Audit and monitoring instructions of

the National Audit Office of Finland

Financial Audit Manual

D/627/04.08.00/2021

8.12.2020

Contents

1 Familiarise yourself with this manual and your duties

1.1 Description of the manual

1.1.1 This manual steers the financial audits conducted by the National Audit Office (NAOF). The Financial Audit Manual is part of a set of norms on audits that is governed by the Act on the National Audit Office. The manual belongs to a larger set of guidelines that includes the following:

- the NAOF's general guidelines on the NAOF's audit and expert activities as a whole,
- this manual, which primarily describes the financial audit process, audit technique, general audit procedures and requirements for the audit procedures,
- appendices and working instructions specifying this manual, as well as the plans for the audit cycle and any other guidelines.

1.1.2 This Financial Audit Manual provides an overall idea of what you should do and understand when conducting a financial audit at the National Audit Office. Appendices to the Financial Audit Manual are more specific instructions to be applied in the audits of specific areas. There are also separate work instructions for different audit areas.

1.1.3 Everyone involved in financial audits participates in developing and maintaining the Financial Audit Manual. The auditor shall report any observed deficiencies or errors in the Financial Audit Manual to the person who directs and supervises the audit or the person who is in charge of the development and maintenance of the Financial Audit Manual.

1.1.4 The implementation of audits is based on the team model introduced in 2020. According to the team model, three teams always participate in the financial audits of accounting offices: both of the teams of centralised audit and one customer team. The teams of centralised audit are the audit team of budget compliance and the audit team of shared processes.

1.1.5 The audit teams have different working methods. The customer teams plan and implement an audit of an accounting office taking into account the audit conducted in a centralized manner. The centralized teams plan and implement audit work in their responsibility area as a whole.

1.1.6 This manual has been drawn up especially from the perspective of the work done in the customer teams, but the manual is also applicable, as appropriate, to the work done in the centralized audit teams.

1.1.7 From the perspective of the customer teams, ‘audited entity’ refers in this manual particularly to an individual accounting office . From the perspective of the audit team of shared processes, ‘audited entity’ refers primarily to centralized processes, which are the responsibility of the management of the shared services centre. The audit of the budget is targeted at the state budget.

1.2 Purpose of a financial audit

Target

1.2.1 The purpose of a financial audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of opinions specified in the appendix to the Financial Audit Manual in the financial audit report.

Requirements

1.2.2 The auditor shall apply this manual to financial audits. If some of the requirements are not relevant due to the circumstances, the auditor shall carry out alternative audit procedures to ensure that the requirements for the audit are met.

Audit procedures

1.2.3 Audit procedures that are continuously specified based on the audit risk are carried out during an audit to obtain audit evidence. The audit procedures include substantive procedures (tests of details and analytical substantive procedures), as well as tests of control. The auditor shall obtain sufficient appropriate audit evidence during an audit, and the opinions, conclusions and their justification presented in audit reports shall be traceable to the evidence.

1.2.4 The auditor shall obtain reasonable assurance about whether the financial statements are free from material misstatement. However, a negative opinion based on limited assurance is issued of operational efficiency. The auditor shall exercise professional judgement and professional scepticism. The auditor assesses the risk of material misstatements in the financial statements, plans and performs appropriate audit procedures, and issues a financial audit report that is based on the audit procedures carried out and the observations made in connection with them.

1.2.5 The NAOF conducts financial audits independently, professionally and in a controlled manner. The person who directs and supervises an audit shall review the audit work and the documentation. The work shall be supervised regardless of the auditors' competence. The supervision shall cover both substantive issues and the use of audit methods and other audit procedures in order to ensure that there are the necessary prerequisites for presenting conclusions, opinions and their justification in the audit reports. Quality control of financial audits is dealt with in a separate manual.

1.2.6 The auditor shall comply with relevant ethical requirements, including those pertaining to independence. The auditor shall plan and perform an audit with professional scepticism, recognising that circumstances may exist that cause the financial statements to be materially misstated.

1.2.7 Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with this manual.

1.2.8 Financial audits conducted by the NAOF also aim to promote good governance. In addition to the actual audit, this is realised by audit-related interaction with the audited entity and by expert work related to financial audit.

2 Plan the audit engagement as a whole

2.1 Plan the audit

Target

2.1.1 The objective of the auditor is to plan the audit so that it will be performed in an effective manner by the set deadline.

Requirements

2.1.2 An audit shall be performable in compliance with this manual. The starting point of planning at the NAOF is continuation of the audit engagement. The auditor shall prepare a project-specific financial audit plan. The plan shall include a description of the nature, timing and extent of the planned audit procedures. The planning shall also take into account the audit work conducted in a centralised manner. The auditor shall update and change the audit plan as necessary during the course of the audit. A separate document "Changes to the audit plan" shall be prepared of all material changes.

Audit procedures

2.1.3 The preparation of project-specific financial audit plans is based on the NAOF's planning documents. These documents form the planning entity. The NAOF's planning documents include decisions on the auditors who will participate in the audit and the resources available to them in material respects. The financial audit team model, according to which an essential part of the audit work is conducted by centralised teams, is also part of the overall audit strategy. Therefore, a separate overall audit strategy as described in the ISSAI standards is not prepared for financial audits conducted by the NAOF. Instead, the related matters are taken into account, where appropriate, in the above-mentioned planning documents and risk analysis.

2.1.4 Planning is not a separate audit stage but a continuous and iterative process that usually starts upon or in connection with the completion of the previous financial audit and continues until the audit engagement is completed. The aim of audit planning is to

- integrate the audit engagement plan with the NAOF's overall plan,
- document the time and resources available for the audit, the audit method and more specific audit areas,
- document the characteristics of the audited entity in greater detail and their impact on the audit engagement, as well as to assess and analyse the risks related to the audit engagement.

2.1.5 When obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit. The auditor shall recognise the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The auditor shall not rely excessively on the auditor's past positive experience of the honesty and integrity of the entity's management and senior management. However, unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If the auditor has reason to believe that a document may not be authentic, the auditor shall investigate further. Where responses to inquiries of management or senior management are inconsistent, the auditor shall also investigate further.

2.1.6 Adequate planning benefits a financial audit in several ways, including the following:

- helping the auditor to devote appropriate attention to important areas of the audit,
- helping the auditor identify and resolve potential problems on a timely basis,
- helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner,
- facilitating the direction and supervision of the audit,
- assisting, where applicable, in coordination of work done by the auditors of the audited entity and experts.

2.2 Ensure the prerequisites for impeccable completion of the engagement

Target

2.2.1 At the beginning of an audit, the NAOF shall ensure the prerequisites for the audit, such as the independence of the auditors and that all parties are aware of the responsibilities and duties of the auditors and the audited entity.

Requirements

2.2.2 The auditors who participate in the audit and the persons who direct and supervise the audit shall be involved in planning the audit.

Audit procedures

2.2.3 The auditor shall be familiar with the audited entity and its operating environment, including any and all services of the service organisation that are relevant to the audit.

2.2.4 The auditor shall be familiar with the audited entity to be able to plan the audit and perform it effectively. The auditor shall regularly monitor the operations of the audited entity. As regards the audited entity and its operating environment, the auditor shall obtain an understanding of the following:

- relevant industry, regulatory and other external factors, including the budget,
- the entity's operations, governance structures, types of investments, organisation and financing,
- the entity’s selection and application of accounting policies, including the reasons for changes thereto,
- the entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement,
- accounting office duties and related accounting systems and other financial and personnel administration systems, including all systems that provide information for these systems, as well as financial rules and related guidelines, regulations, service agreements and other agreements,
- systems related to the ones listed in the preceding item that the audited entity uses for reporting in order to implement accountability,
- political processes that influence decision-making, regulations, knowledge of Government programmes, public interest, the nature of state ownership and the manner in which governance structures are determined,
- duties handled by the services centre.

2.2.5 At the audit planning stage, the goal shall be the identification and utilisation of any relevant information that is reasonably available. The auditors shall be involved in planning the audit, including participating in the discussion within the audit team and, if necessary, between audit teams. This is to make sure that the planning draws on the experience and insight of all parties.

2.2.6 In individual audit projects, discussions with the audited entity help to ensure that the management of the audited entity is aware of the audit criteria used in the financial audit and an overview of the planned extent and timing of the audit. Before the audit is launched, the audit topic and audit criteria shall be discussed with the audited entity. The discussion, including the participants and the conclusions reached, are documented in the working papers. Interaction with the audited entity is dealt with in more detail in the general part of the NAOF's audit manual.

