



Audit manual - general part



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The National Audit Office of Finland (hereafter National Audit Office) is Finland's Supreme Audit Institution and its position is laid down in section 90 of the Constitution of Finland. It operates in affiliation with Parliament and audits the compliance and appropriateness of central government finances and compliance with the state budget. The National Audit Office also monitors fiscal policy and oversees election and party financing.

The National Audit Office performs the external audit task laid down for it in section 90 of the Constitution of Finland by conducting financial audits, compliance audits, performance audits and fiscal policy audits and audits combining above audit methods so that central government finances are audited in accordance with good auditing practice.

Under section 20(3) of the Act on the National Audit Office (676/2000), the National Audit Office approves this audit manual, which lays down the criteria for good auditing practice in the external professional audit of central government finances performed by the National Audit Office. This manual applies to all external audits performed by the National Audit Office and it provides a basis for manuals for each audit type. This manual applies to all audits started after 1 June 2015.

This manual is based on the international ISSAI auditing standards (www.issai.org) adopted by the International Organisation of Supreme Audit Institutions (INTOSAI). The manual is in compliance with the requirements laid down for levels 1, 2 and 3 of the ISSAI standards, including the general auditing principles set out in ISSAI standards 100, 200, 300 and 400.

Helsinki 10 April 2015

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1 General

1.1 Scope of application and purpose

- 1.1.1 The general audit manual of the National Audit Office lays down the criteria for good auditing practice and the common requirements for the audit, monitoring and evaluation performed by the National Audit Office.
- 1.1.2 This manual is in compliance with the requirements laid down in the general part of the ISSAI standards (levels 1, 2 and 3) adopted by INTOSAI, the International Organisation of Supreme Audit Institutions.

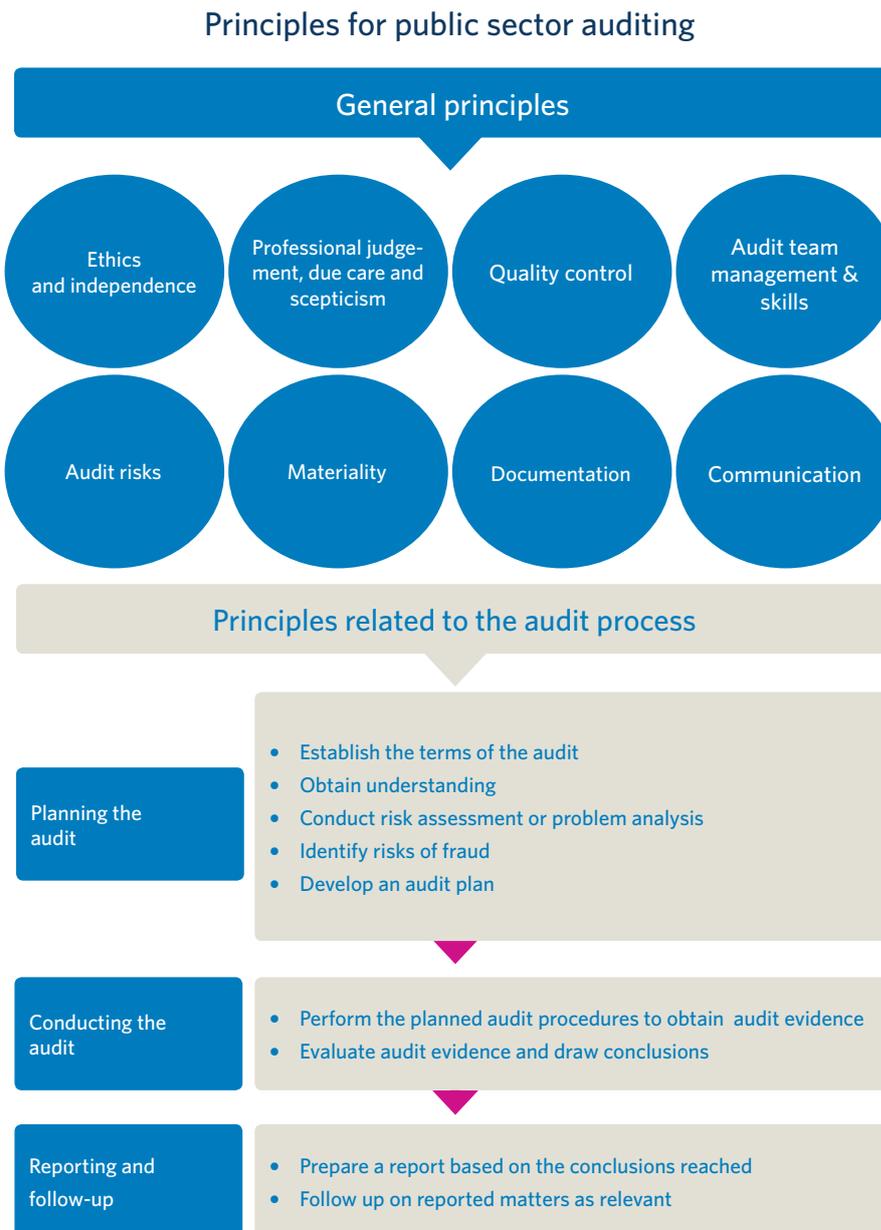


Chart 1: ISSAI 100-Fundamental Principles of Public-Sector Auditing

1.2 Main definitions

- 1.2.1 The organisation of the National Audit Office as a whole is responsible for ensuring that the auditor's obligations and responsibilities referred to in the ISSAI standards are complied with. The tasks and obligations laid out in this manual and the ISSAI standards apply to the public servants of the National Audit Office that take part in the definition and carrying out of individual audit and monitoring assignments and in steering and decision-making.
- 1.2.2 In legal sense, central government finances mean the economic entity referred to in the Constitution of Finland on which Parliament decides and the liabilities, assets, revenues and expenditure of which are, in accordance with the decisions of Parliament, ultimately the responsibility of the State of Finland. In this sense, central government finances cover on-budget activities, which are treated as a separate accounting agency, off-budget funds, state-owned companies and other state assets, as well as the funds and agencies operating under Parliament.
- 1.2.3 Government financial administration means the decisions and activities on the basis of which resources for central government finances are collected, managed and used. Government financial administration also covers the operating policies involving resources and their allocation and the other decisions concerning the content of operations.
- 1.2.4 General government finances mean the entity of organisations classified as general government, as defined in the European System of National Accounts 2010 (ESA 2010).
- 1.2.5 Fiscal policy means the measures with which the state steers the national economy by adjusting the level or structure of general government revenues and expenditure. Fiscal policy includes the budgetary policy, tax policy and user charging policy. Fiscal policy is part of economic policy.
- 1.2.6 Good administration means the fundamentals of good administration referred to in section 21 of the Constitution of Finland and the principles of good administration laid out in more detail in the Administrative Procedure Act. In a broader sense, good administration also includes the ethical principles concerning good administrative practices (principles governing public service ethics).
- 1.2.7 Good governance means the generally accepted principles concerning the good steering, management and supervision systems of the activities audited or monitored by the National Audit Office. These principles are laid down in the INTOSAI Guidance for Good Governance (INTOSAI GOV) and other standards and recommendations concerning good steering, management and governance systems of central government and other entities. Good governance includes the requirement that final accounts reporting gives a true and fair picture of the financial situation, that internal control and risk management are efficient and adequate, that all activities are transparent and that the needs of society at large are met.
- 1.2.8 Internal control means the measures taken by the organisation's management the aim of which is to obtain reasonable assurance that
- the law and the principles of good administration are complied with (legality and appropriate conduct);

- the activities are effective; and
 - that the reporting on the activities and finances is on a true and fair basis.
- 1.2.9 Internal audit comprises objective and independent evaluations that rely on auditing methods performed with the purpose of providing the top management with reports on the appropriateness and adequacy of the internal control and risk management of the organisation.
- 1.2.10 In external audit, an independent auditor operating outside the organisation carries out an objective evaluation of the organisation's activities and final accounts reporting for citizens, the supreme decision-making body and stakeholders.
- 1.2.11 In fiscal policy monitoring, an expert body independent of the Government performs objective evaluations concerning the reliability of the information and economic forecasts used in the preparation of fiscal policy and fiscal policy decision-making, functioning of the fiscal policy steering instruments and the setting and observance of fiscal policy rules and objectives. Fiscal policy monitoring also involves the evaluation of the achievement and achievability of the fiscal policy targets and risk management.
- 1.2.12 Risk management is a set of procedures steered by the top management of an organisation in which the risks of the organisation are first identified and then managed so that there is reasonable assurance that the objectives set are achieved and the tasks set can be performed in an appropriate manner.
- 1.2.13 A risk means a threat of a harmful event or a lost opportunity and the likelihood of such an event.
- 1.2.14 Performance means the achievement of the societal and operational objectives set out for the activities (effectiveness), economic efficiency, productivity and service capacity. The National Audit Office always examines performance from economic perspective: Performance is based on cost-effectiveness, which means that the objectives should be achieved as successfully as possible with as few resources as possible.
- 1.2.15 Audited entity means the organisation or information being audited.
- 1.2.16 Subject matter or audit question means the information, activity or other matter that is evaluated in the audit in relation to the audit criteria.
- 1.2.17 Audit criteria mean the basis on which the information or activity that constitutes the audited entity is evaluated.
- 1.2.18 Assertion is a justified assumption or expectation concerning the activities, financial transactions and information constituting the audited entity. In an audit making use of assertions, the external auditor will consider and observe different types of potential deviations regarding expectations and assertions. An example of an assertion is that a public sector organisation functions in accordance with the Constitution in a lawful manner.
- 1.2.19 An analytical approach means an approach in which the information and evidence are compared, analysed and interpreted on the basis of objective criteria and in which individual pieces of information and sources are examined in relation to the audit criteria and audit the evidence. An auditor tackling the task with an analytical approach must show professional scepticism, apply source criticism and give priority to the objective evaluation of the audit evidence instead of describing it.

