



Manual for compliance audit, performance audit and fiscal policy audit



Audit and monitoring manual of the National Audit Office of Finland
**Manual for compliance audit, performance audit
and fiscal policy audit**

Issued on 16 December 2020

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D/1061/998.50/2020

The National Audit Office of Finland (NAOF) is Finland's supreme audit institution. It operates in affiliation with Parliament, and its mandate is laid down in section 90 of the Constitution of Finland (731/1999). Under section 1 of the Act on the National Audit Office (676/2000), the NAOF audits the legality and appropriateness of central government finances and compliance with the Budget. Under section 20 of the same act, the National Audit Office can issue more detailed regulations on its audit operations, their planning and good audit practice.

The NAOF has decided to carry out its audit task by conducting audits of four different types: financial audit, compliance audit, performance audit and fiscal policy audit. The general part of the audit manual issued by the National Audit Office serves as instructions for all audit types. It defines the criteria for good audit practice in all audit work carried out by the agency. This audit and monitoring manual specifies how the NAOF plans and carries out compliance audits, performance audits and fiscal policy audits and how it reports on them.

By introducing a single manual for three different audit types, the NAOF is implementing its strategy, which aims to ensure effective shared operating practices and customer-oriented products. The main purpose of the manual for three different audit types and harmonisation of procedures is, in addition to enhancing the efficiency of the NAOF's activities, to produce more comprehensive audit information in a more easily usable form. The manual identifies the differences between the approaches and procedures applied to the different audit types but it also emphasises their common features: the aim is to provide audit users with useful audit information so that they do not need to identify the distinctive features of the different audit types.

The National Audit Office of Finland has decided to conduct its audits in accordance with the ISSAI audit standards approved by INTOSAI, the International Organization of Supreme Audit Institutions. This manual follows the fundamental audit principles set out in the ISSAI standards 100, 300 and 400 and the principles governing performance and compliance audits.

Helsinki, 16 December 2020

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1 Audit types and requirements common to them

- 1.1 The National Audit Office of Finland audits the legality and appropriateness of the management of central government finances and compliance with the Budget. The National Audit Office has decided to carry out its statutory task by conducting financial audits, compliance audits, performance audits and fiscal policy audits.
- 1.2 By carrying out audits of four different types, the agency produces reliable, timely and useful audit information so that it can be ensured that
 - the provisions and regulations on the management of central government finances are complied with
 - a true and fair picture of central government finances is provided
 - good governance and financial management and the cost-effectiveness of financial management can be promoted.
- 1.3 The principles governing the four audit types are described in the general part of the agency's audit manual. This manual, covering compliance audit, performance audit and fiscal policy audit, describes how the National Audit Office carries out its statutory audit task by conducting audits of these three types.
- 1.4 The general part of the agency's audit manual and this manual on compliance, performance and fiscal policy audit cover the requirements for these three audit types set out in the ISSAI standards 100, 300 and 400.

Audit starting point

- 1.5 The purpose of all audit work is to ascertain whether an actor is managing its affairs in accordance with the decisions made or the will expressed by the competent bodies. In compliance, performance and fiscal policy audit, this means that the auditors must examine whether central government actors have managed central government finances in accordance with the law and the Budget, in an effective manner and in compliance with the wishes of Parliament.
- 1.6 Audit work is accountable, focuses on past activities, supports the development of the state's financial management and is based on specific audit criteria.
 - 1.6.1 An audit can only focus on activities for which a specific actor is responsible or which this actor performs. An audit cannot focus on a phenomenon or concept that does not involve a specific actor's concrete responsibility for a particular activity or responsibility to do a particular thing.
 - 1.6.2 An audit can only focus on past activities. In their financial management, public authorities can, however, be expected to prepare for changes and risks in advance. The question whether public authorities have managed their finances in a manner ensuring the legality and appropriateness of the financial management in the long term must be a consideration in all audit types.
 - 1.6.3 Whenever past activities are assessed, the aim should be to provide public administration actors with better prerequisites to develop the management of central government finances. However, when there are good reasons for doing so, an audit can also be carried out even if the immediate objective is not to improve the existing situation. Such reasons include ascertaining the accountability of the audited entity or preventing negative developments. If the emphasis in the audit objectives is not on the improvement of operational performance, this should be indicated in the audit topic selection criteria.
 - 1.6.4 Audit work is always evaluative. Evaluation is based on audit criteria, which describe the state of affairs that can be considered good or desirable.

Code of ethics and professional conduct

- 1.7 The audits must be carried out in accordance with the code of ethics issued by the National Audit Office.

- 1.8 The audit participants must act in a manner that allows the National Audit Office to play an independent and objective role and allows the different parties to the audit to be certain that the agency adheres to these principles in its work.
- This also requires that the audit participants must avoid creating situations or circumstances in which external parties can question the impartiality, independence or objectivity of the National Audit Office or the professional scepticism of the auditors.
- 1.9 The audit participants must act in a professional manner, which is mainly a matter of professional scepticism, professional judgement and due care. Professional scepticism means that the audit participants keep sufficient distance to the audited entities and adopt an open and questioning attitude when collecting audit evidence. Professional judgement means that auditors also use their collective knowledge and experience when making decisions on audit measures during the audit process. Due care means that audit engagements are planned and carried out in a thorough manner and in accordance with the requirements set out for each engagement.
- 1.10 Good and constructive interaction with the audited entity and stakeholders is an integral part of the audit process. This supports the implementation of the audit and contributes to its impact. However, it must be ensured that the interaction does not endanger the independence or impartiality of the auditors or create doubts about them.

Audit work and responsibility of public administration

- 1.11 Administrative units are responsible for carrying out their tasks in a lawful and cost-effective manner. Conducting an audit and issuing an audit report do not reduce the responsibility of public administration actors in any way.
- 1.12 The purpose of an audit is to produce information on how well public administration actors have fulfilled their responsibilities and the financial management could be further improved. The auditors' responsibility is limited to conducting the audit in accordance with the plan and issuing an audit report meeting all applicable quality requirements. The responsibility also includes carrying out a follow-up on the audit, as well as performing a new audit if the follow-up indicates that this is necessary.

