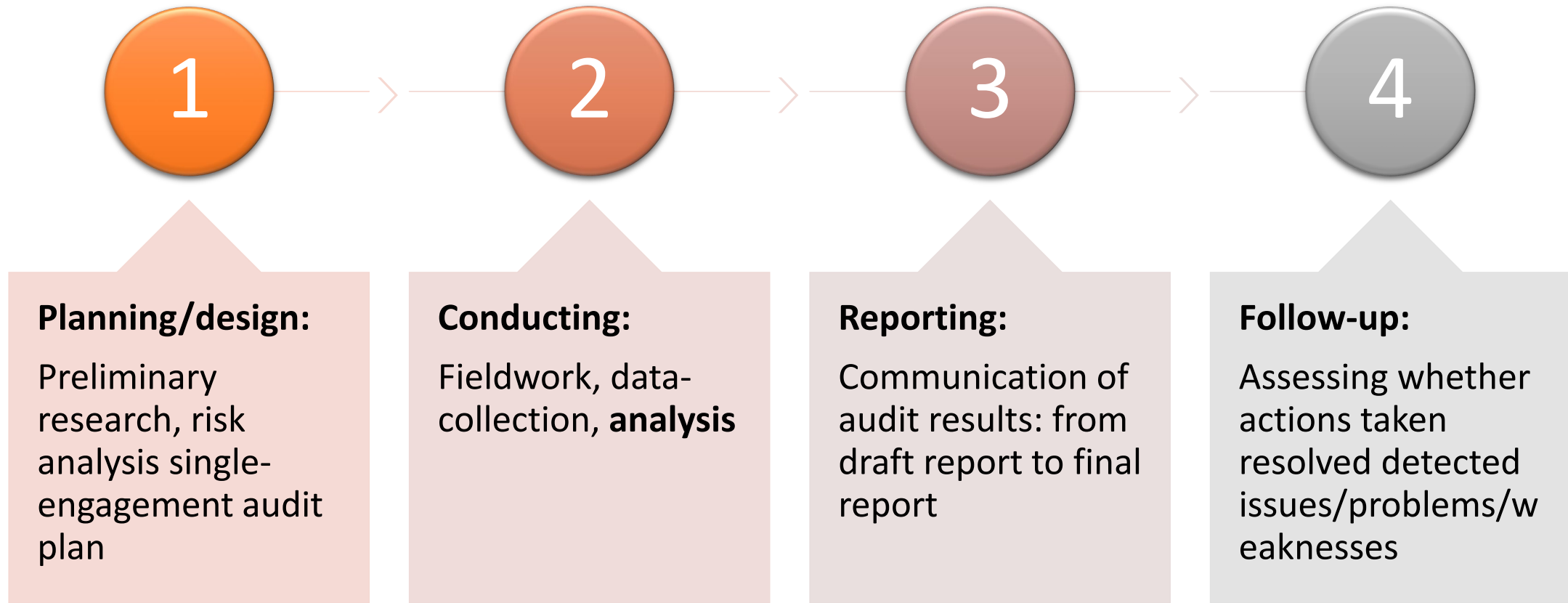
Adequacy of policies and procedures implemented by managers for promoting, monitoring, and evaluating performance.

Key aspects to audit: governance arrangements, control systems/control framework as well as risks associated to the audit object and risk management arrangements; the impact of the regulatory or institutional framework can be part of the audit

Performance audit cycle



Step by step approach



Planning/design of the audit

Audit Design

Contextual Analysis

Conceptual Design

Audit Objective and –scope

Audit Question(s)

Audit Variables

Audit Criteria

Technical Design

Audit Techniques

Analysis

Reporting

Planning

Team Management

Objectifying the objective

audit objective



why?



The goal of the

[type engagement]

Assurance, Audit, Research, Consulting engagement

By providing

[product]

An audit opinion, insight, advice, recommendations

Regarding

[audit object]

Objectifying the objective



why



By conducting research into

[audit perspective]

In order to enable management to

[relevance]

Example objective assurance assignment

The goal of the **assurance** engagement is to provide **an auditor opinion** regarding **the execution of the advisory role** of team X regarding the compliance with internal and legal frameworks,

By conducting research into:

- The **clarity** of the frameworks;
- The management of assertiveness **of advisors**;
- The **possibility to escalate** in the advisory role

In order to enable the client **to improve the advisory role** of team



Planning the engagement: key audit questions

- ❑ Key audit questions are derived from the audit objective
- ❑ They reflect the managerial needs. The audit should be aimed at answering the key questions
- ❑ Key questions usually can be broken down in more detailed sub-questions
- ❑ In practice: usually 2, maximum 3 key audit questions

Audit objective: to deliver assurance for senior management on the efficiency of the procurement process and to improve the efficiency if deemed necessary

Key audit question	Sub question	Detailed questions
1. Are the conditions in place which ensure an efficient procurement process?	1.1 Does the procurement strategy of the entity consider efficiency aspects?	1.1.1 Does the strategy promote evaluation of the performance of the procuring entity?
		1.1.2 etc.