2 Tasks of the National Audit Office as an external auditor and monitoring body

2.1 Position and tasks

- 2.1.1 The National Audit Office acts as the independent body responsible for external professional auditing of central government finances as laid down in the Constitution of Finland and as the monitor of fiscal policy.
- 2.1.2 The National Audit Office is one of the three independent monitoring bodies laid down in the Constitution of Finland. The other two are the Parliamentary Ombudsman and the Chancellor of Justice.
- 2.1.3 Provisions on the position and tasks of the National Audit Office and its right of access to information are laid down in section 90 of the Constitution of Finland (731/1999). For the purpose of auditing central government finances and compliance with the State budget, there shall be an independent National Audit Office in affiliation with Parliament. The National Audit Office has the right to obtain the information needed for the performance of its duties from public authorities and other entities that are subject to its control.
- 2.1.4 The National Audit Office is independent of the entities that it audits and in operational terms it is also independent of Parliament. Parliament may only assign tasks to the National Audit Office by enacting an act that meets the special requirements concerning the independence of the agency laid down in the Constitution of Finland.
- 2.1.5 The tasks of the National Audit Office are laid down in more detail in the Act on the National Audit Office (676/2000), the Act on the Right of the National Audit Office to audit certain Credit Transfers between Finland and the European Communities (353/1995) and the Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the implementation of Treaty provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks (869/2012)¹.
- 2.1.6 The National Audit Office is responsible for the independent fiscal policy monitoring and evaluation referred to in the Stability Pact of the European Union (Fiscal Compact), Budgetary Framework Directive of the European Union 2011/85/EU and the Regulation (EU) No 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans of the Member States.
- 2.1.7 The National Audit Office is the national audit body referred to in the Treaty on the Functioning of the European Union that acts in cooperation with the European Court of Auditors (Article 287).
- 2.1.8 The National Audit Office audits the lawfulness and appropriateness of central government finances and compliance with the state budget.

- 2.1.9 The basic task of the National Audit Office is:
- to secure Parliament’s ability to use its budgetary power, to verify the lawfulness, openness and performance of central government finances and to guarantee the openness of election campaign and political party financing;
 - to ascertain that the principles of the rule of law, democracy and sustainable finances are implemented in central government finances and the financing of elections and political parties.
- 2.1.10 As laid down in section 20 of the Act on the National Audit Office and section 7 of the rules of procedure of the National Audit Office, the audits are conducted in accordance with the instructions and orders issued by the Auditor General. The rules of procedure of the National Audit Office are a legal norm, which contains provisions on the procedures observed in the decision-making of the National Audit Office, officials exercising the decision-making powers that the agency is vested with under law, the agency’s presenting officers and drafting responsibilities and the qualification requirements for public posts in the National Audit Office (except for the post of the Auditor General).
- 2.1.11 The legislation on auditors in public administration and general government finances and on auditing or the Auditing Act do not apply to the audits conducted by the National Audit Office.
- 2.1.12 The legislation governing the activities of the authorities in general is applied to the National Audit Office when the agency is performing audit and monitoring tasks. Thus, such acts as the Administrative Procedure Act (434/2003) and the Act on the Openness of Government Activities (621/1999) are applied in the audit process. The Act on Parliamentary Public Servants (1197/2003) applies to the public servants performing audit tasks.

2.2 Relationship between external audit and management

- 2.2.1 The National Audit Office performs external audit and independent monitoring, the purpose of which is to ascertain that the organs responsible for the steering, management and operations of the audited and monitored entities observe the principles of good administration and governance and act in a performance-oriented manner, and that their awareness of accountability is promoted. In this context, good administration and governance include accountability, provision of true and fair information required as part of accountability (true and fair view), reporting on the unit’s finances and operations and openness concerning finances, operations and performance.
- 2.2.2 In Finland’s central government finances and in the preparation of the country’s fiscal policy the Government is responsible for the proper organisation of the public administration and its functioning, drafting and implementation of legislation, planning and management of central government finances and, as part of the above, organisation of internal control and risk management.
- 2.2.3 Under section 68 of the Constitution of Finland, each ministry is, within its purview, responsible for the preparation of matters to be considered by the Government. This responsibility also covers the organisation of internal control of public administration and ensuring its proper functioning.

- 2.2.4 Under section 90(1) of the Constitution of Finland, Parliament supervises central government finances for which purpose Parliament has an Audit Committee. The Audit Committee is responsible for parliamentary supervision of the management and assessment of central government finances and, as part of this task, consideration of the National Audit Office's Annual Reports submitted to Parliament.
- 2.2.5 The external audit and monitoring performed by the National Audit Office covers the information produced by the Government and other management responsible for the activities in question or the activities coming under the responsibility of the two. External audit and evaluations that increase accountability carried out as part of fiscal policy monitoring do not cover phenomena or similar issues in which the aim is not to increase the accountability of the Government or the management responsible for the activities or reporting.
- 2.2.6 The external audit or monitoring performed by the National Audit Office does not absolve the management from its responsibility for the activities or to provide reliable information in the preparation of and reporting on the matter.
- 2.2.7 The National Audit Office can perform audit and monitoring activities and carry out other expert activities before any decisions are made and parallel to decision-making and implementation as long as there is a clear division of responsibilities between external audit on the one hand and the management of the audited entity and the authorities responsible for administrative steering on the other and as long as the National Audit Office is also in a position to audit the activity in question in an objective manner on an ex post basis.
- 2.2.8 The National Audit Office reports to Parliament, which is the highest state organ wielding fiscal power.
- 2.2.9 The National Audit Office submits the audit report to the audited entity and the ministry responsible for the sector in question for further measures, as well as to the Ministry of Finance, the Government Financial Controller's Function and the parliamentary Audit Committee for their information. External audit and monitoring reports are intended for the highest-ranking public servants responsible for the activity or reporting. They are prepared in such a manner that they support the Government and the top management responsible for the activities or reporting.
- 2.2.10 The publicity of reporting and the openness of the agency's activities provide citizens and stakeholders with an opportunity to make use of the audit findings in public debate. This means that the activities of the National Audit Office strengthen the basis for a public debate founded on a broad and reliable knowledge base. This perspective is a consideration in the planning of audit and monitoring activities, in reporting and in the agency's communications.

2.3 Relationship between external audit and internal control

- 2.3.1 Section 24 b of the State Budget Act and the State Budget Decree issued under it contain provisions on the organisation of internal control concerning central government finances. Central government offices and agencies must ascertain that they have proper internal control arrangements covering their own activities and the activities for which they are responsible. The management of the office or the agency is in charge

of the internal control arrangements and it is also responsible for ensuring that the arrangements are adequate and on a proper basis. Under the State Budget Decree, arrangements for internal audit must be in place if there are good grounds for such arrangements in view of the achievement of the objectives of internal control. The provisions of the State Budget Decree, the orders and instructions concerning the drafting of financial rules and the approved financial rules serve as sources for audit criteria in internal control in the financial process².

- 2.3.2 The National Audit Office verifies and promotes good organisation of steering, management, internal control and risk management.
- 2.3.3 The auditors evaluate the internal steering, internal control and risk management procedures used by the officials responsible for the steering and management of the audited entity in accordance with the requirement set out in the risk analysis and audit plan used as a basis for audit planning.
- 2.3.4 The National Audit Office may use the findings produced by internal audits in its work. The National Audit Office must verify that the information is reliable and that the internal audit procedures have been in accordance with the principles of good administration.

2.4 Audit types and general principles governing the audit design

2.4.1 In order to carry out its external audit and fiscal policy monitoring task, the National Audit Office conducts:

- financial audits of central government and its accounting agencies

Financial audit

1. Have the central government and its accounting agencies complied with the state budget and key budget provisions in their financial management?
2. Have the final central government accounts been prepared in accordance with relevant provisions and do the final central government accounts provide a reliable view of the on-budget activities?
3. Have the final accounts of the central government accounting agencies or the off-budget fund in question been prepared in accordance with relevant provisions?
4. Do the final accounts of the accounting agency or the off-budget fund in question and the reports on the operations of the agency or activities provide, in overall terms, a true and fair view of the section of the on-budget activities coming under the responsibility of the accounting agency and the operational efficiency of the accounting agency?
5. Can the appropriateness and adequacy of the internal control of the audited entity be assessed in a manner specified in the audit manual and the agency's audit plan and, as specified in more detailed financial audit project plans, on the basis of the agency's audit plan?