2.2.7 When the audited entity has an internal audit function that is relevant for the financial audit, the auditor shall decide whether the auditor will use the results of the work of the internal audit function. If the auditor decides to use the said results, the auditor shall further decide to which extent the results can be utilised and how their use will modify the nature, timing and exent of the audit procedures.

2.2.8 At the beginning of the audit engagement, the auditor shall evaluate compliance with relevant ethical requirements and also strive to identify any other events or circumstances that could hamper the planning and completion of the audit. The circumstances shall continue to be assessed throughout the audit.

2.2.9 If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the extent of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation. If management refuses to remove the limitation, the auditor shall communicate the matter to management and, if necessary, to the ministry steering the audited entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

2.2.10 By conducting discussions with management and senior management, the auditor shall strive to remove the limitations that prevent the auditor from performing the audit procedures and that therefore prevent the NAOF from providing an opinion in the audit report as intended. The NAOF is entitled by law to obtain information for an audit, and the NAOF may impose a conditional fine in order to obtain information, if necessary.

2.3 Determine materiality

Target

2.3.1 The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

Requirements

2.3.2 The concept of materiality is applied by the auditor both in planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the financial audit report. In planning the audit, the auditor makes judgements about the size of misstatements that will be considered material. If necessary, the auditor shall revise their definition of materiality during the audit.

Audit procedures

2.3.3 Materiality shall be determined in such a manner that it is likely to raise matters that will influence the opinions in the audit report.

2.3.4 In the financial reporting framework, misstatements, including omissions, are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In the financial audits conducted by the NAOF, materiality is also connected with accountability, according to which misstatements, including omissions, are considered to be material if they could reasonably be expected to influence the picture the user of the financial statements gets of the implementation of the audited entity's accountability. Using the concept of materiality in a financial audit emphasises the fact that the information included in financial statements is important for the users of the financial statements.

2.3.5 The determination of materiality is always based on a benchmark. In determining materiality, it is important to take into account the need for different definitions because the NAOF's financial audits include different opinion areas. In the case of a financial audit of a public sector organisation, benchmarks that may be appropriate include total expenses or assets.

2.3.6 Materiality is often determined based on quantitative factors, but the inherent nature or characteristics of an item may also render a matter material. Examples of such factors include visibility, sensitivity, public interest, severity, excess spending or lack of funds. Examples of factors that can be considered material regardless of their small financial value include fraud, intentional non-compliance with laws and regulations, submission of false or defective information and any actions that have no legal basis. When any non-compliance with laws and regulations is assessed, other issues to be examined include the audit criteria, circumstances, cause and effects.

2.4 Identify material risk areas and risks

Target

2.4.1 An audit covers all matters where errors would lead to a modified opinion in the audit report.

Requirements

2.4.2 The financial audits conducted by the NAOF are risk-based. The customer teams make a risk analysis specifically for each accounting office, whereas the centralised teams make a risk analysis of the whole. Risk analyses include risk identification, risk assessment and risk control assessment. The risk analysis shall be made at the beginning of the audit, it shall be updated as necessary and its validity shall be reviewed when the financial statements are audited.

- The auditor shall focus on the risks that are material to the audit. The auditor shall identify and assess the risks of material misstatement in the opinion areas and focus on these risks in the audit.

Audit procedures

2.4.3 The process of identifying material misstatements starts with the auditor forming an opinion about the audited entity and ends with the NAOF publishing its audit report for the fiscal year audited. The purpose of risk identification is to obtain information that the auditor needs in order to plan the audit procedures and ensure that the financial statements do not include any material misstatements and that the budget has been complied with.

2.4.4 In the financial audits conducted by the NAOF, the audited entities are usually classified as low-risk entities, and a separate entity-level total risk rating is not calculated. However, individual audited entities differ from each other substantially, and individual areas audited at different entities involve substantially different risks of different sizes.

2.4.5 In representing that the financial statements are in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding recognition, measurement and presentation of the financial statements and disclosures.

2.4.6 Determining the nature, timing and extent of planned risk assessment procedures, and the further audit procedures, as they relate to disclosures is important in light of both the wide range of information and the level of detail that may be encompassed in those details. Further, certain disclosures may contain information that is obtained from outside of the general and subsidiary ledgers, which may also affect the assessed risks and the nature, timing and extent of audit procedures to address them. Such information obtained from outside the general and subsidiary ledgers includes, in particular, the note on liabilities in the financial statements.

2.4.7 Risks shall be identified continuously and assessed systematically. The auditor shall

- identify risks throughout the process of obtaining an understanding of the entity,
- assess the identified risks, and evaluate whether they, either alone or jointly with others, affect an opinion area extensively,
- relate the identified risks to what can go wrong at the assertion level, taking into account of relevant controls that the auditor intends to test,
- consider the likelihood and materiality of misstatement.
- The risk analysis utilises the assertions specified in the financial audit guidelines: accuracy, completeness, cut-off, existence, occurrence, classification, presentation, rights and obligations, as well as accuracy, valuation and allocation. Compliance with the budget is dealt with as a separate assertion in the risk analysis (compliance with budget). Assertions are discussed in greater detail in the appendix to this manual.

2.4.8 The identification of risks shall cover the activities of service organisations. In a financial audit conducted by the NAOF, outsourced financial and personnel administration duties are audited based on a separate plan in a centralised manner. The audit covers all of the accounting offices and funds that are clients of the services centre. It is important that the accounting office's financial auditor understands the interfaces between front-end systems and the main accounting system. An audit of an accounting office may be focused on changes of accounting as a whole and changes in the financial rules.

2.4.9 The identification and assessment of risks shall cover compliance with the budget and all key budget provisions.

2.4.10 Risk identification and assessment shall cover related party relationships and transactions. During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions.

2.4.11 In documenting the identification of risks, the auditor shall focus on matters the auditor plans to audit and on justifying the decisions made. Documentation of the identification of material misstatements shall include, in an appropriate manner, discussions within the team, all risks of material misstatements that will be audited and the controls about which the auditor has obtained an understanding.

2.4.12 The auditor shall include the following in the audit documentation of the auditor's understanding of the entity and its environment:

- the significant decisions reached during the discussion among the engagement team regarding the susceptibility of the audited area of the entity to material misstatement due to fraud,
- the identified and assessed risks of material misstatement due to fraud at the opinion area level.

2.5 Assess material risks

Target

2.5.1 The auditor shall assess the risks material to the audit.

Requirements

2.5.2 The auditor shall assess the risks of material misstatement at the opinion area level. In order to obtain the knowledge base needed to determine the audit procedures that will provide the necessary evidence, as well as the required extent and timing, the auditor shall assess the risks of material misstatement at the opinion area level.

2.5.3 As part of the risk assessment, the auditor shall determine whether any of the risks identified are, in the auditor's judgement, a significant risk. In exercising this judgement, the auditor shall exclude the effects of identified controls related to the risk. In the financial audits conducted by the NAOF, significant risks are examined particularly from the viewpoint of the final central government accounts. In addition, in certain cases, a risk may also be significant from the viewpoint of the accounting office's financial statements.

Audit procedures

2.5.4 The risk assessment procedures shall include the following:

- inquiries of management and of others within the entity who in the auditor's judgement may have information that is likely to assist in identifying risks of material misstatement in the opinion area due to fraud or error,
- analytical procedures; these procedures can be used to identify unusual transactions, quantities, ratios, trends and deviations, for example,
- observation of the operations of the audited entity and its office and production premises, as well as inspection of documents, management reports and minutes to obtain confirmation for the information obtained through interviews, for example.

2.5.5 The auditor uses professional judgement to determine the extent of the understanding required.

2.5.6 In exercising judgement as to which risks are significant risks, the auditor shall consider at least the following:

- whether the risk is a risk of a fraud,
- whether the risk is related to recent significant economic, accounting or other developments,
- the complexity of transactions,
- whether the risk involves significant transactions with related parties,
- the degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty,
- whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual, and
- whether management has ignored the controls.

2.5.7 Professional scepticism shall always prevail in engagement team discussions on the risks of fraud. The auditor shall assess the risks of fraud and discuss them with the engagement team. The assessment shall always consider the possibility of management to ignore the controls. Furthermore, the engagement team discussion shall include specific consideration of the susceptibility of the opinion area to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions. The risk of fraud related to revenues shall be assessed to a sufficient extent. Assuming that there is always a risk of fraud related to revenues, the auditor shall assess which revenue types and business transactions involve risks. The overall risk related to revenues is reduced by the fact that it does not usually involve the risk of data manipulation.

2.6 Assess the arrangement of internal control and the control of material risks

Target

2.6.1 The auditor shall obtain an understanding of internal control and assess the control risk of material risks.

Requirements

2.6.2 The auditor shall form an opinion of internal control relevant to the financial audit. If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the accounting office's controls relevant to that risk.