Stages of an audit and audit-related decision-making

- 1.13 The following requirements apply to compliance, performance and fiscal policy audits:
- 1.13.1 An audit may only be initiated if it is included in the National Audit Office's audit plan.
 - 1.13.2 The audit plan sets out the purpose and objective of the audit, audit questions and criteria, audit data, resources available for the work and the audit timetable. The audited entity must be provided with an opportunity to give feedback on the draft plan before the final decision on the audit plan is made.
 - 1.13.3 The audit report issued on the audit presents the audit findings and the conclusions and recommendations of the National Audit Office. Before a decision on the audit report is made, the draft audit report is sent to the audited entity for comments.
 - 1.13.4 An audit follow-up is carried out to determine what has been done concerning the audited matter after the audit. The content and timetable of the follow-up are planned in connection with the issuing of the audit report.
 - 1.13.5 The purpose of quality control is to monitor the quality of the audit during the audit process, while quality reviews are conducted to assess the audit quality after the completion of the audit process. The procedures laid out in the guidelines for quality control and quality review must be observed.
 - 1.13.6 The Auditor General is provided with an opportunity to discuss the draft audit report and the submitting of the audit report before any decisions on them are made.

- 1.14 The most important audit work stages and documents are as follows:
- planning of the audit (plan for the audit)
 - implementation of the audit (audit documentation)
 - sending of the draft report for comments and feedback (draft audit report, comments and summary of the comments)
 - deciding on the audit report (audit report)
 - deciding on the follow-up report (follow-up report).

The responsibilities for presenting these stages and documents and deciding on them are laid out in the National Audit Office's rules of procedure.

- 1.15 If no audit report on an audit included in the audit plan is produced, the matter must be submitted to the Auditor General for decision. This procedure must be followed when, for example, the audit is concluded with a plan for the audit or a letter. The Auditor General must decide on the matter because the audit plan is a decision made by the Auditor General on conducting an audit and on reporting on it in the form of an audit report.
- 1.16 The audit must be carried out in the manner set out in the plan. All audit participants must observe the audit manual of the National Audit Office.
- 1.17 The audit is carried out in accordance with the audit manuals issued by the National Audit Office. In addition to this manual, the audit manuals also include lower-level regulations and instructions (such as the document templates used in different stages of the audit) and other guidelines supplementing this manual.

2 Tasks of the different audit types

- 2.1 By conducting audits of different types, the National Audit Office endeavours to carry out the tasks laid down for it in the law as thoroughly as possible. The different audit types allow the NAOF to carry out its tasks by examining matters from a variety of different perspectives. One audit may combine different types of audits. The main purposes of the audit types described in this manual are as follows:
- 2.1.1 Compliance audits are primarily carried out to determine the legality of the management of central government finances and compliance with the Budget.
 - 2.1.2 Performance audits are primarily carried out to determine the appropriateness of the management of central government finances, which the National Audit Office interprets as meaning cost-effective management of finances.
 - 2.1.3 Fiscal policy audits are primarily carried out to determine the appropriateness of fiscal policy management and the knowledge base of fiscal policy.

Purpose of compliance audit

- 2.2 Under the international standards, compliance audit does not only mean the examination of whether activities are in compliance with the law (regularity). According to the definition, compliance audit also covers the appropriateness of the activities, which in public administration can be interpreted as meaning compliance with guidelines and regulations subordinated to legislation and general adherence to the principles and requirements of good governance (propriety). The aim is to provide decision-makers with information on whether the laws and other provisions have been complied with, whether regulation has produced the desired results, and whether the activities are in accordance with the principles of good governance.
- 2.3 Compliance audit also involves auditing adherence to the principles of good governance. The principles of good governance are often laid down in relevant legislation, which can be supplemented by the Administrative Procedure Act.
- 2.4 In the ISSAI standards, compliance audit is divided into two different implementation models: compliance audits performed in connection with audits of financial statements and compliance audits performed separately from audits of financial statements. Financial audits performed by the NAOF on central government agencies, off-budget state funds and the final central government accounts include may aspects of compliance auditing.
- 2.5 A compliance audit is not a procedure comparable to a preliminary investigation. At the same time, however, audit designs and audit topics are partially of such nature that the fraud perspective should also be taken into account in the audit. A situation in which the auditors detect intentional fraud constitutes a higher risk to the audited entity than a situation in which the auditors detect errors. In fact, potential cases of fraud are deliberately concealed, and auditors are deliberately provided with false information. The auditors should bear in mind throughout the audit process that the audit measures effective for identifying errors may not be effective for detecting cases of fraud. Similarly, in the audit quality and the detailedness and reliability of the findings in the audit of government aid, the auditors must give consideration to the fact that other public authorities may also have to use the audit findings in recovery situations, in preliminary criminal investigations and in court proceedings involving criminal cases. When the audit findings are used in court or other legal proceedings, the reliability of the audit and audit opinions or conclusions may have to be assessed because of claims presented by the parties concerned. It should be noted that in court proceedings, legal issues relating to such issues as recovery may be assessed differently than in a compliance audit because the two processes have a different purpose.
- 2.6 The financial audits conducted by the NAOF are mainly a matter of auditing compliance. The aim of financial audit is to ensure that the audited financial calculations, the information contained in the reports on operations and the other activities taking place in the agencies that are related to

central government finances have been prepared and carried out in accordance with the law. When matters are examined from the perspective of financial audit, the aim is to ensure that the letter of the law is adhered to and to determine whether there is any material misstatement in the financial information contained in the documents. Compliance audit generates added value by allowing the causes and effects of existing shortcomings and irregularities (such as those detected in financial audits) to be examined from a broader perspective.

- 2.7 In compliance audits, the main objective is to verify whether the Budget and the provisions on the management of central government finances and the principles of good governance have been complied with in the audited entity. The audit criteria for compliance audit are mainly derived from the law, the Budget and other parliamentary opinions.
- 2.8 The status of Parliament as the NAOF's principal client, which under the Constitution of Finland and the legislation on the NAOF has given the agency an assignment concerning the external auditing of central government finances, is recognised in the planning and implementation of compliance audit.
- 2.9 With compliance audit, Parliament can make more effective use of its fiscal powers and its powers to supervise the management of central government finances and adherence to the Budget, as laid down in section 90 of the Constitution of Finland. With compliance audit, it is also easier to verify that central government finances are managed in accordance with the law and the principles of good governance, which strengthens trust in the adherence to the principles of democracy and the rule of law. Moreover, compliance audit provides Parliament with useful information about the problems and development needs concerning the legality and appropriateness of financial management that Parliament can use when exercising its supervisory, fiscal and legislative powers.
- 2.10 An audit may cover transfers of funds between Finland and the European Union and the parties involved in them, as laid down in the Act on the Right of the National Audit Office to audit certain Credit Transfers between Finland and the European Communities.
- 2.11 Compliance audit also involves the auditing of adherence to the legal norms of the European Union relevant to the management of central government finances. This may, for example mean that in compliance audits of government aid, the NAOF examines whether such provisions as the government aid rules of the European Union have been observed in the audited parts of the government aid system and government aid.