In financial audits, an opinion is issued on the following matters:

- compliance with the state budget and key budget provisions
- preparation of the final accounts in accordance with relevant provisions and regulations so that the final accounts provide a true and fair view of the situation
- true and fair information on operational efficiency, especially productivity and economic efficiency
- are internal control arrangements appropriate and adequate

The content of the opinion and the audit used as a basis for the opinion is described in more detail in the financial audit manual.

Financial audit supports the budgetary power of Parliament and the Government in its task to steer and manage central government finances and to verify that final accounts and performance reports provide a true and fair view on the situation. Financial audit supports the implementation of the principles of good administration and good governance in central government financial processes and internal control.

The purpose of financial audit is to prevent risks concerning compliance with state budget and key budget provisions and the availability of true and fair information concerning central government finances and operational efficiency.

Compliance audit

1. Have the state budget and the provisions concerning central government finances and the principles of good administration been complied with in the audited entity?

The purpose of compliance audit is to promote openness, liability and accountability and the principles of good administration and good governance in the audited entity and to support the Government and the top management of the audited entity in the achievement and promotion of these objectives.

The manner in which the audit supports the implementation of the principles of good administration and good governance is set out in audit-specific project plans.

In a financial audit, all issues are also examined from the perspective of compliance audit. Compliance audits are conducted as part of financial audits and as separate audits.

Performance audit

1. Does the audited entity contribute to the management of central government finances in a performance-oriented manner, especially from the perspective of central government resources and cost-effective use of them?
2. Has a sound basis been created for a performance-oriented approach from the perspective of a transparent and cost-effective use of central government resources?
3. Is the information on performance and the basis for performance reliable and adequate?
4. How could performance, the basis for performance or information on performance concerning the audited entity be developed?

According to the National Audit Office, the appropriateness referred to in section 1 of the Act on the National Audit Office means a performance-oriented approach and the establishment of a good basis for performance. In particular, performance refers to the process of achieving the societal policy objectives set or approved by Parliament as well as possible with minimum resource use and the effectiveness and economic efficiency of the measures.

The purpose of performance audit is to develop the activities. Performance audit promotes sustainable renewal of public administration and general government finances and innovation in the audited entities. Performance audit can also help to carry out its development task by verifying performance information or the economic efficiency of the activities.

Fiscal policy audit

Similarly to the policy entities targeted by performance audit, the fiscal policy audit assesses the following aspects:

1. Are the information and justifications used in the preparation of the fiscal policy, fiscal policy decisions and fiscal policy monitoring reliable and adequate?
2. Do the Government and central government in general provide Parliament with the fiscal policy information that it needs and is the information supplied in a reliable and adequate manner?
3. Are the fiscal policy steering instruments open and effective from the perspective of the achievement of fiscal policy objectives?
4. Are the fiscal policy objectives achievable/have they been achieved and how openly and transparently does the Government assess them and report on them?
5. Are the central government and general government finances on a sustainable basis?

In contrast to other audit types, in fiscal policy audits, matters are always examined from a macroeconomic perspective.

Fiscal policy audit combines methods used in financial audit, performance audit and compliance audit when it covers entities that are relevant to the national economy or exert influence on the national economy. In the evaluation of the information concerning the financial position of the central government and general government, fiscal policy audit supplements financial audit at the level of general government and central government.

Fiscal policy audit is an instrument for producing information for fiscal policy monitoring.

The purpose of fiscal policy audit is to verify that the information concerning the national economy and public finances or central government finances that are used in the preparation of fiscal policy and fiscal policy decision-making are true and fair as a whole. In this manner it encourages public debate on fiscal policy and helps to make it more open. Fiscal policy audit promotes the position of Parliament as the body

Fiscal policy monitoring

Evaluation and monitoring tasks of an Independent Fiscal Institution (IFI).

Presenting an overall fiscal policy assessment:

1. Are the official macroeconomic forecasts used as a basis for fiscal policy reliable (monitoring of macroeconomic forecasts)?
2. Has the general government fiscal plan been prepared and implemented in an appropriate manner, is it based on achievable targets and is the plan compatible with the objectives of the Stability and Growth Pact (monitoring of the general government fiscal plan)?
3. Has the Stability and Growth Pact been complied with and are the official calculations concerning the pact produced by the Ministry of Finance reliable and adequate?
4. Has the Government carried out the tasks and obligations laid down for it in the FIPO Act, are fiscal policy rules complied with and is there a basis for complying with them* (monitoring of fiscal policy rules and remedial measures)?
5. Are the policy measures taken by the Government adequate for achieving the objectives (especially the medium-term objectives) of the Stability and Growth Pact and for ensuring long-term sustainability and stability of general government finances and are the possible remedial measures adequate (evaluating the sustainability and stability of general government finances and policy measures)?

* In addition to ex post evaluation, the evaluation also involves foresight evaluation of compliance with fiscal policy rules so that economic policy decision-makers can react to any deviations.

The evaluation presented as part of fiscal policy monitoring is based on continuous monitoring of fiscal policy, analyses and calculations produced as part of the monitoring and a synthesis of the findings of fiscal policy audit and, if necessary, other audits. In methodical terms, fiscal policy monitoring is largely a matter of economics-based evaluation.

Fiscal policy monitoring has an attestation and development role. Fiscal policy monitoring promotes the reliability of macroeconomic forecasts and their use, medium-term and long-term stability and sustainability in central government finances, openness and public debate. The task of fiscal policy monitoring is to promote the position of Parliament as a body formulating fiscal policy.

Oversight of election campaign and political party financing

When monitoring election campaign and political party financing, the National Audit Office performs the tasks laid down in the Act on Political Parties and the Act on a Candidate's Election Funding. The main questions asked are:

1. Have the openness and disclosure requirements laid out for election campaign financing been complied with in essential parts?
2. Have the openness and disclosure requirements laid out for political party financing been complied with in essential parts?

The purpose of the oversight of election campaign and political party financing is to promote the openness of election campaign and political party financing, prevent corruption and promote the chances of the voters to assess the candidates' and political parties' ties to third parties as well as to promote positive transparency of political financing.

2.4.2 By performing audits of the four types described above, the National Audit Office carries out the tasks of attestation engagement and direct reporting engagement, set out in the international ISSAI standards, in accordance with the principles guiding the preparation of the audit design laid out in the table below:

Attestation engagements

- financial audit
- fiscal policy monitoring and fiscal policy audit evaluating the reliability of the information
- compliance audit
- performance audit: for example, audit of the effectiveness information contained in the Government annual report

Audit engagement

Issuing an opinion in which the auditors

- state whether the information provided by the audited entity is in accordance with the audit criteria (final accounts provide an essentially true view of the structural deficit and the information on sustainability and performance of general government finances is essentially reliable).
- the information on the application of the law and the principles of good administration is essentially correct (for example, the state budget and the key budget provisions have been complied with, internal control is properly organised and the Stability and Growth Pact has

Basis for the audit framework

Reliability of the final accounts: provisions on the budgetary legislation concerning final central government accounts reporting and the rules issued under them and, in a good practice, international general standards and recommendations concerning the reliability of final accounts reporting.

Reliability of the information on structural deficit and expenditure rules/sustainability of general government finances/general government budgetary framework and of the information concerning compliance with other fiscal policy rules: norms, standards, principles and recommendations concerning reliability and reporting.

Assertions can be used to support the audit framework.

Audit evidence

Alternative 1: Audit resulting in an audit opinion of reasonable assurance

- Sufficient amount of audit evidence allowing the National Audit Office to conclude that the reporting / evidence is in accordance with the criteria.

Alternative 2: Audit resulting in an audit opinion of limited assurance

- Sufficient amount of audit evidence allowing the National Audit Office to conclude that the reporting is free from material misstatement.

In qualitative terms, sufficiently comprehensive and adequate evidence so that another expert would, on the basis of the evidence, reach the same conclusion. There is sufficient amount of audit evidence, it is appropriate, relevant and valid from the perspective of the attestation engagement and reliable in terms of its content and sources.

Audit reporting

A short, standard-form audit report presenting the main conclusions or, if necessary, a long-form audit report.

Documentation is usually contained in the working papers (financial audit; may also be part of fiscal policy audit and compliance audit).

Direct reporting engagements

- performance audit
- fiscal policy audit
- compliance audit
- fiscal policy monitoring

Audit engagement

In an audit the audited entity is evaluated on the basis of audit-specific audit criteria.

Basis for the audit framework

- The unambiguous audit question and the audit objective selected on the basis of the principles governing the audit priorities, materiality criteria specific to individual audit types and the material risks connected with the presentation of the information or activities serving as the audited entity.
- The aim of the audit is to instil a stronger sense of accountability into the top management responsible for the audited entity and to produce new information for developing the activities.
- The evaluation criteria for the audit engagement and the objective derived from the positions adopted by Parliament, legislation, principles of good administration and the policy goals approved by Parliament and the Government against which the audited information or activities are evaluated.