Audit procedures

2.6.3 An understanding of internal control will help the auditor to identify any misstatements of different types and factors that may influence material risks, as well as to plan the nature, timing and extent of the audit procedures. Internal control consists of the following: the control environment, the risk assessment process, information systems and related operating processes, control activities and the monitoring of controls. These are defined in more detail in the section about concepts in this manual.

2.6.4 The auditor shall identify the controls related to the material risks and decide whether they are effective. The auditor shall:

- identify controls relevant to the risks throughout the process of obtaining an understanding of the entity,
- relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test, and
- consider the likelihood and materiality of misstatement.

2.6.5 Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

2.6.6 The identification of controls and the assessment of the effectiveness of controls shall cover the relevant activities of the service organisation. In the financial audits conducted by the NAOF, outsourced financial and personnel administration duties are audited in a centralised manner.

2.6.7 Information obtained by performing risk assessment procedures and related activities may be used by the auditor as audit evidence.

2.7 Decide on preliminary audit procedures

Target

2.7.1 The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Requirements

2.7.2 The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statements level.

2.7.3 The auditor shall design and perform audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement.

2.7.4 In designing the further audit procedures to be performed, the auditor shall consider the reasons for the assessment given to the risk of material misstatement, including the likelihood of material misstatement due to the inherent risk, and obtain audit evidence to determine whether the key controls are operating effectively if the auditor intends to rely on them. The auditor shall obtain more persuasive audit evidence, the higher the auditor's assessment of risk.

2.7.5 In designing the audit procedures, the auditor shall take into account the material risks of misappropriation of funds and fraudulent financial reporting. The auditor shall determine overall responses to address the risks of material misstatement due to fraud at the financial statement level.

2.7.6 If the auditor has determined that an assessed risk is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

Audit procedures

2.7.7 Overall responses to address the assessed risks of material misstatement may include emphasizing to the engagement team the need to maintain professional scepticism, providing more supervision, incorporating additional elements of unpredictability in the selection of further audit procedures to be performed, or making general changes to the nature, timing or extent of audit procedures.

2.7.8 The assessment of the risks of material misstatement at the financial statements level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment.

2.7.9 The auditor's assessment of the identified risks provides a basis for considering the appropriate audit approach for designing and performing audit procedures. For example, the auditor may determine that only by performing tests of controls may the auditor achieve an effective response to the assessed risk; performing only substantive procedures is appropriate for particular assertions; or a combined approach using both tests of controls and substantive procedures is an effective approach.

2.7.10 The nature of an audit procedure refers to its purpose and type (e.g. inspection, observation or inquiry). Timing of an audit procedure refers to when it is performed, or the period or date to which the audit evidence applies. Extent of an audit procedure refers to the quantity to be performed, for example, a sample size.

2.7.11 The auditor's assessed risks may affect both the types of audit procedures to be performed and their combination. Certain audit procedures may be more appropriate for some risks than others.

2.7.12 The reasons for the assessment given to a risk are relevant in determining the nature of audit procedures. For example, if an assessed risk is lower because of particular characteristics without consideration of the related controls, then the auditor may determine that substantive analytical procedures alone prove sufficient appropriate audit evidence.

2.7.13 The auditor may perform tests of controls or substantive procedures at an interim date or at the period end. The higher the risk of material misstatement, the more likely it is that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end. Particularly when considering the response to the risks of fraud, the auditor may decide to perform audit procedures unannounced or at unpredictable times.

2.7.14 Certain audit procedures can be performed only at or after the period end, for example, agreeing or reconciling information in the financial statements with the underlying accounting records, and examining adjustments made during the course of preparing the financial statements.

2.7.15 The extent of an audit procedure judged necessary is determined after considering the materiality and assessing the risk. In general, the extent of audit procedures increases as the risk of material misstatement increases. However, increasing the extent of an audit procedure is effective only if the audit procedure itself is relevant to the specific risk.

2.7.16 The NAOF's financial auditors have the opportunity to perform extensive tests using computer-assisted audit techniques (CAATs). In addition to information obtained from the accounting system, the auditors shall also strive to obtain information from different front-end systems. The financial audit can be rendered more efficient and effective by combining information obtained from several systems.

2.7.17 The auditor shall consider whether information the auditor has obtained previously is relevant to identifying risks of material misstatement. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances.

2.7.18 A sufficient understanding of internal control shall be obtained whenever substantive procedures alone are not enough to obtain the necessary amount of appropriate evidence, such as when the processing of transactions and the controls of related transactions are highly automated.

2.7.19 If the National Audit Office did not audit the financial statements of an entity in the prior period, the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.

2.7.20 The auditor may make use of the work done by the internal audit function and external experts. The usability of the work performed by the internal audit function and the effects of the work on the audit are discussed in greater detail in the appendix to this manual. If the auditor makes use of the work performed by the internal audit function, the auditor shall include in the audit documentation the conclusions the auditor has made regarding the sufficiency of the work performed by the internal audit function, as well as a description of the audit procedures by which the auditor has assessed the work by an internal auditor to be appropriate for use in the audit. If the auditor is considering the use of an expert in the audit, the auditor should conclude a written agreement with the expert.

2.8 Describe the audit in the project-specific audit plan and the risk analysis

Target

2.8.1 A written project-specific audit plan (incl. risk analysis) describes the audit procedures and their justification.

Requirements

2.8.2 The auditor shall draw up a project-specific audit plan (in the general part of the NAOF's audit manual, “project plan”) according to this manual.

Audit procedures

2.8.3 In drawing up the audit plan, the auditor shall

- identify the characteristics of the engagement that define its extent,
- ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required,

- consider whether knowledge gained on other engagements performed for the entity is relevant,
- consider the audit procedures performed by other audit teams.

2.8.4 The audit plan shall include a description of the general audit procedures and any other material issues on which the implementation of the audit plan is based. The audit plan shall include the following:

- the nature, timing and extent of the audit procedures to be applied, and
- other audit procedures that are required under this manual to be carried out.

2.8.5 The audit plan shall be documented. The auditor shall exercise judgement in case of the documentation. The auditor shall take into account, for example, the nature, size and complexity of the audited entity and its internal control, availability of information from the audited entity, the audit methods and any risk of fraud.

2.8.6 Each person participating in the audit should prepare one or more work plans on the tasks assigned to them. These plans should describe the audit procedures, the data planned to be used and any other issues important for the implementation.

3 Obtain evidence related to the objectives set for the audit

3.1 Audit key controls

Target

3.1.1 The financial audits conducted by the NAOF apply control-based audit procedures whenever possible.

Requirements

3.1.2 When the auditor decides to perform tests of controls, the auditor tests the controls according to this manual and the appendix specifying it.

3.1.3 The auditor shall design and perform tests of controls if the auditor's assessment of risks of material misstatement includes an expectation that the controls are operating effectively or if substantive procedures alone cannot provide sufficient appropriate audit evidence.

3.1.4 When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

Audit procedures

3.1.5 When the auditor has considered the controls to be effectively planned and implemented, the auditor shall make a preliminary assessment of the control risk level. In order to confirm this assessment and determine the final control risk, the auditor shall obtain sufficient appropriate audit evidence, and therefore the auditor shall perform tests of these controls. Based on the tests of the controls, the auditor shall decide whether the auditor can rely on these controls. If necessary, the auditor shall reassess the need to perform more substantive procedures.

3.1.6 The auditor shall decide on the correct timing for the tests of controls. The auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls.

3.1.7 To perform the tests of control, the auditor shall determine how the controls have been implemented, determine dependence of the controls on other controls and determine whether the controls have remained unchanged. In designing and performing tests of controls in order to obtain evidence, the auditor shall

- inquire and verify how the controls were applied at relevant times during the period under audit; how consistently were they applied; by whom or by what means they were applied,
- determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls,
- take into account the fact that more extensive and detailed tests of controls may be needed in the public sector than in the private sector. Tests may also be necessary under circumstances where they would not be performed in the private sector, such as outside the audited entity when the audited entity is part of a wider administrative control environment.

3.1.8 If the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall obtain audit evidence about significant changes to those controls subsequent to the interim period and determine the additional audit evidence to be obtained for the remaining period.

3.1.9 The auditor shall make a justified decision as to whether the auditor can rely on the controls tested during previous audits. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

- the effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process,
- the risks arising from the characteristics of the control, including whether it is manual or automated,
- the effectiveness of general IT controls,
- the effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application, and whether there have been personnel changes that significantly affect the application of the control,
- whether the lack of a change in a particular control poses a risk due to changing circumstances, and
- the risks of material misstatement and the extent of reliance on the control.