Purpose of performance audit

- 2.12 The main purpose of performance audit is to verify the appropriateness of financial management. Problems arising from the legality of financial management and compliance with the Budget are also highlighted in performance audits.
- 2.13 The main objective of performance audit is to generate added value for the users of audit information by highlighting good administrative practices related to the economy, efficiency and effectiveness of operations, as well as material defects and problems, including their underlying causes. The audits provide decision-makers with information that they can use in the planning and steering of financial management as well as recommendations for developing the activities.

Focus and contents of performance audit: economy, efficiency and effectiveness in the management of central government finances

- 2.14 A performance audit verifies whether central government finances have been managed according to the principles of economy, efficiency and effectiveness and how the performance could have been improved.
- 2.15 In performance audit, the management of central government finances refers to activities in which public authorities use state funds to achieve given objectives (Figure 1).

- 2.15.1 The concept of central government financial management is interpreted broadly in performance audit. It also includes decision-making on core matters, as a result of which central government incurs direct or indirect financial costs.
- 2.15.2 A narrow interpretation of financial management would only cover certain aspects of financial administration and management, such as budgeting, handling of transactions, and the monitoring of appropriations and reporting on their use. Even though the focus of performance audit is not on financial administration and management, the proper functioning of these two areas is an important factor supporting the cost-effective operations of central government and thus it also plays a key role in field of performance audit.
- 2.15.3 In this manual, the details of financial management are described with the help of a performance chain. The chain consists of stages of financial management in which inputs lead to action, outputs, and impacts (Figure 2).
- 2.15.4 Financial management also includes collecting revenue and taking care of state assets. Here again state assets are used to achieve certain objectives — tax revenue or a certain level of assets.

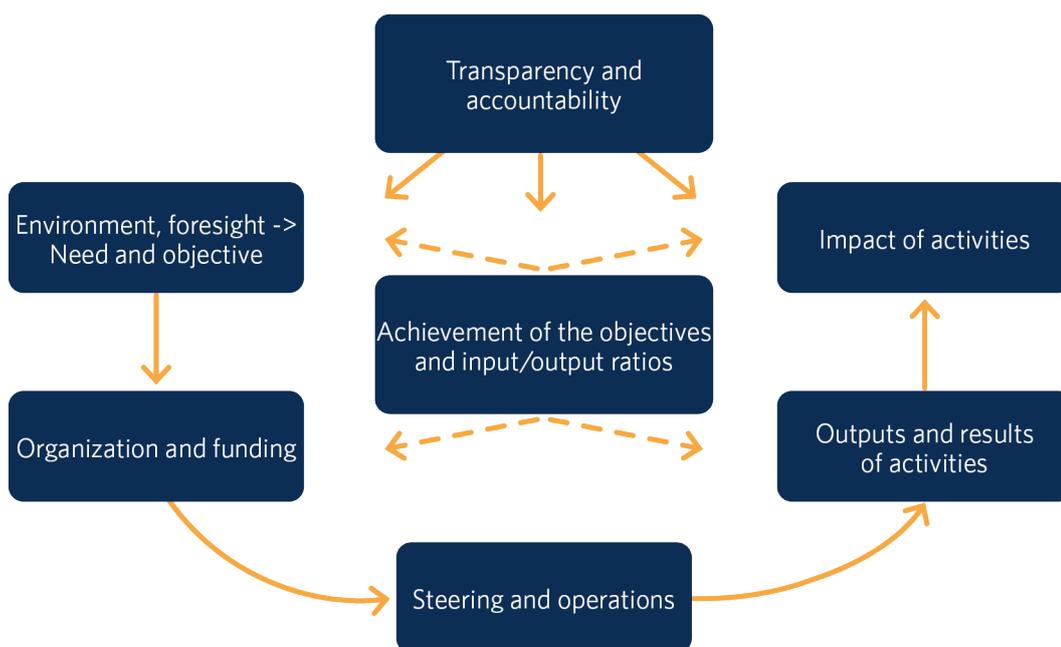


- 2.16 In performance audit, the legislative term ‘appropriateness of financial management’ has the same meaning as the ‘economy, efficiency and effectiveness of financial management’. This is achieved when the responsible public authority promotes the optimal use of resources to achieve the objective with the lowest possible costs to the state.
- 2.17 Financial performance must always be assessed against the circumstances. Thus, in performance audit, the NAOF must always assess whether the operating practices used by the public authorities have hindered cost-effectiveness and how the cost-effectiveness of operations could have been improved. The potential for more efficient operations is not the only issue evaluated in the audit. The auditors must also assess whether the societal objective could have been promoted at a lower cost by using alternative methods.
- 2.18 The starting point in each audit is whether the responsible parties have performed cost-effectively. This is also one of the main audit criteria used in performance audits.
 - 2.18.1 Under the ISSAI standards, performance auditing is an examination of whether activities have been managed in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement. This is in accordance with the concept of performance audit referred to in this manual.

2.18.2 Under the ISSAI standards, a performance audit may be result-, system- or problem-oriented. The problem-oriented approach differs in nature from the other two approaches. In a problem-oriented audit, it is known from the outset that there are performance issues involved and the audit can thus be targeted at examining the causes of the problems and corrective actions.

2.18.3 The selection between a result- and system-oriented approach should primarily be made on the basis of the performance chain analysis carried out in the planning stage. If the analysis reveals that the performance risk clearly concerns a particular stage of the performance chain, the audit focus can be selected at that stage. Particular emphasis may also be placed on identifying the high-risk stage in the overall assessment of the performance chain. In a result-oriented audit, the focus is on effectiveness, while a system-oriented audit focuses on the objectives, resourcing and organisation of operations as well as on operating practices.