Key elements of the conceptual model: the audit perspective

audit perspective

audit objective

What will the audit answer?

audit questions

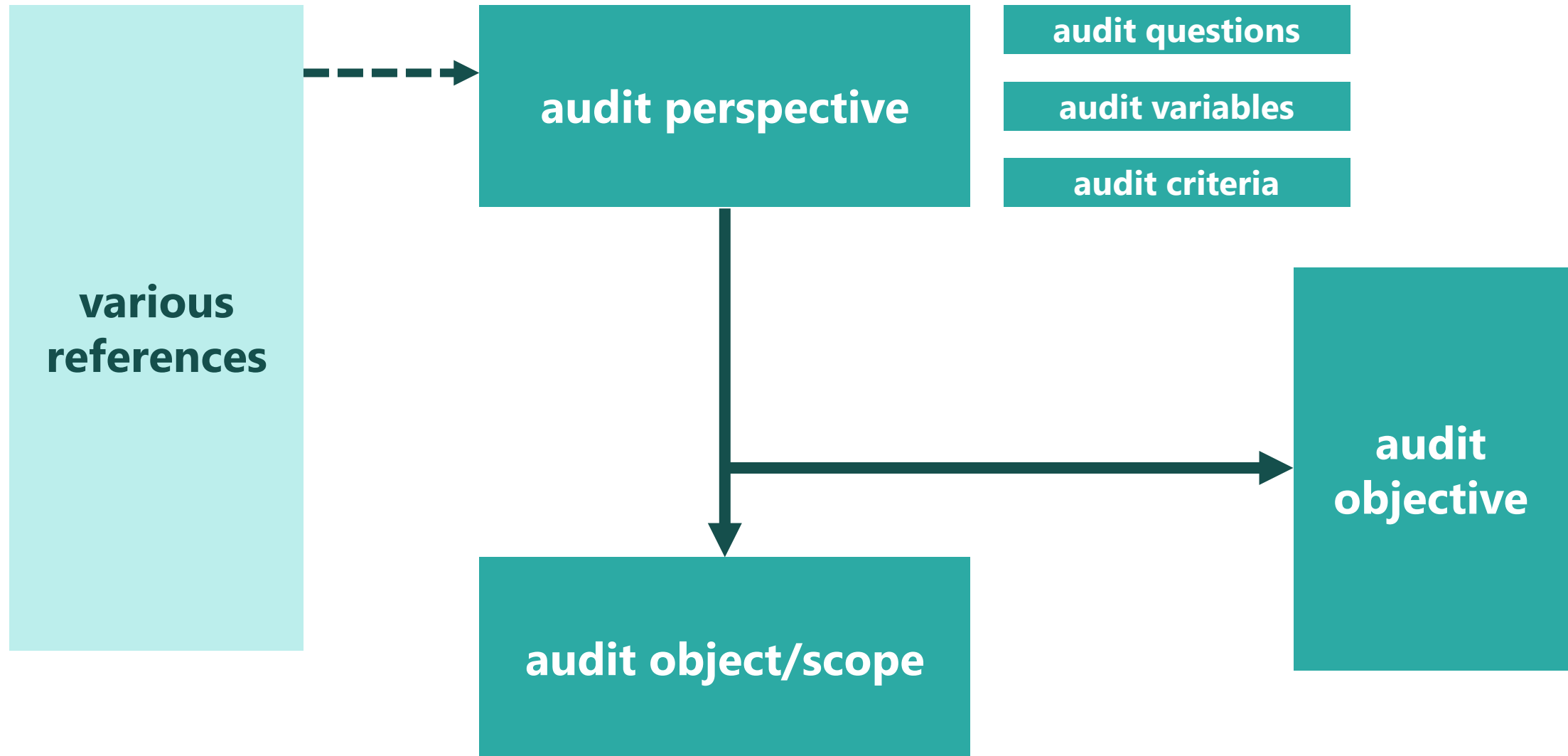
Which elements are insightful?

audit criteria

audit variables

How do we determine if it is sufficient?