3.1.10 If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

3.1.11 Typically, financial audits aim to rely on automated controls of information systems that have been audited during previous fiscal years and found to operate as intended. In audits performed during the following fiscal years, the auditor shall obtain audit evidence in order to determine whether the automated controls have undergone any changes that have affected their effectiveness. The auditor can contact management, for example, or perform a detailed examination of the information system documentation related to the changes.

3.1.12 The auditor’s documentation shall indicate which controls have been tested, on which grounds the tested controls were selected, how the controls were tested, how extensive a data base each control test was based on, when each test was performed and what the results of each test were.

3.2 Decide to which extent you rely on the controls

Target

3.2.1 The auditor knows to which extent the auditor can rely on the tested controls.

Requirements

3.2.2 In designing and performing tests of controls, the auditor shall obtain the more persuasive audit evidence, the greater the reliance the auditor places on the effectiveness of a control.

Audit procedures

3.2.3 The results of the tests of controls shall be analysed, and conclusions about the analyses shall be made. The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the audit of other opinion areas. The general principle in the audits conducted by the NAOF is that, as a rule, the sample sizes shall be kept fairly small when testing controls, whereby even a single deviation can have essential significance on whether the audit can rely on the effectiveness of the control.

3.2.4 When evaluating the operating effectiveness of relevant controls, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls are effective.

3.2.5 The conclusions drawn after the tests of controls shall be reflected in the further audit procedures. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether the tests of controls that have been performed provide an appropriate basis for reliance on the control, whether additional tests of controls are necessary, or whether the potential risks of misstatement need to be addressed using substantive procedures.

3.2.6 The auditor's documentation shall include the justified conclusion reached about the results of the tests of controls and how the conclusion affects the ongoing audit.

3.3 Perform substantive procedures

Target

3.3.1 The auditor uses their judgement to perform sufficient substantive procedures.

Requirements

3.3.2 Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures.

3.3.3 If the auditor has determined than an assessed risk of material misstatement is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

Audit procedures

3.3.4 Depending on the circumstances, the auditor may determine that performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level, that only tests of details are appropriate or that a combination of substantive analytical procedures and tests of details are most responsive to the assessed risks. Appendix 3.2 discusses the analytical procedures according to ISA 520 in more detail.

3.3.5 The extent of substantive procedures may need to be increased when the audit shows that the controls are defective. Increasing the extent of the audit may also be necessary if the auditor observes issues that suggest material misstatements regarding compliance with the budget and the key budget provisions.

3.3.6 If misstatements that the auditor did not expect when assessing the risks of material misstatement are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned nature, timing or extent of substantive procedures covering the remaining period need to be modified.

3.3.7 When planning the tests of details, the extent of the audit is usually considered in terms of the sample size.

3.3.8 The auditor shall assess the reliability of available data. The following issues are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures: source of the information available, comparability of the information available, nature and relevance of the information available and controls over the preparation of the information. Using analytical methods may be useful and appropriate even if the information is not deemed completely reliable.

3.3.9 The financial audits conducted by the NAOF systematically use electronic accounting records in specified form. Such data is usually very reliable and, together with electronic receipts, it makes it possible to conduct an audit efficiently by means of substantive procedures. In practice, such a computer-aided audit is a verifying audit.

3.3.10 The auditor shall consider whether there is any need to request external confirmations. The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence. External confirmation procedures are performed to confirm or request information regarding account balances and their elements. In financial audits conducted by the NAOF, external confirmation can be used on a case-by-case basis if it is considered an efficient audit procedure in view of the materiality and the risk. Audits always use a ‘positive confirmation request’, which is a request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information. A response to a positive confirmation request is ordinarily expected to provide reliable audit evidence.

3.3.11 In most cases, audit evidence from a previous audit’s substantive procedures provides little or no audit evidence for the current period.

3.3.12 Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the auditor will not detect misstatements that may exist at the period end.

3.3.13 When designing and performing substantive analytical procedures in risk assessment, as substantive procedures or otherwise, the auditor shall

- determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatements and tests of details, if any, for these assertions,
- evaluate the reliability of data that the auditor uses when determining the data or ratios with which the auditor compares the results from the analytical methods.

3.3.14 If the auditor identifies significant transactions or related party transactions outside the entity's normal course of business, the auditor shall be aware of the fact that the transactions involve a higher risk of fraud than normal and perform the necessary audit procedures to obtain sufficient evidence.

3.3.15 The auditor’s documentation shall indicate what data has been audited, what transactions from what period of time have been selected to the audit, on what grounds this selection has been made, what has been examined of the transactions, when the audit has been concluded and what the results of the audit are.

3.4 Document the evidence in the financial audit documentation

Target

3.4.1 Appropriate financial audit documentation is prepared in each audit stage.

Requirements

3.4.2 The auditor shall prepare documentation that provides:

- a sufficient and appropriate record of the basis for the financial audit report,
- evidence that the audit was planned in compliance with the NAOF's Financial Audit Manual and the project-specific audit plan.

3.4.3 The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor having no previous connection with the audit to understand:

- the nature, timing and extent of the audit procedures performed to comply with the NAOF's requirements,
- the results of the audit procedures performed, and the audit evidence obtained, and
- significant matters arisen during the audit, the conclusions reached thereon and significant professional judgements made in reaching those conclusions.

Audit procedures

3.4.4 Audit documentation provides evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with the NAOF's Financial Audit Manual.

3.4.5 The general part of the NAOF's audit manual includes the general principles applied to the sufficiency of evidence and the general principles on audit documentation.

3.4.6 Audit documentation serves a number of additional purposes, including the following:

- assisting the engagement team to plan and perform the audit,
- assisting those responsible for supervision to direct and supervise the audit work and to discharge their review responsibilities,

- enabling the engagement team to be accountable for its work,
- retaining a record of matters of continuing significance to future audits,
- enabling the conduct of quality control reviews and inspections,
- enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

3.4.7 The form, content and extent of audit documentation depend on factors such as: the size and complexity of the entity; the nature of the audit procedures to be performed; the identified risks of material misstatement; the significance of the audit evidence obtained; the nature and extent of exceptions identified; the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained; and the audit methodology and tools used.

3.4.8 Audit documentation is prepared in electronic format. Examples of documentation include: work plans, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists and correspondence (including e-mail) concerning significant matters.

3.4.9 Oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

3.4.10 Audit documentation provides evidence that the audit complies with the NAOF's guidelines. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately compliance with matters for which compliance is demonstrated by documents included in the audit file.

3.4.11 Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- matters that give rise to significant risks,
- results of audit procedures indicating that the financial statements could be materially misstated, or a need to revise the auditor’s previous assessment of the risks of material misstatement and the auditor’s responses to those risks,
- circumstances that cause the auditor significant difficulty in applying necessary audit procedures,
- findings that could result in a caution being issued in the audit report.

4 Ensure that the audit evidence is sufficient, draw conclusions and prepare recommendations

4.1 Ensure that the audit evidence is sufficient

Target

4.1.1 The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Requirements

4.1.2 The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. The auditor shall conclude whether sufficient appropriate evidence has been obtained.

Audit procedures

4.1.3 Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. The sufficiency and appropriateness of audit evidence are interrelated. Obtaining more audit evidence cannot compensate for its poor quality.

4.1.4 The auditor's judgement as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following: significance of the potential misstatement, effectiveness of controls, experience gained during previous audits with respect to similar potential misstatements, results of audit procedures performed, source and reliability of the available information, persuasiveness of the audit evidence and understanding of the entity and its environment, including the entity's internal control.

4.1.5 The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based. Relevance deals with the logical connection between the audit evidence and the purpose of the audit procedure. The reliability of information to be used as audit evidence is influenced by its source and its nature as well as the circumstances under which it is obtained.

4.1.6 If audit sampling is used, the auditor shall evaluate the sampling results and whether the sample provides a reasonable basis for conclusions about the population that has been tested.

4.1.7 If external confirmation is used in the audit, the auditor shall evaluate whether the results of the external confirmation procedures provide sufficient appropriate evidence or whether further evidence is necessary.

4.1.8 If the auditor has used the work of an expert in the audit, the auditor shall evaluate the applicability of the expert’s work for the auditor's purposes. When using information produced by the accounting office as audit evidence, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes.

4.1.9 Any inconsistencies in the evidence shall be examined. If audit evidence obtained from one source is inconsistent with that obtained from another, or the auditor has doubts over the reliability of information to be used as audit evidence, the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, in any, on other aspects of the audit. If the auditor identifies fluctuations or relationships that are inconsistent with other relevant information obtained during the audit or that differ from expected values by a significant amount auditor shall investigate such difference by:

- inquiring of management and obtaining appropriate audit evidence relevant to management's responses, and
- performing other audit procedures as necessary in the circumstances if management is unable to provide a response including a sufficient explanation.