2.19 At times, it may be difficult to evaluate performance by means of audit. In such cases, instead of performance, the auditors may analyse whether the financial management has provided sufficient preconditions for cost-effective operations. In such cases, too, the decisions on the focus and scope of the audit within the different parts of the performance chain must be based on an assessment of the materiality and risks of the chain stage from the performance perspective.



2.20 Although the aim of performance audit is to evaluate the input-output ratio, auditors must also evaluate the entire performance chain on which cost-effectiveness of operations depends. Evaluating the entire performance chain is important so that the causal relationship between activities and observed impacts can be verified. Establishing the causes of performance problems and identifying performance improvement potential also require the evaluation of the entire performance chain.

The performance chain must also be considered in the case of result- or system-oriented audits. Particularly in audit conclusions, the auditors should interpret which findings have significance in terms of the entire performance chain.

- 2.21 The requirement of sound management of central government finances can be derived from the guarantees of good governance referred to in the Constitution of Finland. The Administrative Procedure Act (434/2003), the State Budget Act (423/1988), the Act on Discretionary Government Transfers (688/2001), and the State Civil Servants Act (750/1994) also contain provisions regarding sound financial management.

Significance for central government finances and the perspective of central government finances in performance audit

- 2.22 Performance audit focuses on activities essential to central government finances and evaluates them from the perspective of central government finances.
- 2.23 In performance audit, central government finances play a key role, which is reflected in two ways: firstly, a performance audit can be targeted on the basis of its significance for central government finances, secondly, in individual audits, the perspective of central government finances manifests itself in the targeting of the evaluation on central government finances and in a cross-cutting audit approach.
- 2.24 As the basis for targeting audits, significance for central government finances means that performance audit is focused exclusively on activities that are relevant to central government finances. This means that substantial state funds are allocated to the activities or that the activities have an essential impact on central government revenue, expenditure, expenses or assets.
- 2.25 In terms of significance for central government finances and in order for the audit to have an impact, the audited operations must also have an essential linkage to central government finances in the future. Activities to which only limited funds have been previously allocated may also be important in terms of audit if they can demonstrably impact central government finances at a later stage.
- 2.26 Concluded activities or activities nearing completion can also be the target of a performance audit if the audit is expected to result in clear conclusions that are also applicable to other functions or if the audit is considered necessary in terms of accountability, preventive effect or other special reasons.
- 2.27 Applying the perspective of central government finances means that the audit must highlight how the audited matters impact central government finances or parts of them or are relevant to them. Secondly, the audit must include a financial analysis of the effective use of state funds (whether the goals have been advanced with minimum costs to central government). This may not necessarily require the application of a particular method; it can also manifest itself as an economic attitude.
- 2.28 The use of state funds may also involve impacts other than those intended. These may include both non-intended benefits for and non-intended negative impacts on various financial units. Such impacts must be taken into account in the analyses. From the perspective of central government finances, activities requiring the use of state funds cannot be considered financially sound if they can cause significant negative impacts on other financial units. In other words, applying the perspective of central government finances means that consideration must also be given to matters other than the costs incurred by central government from the audited matter and the desired impacts.
- 2.29 Attention should also be paid to indirect impacts on central government finances. When analysing the indirect impacts, the auditors must be able to establish their linkage to central government finances. The more indirect these impacts are, the more clearly the linkage to central government finances must be demonstrated.
- 2.30 An audit may also examine the functioning of legislation if the matter in question has a direct or indirect impact on central government finances. If an activity laid down in the law and its objectives do not have a linkage to central government finances, they are not audited even if the

legislation and its implementation are societally important and would result in substantial costs to off-budget entities.

- 2.31 Each audit must estimate costs to the state. The auditors should not examine the achievement of objectives without paying attention to the resulting costs.

Role of legislation in performance audit

- 2.32 Legislation plays an important role as a tool setting the principles that guide the use of state funds. It also serves as the main source of information for the performance audit assessment criteria (the audit criteria). Legal provisions also significantly impact the formulation of the audit design, since they often guide the use of state funds in the long term.

The Budget is part of the legal basis for the audit and it plays a particularly important role in the performance audit design and analysis.

- 2.33 The purpose of performance audit is not to question the societal needs or objectives specified by Parliament, which are usually expressed in legislation and related preparatory materials. However, the audit can evaluate the documents used for the preparation of legislation (such as those providing justification for the objective) and the clarity of the objectives. Administrative units' operational objectives that are derived from legislation are also evaluated.

It can also be reported in a performance audit that because of changed circumstances, the need expressed in a parliamentary decision no longer exists or has changed substantially. A performance audit may also report on discrepancies between legislation or objectives derived from the law, if these have negative impacts on central government finances.

- 2.34 Legislation may lay down the means to achieve the set objectives. If the auditors find out that such means are insufficient to achieve the set targets or have unintended impacts, this should be stated in the audit report.

Purpose of fiscal policy audit

- 2.35 In fiscal policy audit, the auditing of the appropriateness of financial management is focused on the management of central government finances as a whole and on the overall steering of general government finances. The objective of fiscal policy is:

- to secure the sustainability of central government finances and general government finances as a whole
- to influence the development of the Finnish economy through the management of general government finances.

- 2.36 The purpose of fiscal policy audit is to assess how well the drafting of fiscal policy supports the achievement of these objectives and whether a true and fair view of general government finances has been provided. The focus in the assessment is on the knowledge base of fiscal policy and the functioning of the steering procedures. The assessment is carried out by seeking answers to the following questions:

- Are the information and reasoning used in the preparation of fiscal policy, fiscal policy decisions and fiscal policy monitoring reliable and adequate?
- Do the Government and central government in general provide Parliament with the fiscal policy information that it needs in a reliable and timely manner?
- Are the fiscal policy steering instruments effective from the perspective of the achievement of fiscal policy objectives?

- 2.37 Information used in the preparation of fiscal policy and fiscal policy decisions means the knowledge base and the future-oriented views regarding the development of central government finances and the national economy on the basis of which proposals for decisions are formulated.

- 2.38 This knowledge base includes information about the following:
- revenue and expenditure and financial position of central and general government and estimated development thereof

- impacts of central government measures on general government and the national economy as a whole
 - achievement of fiscal policy objectives.
- 2.39 Information concerning financial position means information about the revenue, expenditure, assets, debts and other financial liabilities and commitments of central and general government, as well as assessments of the development and sustainability of central and general government finances.
- 2.40 Of the tasks of the National Audit Office, fiscal policy auditing may cover auditing both appropriateness and legality, as well as compliance with the Budget.