Working towards the audit objective





The normative framework:
audit criteria

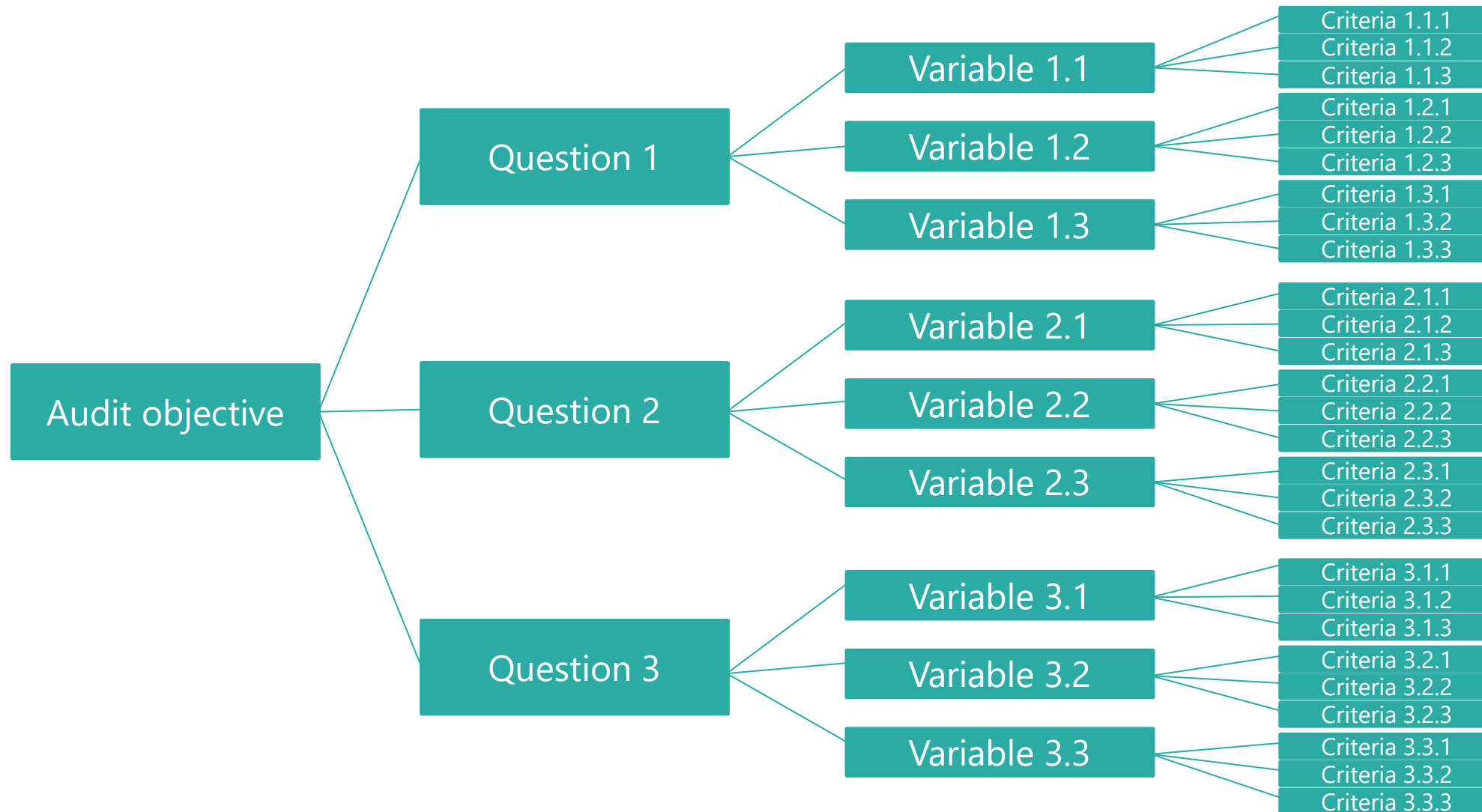
Criteria: where to find them?

- ❑ Existing rules, regulations, policies;
- ❑ Managerial input: for example, derived from the pre-audit talk with senior management
- ❑ Best practices, literature, benchmark information, generally recognized managerial principles, recognized frameworks (like COSO, COBIT, ISO-standards, deming cycle etc.)

Reference framework (or normative framework):

- The total set of criteria/norms the auditor uses to reflect reality against;
- It reflects the 'ideal' situation: the expectations of management;
- It forms the basis that leads to conclusions and opinions
- Should be agreed upon with management

A tree of criteria and variables



Operationalization

evidence matrix

*audit criteria linked to **relevant sources***

documentary

physical

interviews

analytical



source triangulation

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A photograph of a forest trail. The trail is made of dirt and stone steps, winding through a dense forest. Large trees with thick trunks are visible on the left, and lush green ferns and other vegetation are on the right. The scene is brightly lit, suggesting a sunny day. The text "Make sure the audit trail is complete" is overlaid in white, bold, sans-serif font across the center of the image.

Make sure the audit trail is complete