4.1.10 In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

4.1.11 If the auditor distrusts management, the auditor shall determine the effect that this may have on the sufficiency and validity of the evidence. If the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcemwnr of these, the auditor shall determine the effect that such concerns may have on the audit evidence.

4.1.12 The auditor shall investigate all instances of non-compliance with laws and regulations. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain an understanding of the nature of the act and the circumstances in which it has occurred and further information to evaluate the possible effect on the financial statements.

4.1.13 The auditor shall evaluate the effects of identified or suspected non-compliance with laws and regulations in relation to other areas of the financial audit, such as the risk assessment made by the auditor, and take appropriate measures.

4.1.14 The auditor shall include in the audit documentation

- in the case of accounting-office-specific audits, the amount below which misstatements would be regarded as clearly trivial,
- all material misstatements accumulated during the audit and whether they have been corrected.

4.2 Draw conclusions and ensure their sufficiency

Target

4.2.1 The auditor draws the proper conclusions based on the evidence.

Requirements

4.2.2 The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control, and if so, whether, individually or in combination, they constitute significant deficiencies that merit the attention of management or senior management.

4.2.3 The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.

Audit procedures

4.2.4 The objective of the auditor is to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements.

4.2.5 When analysing the evidence, the auditor shall take into account not only quantitative factors but also qualitative factors, as well as the circumstances. This applies particularly to audits of compliance with the budget and the key budget provisions. When evaluating the evidence, the auditor shall consider observations that are both positive and negative in view of the conclusion. The evidence shall be evaluated in relation to materiality and by studying the observations from the correct perspective (such as the value in euros and the number of instances). What is considered a material compliance deviation is up to the auditor’s professional judgement. In any case, when defining it, the auditor shall consider the significance of the amounts describing the deviation; the circumstances; the nature of the deviation; the reason for the deviation; the consequences of the deviation; the visibility and sensitivity of the audited programme; the expectations of the readers of the report; the nature of the regulations that were not complied with; and the scope or financial implications of the consequences.

4.2.6 If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to the audit. The auditor shall recognise that an instance of fraud is unlikely to be an isolated occurrence. If the auditor has reason to believe that the misstatement is or may be the result of fraud that management is involved in, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving several people. If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor shall evaluate the implications for the audit.

4.2.7 The conclusions shall be documented. The auditor shall include in the audit documentation:

- the conclusions where these are not otherwise clear,
- if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the conclusions reached about relying on such controls that were tested in a previous audit.

4.2.8 The auditor shall include in the audit documentation the auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

4.3 Supplement or modify the audit as necessary

Target

4.3.1 The matters on which the audit is based shall be revised if they cause the audit risk to exceed the acceptable level.

Requirements

4.3.2 If the auditor has not obtained sufficient appropriate audit evidence, the auditor shall attempt to obtain further audit evidence.

4.3.3 The auditor shall evaluate the effect of any significant information the auditor becomes aware of on the implementation of the audit. The auditor shall revise materiality in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount initially.

4.3.4 The auditor shall revise their assessment of the risks of material misstatement if new information obtained during the course of the audit suggests that the original risk assessment is erroneous to such an extent, for example, that the controls are not as effective as originally assessed or if more misstatements than expected are revealed during substantive procedures.

Audit procedures

4.3.5 The auditor shall update and change the audit plan as necessary during the course of the audit. The auditor shall determine whether the audit plan needs to be revised if

- the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material,
- the aggregate of misstatements accumulated during the audit approaches materiality exceeding the reporting threshold.

4.4 Request comments from the audited entity, including comments on the intended implementation of recommendations

Target

4.4.1 The reported audit observations and conclusions are accurate and material, and they are communicated to the relevant parties.

Requirements

4.4.2 The auditor shall discuss the causes and effects of any deficiencies that are not trivial with the responsible person(s) of the audited entity. If the auditor has identified one or more deficiencies, the auditor shall determine whether, individually or in combination, they constitute significant deficiencies.

Audit procedures

4.4.3 The auditor shall strive to ensure that the audited entity will correct the misstatements. The auditor shall request management to correct those misstatements observed during the audit that are not trivial. For this purpose, the auditor shall communicate, on a timely basis, all misstatements to the appropriate level of management, usually the person who has the necessary authority to have the corrective measures taken. The auditor shall communicate to senior management any uncorrected material misstatements and the effect that they may have on the opinion in the financial audit report. The audit documentation shall indicate that the misstatements and the need to correct them have been communicated to the audited entity and what the audited entity has replied.

4.4.4 The auditor shall communicate, on a timely basis, to management and senior management any significant deficiencies in internal control that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions. Such deficiencies shall be communicated again even if they had been communicated during a previous audit if the necessary corrective measures have not been taken. The auditor shall also communicate to management any other deficiencies in internal control that, in the auditor’s professional judgement, merit the attention of management and senior management. The communication of significant deficiencies in internal control shall be in writing. The communication shall include the following:

- a description of the deficiencies and an explanation of their potential effects,
- sufficient information to enable management and senior management to understand the context of the communication.

4.5 Process the audited entity’s response and write the audit report

Target

4.5.1 Audit observations, conclusions and recommendations shall be presented in the audit report correctly and in a uniform manner to be followed at the NAOF.

Requirements

4.5.2 The key results of the audit and any other issues shall be reported without undue delay. Standard-form report templates shall be used in written reports.

Audit procedures

4.5.3 Before the final reporting stage of the audit, reports on the audit and its results are submitted in the form of an oral report, observation report, interim report or an audit memorandum. Before the audit report is published, the audited entity's opinion shall be requested on the matters to be reported in writing. This is to ensure, after the verification that is a natural part of the audit, that for example the observations and conclusions are correct and any recommendations given can be implemented. Requesting an opinion from the audited entity is especially important when the written audit report will include matters that may be difficult for the audited entity to accept.

4.5.4 The following principles apply to the preparation of interim reports:

- Interim reports are prepared primarily for management and senior management.
- Each interim report includes a description of the audit and its results.
- Interim reports are clear, concise and constructive. They include a summary that can (as such, if possible) be included in the auditor's annual summary.
- The audited entity's response to the draft interim report shall be documented.

4.5.5 An observation report is usually used for reporting individual material misstatements and deficiencies to the audited entity. The principles on the preparation of interim reports apply to the preparation of observation reports, where appropriate.

4.5.6 An audit memorandum is used especially in situations where the NAOF wishes to request the audited entity's opinion on a matter. The above-mentioned principles on the preparation of interim reports apply to audit memoranda, where appropriate.

5 Plan an audit of the financial statements and perform it

5.1 Ensure that the audit of the financial statements covers all matters to be audited

Target

5.1.1 All material parts of the financial statements are audited in the opinion areas of the NAOF's financial audit.

Requirements

5.1.2 Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure. The auditor shall consider whether external confirmation procedures are to be performed. The substantive procedures shall include agreeing or reconciling information in the financial statements with the underlying accounting records and examining material journal entries and other adjustments made during the course of preparing the financial statements.

5.1.3 The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework.

Audit procedures

5.1.4 The auditor shall ensure that all misstatements the auditor is aware of are corrected. If, at the auditor's request, management has examined and corrected misstatements observed by the auditor in opinion area items, such as a financial statement or the transactions on which it is based, balance sheet items or other information, the auditor shall perform additional audit procedures to determine whether material misstatements remain. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate.

5.1.5 The auditor shall read the other information included in the financial statement documents to identify material inconsistencies, if any, with the audited financial statements. If the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information need to be revised.

5.1.6 The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

- the comparative information agrees with the amounts and other disclosures that have been presented in the prior period or, when appropriate, that have been restated, and
- the accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

5.1.7 The auditor shall audit any supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements due to its nature or how it is presented.

5.1.8 The objective of the auditor is to obtain sufficient appropriate audit evidence about whether events between the date of the financial statements and the date of the financial audit report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements. The auditor shall also respond appropriately to facts that become known to the auditor after the date of the financial audit report and that, had they been known to the auditor at the date of the financial audit report, might have caused the auditor to amend the financial audit report.

5.2 Ensure that the audit evidence is sufficient, draw conclusions and prepare recommendations

Target

5.2.1 The evidence shall be sufficient and appropriate to be used as the basis of the conclusions, recommendations and opinions about the opinion area in the audit report.

Requirements

5.2.2 Evidence shall be obtained on whether the auditor has identified the key risks of material misstatement in the opinion area and whether any of the risks have been materialised. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement remain appropriate.