Significance for and perspective of central government finances in fiscal policy audit

- 2.41 In fiscal policy audit, significance for central government finances means that the main target of the audit (drafting of fiscal policy and its knowledge base) is estimated to have a material impact on the overall management of central government and general government finances. Fiscal policy measures are not necessarily binding on central government but have an indirect impact on general government finances, and for this reason direct use of funding is rarely the most important factor determining the targeting of fiscal policy audit.
- 2.42 Application of the perspective of central government finances mainly refers to the analysis of the impact of the audited activities on central government finances and to the analysis of the knowledge base. In this analysis, economic efficiency and direct expenses are often less important than in performance audit. Fiscal policy measures may have significant indirect societal or national economy impacts, which are considered in the financial analysis.

3 Planning an audit

Purpose and requirements of planning

- 3.1 The purpose of the audit planning process is to produce the audit design, on the basis of which the audit is carried out and the audit report prepared.
- 3.2 The audit design provides the framework for ensuring that the conclusions and recommendations formulated by the National Audit Office on the basis of the audit are sustainable and supported by reasoning. For this reason, particular attention should be paid to the quality of the audit design. The audit design also supports and steers the effective implementation of the audit.
- 3.3 The audit planning process starts with the kick-off meeting and ends with the planning meeting. The National Audit Office has issued separate guidelines for the arranging and content of the meetings and the measures to be carried out after the meetings.
- 3.4 The following matters must be described in the plan for the audit:
- audit topic (the part of the management of central government finances to be audited)
 - audited entities (central government authorities responsible for the matter)
 - purpose and objective of the audit
 - audit data and the manner in which it is obtained and analysed
 - factual and temporal limitations on the audit
 - users of the audit information
 - interaction between different stakeholders during the audit
 - risks of conducting the audit and methods for managing them
 - independence of the auditors from the audited entities
 - audit project plan (envisaged timetable and resources).
- 3.5 An explanatory memorandum on the topic selected for the audit plan has been prepared. It describes on what grounds the topic has been included in the plan.
- The explanatory memorandum provides the basis for planning and it must be considered when the plan is prepared. The memorandum may highlight matters pertaining to the purpose and basic selections of the audit and particular consideration must be given to these in the formulation of the audit design.
- The topicality and relevance of the audit topic must always be checked at the start of the planning process.
- 3.6 During the planning process, it is important to agree on close cooperation, notification and consultation practices with the responsible ministry and the organisation with operational responsibility.
- 3.7 The view of the responsible parties on whether the audit design can produce useful information must be established during the final stages of the planning process and before the audit itself. The expectations of the responsible parties concerning cooperation during the audit must also be known. Good interaction ensures comprehensive access to information and enhances the effectiveness of the audit.
- 3.8 At the end of the planning stage, the NAOF must be able to make a reasoned decision on the start of the audit and on the audit design.

Criteria

- 3.9 The audit criteria must be open, public, relevant, clear, easy to understand, reasonable and based on reliable sources. The audit criteria must be formulated in accordance with the guidelines prepared for individual audit types by applying the following general principles:
- The audit criteria used in attestation engagements must be based on standards and recommendations.

- The audit criteria must be suited for the evaluation of the audited entity, be objective and based on legislation, principles of good governance, policy goals approved by Parliament or Government or generally accepted or justifiable interpretations or recommendations on performance or other types or relevance.
- In direct reporting engagements and (if necessary) in attestation engagements, the audit criteria must be described in the audit report or in the appendix to it.
- Using the audit criteria as a basis, the audited entity and the users of the audit results must be able to understand on what grounds the auditors have evaluated the audit topic.
- The audit criteria must encourage the audited entity to adopt good and cost-effective financial management practices and to develop them.

Planning a compliance audit

Starting point

- 3.10 The auditors must unambiguously identify the intended target group and the responsible party and consider their roles in order to conduct the audit and communicate on it appropriately.
- 3.11 The auditors must have an understanding of the audited entity and its operating environment (including the entity's internal control) so that they can successfully plan and conduct the audit.
- 3.12 The plan for the audit must present the organisations and actors essential to the implementation of the audit and lay out the main legal basis for the audit task and the audit engagement.

Issue examined in the audit (subject matter) and identification of audit criteria

- 3.13 For the audit design to work properly, it must be formulated through defining the subject matter and the audit criteria.
- 3.14 Matters that are relevant to the target group must be selected as audit topics.
- 3.15 The auditors must define the subject matter to be evaluated on the basis of the audit criteria.
- 3.16 The auditors must define the audit criteria in advance so that they can formulate the conclusions or opinions on the basis of them.
- 3.17 Defining the subject matter is one of the first stages in the planning of a compliance audit. Presenting the subject matter and the audit criteria provides a basis for the conclusions. Defining the subject matter and identifying the audit criteria is also related to the understanding of the audited entity and its operating environment. This is especially important during the risk analysis stage when materiality and the risk are considered.
- 3.18 Identifying and presenting the subject matter and identifying the audit criteria should be considered as a single entity.
- 3.19 The subject matters are of diverse nature and type. They may be of general or particular nature. The subject matters may be quantitative and easily measurable or qualitative and of more subjective nature. The subject matter should be of such nature that it is possible to collect enough evidence of it as a basis for conclusions. Particularly in qualitative matters (which are also of more subjective nature), identification of the subject matter and the formulation of the audit criteria should be based on the possibility of establishing criteria that several people familiar with the matter can assess in the same manner and that another person familiar with the matter could arrive at (intersubjective nature of the audit criteria).
- 3.20 The audit criteria may be of formal nature, such as provisions, regulations or restrictions, or of less formal type, such as principles of good governance, or expectations or guidelines for public administration.

- 3.21 The audit criteria must be consistent with the audit design. This means, among other things, that they must be relevant, reliable, complete, objective, understandable, comparable, acceptable and available.
- 3.22 When the audit criteria are established, consideration must be given to the fact that the norms of the judicial system, the objectives laid down in the legislation for different sectors and even fundamental models of thinking behind the provisions and objectives may be contradictory. In such situations, it is particularly important that the audit criteria set in the audit design are transparent and supported by reasoning.
- 3.23 When establishing the audit design, the NAOF must, in accordance with the general part of the audit manual, determine whether the audit is an attestation engagement or a direct reporting engagement. In individual audit projects, the auditors must, in their discussions with the representatives of the audited entity, ensure that the audit criteria used in the audit are known to the management of the audited entity.