Audit evidence

In qualitative terms, sufficiently comprehensive and adequate evidence so that another expert would, on the basis of the evidence, give the same answers to the audit questions and reach the same conclusions on the basis of the audit questions.

Audit reporting

An audit report in which the audit design (objective, audit design and criteria) are presented in a concise manner, main observations, main conclusions and the grounds for them, any opinion with grounds for it and the recommendations of the National Audit Office. Detailed grounds for establishing the audit criteria, description of the audit methods (as annex and in the audit and monitoring working documents).

2.5 Principles governing the establishment of the audit criteria

2.5.1 Audit and monitoring engagements are based on open, unambiguous and publicly available audit criteria. The audit criteria are established in accordance with detailed manuals for each audit type by applying the following general principles:

- in attestation engagements, the audit criteria are based on general manuals and manuals for each audit type as well as norms and recommendations
- the audited entity has the right to know the audit criteria and the grounds for applying them and it will be provided with an opportunity to be heard on the audit criteria before they are approved
- the audit criteria are suitable for the evaluation of the audited entity, they are objective and based on legislation, principles of good administration, policy goals approved by Parliament or Government or generally accepted or justifiable interpretations or recommendations on performance or other types or appropriateness
- in direct reporting engagements and, if necessary, in attestation engagements, the audit criteria are summarised in the audit reports, and in more detail, in the annex to the audit report. In financial audits, the audit criteria are presented in the publicly available financial audit manual.
- on the basis of the audit criteria, Parliament and the representatives of the audited entity are able to understand on what grounds the subject matter has been evaluated
- the audit criteria increase the accountability of the audited entity for good and performance-oriented management of the audited issues and development of the activities.

2.6 Perspective of central government finances and the issue of materiality

2.6.1 In all audit types, the management of central government finances is the audited entity, which means that the subject matter must always be directly or indirectly connected with central government finances. In each audit, the audited entity is also evaluated from the perspective of central government finances.

2.6.2 In fiscal policy monitoring, the focus is on general government finances as a whole, as laid down in the Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the implementation of Treaty provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks. However, the audit also targets the activities of the central government and their impacts in this case.

- 2.6.3 In financial audit and compliance audit, the perspective of central government finances means that the audit targets the largest items that are the most significant in terms of the final central government accounts, and the most important offices and agencies.
- 2.6.4 In performance audit, the perspective of central government finances is, first of all, implemented by focusing on activities involving substantial amounts of state funds or activities that have an essential effect on central government revenue, expenditure, costs or assets. Secondly, central government finances are a consideration in the setting of the audit designs for individual audits so that in them consideration is always given to the costs arising from the implementation of the objectives.
- 2.6.5 In fiscal policy audit, the perspective of central government finances means that in the targeting of the audit, the focus is on its size in terms of the national economy and central government finances, whether or not the information is material, accurate and timely from the perspective of parliamentary decision-making, and the relevance of the information with regard to the public debate on fiscal policy and central government finances.
- 2.6.6 The perspective of central government finances and the consideration of the related factor of materiality and audit risk are defined in more detail in the manuals for each audit type and they are specified as necessary in the audit plan of the National Audit Office and the plans of the individual departments.
- 2.6.7 At agency level, the aim is to ensure that the approaches to different audit types complement each other so that the National Audit Office is able to perform its audit engagements in an adequate and balanced manner.

3 Prerequisites and principles of auditing

3.1 General auditing principles

3.1.1 The general principles applicable to auditing are as follows:

- compliance with the principles of audit ethics, especially objectivity and independence,
- professional judgement, due care, analytical approach and scepticism,
- effective quality management ensuring that the audit engagements can be performed in accordance with relevant instructions and in a manner that will guarantee the reliability of the findings and keep the audit risk within the limits set.
- good management of the audit team and the necessary competence to ascertain that the planning of the audit, assignment of audit resources, carrying out of the audit engagement and the writing of the audit report are appropriately organised
- sufficient risk assessment that forms the basis for targeting the audits and focusing on essential risks in individual audits, and that supports the identification of risks to performing the audit to a high standard
- sufficient audit evidence to ascertain that the audit findings are based on an adequate volume of material and a competent analysis of it. Evidence is to be considered sufficient when another expert could reach the same conclusions on the basis of the evidence used. The general principles applicable to the reliability and adequacy of the evidence are contained in the premises of the audit design for attestation engagements and direct reporting engagements.
- sufficient documentation of the conduct of the audit and the evidence that allows an outside expert to ascertain that the audit has been performed in accordance with the instructions and that the evidence is sufficient
- good communication and interaction ensuring that the audit stakeholders and the target of the audit have access to the details of the methods, criteria, performance and findings of the audit in a comprehensible and transparent manner and in accordance with the Act on the Openness of Government Activities and the principles of good administration.
- an innovative approach aiming for continuous improvement by which the National Audit Office strives, in all of its activities, to support sustainable renewal and learning in public administration, to develop its own activities, and to learn more while performing its duties.

3.2 Requirements for good administration

3.2.1 The National Audit Office performs its audit and monitoring activities in a systematic manner. All auditing and monitoring performed by the National Audit Office and the manner in which it uses its right of access to information are based on audit plans of the National Audit Office that are approved in accordance with the Act on the National Audit Office. The purpose of this arrangement is to ensure that the exercise of public authority contained in the audit and monitoring and in the use by the National Audit Office of its right of access to information would be in accordance with the principles of good administration and that central government finances

would be audited in accordance with good auditing practice based on the international ISSAI standards and so that consideration will be given to material risks and the material nature of the subject matter.

- 3.2.2 All audits are conducted in accordance with the Administrative Procedure Act and the principles of good administration and legal principles laid down in it.
- 3.2.3 As the audits conducted by the National Audit Office are supervisory audits referred to in the Administrative Procedure Act, the provision of section 39 of the act does not apply to them.
- 3.2.4 In order to guarantee compliance with the Act on the National Audit Office, general provisions of the Administrative Procedure Act and the principles of good administration, the audits performed by the National Audit Office are conducted in accordance with the procedures laid down in chapter 5 below.

3.3 Audit ethics, objectivity and independence

- 3.3.1 As laid down in section 19(2) of the Act on Parliamentary Public Servants, the conduct of the public servants performing audit engagements must be in accordance with their position and tasks.
- 3.3.2 The most important principles concerning independence and ethics are integrity, objectivity, professional competence, due care, confidentiality and professional conduct. The values set out in the VTV2020 strategy are responsibility, openness, objectivity and respect. These values contain the agency's ethical principles and are part of the process of applying audit ethics and independence in audits. The values are defined in more detail in the value matrix of the National Audit Office, which is part of this audit manual.
- 3.3.3 Conduct in accordance with the position and tasks required under the Act on Parliamentary Public Servants means conduct in accordance with the ethical principles of the National Audit Office set out in the value matrix.
- 3.3.4 Compliance with the requirement of independence, ethical principles and good administration and the processes and procedures concerning them are reviewed in the National Audit Office at least every five years at agency and departmental level (audit plan period). The National Audit Office also ascertains its independence by a rotation of the audited entities at least every seven years.
- 3.3.5 Ethical commitment is part of the audit process in each audit. In a preliminary review of an audit or a project-specific plan, the auditors taking part in the audit and the management representatives responsible for approving the project plan or the preliminary review ascertain, in discussions carried out during the preparation of the preliminary review or project-specific plan, that the audit can be performed in accordance with the principles of good administration laid down in the Administrative Procedure Act and the ethical principles set out in the value matrix of the National Audit Office. The following issues concerning the auditors taking part in the audit are reviewed in the discussion:
 - that the auditors are not disqualified in the manner referred to in the Administrative Procedure Act
 - prerequisites for conducting the audit in an impartial manner in accordance with the principles of good administration.

The manner in which the conduct of the discussion is documented is set out in the manuals for each audit type.

- 3.3.6 Each public servant is personally responsible for his/her independent conduct and compliance with the agreed ethical principles, good governance and good administrative practice.
- 3.3.7 The notifications of and permits for outside employment of the public servants of the National Audit Office guarantee compliance with disqualification rules and adequate professional distance from the audited entities.
- 3.3.8 ISSAI 30 Code of Ethics is part of the value matrix of the National Audit Office. The ethical requirements and the requirements concerning the activities and conduct laid down in the Act on Parliamentary Public Servants are interpreted in accordance with the ISSAI 30 Code of Ethics.

3.4 Management of human and financial resources

- 3.4.1 The top management defined in the rules of procedure of the National Audit Office is responsible for ensuring that the competence required for each assignment and project is available and that the National Audit Office has the capacity to perform the tasks, including adequate time resources and human and financial resources.
- 3.4.2 The management group of the National Audit Office constitutes the agency's top management body that decides on the audit risk connected with the allocation of resources and competence and assumes responsibility for it. The management group defined in the rules of procedure of the National Audit Office is thus responsible for the planning of the targeting of resources and competence, taking and management of the audit risk as a preparatory body, while the preparatory process itself is the responsibility of the members and expert members of the management group.
- 3.4.3 The Auditor General is responsible for the audit risks concerning the targeting, focus and extent of the audits related to selecting their subjects, themes and priorities as the official making decisions on the National Audit Office's audit plan. The audit plan is presented by the head of the Executive Office, while the responsibility for decisions made at departmental or function level lies with the directors responsible for each audit type or function.
- 3.4.4 The staff policy of the National Audit Office is described in more detail in the human resources policy section of the National Audit Office's VTV2020-strategy. The operating manual describes the human resources processes and procedures set out in the National Audit Office's human resources policy³.