Audit procedures

5.2.3 During the final stage of the audit, the auditor shall design analytical procedures that assist the auditor when forming an overall conclusion as to whether the information on the opinion area is consistent with the auditor's understanding of the entity.

5.2.4 If the auditor has not obtained sufficient appropriate audit evidence as to a material opinion area, the auditor shall attempt to obtain further audit evidence.

5.2.5 The auditor shall evaluate, based on the audit evidence, whether the accounting principles and estimates in the financial statements are appropriate in the context of the applicable financial reporting framework. If management refuses to correct a misstatement, the auditor shall obtain an understanding of management's reasons for not making the correction and shall take that understanding into account when evaluating whether the information on the opinion area as a whole is free from material misstatement. The auditor shall include in the audit documentation

- the basis for the auditor's conclusions about the reasonableness of the accounting principles and their disclosure that give rise to significant risks,
- indicators of possible management bias, if any.

6 Report the key results of the audit

6.1 Examine the key results of the audit

Target

6.1.1 The final audit report shall be based on critically examined evidence.

Requirements

6.1.2 The auditor shall evaluate the evidence as a whole. The evaluation shall include, among other things, an evaluation in accordance with section 5.1 of this manual, where applicable.

6.1.3 For the preparation of the NAOF's financial audit report, the auditor shall conclude whether the auditor has obtained reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and whether the budget has been complied with. However, a negative opinion based on limited assurance is issued of operational efficiency. That conclusion shall take into account the auditor’s conclusion about whether sufficient appropriate audit evidence has been obtained and the conclusion about whether uncorrected misstatements are material, individually or in aggregate.

Audit procedures

6.1.4 Misstatements shall be examined as a whole and in relation to the audit evidence. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. The auditor shall determine whether the misstatements are material, individually or in aggregate.

6.1.5 If the auditor has not obtained sufficient appropriate audit evidence, the auditor shall disclaim an opinion. When reasonable assurance cannot be obtained and adjusting the audit report is not sufficient from the viewpoint of the primary users of the financial statements in the circumstances, the auditor shall allow the person who directs and supervises the audit to decide how to proceed with the audit.

6.1.6 The auditor's inability to obtain sufficient appropriate audit evidence may arise from:

- circumstances beyond the control of the entity, e.g. if the account data is destroyed or seized by the authorities,
- circumstances relating to the nature or timing of the auditor’s work, or
- limitations imposed by management.

6.1.7 The auditor shall ensure that the determination of materiality is correct and that the misstatements are material. Prior to evaluating the materiality of uncorrected misstatements, the auditor shall reassess the materiality to ensure that the determination of materiality is appropriate when the actual results are examined. When determining whether misstatements are material, individually or in aggregate, the auditor shall consider:

- the size and nature of misstatements,
- uncorrected misstatements related to prior periods.

6.1.8 The auditor shall evaluate whether the opinion area may include material misstatement due to fraud. The auditor shall evaluate whether the results of the analytical procedures applied at the end of the period when preparing the audit opinion indicate material misstatement due to fraud in the opinion area.

6.1.9 If necessary, the auditor shall modify the opinion based on the nature of the matter and the extent of its effect. If there was a modification to the opinion in the audit of the prior period's financial statements, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement. In the case of a financial audit by the NAOF, modifying an opinion can refer even to a single caution issued in any opinion area in the audit report. In the case of the most severe cautions, a qualified opinion on regularity is also issued . If sufficient audit evidence could not be obtained, the possible options shall be discussed. The available options in such a case are issuing a qualified opinion or disclaiming an opinion.

Table 1. A decision based on the auditor’s judgement on the extent of effects or potential effects on the opinion area.

Nature of the matter that caused the need for modification	Material but not extensive	Material and extensive
Information in the opinion area includes material misstatement	Qualified opinion	Adverse opinion
Sufficient audit evidence cannot be obtained	Qualified opinion	Disclaimer of opinion

6.1.10 It is also possible to draw users’ attention, when in the auditor's judgement it is necessary to do so, by way of clear additional communication in the financial audit report, to:

- a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users’ understanding of the financial statements (an Emphasis of Matter paragraph); or
- as appropriate, any other matter that is relevant to users’ understanding of the audit, the auditor's responsibilities or the financial audit report (an Other Matter paragraph).

6.2 Draft the final documents

Target

6.2.1 The audit report summarises the information that is of material significance for the decision-making process of the user of the financial statements.

Requirements

6.2.2 The financial audit report shall be in writing and include the headings and matters referred to in the appendix to the Financial Audit Manual. The financial audit report is written on a standard-form document template. In connection with the financial audit report, the auditor presenting the report shall finalise the auditor's annual summary, taking also into account the work carried out by the centralised audit.

Audit procedures

6.2.3 An opinion in the audit report shall not be unclear. The audit report shall not include any references to the work of other auditors or experts with a view to reducing the NAOF's audit risk. When the auditor consider it necessary to express an adverse opinion on an opinion area as a whole, the financial audit report shall not include any qualified opinion on any opinion area item. To include such a qualified opinion would contradict the auditor's adverse opinion or disclaimer of opinion on the opinion area as a whole.

6.2.4 The financial audit report shall be clear, and the language used in it shall be impeccable. When preparing the financial audit report, the auditor should keep in mind that, for a reader outside the audited entity, the financial audit report may be the only source of information on the matters discussed in the financial audit report. A decision on the matters to be included in the financial audit report is made in the process during which the annual summary is completed.

6.2.5 The auditor who presents the financial audit report shall prepare a proposal for the report, and the person who directs and supervises the audit shall process it.

6.2.6 The following principles apply to the preparation of the auditor’s annual summary:

- It is written primarily for the management of the accounting office.
- Its structure follows the structure of the financial audit report.
- It indicates whether a matter whose correction is recommended or required has been corrected in an acceptable manner, whether it has remained uncorrected or whether the situation is unclear and, if necessary, any actions that the audited entity is requested or required to take.
- It is clear, concise and constructive.
- Each item in the annual summary is based on sufficient appropriate audit evidence that is documented and on which the audited entity has had an opportunity to express its opinion.

6.3 Request comments from the audited entity about the financial audit report

Target

6.3.1 The audited entity is heard appropriately before the financial audit report is issued.

Requirements

6.3.2 The audited entity shall be heard about the issues included in the financial audit report in an impartial manner in compliance with the regulations. The audited entity shall always be provided with an opportunity to be heard before the financial audit report is issued. Good interaction during the audit is also part of the hearing process.

Audit procedures

6.3.3 Before the financial audit report is issued, the draft report is sent to the audited entity for comments. The auditor shall carefully consider the comments of the audited entity when preparing the final financial audit report. Any unclarities in the comments shall be clarified before the financial audit report is issued. The auditor shall save the comments of the audited entity in the draft financial audit report and the related correspondence in the audit documentation.

6.3.4 The principles of sufficiency, objectivity and timeliness are important in the final reporting on the audit. The report shall not include any factual errors. Matters shall be presented from the correct perspective and in a balanced manner. In order to achieve these goals, the report shall be discussed with the audited entity in order to verify the facts, and the replies of the audited entity shall be taken into account in the final financial audit report.

6.3.5 If the financial audit report includes a modified opinion, the audited entity shall be heard as laid down in section 21 of the Constitution of Finland. The hearing procedure is described in greater detail in the general part of the NAOF's audit manual.

6.4 Prepare the final audit documents

Target

6.4.1 The financial audit report shall be correct in terms of its content and format, and it shall be completed by the deadline specified in the audit plan.

Requirements

6.4.2 The auditors responsible for reporting shall prepare the financial audit report and other final documents on the audit and discuss the following matters with the person who directs and supervises the audit to decide what needs to be done:

- comments of the audited entity on the draft financial audit report and any other communication of the audited entity about the final report documents,
- sufficiency of the audit evidence and the audit risk,
- distribution of the final reports where there is a margin for discretion.

Audit procedures

6.4.3 At the audit conclusion stage, the auditor shall arrange the working papers in a manner that will facilitate the processing of the final audit documentation.

6.4.4 If necessary, the auditor presenting the financial audit report, together with the relevant auditors of centralised audit, shall provide information for reporting to Parliament. The information shall be provided on the Parliament report form at the same time that the annual summary and the proposal for the financial audit report are submitted to the decision-maker.

6.5 Close the audit

Target

6.5.1 The key observations, analyses, other audit evidence and conclusions of the audit are available for future audits without difficulty.

Requirements

6.5.2 The working papers verifying the audit evidence and the conclusions shall be arranged as specified in the guidelines and saved on a network drive. Confidential documents shall be stored in compliance with the NAOF's guidelines.

Audit procedures

6.5.3 The auditor shall list any work that was not completed during the audit and that should, in the auditor's judgement, be completed during a subsequent audit. The auditor shall arrange the working papers for permanent storage and any future use.