Materiality and risk assessment

- 3.24 The auditors must consider the possibility of fraud throughout the audit process and document the results of the assessment.
- 3.25 The auditors must formulate the audit design on the basis of materiality and assess it throughout the audit process.
- 3.26 Materiality must be assessed from the perspective of compliance with the law, appropriateness of public administration and compliance with the Budget. It is essential to determine the manner in which the issue and its materiality impact decision-making.
- 3.27 Materiality can usually be defined in monetary terms. However, there may also be other issues in a compliance audit on the basis of which the errors and shortcomings observed during the audit can be considered of material importance. Issues that are considered of material importance also include systematic shortcomings in internal control and procedures which lead to action that is in violation of the law and principles of good governance in financial management or to substantial inherent risks as a result of which it is impossible to detect and prevent such individual errors sufficiently well. In such cases, materiality is primarily assessed from the perspective of the effective implementation of the legislative powers of Parliament.
- 3.28 Individual shortcomings or errors can also be considered of material importance for other than monetary reasons. These include suspicions of fraud, aid fraud, misuse of trust or intentional or negligent failure to carry out official or other duties or giving of false or apparently false information. An error or shortcoming is of material importance if it results in a failure to implement a legal provision or a requirement for good governance that is important for the legislative or fiscal powers of Parliament or for the steering of public administration.
- 3.29 The model for assessing the risks forms a separate planning entity. Operational risks may arise as a result of such factors as interpretations of legislation and other provisions by the management of the audited entity, human error, poor system planning or functioning, a situation in which it is possible to circumvent controls, or the failure of the audited entity's management process to function, which may also be intentional.
- 3.30 Risk of fraud may be realised in connection with grants and government aid, in public contracts, in other use of public-sector discretion, intentional distortion of information and in connection with privatisation.
- 3.31 The auditors must retain their professional scepticism throughout the audit and to keep in mind that audit measures that are suited for identifying errors may not be suited for detecting fraud.

Determining the level of assurance

- 3.32 The level of assurance is determined in an appropriate manner according to the objectives of the audit.

- 3.33 Depending on the audit engagement defined by the NAOF, the nature of the subject matter, and the needs of the target group, the auditors must decide whether the audit should provide reasonable or limited assurance.
- 3.33.1 Reasonable assurance means high but not absolute level of assurance that can be achieved by obtaining the necessary amount of appropriate audit evidence to reduce the audit risk to an acceptable level.
- 3.33.2 Limited assurance means a level of assurance that is lower than reasonable assurance. Limited assurance is stated in the conclusions in negative format, for example: “Nothing has come to the auditor’s attention to cause him/her to believe that the subject matter is not compliant with the criteria”. Even when the aim is to achieve limited assurance, the auditors must investigate the opinion area and obtain a sufficient amount of appropriate evidence to support the opinion with analytical methods or enquiries.
- 3.34 When assessing the level of assurance, the auditors must consider the needs of the target group. This can be done by contacting the target group or the responsible persons in public administration. There may also be generally accepted practices in the legislative area on the basis of which the auditors can determine the level of assurance.
- 3.35 Providing reasonable assurance requires more extensive audit work.

Audit plan

- 3.36 In compliance audits, a written project-specific plan describing the audit measures and grounds for them must be prepared. The plan must also contain a risk analysis.
- 3.37 The auditors must perform the necessary procedures to reduce the risk of incorrect conclusions to an acceptable level.
- 3.38 The audit plan documents the audit strategy and the concrete plan for the audit. The matters central to the compliance audit plan are presented in a single document.
- 3.39 Understanding the controls material to the audited entity and the audit area and their functioning is a key part of the audit planning and effective implementation of the audit measures. When the functioning of the controls is assessed, consideration can be given to such matters as whether the controls material to the audit topic are in place, whether the controls are effective and how the effectiveness of the controls can best be tested.
- 3.40 The audit methods must be selected and planned so that they provide a response to assumed and identified risks. The audit methods must be selected in accordance with the subject matter, audit criteria and the audit design.
- 3.41 In accordance with the general part of the NAOF’s audit manual, the manner in which the audit supports the implementation of the principles of good governance must be set out in the audit-specific project plans.
- 3.42 If it is decided that a separate compliance audit report will be produced at a later stage on a compliance audit performed as part of a financial audit, an audit plan that is in accordance with this manual must be prepared on the audit.
- 3.43 During the planning of audit, it is advisable to have discussions with the management of the audited entity and other persons responsible for the administration of the matter to be audited. NAOF representatives should explain them such issues as the purpose and timing of the compliance audit, responsibilities and the applicable audit criteria. The audited entities should be informed about the audit during the planning stage unless it is deemed to interfere with the conducting of the audit.

Planning a performance audit

Starting point

- 3.44 The purpose of the planning process is to produce an audit design describing how the audit is targeted and carried out.
- 3.45 The explanatory memorandum should specify why the topic has been included in the audit plan, describe the purpose of the audit and outline the approach to the audit.
 - 3.45.1 The explanatory memorandum provides the basis for the audit planning process and it must be considered when the plan is prepared. The memorandum may highlight issues concerning the audit objective and basic audit selections that are particularly significant in terms of the formulation of the audit design.
 - 3.45.2 The explanatory memorandum on the audit topic may also highlight specifics about the users of the audit report. These factors should also be taken into account when the audit design is defined.
 - 3.45.3 The selections entered in the explanatory memorandum and their topicality should be reviewed during the planning process. If the audit starting points set out in the explanatory memorandum have changed or other essential issues emerge, a new audit design can be presented in the audit plan if there are justified reasons for doing so.
- 3.46 As a rule, performance audits included in the audit plan cover the entire performance chain, unless otherwise specified in the explanatory memorandum.
- 3.47 Based on the analysis carried out during the planning stage, the audit may be result-, system- or problem-oriented. If the problem or the risk is not known to the auditors in advance, they must first proceed in accordance with the basic model in which the entire performance chain is evaluated. Audits often combine a variety of different approaches.
- 3.48 If it is concluded in the planning stage that the audit should focus on a specific problem or risk, the audit design becomes different from what it would be in a basic-model audit focusing on the entire performance chain.
- 3.49 The audit topic may also be already included in the audit plan as a problem-oriented audit. In such cases, the special nature of the audit should, as a rule, already be considered in the planning stage and the audit design can be planned accordingly.
- 3.50 The planning process will result in a plan to conduct the audit. If the audit is not started, the reasons for this decision must be given in the plan.
- 3.51 Performance audit also involves innovation. In an audit, innovation may mean that a new approach to the audit topic is found, new methods for acquiring data or analysing it are tried, or unprejudiced recommendations are given on the basis of the audit evidence. During the planning stage, the auditors should be encouraged to be innovative.
- 3.52 As a rule, performance audits are not focused on fraud in financial management. However, the risk of fraud must always be considered in the planning and implementation of the audit, its role must be assessed and, if necessary, any suspicions of fraud must be reported inside the agency. Suspicions of fraud may prompt a separate compliance audit in the audited entity or such a question may be added to the audit in progress that is to be answered by means of a different audit type.

