

Combinations in public sector auditing with a focus on performance

The [ISSAIs](#) mention overlaps between different types of audits and combined audits, without elaborating on this in any detail. The main rule is to apply the principles or standards relevant for the audit work carried out¹. However, the standards also acknowledge that this may not always be possible, as different standards may contain different priorities, making it a matter of professional judgement which standards to apply depending on the primary objective of the audit.² In the Performance Audit Subcommittee³ (PAS), we have observed that there are differences in opinion and perhaps some confusion in relation to the concept of “combined audits” and overlaps, not least when performance audits cover aspects of compliance.

To contribute to increased clarity on this issue, we discuss in this paper different combinations in public sector auditing with a focus on performance auditing and aspects of performance. Under certain conditions, the standards for all three main types of audit enable the auditors to bring up aspects that can also be addressed within another audit type. When this situation does *not* require additional standards to be applied, such as for example when financial or compliance aspects are addressed in a performance audit, the combination does not change the *nature of the audit*. For this reason, we suggest the term “combined audits” to be used exclusively for situations where different audit standards need to be applied in the same audit.

In this paper, we discuss:

- Public sector auditing and other engagements;
- Combining issues within each main type of audit;
- Overlaps between audit types;
- Combined audits; and
- Advantages and risks with different combinations.

Public sector auditing and other engagements

[ISSAI 100](#) describes public sector auditing as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. The three main types of public sector auditing defined in the ISSAIs are financial audit, performance audit and compliance audit. SAIs may carry out audits or other engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. SAIs may further conduct combined audits incorporating financial, performance and/or compliance aspects.⁴

[ISSAI 300:14](#) deals with overlaps between audit types (or combined audits). The following points should be considered⁵:

- Elements of performance auditing can be part of a more extensive audit that also covers compliance and financial auditing aspects.
- In the event of an overlap, all relevant standards should be observed. This may not be feasible in all cases, as different standards may contain different priorities.
- In such cases, the primary objective of the audit should guide the auditors as to which standard to apply. In determining whether performance considerations form the primary objective of the audit engagement, it should be borne in mind that performance auditing focuses on activity and results rather than reports or accounts, and that its main objective is to promote economy, efficiency and effectiveness rather than report on compliance.

¹ See [ISSAI 100:9](#), [ISSAI 200:4](#), [ISSAI 300:14](#) and [ISSAI 400:9](#).

² See [ISSAIs 300:14 and 3000:16](#) and [ISSAI 400:26](#).

³ <https://www.intosaipas.org/>

⁴ [ISSAI 100:23](#)

⁵ See also [ISSAI 3000:16](#).

Combining issues within each main type of audit

The main public sector audit types are closely associated with, and thus identified by, the main purpose of the audit. However, under certain conditions, and according to the applicable standards, an audit of one of the three main types may include other aspects (see table below).

Table: overview of possibilities for combining aspects within the three main types of audits

The type of audit conducted	Applicable standards	Conditions for bringing up different aspects in the audit		
		Financial aspects	Aspects of performance	Aspects of compliance
Financial audits consistent with ISSAI 200	ISSAI 2000 series, ISA or national standards consistent with or based on ISSAI 200	All aspects relevant to the audit objective	Only aspects: <ul style="list-style-type: none"> - Impacting on the financial statement; - Explicitly required in the mandate; or - Based on procedures agreed with the audited entity 	Only aspects: <ul style="list-style-type: none"> - Impacting on the financial statement; - Explicitly required in the mandate; or - Based on procedures agreed with the audited entity
Performance audits consistent with ISSAI 300	ISSAI 3000 series or other standards developed/adopted consistent with or based on ISSAI 300	Aspects relevant for the audit objective and directly linked to performance	All aspects relevant for the audit objective	Aspects relevant for the audit objective and directly linked to performance
Compliance audits consistent with ISSAI 400	ISSAI 4000 series or other standards developed/adopted consistent with or based on ISSAI 400	Aspects relevant for the audit objective and directly linked to compliance	Some overlaps. Criteria used in performance audits may be similar or identical to regulatory or propriety criteria used in compliance audits. Compliance audits may also include aspects of performance as explanations to non-compliance. Aspects relevant for the audit objective and directly linked to compliance	All aspects relevant for the audit objective

The table indicates that a financial audit may also cover aspects of performance and/or compliance if those issues have an impact on the financial statement, are explicitly required by the SAI's mandate, or are based on procedures agreed with the audited entity. However, it may also be necessary to develop or adopt additional standards for these aspects – for example for auditing performance information in annual reports - making it a “combined audit”.