6.6 Follow-up

Target

6.6.1 The NAOF remains aware of its impacts by monitoring and evaluating the corrective measures taken as a result of its recommendations and cautions and their sufficiency.

Requirements

6.6.2 The auditor shall monitor the implementation of the recommendations given during the audit and, if necessary, other recommendations relevant for the audit. If the recommendations have not been implemented, the auditor shall determine the reason for this and determine whether the reason is acceptable.

Audit procedures

6.6.3 Follow-up ensures that the audited entity takes the necessary corrective measures based on the reported observations.

6.6.4 In the follow-up, the auditor examines whether the measures taken by management as a result of the reported observations have been effective, comprehensive and timely. When evaluating corrective measures, the auditor shall pay attention to

- the fact that the corrective measures are directed at the causes of the deficiency instead of its manifestations.
- the materiality of the reported observation. The removal of very significant deficiencies requires management to take immediate measures. The auditor should monitor them actively.
- the feasibility and costs of the corrective measures.
- the risks caused by failing to correct the deficiency.
- what has been agreed on the timetable of the corrective measures with the audited entity.

6.6.5 The auditor shall bear in mind that correction of a deficiency can usually be required only when it is unambiguous that the deficiency causes an irregular situation. This may also concern matters for which a caution and a disclosure obligation have been presented in the audit report on the basis of section 5 of the Act on the National Audit Office. In financial audits, the disclosure obligation is essentially related to follow-up. Disclosure obligation refers to a situation where the NAOF obliges the management of an audited entity to notify it of the measures taken to remedy the state of affairs for which it was cautioned.

6.6.6 When a deficiency does not cause an irregular situation, the NAOF recommends correcting it. In certain issues related to internal control, the audited entity may refrain from taking the corrective measures proposed by the auditor and accept the resulting risk. If such a decision leads to a failure to correct a highly essential deficiency, the auditor shall ensure that the senior management of the organisation is aware of the decision, of the risk arising from leaving the deficiency uncorrected and of their liability for the realisation of the risk.

6.6.7 As part of the following year audit, the auditor should also arrange systematic follow-up of relevant recommendations and cautions other than those that led to the disclosure obligation. The follow-up shall be arranged by means of procedures to be agreed on specifically in each team.

7 Use the following concepts

Acceptable individual error: Such error magnitude that the monetary amount of misstatements falling below it is considered to be so low that, even in aggregate, they could not constitute a material item. As a rule, the upper limit is defined as a percentage of the materiality set.

Analytical procedures: The term “analytical procedures” or “analytical audit” refers to the evaluation of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. Financial data can be compared or analysed on the basis of actual figures for prior periods, anticipated results, similar industry information or non-financial data (such as the number of employees). In addition, elements of financial data can be compared with each other. ISA 520 deals with analytical procedures. Analytical procedures include substantive analytical procedures. The special feature of substantive analytical procedures is that they aim to develop expected values of the recorded amounts or ratios.

Annual summary: See “auditor’s annual summary”.

Applicable financial reporting framework: The requirements concerning how information shall be reported in a specified, uniform manner. In the case of a financial audit conducted by the NAOF, the reporting framework is based on the State Budget Act and the State Budget Decree.

Application controls in information technology: Internal, automatically repeated controls of an information system.

Appropriateness: The measure of the quality of audit evidence; i.e. its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Assertions: Representations by management, explicit or otherwise, that are embodied in the opinion area, as used by the auditor to consider the different types of potential misstatements that may occur. For an auditor, assertions are factors that indicate the accuracy of the opinion area. The assertions generally used in the case of financial statements relate to the content groups of the financial statements, i.e. transactions; balance sheet items and presentation of the information in the financial statements.

Audited entity: From the perspective of customer teams, the term “audited entity” refers particularly to an individual accounting office whose management is responsible for the legality of the operations, sufficient appropriate information in the financial statements and appropriate organisation of internal control. From the perspective of the audit team of shared processes, the term “audited entity” refers primarily to centralised processes, which are the responsibility of the management of the shared services centre. The audit of the budget is targeted at the state budget, the application of which is the responsibility of the accounting offices and thereby of the management of an individual accounting office.

Audit evidence: The evidence that verifies the auditor’s conclusions. Audit evidence is collected during an audit by different methods in the risk assessment and by subsequent further audit procedures (tests of control, substantive procedures). Audit evidence can also be obtained from previous audits if the auditor can confirm that the audit evidence is still relevant. The use of several sources and evidence of different nature increases the reliability of the audit evidence. The methods of obtaining audit evidence include audit, observation, external confirmation, recalculation, repeating procedures or controls, analytical methods, inquiries and analysis of the replies.

Audit memorandum: A document similar to an interim report. The NAOF sends a letter through its registry to request an official opinion from the audited entity or another actor about the observations, conclusions and any recommendations included in the audit memorandum.

Auditor: In this manual, the term “auditor” is used to refer to the NAOF's officials who perform financial auditing duties. These include members of the engagement team, i.e. the official presenting the audit, other officials participating in the planning and implementation of the audit, the official who directs and supervises the audit and the official who decides on the financial audit report. In financial audits conducted by the NAOF, the responsibility for auditing referred to in legislation and auditing standards rests with the National Audit Office as a government authority. The term “principal auditor” is used in this manual to refer to the above-mentioned presenting official for the sake of clarity.

Auditor’s annual summary: A summary of a performed audit and its results for the audited entity and the ministry steering it and for the NAOF's own use. The annual summary summarises the reports prepared during the audit in a clear manner for use in the preparation of the financial audit report. The annual summary includes justifications for the opinions expressed in the financial audit report, as well as information on at least any noteworthy issues that are not dealt with in the financial audit report.

Audit risk: The risk that the auditor expresses an inappropriate opinion in the audit report when there is a material misstatement in the opinion area. Audit risk is a function of the risks of material misstatement and detection risk.

Audit sampling: The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

Business risk: A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies.

Client: See “audited entity”.

Comparative financial statements: Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The comparative information is as detailed as the corresponding information in the financial statements of the current period.

Comparative information: Comparative information that represents amounts and other disclosures for the prior period and that is included as an integral part in the financial statements. How detailed the comparative information is depends primarily on the figures of the financial statements of the current period.

Compliance audit: see Manual for compliance audit, performance audit and fiscal policy audit.

Control risk: The risk that a misstatement that could be material, individually or when aggregated with other misstatements, will not be prevented or detected and corrected, on a timely basis by the entity's internal control.

Deficiency in internal control: A defect in the designing or implementation of a control as a result of which the control is unable to prevent, or detect and correct, misstatements on a timely basis. A deficiency may also refer to a situation where a control to manage a risk is missing. Material deficiencies in internal control shall be reported to senior management.

Emphasis of Matter paragraph: A paragraph included in the financial audit report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Engagement team: The auditors and other staff performing the engagement. However, this excludes external experts used in the audit.

External confirmation: Audit evidence obtained as a direct response to the auditor from a third party (the confirming party) in a documented format. External confirmation is considered stronger evidence than regular audit evidence because the evidence is external, the auditor receives it directly and the evidence is in writing. The use of such audit evidence increases the level of the risk assessment performed by the auditor. The following types of confirmation can be requested:

- positive, in which case the confirming party responds directly to the auditor whether they agree or disagree with the information for which a confirmation was requested or provides the requested information,
- negative, in which case the confirming party responds directly to the auditor only if they disagree with the information for which a confirmation was requested.

Financial data reporting framework: The reporting framework adopted by management in the preparation of the financial statements. Provisions and regulations may directly require the application of a specific reporting framework. If this is not the case, a reporting framework that takes into account the nature of the audited entity's activities and the objectives of the preparation of the financial statements should be selected. The term "compliance framework" is used to refer to a financial reporting framework that requires the financial statements to comply only with the laws and regulations. The term "fair presentation framework" is used to refer to a financial reporting framework that also acknowledges that, to achieve fair presentation, it may be necessary to provide disclosures beyond those specifically required by the framework and/or that it may be necessary to depart from a requirement of the framework to achieve fair presentation of the financial statements.

Financial statement: A single financial statement included in the financial statements or another data entity included in the financial statements. Financial statements include the budget outturn statement, the balance sheet and the statement of revenue and expenditure.

Fraud: An intentional act by one or more individuals among management, senior management, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Fraudulent financial reporting: Misstated items are intentionally reported in or excluded from the accounts, the supporting documents are manipulated and/or the financial statement users are not provided with significant information on the activities and finances. Due to its authority or position, management has the opportunity to disregard controls. For example, management can change its assumptions, interpretation of the calculation principles or other use of its discretion, record transactions too early or too late, or engage in complex business arrangements. The supervision duties of senior management include the duty to review the manner in which management is involved in the preparation process of the financial statements.