3.5 Management and development of competence

- 3.5.1 The National Audit Office is developing its competence and operations on a continuous basis and in a wide range of areas. The agency provides opportunities for learning and development and encourages its staff members to engage in the process. Development of competence comprises on-the-job learning, peer learning and training.
- 3.5.2 The perspective of competence development is a consideration in the management, steering and organisation of the audits.

- 3.5.3 The perspective of learning, professional competence and sharing of knowledge are considered during the different stages of the audit process. Collective competence and sharing of audit knowledge and experience are guaranteed by an arrangement under which more than one person takes part in each audit. Matters are examined jointly, while at the same time experts in different departments are also consulted.
- 3.5.4 The training programmes of the National Audit Office and the training courses and events listed in the annual training calendar provide the staff members with an opportunity to maintain and develop their professional skills and expertise on a systematic and continuous basis in accordance with the agency's competence areas.
- 3.5.5 Development discussions with individual staff members are conducted each year. Decisions on the development and maintenance of professional competence are made in connection with the development discussions and the preparation of personal development plans.
- 3.5.6 Each public servant of the National Audit Office is personally responsible for continuously maintaining and developing his/her professional competence and for ensuring that he/she possesses the required qualifications and expertise.
- 3.5.7 The manner in which adequate competence resources and special expertise are appropriately allocated for the selected audit methods and quality control is laid out in the manuals for each audit type.
- 3.5.8 In its audit planning, the National Audit Office ensures that resources can be used across departmental boundaries or that, if necessary, outside experts can be used. This is because not all departments possess the special expertise required by all methods.
- 3.5.9 The competence policy of the National Audit Office is described in more detail in the competence policy section of the National Audit Office's VTV2020-strategy.

3.6 Handling information and applying the Act on the Openness of Government Activities

- 3.6.1 Public access to the audit and monitoring documents of the National Audit Office is in accordance with the Constitution of Finland, the Act on the Openness of Government Activities and the instructions on the publicity of the documents of the National Audit Office. These provisions and the instruction issued by the National Audit Office are interpreted in a manner in which the emphasis is on openness. All parties requesting information and documents must be treated in an equal manner.
- 3.6.2 All audit and monitoring documents that must be kept secret are marked 'secret' in accordance with the information security order of the National Audit Office.

3.7 Handling of personal data

- 3.7.1 The Personal Data Act (523/1999) contains general provisions on data protection. The National Audit Office and each public servant of the National Audit Office must ascertain that all personal data is handled in accordance with the Personal Data Act.

4 Planning an audit

4.1 Assessing risks at agency level

- 4.1.1 The most important changes and risks concerning the operating environment of central government finances and the national economy are identified in the risk analysis of central government finances and the national economy. The audit themes and questions that are essential from the perspective of central government finances are identified on the basis of the risk analysis of central government finances and the national economy, the guiding principles and materiality criteria for different audit types.
- 4.1.2 The risk analysis of central government finances and the national economy contains:
- auditability analysis in which the levels of identified risk areas are assessed and in which it is determined whether the risk areas can be audited from the perspective of the powers, competence and other resources of the National Audit Office and which audit type is suitable for auditing any particular risk;
 - effectiveness analysis in which it is assessed, which audit types or forms of monitoring can be used for tackling the auditable risk identified in the risk analysis.
- 4.1.3 The risk analysis of the central government and the national economy is carried out about every four years. In other years the picture produced by the risk analysis of the central government finances and the national economy, the auditability analysis and the effectiveness analysis are updated as part of the preparation of the audit plan of the National Audit Office.

4.2 Assessing risks for each audit type and risk analyses

- 4.2.1 Audit planning for different audit types helps to specify the risks and priorities identified in the risk analysis of central government finances and the national economy by determining audit subjects suited to major challenges and risks and concrete audit priorities.
- 4.2.2 Audit type-specific audit planning is based on risk analyses carried out in the audit departments and teams on a regular basis and on materiality criteria specific to individual audit types.

4.3 Audit plan of the National Audit Office

- 4.3.1 Under the Act on the National Audit Office, all audit and monitoring activities are based on the audit plan of the National Audit Office, on which the decision is made by the Auditor General on the basis of a presentation.
- 4.3.2 Preparation of the National Audit Office's audit plan is based on the results of the risk analysis of central government finances and the national economy and the risk analyses performed for each audit and monitoring type or function. Individual departments and functions prepare their proposals for the audit plan on the basis of the risk analyses.

- 4.3.3 Departments and functions draw up more detailed plans and prepare individual audit projects and expert tasks in accordance with the National Audit Office's audit plan so that the agency's performance targets and audit plan can be implemented as thoroughly as possible.

4.4 Audit-specific planning

- 4.4.1 A project-specific audit plan (hereafter project plan), which in the case of performance audits and fiscal policy audits is called a preliminary review, is prepared for each audit topic included in the National Audit Office's audit plan. The preliminary review contains a project-specific audit plan for conducting the audit.
- 4.4.2 The preliminary review or project plan sets out the objectives, scope, topic area and the subject matter of the audit, including the audit questions, audit criteria, audit method, audit evidence and the manner in which the evidence is collected.
- 4.4.3 Essential factors (such as materiality, risk assessment and the information contained in previous audits and opinions) that may influence the audit and the audit conclusions are also presented in the preliminary review/project plan. The preliminary review contains an auditability assessment that is in accordance with the audited entity and the audit question.

4.5 Hearing the audited entity on the audit criteria

- 4.5.1 In direct reporting engagements, the audited entity is heard on the audit criteria before the approval of the preliminary review/project-specific plan. The hearing can also be conducted orally but the manner in which it is carried out must be documented in writing.
- 4.5.2 In financial audit and other attestation engagements that are conducted on a regular basis, audit criteria are discussed with the management of the audited entity when stakeholder feedback is collected and when the National Audit Office's audit manual is substantially revised. In individual audit projects, the discussions with the audited entity help to verify that the management of the audited entity is aware of the audit criteria applied to financial audits or other types of attestation engagements.

5 Performing the audit

5.1 Interaction with the audited entity

- 5.1.1 Maintaining contacts with the audited entities and other important stakeholders must be on an active basis and last for the whole duration of the audit process so that access to the information required in the audit, successful cooperation and the best possible utilisation of the audit findings can be guaranteed. Good and appreciative interaction with the audited entity supports the performing of the audit and helps to make it more effective.
- 5.1.2 Before the decision is made on starting the audit engagement, the audit topic, audit criteria and the audit design are discussed with the ministry and department responsible for the audited entity. In this procedure, the audited entity is reserved an opportunity to be heard on the audit criteria. The course of the discussion, participants and the conclusions reached are documented on an audit working paper and included in the audit documentation.
- 5.1.3 The audited entities are notified of the start of the audit in writing.
- 5.1.4 The audited entities are informed about the progress and timetable of the audit and about the reporting of the findings and offered an opportunity to express their opinion on them. Audit visits are agreed with the audited entity.
- 5.1.5 The request for audit evidence must be in a correct and courteous manner and it must be ascertained that all required material will be obtained on the basis of the right of access to information. The problems concerning access to information are as a rule clarified directly with the persons concerned with the support of the director coordinating the audit or other public servant acting as a coordinator. If necessary, support of the head of department or function or the Auditor General is sought.
- 5.1.6 The audited entity and the ministry steering the entity are informed about the progress of the audit. All material observations and preliminary conclusions are brought to the attention of the management of the audited organisation already during the audit. Minor observations that are not included in the audit report are also presented.
- 5.1.7 After the audit, the audited entities are requested to provide feedback on how well the audit succeeded in meeting its objectives and on the success of the interaction during the audit process. More detailed instructions on the feedback procedure are given in chapter 7.
- 5.1.8 For more instructions, see the manuals for each audit type and the communications policy of the National Audit Office.