A performance audit engagement may bring up financial or compliance aspects, provided they are related to relevant aspects of performance according to the audit objective(s). Similarly, a direct reporting compliance engagement may bring up financial or performance aspects, provided they relate to relevant aspects of compliance according to the audit objective(s).

Overlaps between audit types

While financial and performance audits are reasonably well defined types of studies, compliance audits cover a broad spectrum of audits with different characteristics. A compliance audit can examine activities, financial transactions or information. The nature of compliance audits can vary from short and quick attestation engagements to in-depth studies in direct reporting engagements. Subsequently, the type of report, the level of assurance provided and the use of conclusions or audit opinions vary substantially. There are some similarities between performance audit and certain types of in-depth direct reporting compliance audits, and it is therefore understandable that even auditors have difficulties in separating between the two types. We believe this is because:

- “Performance” is a broad concept encompassing also “compliance”. There are many crosscutting requirements and objectives government entities need to consider in delivering on their mandates. Compliance can be seen as such a crosscutting requirement or objective and be the topic for a performance audit. The main purpose of such an audit would not be to identify instances of non-compliance but to analyse causes behind limitations in compliance, possibly across several entities, and in order to identify what can be done to improve the situation.

- Compliance can be relevant when assessing if the principles of the 3Es⁶ have been met, for example when examining if the audited entity has respected citizens' rights when processing permits and subsidies.
- Laws and regulations frequently cover the intention and objectives of different activities as well as influences how the activities are supposed to be carried out to lead to the expected results. Thus, laws and regulations are important and highly credible sources for identifying criteria relevant for assessing performance.
- In some performance audits the same evaluation technique as in compliance auditing is used, focusing on the gaps in relation to criteria rather than to assess what is done by applying the criteria. This could be called "compliance" with performance relevant criteria.

It is only when the criteria in the last example have been developed from laws and regulations, or from generally accepted principles of propriety, we find it reasonable to describe it as an overlap between the two audit types. Probably the SAI can in such situations choose between applying the performance audit or compliance audit standards.⁷ The resulting report, however, is likely to differ significantly depending on the choice since:

- the information presented in the report is determined by the purpose of the audit;
- the purpose of the audit determines the precise set of criteria to be applied;
- criteria are used differently depending on whether the focus of the audit is on non-compliance as such, or on the substance of what is missing when the criteria are not met (i.e. the difference between compliance and performance auditing);
- addressing causes behind problems (which would be expected in a performance audit) requires that the auditor applies significantly different methods than those applied in a compliance audit (where addressing causes is not necessarily required);
- concluding on the substance of the criteria (the performance) will look significantly different compared to concluding on compliance as such; and
- different requirements when it comes to providing assurance will reflect reporting of the respective two audit types.

Combined audits

The standards allow SAIs to go further in combining different issues in the same audit than what can be encompassed within any of the main types of audits. ISSAI 100 states that SAIs should declare which standards they apply when conducting audits and this declaration should be accessible to users of the SAI's reports. Where the standards are based on different sources, this should also be stated.⁸ When it is not sufficient to use standards consistent with the principles in ISSAI 200 – 400, the SAI needs to adopt or develop additional standards consistent with ISSAI 100.

ISSAI 100 states that SAIs can choose to carry out audits and engagements of any subject of relevance to the responsibilities of management. Such audits may cover aspects of performance, potentially in different combinations with other aspects. The distinction between audits and other control engagements is not explicitly defined. Even so, two basic requirements for what may be considered an "audit" stands out: that the work is based on adopted or developed standards⁹, and that those standards are consistent with ISSAI 100.