Formulating the audit design

- 3.53 Most of the resources and time in the planning process should be used for the formulation of the audit design and this should be done by analysing different audit designs and different ways to conduct the audit.

- 3.54 During the early stages of the planning process, it should also be considered what performance means in the audited activities and how it can manifest itself. In addition, it should also be considered which matters are essential preconditions for economic, efficient and effective performance and which matters can cause problems.
- 3.55 The purpose and objective of the audit presented in the explanatory memorandum should be specified during the planning process. The purpose of the audit discloses why the audit is conducted and what it aims to advance or verify. The audit objective, in turn, discloses the questions that the audit aims to answer and the subject matter on which the audit aims to provide information.
- 3.56 The planning process will result in an audit design, on the basis of which the audit will be conducted. The audit design determines the content and framework of the audit:
- purpose and objective of the audit and a possible overall audit question
 - audit questions
 - audit criteria and their sources
 - scope of the audit
 - main audit data
 - methods for collecting and analysing the audit data
 - a project plan specifying the timetables and the required resources.
- 3.57 The basic audit questions covered in a performance audit are:
- Have the responsible parties acted in an economic, efficient and effective manner?
 - How could the performance be enhanced?
- The audit design should be established so that answers to these basic questions can be provided in a manner advancing the purpose of the audit.
- 3.58 In problem-oriented audits, the basic questions are:
- Is the problem that is the audit starting point as described in the preliminary information?
 - Have the parties responsible for the activities identified the problem and its causes and impacts?
 - Have the parties responsible for the activities taken adequate measures to correct the situation?
- 3.59 A performance chain describing the different stages of economic, efficient and effective operations (Figure 3) should be utilised to formulate the audit design for performance audits.
- 3.60 The performance chain includes three main stages:
- allocating state funds to activities that are expected to satisfy societal needs
 - transforming financial inputs into actions and outputs
 - achieving operational impacts.
- 3.61 The operations have been economic, efficient and effective only if all of the main parts of the performance chain have succeeded. This should be taken into account when the audit design is formulated.
- 3.62 To define the audit design, the auditors should review the main stages of the performance chain at the level of detail required by the audit topic. The review should result in an understanding of how central government funds are transformed into actions and further into impacts. The objective is to identify the stages that are material in terms of performance, as well as the stages involving problems and risks.

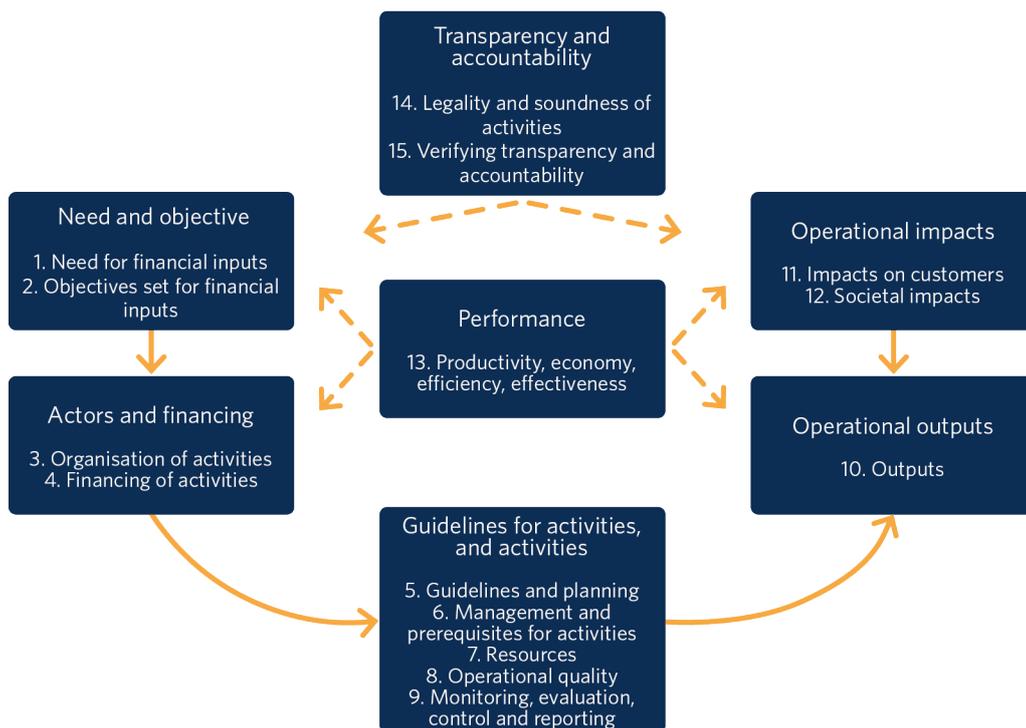


Figure 3: Performance audit perspectives derived from the performance chain

- 3.63 Once it has been evaluated in the planning process which stages of the performance chain are particularly important and risk-prone, the audit can be targeted based on this assessment.
- 3.64 An audit design covering the entire performance chain is necessary if the risks cannot be located to specific stages of the chain.
- 3.65 When the risks are concentrated in a certain stage of the performance chain, the audit design can be limited to the stage in question and the audit can be focused accordingly. For example, if the operational steering involves a significant risk, this may call for a system-oriented audit approach.
- 3.66 In addition to risk assessments, the audit design also depends on the estimated number of working days and expertise and other resources available for the audit, as well as the alternative ways available to conduct the audit. For these reasons, it may be necessary to focus the audit on the issues at the start of the performance chain and on how the prerequisites for economic, efficient and effective operations are met.
- 3.67 If several audits on the same topic are carried out, the audits can be focused on different parts of the performance chain. In that case, the audit designs can be formulated and restricted in a similar manner, while at the same time, they can also be on a more in-depth basis.
- 3.68 The public authorities in charge of the audited activities are primarily responsible for providing data about their own operational performance. It must be examined in each audit planning process what type of data is available on such matters as effectiveness and impacts and how this data can be used in the audit. Based on this, the auditors will estimate the need for and opportunities to produce audit information about the impact of the audited activities.
- 3.69 The societal impact achieved at the end of the performance chain always is always most essential in any audited activities.