5.2 Right of access to information

- 5.2.1 The National Audit Office has the right to obtain, without delay, from the authorities the documents, reports and other information that are necessary for performing the task laid down for the National Audit Office. The right of access to information granted to the National Audit Office in the Constitution of Finland usually overrules the secrecy obligation.
- 5.2.2 The National Audit Office also has the right to obtain, without delay, from the auditors of the audited entity all copies concerning the audited entity that are necessary for the audit and other documents and information that the auditors have in their possession. The right of access to information also applies to the copies of the memoranda and minutes prepared by the auditors as well as other documents prepared as part of the audit that concern the activities of the audited entity. The National Audit Office also has the right to receive from the Bank of Finland and the Social Insurance Institution of Finland the reports and other information that it needs in its operations.
- 5.2.3 The right of access to information may only be used for the conducting of an audit approved as part of the audit plan in accordance with the audit design prepared in advance. Full use should be made of the National Audit Office's right of access to information so that appropriate material and audit methods can be used in the audits.
- 5.2.4 Use of the right of access to information should be in the right proportion to the audit objective. No information is collected on issues that are not appropriate or necessary for performing the audit. When use is made of the right of access to information, consideration should be given to the administrative costs incurred by the audited entity as a result of accessing the information.
- 5.2.5 The audit evidence obtained on the basis of the right of access to information can be used in the tasks of the National Audit Office.
- 5.2.6 Audit evidence coming under statistical confidentiality referred to in the Statistics Act that has been obtained for the purpose of examining dependencies and interaction mechanisms between societal variables on the basis of statistical analyses may not be used for verifying statistical units contained in individual sets of audit evidence even if the item in question would otherwise come under the right of audit of the National Audit Office. The National Audit Office only uses such statistical data for purposes that in terms of their content are comparable with scientific research and statistical surveys of social conditions referred to in section 13(2)(1) of the Statistics Act. No statistical data is used in audits in such a way that individual observations or observation units could be identified from the reporting of the findings. Statistical data may be anonymised in such a way that the audit evidence may be handled with the help of pseudo-identifiers.
- 5.2.7 The National Audit Office may order a party to provide access to information on pain of a penalty payment. Any serious problems concerning access to information are detailed in the audit reports.

5.3 Protection against self-incrimination

- 5.3.1 The obligation to provide correct information connected with the right of

the National Audit Office to access information does not replace the right not to incriminate oneself or the right not to assist in the establishment of one's own guilt (protection against self-incrimination). In a situation where a public servant is suspected of committing an offence, he/she has the right not to assist in the establishment of his/her guilt.

- 5.3.2 A note stating that in the opinion of the National Audit Office, the conduct of the audited entity has in certain respects been in violation of the law may be added to the draft audit report and/or the audit report. The draft audit report/the audit report must state in which manner the conduct of the audited entity has been in violation of the law and which legal provisions have in the view of the National Audit Office been violated. This requires that the content of the legal state must be carefully examined before a note on legality is issued. If a person employed by the audited entity is suspected of committing an offence and the option of issuing a legal note is examined, consideration must be given to the suspect's right not to incriminate himself/herself in his/her position.

5.4 Inside information and dealing with it

- 5.4.1 The National Audit Office has the right to audit companies in which the State of Finland has a controlling interest. Some of these companies come under the scope of the Securities Markets Act. Official or company-owned documents that are included in audit documentation may contain unpublished information relevant to securities markets the disclosure and use of which is prohibited under the Securities Markets Act (746/2012). The audits performed by the National Audit Office may also deal with inside information that is connected with audits of companies in which the State of Finland has not a controlling interest.
- 5.4.2 The prohibition to make use of inside information laid down in the Securities Markets Act also applies to the public servants obtaining such information in connection with the audit. Thus, obtaining securities on one's own account or on account of others, handing over securities on one's own account or on account of others or providing other persons with direct or indirect advice in securities trading are prohibited. Moreover, a person in possession of inside information may not disclose inside information to others unless this is done as part of the ordinary performance of work, profession or tasks and the recipient is bound by a secrecy obligation⁴.
- 5.4.3 Under the Securities Markets Act, inside information means information of a precise nature relating to a security subject to regulated trading or multilateral trading in Finland which has not been made public or which otherwise has not been available in the markets and which is likely to have a material effect on the value of the security concerned or other securities connected with it. Material information means information that investors acting in a rational manner would probably use as a basis for their investment decisions. Information will remain inside information until it is made public or becomes otherwise accessible.
- 5.4.4 The audited company is obliged to disclose inside information to a public servant of the National Audit Office so that an audit included in the audit plan approved by the National Audit Office can be conducted. The public servants of the National Audit Office are by law obliged to keep the information secret. As a rule, a company will notify the National Audit Office if the documents disclosed to the National Audit Office contain inside information.

- 5.4.5 The public servant receiving the documents must ascertain that the documents are handled with the necessary care from the start of the process. The documents must be classified, marked, kept and handled in accordance with the information security regulation of the National Audit Office.
- 5.4.6 Inside information is handled in accordance with the instructions for dealing with inside information, which provide general instructions supplementing this manual.

5.5 Reliability of the audit evidence

- 5.5.1 The conclusions reached on the basis of the audit must be founded on the audit design and systematic methods and adequate and convincing evidence on the basis of which it has been possible to reach the conclusions presented in the audit in a reliable manner.
- 5.5.2 The work carried out by the internal auditor, an external auditor and an outside expert can be used in the audit as part of the evidence. Before the work carried out by the auditors referred to above is used as audit evidence, the reliability and relevance of the information from the perspective of the audit performed by the National Audit Office must be established. It must also be verified that the internal auditor and the external auditor have observed generally approved professional standards and requirements and that the audit procedures have been in accordance with the principles of good administration. Correspondingly, when the work of another expert is used as evidence, it must be verified that the work carried out by the expert has been performed in a knowledgeable and reliable manner and that the principles of good administration have been observed.
- 5.5.3 In attestation engagements, appropriate audit evidence that is relevant from the perspective of the audit question, that is reliable in terms of its content and sources and that has been gathered from more than one source must be available so that in terms of its quality and quantity the evidence is sufficiently broad-based and comprehensive and would allow another expert to reach the same conclusion on the basis of the evidence.
- 5.5.4 In attestation engagements, more detailed requirements concerning the reliability and adequacy of the evidence depend on whether the aim of the audit is to obtain reasonable assurance or limited assurance.
- 5.5.5 In audits resulting in an audit opinion expressing reasonable assurance, there must be an adequate amount of reliable evidence for ensuring that the National Audit Office may, with reasonable assurance, state that the audited final accounts information, calculations concerning the structural deficit and other information and activities are in accordance with the audit criteria. In such cases, the National Audit Office also assumes responsibility for inappropriate conclusions concerning the compliance of the audited information or activities with the audit criteria. For this reason, it is usually required that the evidence should be more qualitatively weighty and gathered from more sources than in than limited assurance audits.
- 5.5.6 Limited assurance audits must contain reliable evidence so that it can be established that no material misstatement has been discovered in the compliance of the subject matter with the audit criteria. Assertions concerning the audited entity and analysis and testing of the functioning of the controls verifying their implementation and samplings assessing the implementation of the assertion can be used as evidence in attestation engagements. If it is a question of an assertion, matter or control that is material from the perspective of the audit opinion and if the misstatement

discovered in sampling and testing is of systematic nature or if there is a higher than small likelihood that it can reoccur in the audited entity, there is enough evidence for the National Audit Office not to issue an opinion stating that the audit criteria have been met.

- 5.5.7 In direct reporting engagements, reliability requires that an experienced outside expert must, on the basis of the audit reporting and other audit documentation, be able to ascertain that the conclusions are based on a comprehensive, thorough and analysis-based consideration in which uncertainty factors and interpretation-based decisions are openly acknowledged.

5.6 Evidence and analysis

- 5.6.1 Reliability of the audit can be improved by combining audit evidence and methods and evidence drawn from various sources.
- 5.6.2 As a rule, both attestation and direct reporting engagements should contain both qualitative and quantitative audit evidence and analysis.
- 5.6.3 The audit evidence must be examined in a systematic manner. In direct reporting engagements, audit reporting must be on the basis of systematic examination of the audit evidence, while in attestation engagements, at least the working papers included in the archived audit documentation must be prepared on this basis.
- 5.6.4 The audit questions must be put so that answering them will generate added value and the questions can be answered in a reliable manner.
- 5.6.5 Cumulative knowledge and experience of the audited entity can be used in the prioritising of the audit. Prioritising of the audit must be well-grounded and documented, as laid out in the manuals for each audit type. Audit conclusions may not be based on cumulative knowledge and experience.
- 5.6.6 A qualitative analysis is made in a systematic, objective and well-thought-out manner so that there is no further added value of material nature available for interpreting the subject matter and a qualitative analysis will provide relevant additional information when the subject matter is interpreted on the basis of the audit criteria. Qualitative analysis methods include the document analysis in which official documents or other material are evaluated on the basis of the audit criteria, or process or risk analysis.
- 5.6.7 The manner in which oral testimony is used depends on the aims concerning its use. If oral testimony is used for examining background information, it can be obtained by posing open questions in a discussion setting. If the aim is to use oral testimony as audit evidence serving as a basis for conclusions, the interviews should be conducted and the material based on them reviewed and documented systematically in such a manner that the reliability requirements for reported interview-based conclusions are met.
- 5.6.8 Conclusions based on oral testimony should be verified on the basis of the multisource principle.
- 5.6.9 Auditors have a critical approach to their work and auditing involves continuous observations and analysis. This means that development trends or ratios concerning qualitative or quantitative audit evidence are compared with what should be considered logical on the basis of other information, while any deviations are also established. At the end of the audit, the conclusions are proportioned to the role of the audited entity in central government finances.