There may be situations where it is reasonable to combine audit of aspects of performance with other audit types. One such example is the audit of performance information presented in annual reports, which also include the financial statements. It would make sense to audit the annual report as a whole in the same audit, where financial statements are audited based on financial audit standards while there is a need to adopt or develop separate standards for auditing the performance information.

⁶ Economy, efficiency and effectiveness, [ISSAI 100:22](#)

⁷ [ISSAI 400:26](#) states, "When compliance auditing is part of a performance audit, compliance is seen as one of the aspects of economy, efficiency and effectiveness. Non-compliance may be the cause of, an explanation for, or a consequence of, the state of the activities that are the subject of the performance audit. In combined audits of this kind, auditors should use their professional judgement to decide whether performance or compliance is the primary focus of the audit, and whether to apply the ISSAIs on performance auditing, compliance auditing or both."

⁸ [ISSAI 100:8 and 12](#).

⁹ See Principle 3 in [INTOSAI-P 20](#).

It is a more open question whether there are situations where performance audits need to be combined with other types of audits. Combining a performance audit based on the principles in ISSAI 300 with an attestation engagement (financial audit or compliance audit) seems theoretically difficult, if even possible. It may be theoretically possible to combine a performance audit with a direct reporting compliance audit, but it is difficult to see why such need should arise since compliance aspects can be addressed in an audit conducted according to performance audit standards. Possible exceptions that we have been able to identify are needs to combine performance audits with compliance audits or other direct reporting audit engagements arising from requirements in national legislation. We have observed three relevant situations where this may apply:

- Some SAIs with a judicial function can apply administrative sanctions in compliance audits but not in performance audits. This can generate a need to use both sets of standards in the same audit, to avoid violating national legislation when applying sanctions.
- National legislation may define one annual audit to be carried out for each ministry (or similar), covering all audit work carried out during the year. This could mean that one study is carried out based on performance audit standards; however, it is to be considered as only one element *in the audit*, which also includes other studies based on other standards.
- National legislation may include a definition of performance audit that differs from the one used in ISSAIs. In such cases, there may be a need to combine the performance audit standard with other standards adjusted to the national legislation.

Advantages and risks with different combinations

Currently, some SAIs are making efforts to increase the quality of their audit practices and their compliance with the ISSAIs by focusing on one or several main types of audits, and by allowing auditors to specialise in different main audit types. A driving force behind this development is the increased precision and awareness of the different types of audits and the challenging requirements in the ISSAI framework. In the last few years, some INTOSAI bodies have also focused their efforts on supporting SAIs in improving the implementation of the ISSAIs. For example, the INTOSAI Development Initiative (IDI) has built the ISSAI Implementation Programme since 2012.

As part of this development, some SAIs attempt to reform an audit practice that previously mixed elements of financial, compliance and even performance aspects, and that did not always fully meet the standards for any of the main types of the audit. Currently, one priority seems to be to develop financial auditing that meets the international standards or, when this is not possible because the country lacks an appropriate financial reporting framework, to apply more explicitly the principles and standards for compliance auditing. Some SAIs also establish performance audit functions and accommodate for some of their auditors to specialise in performance auditing.

At the same time, there are other SAIs practicing or increasingly attempting to cover different aspects within the same audit by adding limited additional issues in existing main types of audits or by combining different types of audit. Terms such as “combined audits”, “integrated audits” or similar, are sometimes used. The driving force behind such initiatives appears to be an intention to introduce or include certain aspects – largely performance or compliance aspects – without performing resource-intensive, individual audits in line with the three pre-defined public audit types.

The different trends correspond with conflicting views among SAIs and auditors on whether the desirable development is towards more specialisation or towards increased integration of audit types. Those in favour of a clear focus on the main types of audits, with the appropriate adjustments that may be required because of the SAI’s mandate, point to how different combinations increase the risk that:

- the main purpose and focus of the audit is distorted or even lost;
- mixed expectations in an audit makes it more difficult to comply with the relevant ISSAIs. It is challenging enough to fully comply with standards for each main audit type;
- introducing new or additional expectations without providing a corresponding increase in resources and proper professional guidance adds to the workload for auditors; and
- auditors assigned to perform the task do not have the appropriate skills and experience to cover the different aspects.