General IT controls: Controls that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT controls commonly include controls over data centre and network operations; system software acquisition; change and maintenance; access security; and application system acquisition, development and maintenance.

Going concern assumption: An assumption that the audited entity will continue its activities until an unforeseen point in time. Under the going concern assumption, the organisation may liquidate its assets and perform its payment duties in its normal operations. This assumption is the basic principle in the preparation of financial statements, and management shall apply it even if the financial data reporting framework does not specifically require it.

Inherent risk: The susceptibility of an assertion related to an opinion area item to a misstatement that is material individually or in aggregation with other misstatements. In such a case, the risk is examined without taking into account the controls that are in place in case of misstatements.

Interim report: A document to be used prior to the conclusion of the audit to communicate the audit progress and results to the audited entity. In the interim report, the audited entity is informed of all material misstatements observed by the auditor that, if not corrected, will affect the financial statements and the auditor's opinion in the financial audit report. Whenever possible, the issue of the interim report is timed in such a manner that the audited entity has an opportunity to correct any material misstatements in the opinion area.

Internal audit function: An evaluation function that is either arranged at the audited entity or performed as a service for the audited entity. Its tasks include determining, evaluating and monitoring the sufficiency and effectiveness of internal control.

Internal control: There is a general definition of internal control in the general part of the National Audit Office's audit manual. Section 24 b of the State Budget Act and the State Budget Decree issued under it contain provisions on the organisation of the internal control related to central government finances. Central government agencies and institutions shall ascertain that they have appropriate internal control arrangements covering their own activities and the activities for which they are responsible. The management of the agency or institution is responsible for the internal control arrangements and for ensuring that the arrangements are adequate and appropriate. Under the State Budget Decree, internal audit shall be in place if this is substantiated in view of the achievement of the objectives of internal control. The provisions of the State Budget Decree, the regulations and guidelines concerning the drafting of financial rules, and the approved financial rules serve as sources for audit criteria for the internal control of the financial process.

In the ISSAI standards, internal control is determined in more detail as a system that consists of the following:

- The control environment, which forms the basis of the other factors.
- The risk assessment process, during which continuous identification, assessment and processing of the risks related to the opinion area process takes place. If there is no such system, the auditor shall investigate how the above-mentioned risks are identified and processed.
- The information system, including the operating processes connected to it. In an audit of financial statements, for example, the concept covers the types of business transactions relevant for the audit and the measures taken to add the transactions to the books; transaction data, the data that verifies them and special accounts; and the financial statements reporting process and the controls related to entries. In addition, it is important to understand the manner in which the audited entity communicates about the roles and tasks related to reporting based on accountability and the transactions that have a material effect on the opinion area.
- The control activities, i.e. the policies and procedures that help ensure that management directives area carried out. Examples of control activities include authorisations, review of the results, data processing, physical controls and separation of work tasks.
- The monitoring of controls, which is targeted to the material controls and the manner in which the audited entity initiates corrective measures.

Limited assurance: The level of assurance that provides a lower level of assurance than an audit. Limited assurance is stated in the conclusion in a negative form, e.g. "Nothing has come to our attention that would lead us to conclude that the criteria have not been met in all material respects." Even in the case of an engagement intended to lead to limited assurance, the auditor shall become familiar with the opinion area and obtain sufficient appropriate evidence to support the opinion through analytical methods or inquiries, for example.

Materiality: Materiality refers to the level of materiality representing the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

Misappropriation of assets: A fraud that involves assets, such as theft of an entity's assets, manipulation of payment data, having the employer pay for one's private purchases or using the employer's assets for one's own needs. The books or supporting documents may be forged in order to hide the fraud. Actions that are originally minor may become major over time.

Misstatement: A difference between the reported amount, classification, presentation or disclosure in an opinion area item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. When preparing an opinion to be included in the financial audit report, the auditor shall take into account not only misstatements but also any adjustments made.

Modified opinion: A qualified opinion, an adverse opinion or a disclaimer of opinion. The type of modified opinion that the auditor uses depends on the nature of the matter that gave rise to the modified opinion, i.e. whether it is a question of misstatement or inability to obtain sufficient appropriate evidence, and the extent to which the matter, in the auditor's judgement, affects or may affect the opinion area.

Observation report: A written reporting format to bring any deviations to the attention of the audited entity so that they can be corrected quickly.

Opinion area: An area included in the activities or state of affairs of the audited entity on which the auditor presents an opinion in the financial audit report. Opinion areas may include, for example, financial statements, the legality of financial management, a description of performance, internal control and budgeting. In this manual, the term "opinion area" also refers, where appropriate, to a single item within an opinion area, such as an individual financial statement.

Other Matter paragraph: A paragraph included in the financial audit report that refers to a matter other than those presented or disclosed in the opinion area and that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the financial audit report.

Parliament report form: The NAOF's internal document that is used to collect information for the NAOF's reports to Parliament.

Performance materiality: Performance materiality aims to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall or targeted materiality, in which case the financial statements could contain material misstatement because of undetected misstatements, for example.

Pervasive effect: Pervasive effects of misstatements on the opinion area are those that are not confined to specific elements, accounts or items within the opinion area or, if so contained, represents or could represent a substantial proportion of the opinion area or that, in relation to disclosures, are fundamental to the users' understanding of the opinion area (e.g. the financial statements).

Reasonable assurance: A high, but not absolute, level of assurance that is achieved by obtaining sufficient appropriate audit evidence to reduce the audit risk to an acceptable level.

Related party: The term "related party" has not been defined in the provisions and regulations related to the state budget. In public administration, the characteristics of a related party include control over the entity or being a member of the entity's management. Related parties also include close relatives and other close persons of a person who has these characteristics. The related parties of ministries, government agencies, institutions and funds consist of their management and those charged with governance and their close relatives and other close persons. In administrative law, a related party is a close person as laid down in section 28, subsection 2 of the Administrative Procedure Act (in this respect, a close concept is concerned). Related parties include at least the disqualified persons listed in section 28 of the Administrative Procedure Act, particularly the close persons laid down in section 28, subsection 2.

Relevance (of evidence): A logical connection or link with the purpose of the audit procedures and, where appropriate, the targeted assertion. The audit procedures may be relevant for some assertions and irrelevant for others.

Reliability (of audit evidence): Reliability is influenced by the source and nature of the audit evidence and the circumstances under which the audit evidence was obtained. Generalisation of different types of audit evidence shall be avoided. For example, an independent expert might not be well-informed, and a management expert is not necessarily objective. However, the following rules usually apply: reliability increases if the source is independent and an outsider, the controls related to the evidence are efficient and the evidence has been specifically obtained instead of indirectly received; the evidence is in written format instead of oral and the documented evidence is the original instead of a copy.

Risk analysis: A process that involves the identification of the key risks for the matter being audited, a risk assessment and an assessment of the controls to manage the risk.

Risk of material misstatement: The risk that the financial statements are materially misstated prior to audit. The risk consists of inherent risk and control risk.

Sampling risk: The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.

Senior management: The senior official of a government agency or institution. Central government does not have the governance structures commonly used for example in limited liability companies, where the board of directors (those charged with governance) directs and supervises the managing director (agent) on behalf of the shareholders (client). In government agencies and institutions, those charged with governance are represented by senior management.

Service organisation: A third-party organisation that provides services to user entities that are part of the information systems relevant to the user entities' financial reporting.

Significant risk: An identified and assessed risk of a material misstatement that, in the auditor's judgement, requires special audit consideration.

Substantive procedure: An audit procedure designed to detect material misstatements. Substantive procedures comprise tests of details and substantive analytical procedures.

Sufficiency: The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

Supreme Audit Institution: The supreme audit institution at the national level; in Finland, the National Audit Office.

Tests of controls: Evaluating and obtaining evidence about the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements. When planning how to obtain relevant audit evidence by means of tests, the auditor shall identify both circumstances that indicate performance of the control and circumstances that indicate a deviation from appropriate performance of the control. After this, the auditor shall test the existence or non-existence of these circumstances.

Tests of details: See "substantive procedures".

Those charged with governance: A body above the hierarchical management. If the organisation does not include a higher governing body, the duties of those charged with governance may lie with the operational management. See "senior management".

True and fair view: See "financial reporting framework".

Walk-through test: Involves tracing a few transactions through the financial reporting system.

Written representation: A written statement provided to the auditor by management to confirm certain matters or to support other audit evidence. Written representations do not include the financial statements, the assertions therein, supporting books and records, a formal statement on compliance with laws and regulations, an approval of the financial statements or a statement on management's obligations as laid down by law.