- 5.6.10 Management representation letter is a notification submitted by the management of the audited entity stating that the management has provided the auditors with full details and that the management has also in other respects met the requirements concerning the preparation of the final accounts and other reporting. Management representation letters are only used in situations specifically mentioned in manuals for each audit type.
- 5.6.11 In direct reporting engagements, the aim is to prepare the audit design so that in order to obtain answers to the audit question the audit evidence can also be analysed by applying quantitative methods.
- 5.6.12 The content and scope of the detailed audit measures can be on the following basis:
- the audited entity is audited in full (all transactions) or a recalculation covering the information is carried out,
 - only specific subject matter is audited,
 - a limited sample of the audited entity is audited on the basis of an appropriate and reliable sampling method,
 - in attestation engagements, events and transactions describing the functioning of assertions and controls supporting them are audited to the extent that in the audit conclusions on the general applicability of the assertions can be made.
- 5.6.13 The method of selecting the applicable audit evidence is specified in the audit-specific project plan in accordance with audit manuals for each audit type (in performance audit and fiscal policy audits, in the preliminary review).
- 5.6.14 In direct reporting engagements, statistical methods are applied to draw conclusions on quantitative audit evidence.
- 5.6.15 Audit evidence is analysed using computer-aided applications as decided by the National Audit Office.

5.7 Audit documentation

- 5.7.1 Audit documentation contains the evidence of the grounds for the opinions and the conclusion concerning the achievement of the overall audit objective. The documentation also presents the evidence showing that the audit has been planned and conducted in accordance with the manuals of the National Audit Office. This allows the person deciding on the presentation of the audit report to use the documentation as a basis for determining the issues and audit evidence on which the audit report and decision on issuing are based.
- 5.7.2 The public servants of the National Audit Office that have been involved in the planning and performance of the audit also review material other than that referred to in section 5.7.1 above. Only the audit evidence referred to in that section that is relevant to the conclusions made by the public servant presenting the audit and the decision-maker and the evaluation of their reliability is included in the audit documentation that is archived and classified as a official document.
- 5.7.3 The audit documentation is prepared so that it also serves the following purposes:
- It helps in the planning and carrying out of the audit.
 - It helps the parties responsible for steering and supervision to steer and supervise the audit work and to meet their obligations concerning the carrying out of the work.
 - It preserves information that will also be relevant to future audits.
 - It facilitates the conduct of quality assurance reviews.

- 5.7.4 The public servant preparing the audit must prepare sufficiently comprehensive audit documentation so the person deciding on the submission of the audit report on the basis of a presentation or an experienced outside expert that has no prior knowledge of the audit concerned is able to form an opinion on the following:
- type, timing and scope of the audit measures carried out with the purpose of complying with the requirements (audit manuals) of the National Audit Office
 - results of the audit measures and the audit evidence obtained in the engagement
 - relevant matters raised during the audit, conclusions concerning them and the important decisions based on professional judgement made in the reaching of these conclusions.
- 5.7.5 The person responsible for coordinating the audit must prepare a summary of the quality assurance measures and their results.
- 5.7.6 The audit documentation is prepared in accordance with the instructions of the department or function and kept in accordance with the archiving instructions.
- 5.7.7 Audit documentation shall contain a summary of the audit documentation.
- 5.7.8 The audit documentation must be finalised within 60 days of the signing of the decision under which the audit report has been issued.
- 5.7.9 Audit evidence that is not relevant to the conclusions or opinions is not included in the audit documentation.

5.8 Hearing the audited entity and circulation for comments

- 5.8.1 The audited entity is always provided with an opportunity to be heard before the audit report is issued⁵. Good interaction during the audit is also part of the hearing process.
- 5.8.2 The public servant or other person mentioned in the audit or monitoring report or identifiable on the basis of the report is also heard in person or its is required in a documented manner that the authority concerned or other organisation hears the person in question.
- 5.8.3 It must be clear from the documents supplied to the audited entity during the audit process that they are of temporary and preliminary nature and that supplying of them is not based on any specific decision of an audit department.
- 5.8.4 During the final stages of the audit, the draft audit report is sent to the audited entity (and the ministry responsible for the sector) for comments. The purpose of the circulation for comments is to provide the audited entity with an opportunity to give its view of the reliability of the audit evidence presented as part of the audit and at the same time to verify that there are no misunderstandings in the audit report.
- 5.8.5 It must be clear from the draft audit report submitted for comments that it is a draft document. The request for comments must be unambiguous and set out deadlines for submitting official comments in writing.
- 5.8.6 The persons taking part in the audit review the comments and agree on the additions and corrections to be made in the draft audit report.
- 5.8.7 Reviewing of the comments and the changes made on the basis of them are documented in the audit working papers. The comments and the memorandum on the review of the issued raised in them are published on the website of the National Audit Office simultaneously with the audit report.

6 Audit reporting

6.1 Forms of reporting and general reporting requirements

- 6.1.1 General requirements set for audit reporting include that it must be objective, fair, reliable and transparent. The language used in the reports must be easy to understand and free from vagueness and ambiguity. Visualisations and information graphics can be used to make reporting easier to understand. The conclusions and recommendations must be expressed clearly and lend themselves to practical application. It must be clear from the recommendations and opinions who is responsible for remedial measures.
- 6.1.2 The National Audit Office uses a joint model for long-form reporting, while in some of the attestation engagements, the short-form reporting model is used. Financial audit report is the most common type of standardised short-form report.
- 6.1.3 The template for long-form audit report used by the National Audit Office and the instructions on its content are appended to this manual (Annex 1).
- 6.1.4 The audit report and the annexes to it summarise the audit criteria and the manner in which they are compared against the audit findings. The report must present the audit conclusions and the grounds for them in a systematic and transparent manner.
- 6.1.5 When the audit report is prepared it should be considered that it is primarily intended for the top management of the audited entity (head of agency) and the top management of the ministry steering the process (permanent secretary and the head of the department responsible for the matter). Parliamentary perspective is considered by ensuring that the report is as universally understandable as possible and that its language is accurate.
- 6.1.6 The audit reports are submitted to the audited entities and the ministries steering them for their information and for further measures and, as laid down in the Act on the National Audit Office, to the Audit Committee, Ministry of Finance, the Government Financial Controller's Function and, if necessary to other parties, for their information.
- 6.1.7 The audit reports are published on line on the website of the National Audit Office in the audit report series of the National Audit Office. If considered necessary, an audit report may also be produced in printed form.
- 6.1.8 In most cases, the audit report should be prepared so that
- understanding the audit conclusions on the basis of the reporting does not require special knowledge of the audit methodology used
 - the certainty provided by different audit methods concerning the conclusions and the related uncertainty factors are described in a manner that is easy to understand and free from ambiguity
 - a detailed description of the methodology and any audit evidence are reported in the annexes or are only included in the audit documentation
 - the conclusions presented in the audit are based on the evidence contained in the audit documentation.

- 6.1.9 In audit reporting, a clear distinction should be made between argumentation based on the source material and the analysis carried out by the National Audit Office. This should be done by means of clear references to the source material.
- 6.1.10 When interview-based conclusions on the subject matter are reported, it should always be clearly stated whether it is the question of a conclusion based on interviews conducted by the National Audit Office or a description of the opinions given by the interviewees in their interviews.
- 6.1.11 For reasons of objectivity, the interviews and other material that do not support the conclusions drawn in the audit should also be presented in a balanced manner.

6.2 Situations involving fraud

- 6.2.1 If fraud is discovered in connection with the audit or there are reasons to suspect fraud, the aim should be to ascertain that the matter can be investigated and to avoid any such conduct or activities that might allow the evidence concerning the fraud to be destroyed. The protection against self-incrimination enjoyed by the suspect must be taken into account in the investigation. This means for example that the person suspected of fraud must be notified of his/her right not to assist in the establishment of his/her guilt. Discovering fraud may also lead to the suspension of the audit and a request to the police to investigate the matter.
- 6.2.2 An auditor or other person employed by the National Audit Office that has noted a case of suspected fraud must bring the matter to the attention of his/her supervisor and the head of the department. The last-mentioned person will ultimately decide on any further measures. As a rule, the assessment of fraud and options concerning it requires a legal assessment of the matter. When such matters are considered, the legal counsel of the National Audit Office is contacted.
- 6.2.3 Under the Act on the National Audit Office, reporting a suspected offence concerning central government finances to the police is primarily the responsibility of the management of the central government agency concerned. Reporting the offence is not necessary if, considering the circumstances, the act can be considered minor. The National Audit Office must report an audit-related offence that it has discovered unless the audited entity has already reported it. It is not necessary for the National Audit Office to report the offence if, considering the circumstances, the act can be considered minor.
- 6.2.4 Reports of fraud are handled in accordance with the instructions of the National Audit Office.

6.3 Communicating the audit findings

- 6.3.1 Audit findings are communicated in an open, up-to-date, proactive, objective and easy-to-understand manner ⁶. In audit communications, extensive use is made of different communication channels in accordance with the communications policy of the National Audit Office.

- 6.3.2 The timetables of the audit reports published in the National Audit Office are determined in the calendar of audit reports and reports to Parliament, which is published in connection with the audit plan each year. Should any changes be necessary in these timetables, the head of department will agree upon the new timetables with Auditor General and Communications.
- 6.3.3 The manner of communicating on the audit is determined in the final audit meeting. Public media releases are prepared of all audits and financial audit summaries and their distribution is determined on the basis of the objectives and target groups of the audit and news criteria. A briefing for media representatives and/or a discussion event for stakeholders may also be arranged.
- 6.3.4 For additional instructions on the matter, see also the media policy and communications policy of the National Audit Office.

6.4 Appeals and complaints

- 6.4.1 In general, audit reports may not be appealed against. Audit reports may, for example, be appealed against in situations where, in connection with the audit, the National Audit Office imposes on a party other than a central government agency the obligation laid down in section 5(1) of the Act on the National Audit Office to provide notification of the measures that have been taken on the basis of the cautions issued in the audit report. Instructions concerning claim for a revised decision must be appended to such a decision, while the decision concerning the claim made by the National Audit Office must contain instructions on how to submit an appeal to an administrative court.
- 6.4.2 Instructions on how to submit an appeal to the Supreme Administrative Court must be appended to a decision by the National Audit Office to impose or enforce a penalty payment. Instructions on how to submit an appeal to the Supreme Administrative Court must be appended to a decision by the National Audit Office that has been made under the Act on the Openness of Government Activities. Instructions concerning claim for a revised decision must be appended to a decision on the imposition of a fee under the Act on the Openness of Government Activities.
- 6.4.3 The audited entity may submit a complaint concerning the audit to the National Audit Office. Such matters are considered by a department or persons that are outside the organisation of the audit department in question.
- 6.4.4 At the request of the audited entity, the National Audit Office may, by the decision of the Auditor General, request the agency's scientific council or quality board to give an opinion on the application of good auditing practice or issues concerning the reliability of the methods and knowledge formation used in the audit.

7 Follow-up and learning organisation

7.1 Purpose and principles of follow-up

- 7.1.1 Follow-up is part of the audit process and has the same legislative basis as the audit itself. Follow-up is not auditing but a matter of monitoring changes taking place in the audited entity.
- 7.1.2 National Audit Office monitors the manner in which the conclusions and recommendations set out in its audits are implemented. Follow-up promotes the effective implementation of the audit comments and provides the agency, Parliament and the Government with feedback on the effectiveness of the audit. At the same time, the National Audit Office also works to establish that the audit process has helped to promote learning in society at large, in the audited entity and the National Audit Office and in this manner the prerequisites for good administration and sustainable and successful management of finances.
- 7.1.3 In the follow-up, the National Audit Office determines whether the measures taken on the basis of the audit observations and comments have improved the state of the audited matters and the audited entities. The audited entities must be given enough time to implement the comments.
- 7.1.4 The follow-up of comments carried out by the National Audit Office has four main purposes:
- it increases the likelihood of the opinions being implemented and in this way also helps to make the audits more effective
 - it supports decision-making of the Government and Parliament by producing follow-up information utilised by the public administration and Parliament
 - it supports the evaluation of the effectiveness and activities of the National Audit Office by providing an assessment basis for evaluating the agency's activities and performance
 - it provides incentives for learning and development and contributes to better knowledge and better practices in the agencies.
- 7.1.5 Follow-up serves as a tool for monitoring and evaluating the effectiveness of the audit activities. The remedial and development activities resulting from the audits and their other effects are reported to Parliament.
- 7.1.6 In follow-up, the focus is on examining whether the audited entity has paid enough attention to rectifying the problem. In follow-up, the National Audit Office examines the recommendations and problems that are still of material importance at the time of the follow-up. In follow-up, attention is also on other ways of solving the problems and the unintended effects of the audits, as necessary.
- 7.1.7 National Audit Office may continue the follow-up if the audited entity has not taken adequate measures to remedy the problems. As a result, the National Audit Office may also start a new audit on the topic.
- 7.1.8 The follow-up and its findings are documented. The audited entity required to take measures may also be provided with written feedback on the follow-up.
- 7.1.9 By carrying out follow-ups, the National Audit Office demonstrates to the audited entity and Parliament that it monitors the audited entity and also takes an interest in the state of the matter after the audit itself.

- 7.1.10 Follow-ups involve the sharing of expertise and knowledge and the aim is that the audited entities will improve their operating practices.

7.2 Learning organisation

- 7.2.1 The National Audit Office is a learning organisation that is capable of generating, acquiring and transferring knowledge and changing the way in which operates on the basis of new knowledge and ideas. After each audit we ask ourselves: What did we learn from this audit?
- 7.2.2 Feedback is requested systematically on the audit process and on the success of the interaction between the audit team and external parties during the audit. Feedback is an important part of the continuous development of competence and interaction and a management tool in the National Audit Office. Feedback on the audit and monitoring personnel is requested at least every two years. The department responsible for the audit or the head of function makes more specific decisions on the focusing and timetable of the feedback and other details of the manner in which the feedback is collected. The management group of the National Audit Office coordinates the feedback questionnaires of different departments and functions, while the Executive Office coordinates the technical aspects of the feedback collection process. The feedback on the public servants of the National Audit Office is given to the persons in question for their information.

8 Quality control system

8.1 Quality policy

8.1.1 The quality policy set out in the strategy of the National Audit Office gives the management view of the agency's operational and performance quality targets and the prerequisites for achieving them. The quality control system is built on this basis.

8.2 Quality policy - principles and responsibilities

8.2.1 Quality assurance in audit operations is a cross-cutting function in all stages of the audit.

8.2.2 The quality control system covers the principles and practices of quality control. Development of quality in the National Audit Office is in accordance with the principles of a learning organisation. The quality control system governing the National Audit Office's audit activities is described in the agency's operating manual.

8.2.3 The task of the quality team appointed by the National Audit Office is to look after the coordination and development of the quality control system, which includes quality policy, quality assurance, quality reporting, national and international comparisons, as well as preparation of external evaluations.

8.2.4 Sector-specific quality control arrangements and detailed procedures are the responsibility of the departments and functions of the National Audit Office. They are responsible for ensuring that

- there are clear responsibilities and documentation concerning quality matters
- quality assurance and reporting practices are in accordance with general guidelines
- quality risks are identified
- targets for quality improvements are set and monitored
- procedures and practices are continuously developed on the basis of feedback.

8.2.5 The final accounts of the National Audit Office contain a statement concerning the assessment and approval of internal control and risk management. As part of the statement, the National Audit Office also sets out its policy concerning the management of quality risks.

8.2.6 When audit plans are prepared the management group of the National Audit Office assesses the audit risks contained in the plan and makes decisions on managing them. The quality coordinator appointed by the Auditor General assists, by providing expert assessments, the agency's top management in the coordination and development of the identification and management of quality risks. The quality team of the National Audit Office produces an evaluation of the implementation of the quality targets that serves the preparation of the agency's audit plan and the monitoring and setting of performance targets.

- 8.2.7 When an audit project is started, the adequacy of the competence, working hours and resources required in the audit engagement, prerequisites for applying the principles of ethical auditing and the management of the most important audit-related quality risks are assessed as part of the preparation of the preliminary review or project plan.
- 8.2.8 In its quality control, the National Audit Office gives high priority to adequate management and guidance of each audit engagement in order to ascertain that the carrying out of the audit in a reliable and objective manner in accordance with the instructions and the progress of the audit in accordance with the plans are regularly monitored and that the measures ensuring high-quality and successful progress of the audit are taken without delay.
- 8.2.9 A coordinator and/or quality assurance official is appointed for each audit so that before the audit report is presented for decision-making it can be guaranteed that the audit has been performed in accordance with the audit manual. Quality assurance can be carried out as peer review.
- 8.2.10 Ex-post monitoring and assessment of the audits and audit documentation are carried out as part of quality assurance. The purpose is to learn from the audits already performed and the experience accumulated during them, to ensure the implementation of the quality control instructions and to achieve quality improvements. More detailed procedures are laid out in the audit manuals for each audit type.
- 8.2.11 The quality control system is supplemented by external quality assessment. The audit activities of the National Audit Office are regularly evaluated by means of internal and external assessments and the results are examined on the basis of the targets set.

- 1 Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the implementation of Treaty provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks (869/2012).
- 2 More detailed provisions on the organisation and content of internal control are laid down in sections 69 and 70 of the State Budget Decree. Section 65 of the decree contains provisions on the issuing of the assessment of the appropriateness and adequacy of internal control and related risk management by the top management. Internal control performed as part of the processes of central government finances should be defined in more detail in the financial rules of the central government accounting agencies and in accordance with the instructions issued by the State Treasury.
- 3 Lays down the rules of procedure, job descriptions, recruiting manual, development discussions, performance appraisals, pay system and co-determination procedure.
- 4 Chapter 14, section 2(2) of the Securities Markets Act.
- 5 Hearing as a fundamental right, as laid down in section 21 of the Constitution of Finland.
- 6 Audit communication policy is based on the principle of right of access to information laid down in section 12 of the Constitution of Finland, Act on the Openness of Government Activities (621/1999) and the Communications Decree (Decree on the Openness of Government Activities and on Good Practice in Information Management; 1030/1999). The communications recommendation for central government is also taken into account in audit communications.

Annex 1: Reporting manual



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