- 3.69.1 Even when the audit is targeted at the effectiveness of the operations, it is necessary to analyse the implementation of the activities to the extent required to obtain information about the causes of the effectiveness problems, as well as about any corrective measures taken. Without such analysis, it can be difficult to give useful development recommendations.
- 3.69.2 The audit must produce more effectiveness data if the information produced by the public authorities is deemed to be qualitatively or quantitatively inadequate. If it is concluded that even in such cases, it is difficult to produce effectiveness data for a variety of reasons, it can be considered whether the audit questions should be limited to the other parts of the performance chain.
- 3.70 If the audit objective and the possible overall audit question focus on a single stage of the performance chain, the stage concerned should be material in terms of the economic, efficient and effective operations of the audited entity and involve significant performance problems.
 - 3.70.1 The audit should be targeted at a performance chain function that is expected to promote societal impact and act as a prerequisite for cost-effective operations.
 - 3.70.2 This connection between the audited part of the performance chain and the operational performance (including societal impact) must be highlighted during the audit and in the audit report.
- 3.71 As significantly less time is spent on the planning than on the actual audit, observing and evaluating performance problems in the planning stage does not require the same kind of information production as in an audit, in which information must be verified from multiple sources. The analysis and presentation of problems must, however, be based on well-founded opinions on the state of affairs. Risk analyses carried out by public administration actors can also be used as a source in this respect.
- 3.72 Alternative ways to target the audit should be discussed with the person deciding on the audit plan. Once the main perspectives of the audit have been agreed, the audit design can be supplemented by specifying the audit questions and criteria, the main audit data and methods, the audit timetable, and the necessary resources.

Specifying the audit purpose, objective, questions and scope

- 3.73 The explanatory memorandum discussing the audit topic and the performance chain analysis guide the manner in which the audit purpose and objective, audit questions and audit scope are defined. These should be specified during the planning stage in such detail that they can also steer the audit and the selections and decision-making required in the process.
- 3.74 The auditors should formulate between three and five relevant audit questions on the basis of the audit objective or the main audit question. For each audit question, the auditors should also formulate sub-questions that describe the audit content in more detail.
- 3.75 Where the audit design covers the entire performance chain, one alternative is to formulate separate audit questions for each three main stages of the performance chain (see paragraph 3.61), which are further broken down into sub-questions on the main stage.
- 3.76 Examples of questions that can be asked about the different stages of the performance chain are given in performance audit guidelines and models supplementing this manual.
- 3.77 The audit questions should be presented in the form of questions that are clear and easy to understand. Expressions that can reduce the clarity of the audit questions should not be used.
- 3.78 Audit questions should be evaluative in nature (have activities been carried out as they ought to be?). The purpose of sub-questions may be to examine the state of affairs without any evaluative aspect (how have activities been carried out?).
- 3.79 If the economic aspect is not directly addressed by the audit objective or the possible main audit question, it should be added to the audit design, for example, by including audit questions or sub-

questions about operational resourcing and efficient use of resources. This also applies to problem-oriented audits, which otherwise have a different audit design than ordinary performance audits.

- 3.80 During the audit, economic analysis should be applied to all audit questions, irrespective of whether economic efficiency is addressed by the audit questions.
- 3.81 Questions about economic efficiency can only be asked and the economic perspective applied to the audit if the significance of the audited issue to central government finances and the determination and targeting of inputs are thoroughly examined during the planning stage. The relevance of the financial perspective and the way in which the audit topic can be analysed from this perspective should also be considered during the planning stage.
- 3.82 The audit scope should also be presented in the plan for the audit. The audit questions already outline which matters should be included in the audit scope and which matters should be excluded from the audit questions and data collection. Temporal, regional or administrative limitations can also be made. The limitations must be well-grounded.

Specifying the audit criteria

- 3.83 At least one evaluative audit question and a related audit criterion must be defined for a performance audit.
- 3.84 Audit criteria must be set for all evaluative audit questions. The audit criteria must be indicated in a clear and easy-to-understand manner. They should be specified so that they enable Parliament, representatives of the audited entity and audit stakeholder groups to understand the standards against which the audited matters are evaluated.
- 3.85 In problem-oriented audits, audit criteria should be specified in a different manner. The mere fact that a problem-oriented approach has been selected for the audit inherently implies that there is a deviation from the desired state of affairs. After such an evaluative selection of topics, the audit questions may be directed at investigating the causes of the state of affairs (why the problematic situation has arisen) rather than at determining whether the public authorities have acted in a correct manner. In problem-oriented audits, too, the auditors should, nevertheless specify at least a small number of evaluative audit questions and set audit criteria for them.
- 3.86 Already when the audit criteria are considered, it should be kept in mind that the NAOF cannot make any conclusions or recommendations on matters for which no specific audit criteria have been defined.
- 3.87 Audit criteria must be separated from the sources from which they are derived. These sources must be clearly indicated.
- 3.88 Audit criteria are primarily derived from decisions made by Parliament, including legislation on the audited activities, the Budget and related background material, or legislation regarding public administration in general, such as the Administrative Procedure Act, the State Budget Act and the Act on the Openness of Government Activities.
- 3.89 Objectives set out in performance agreements, programmes, central government guidelines or good practices can be used as secondary audit criteria as long as they are in accordance with the decisions made by Parliament. If the objectives set by public administration are not in accordance with decisions made by Parliament, the matter should be discussed with the audited entity and addressed in the planning report.
- 3.90 Primary audit criteria sources in particular do not always contain clear criteria for an audit. This may especially be the case when the audited activities have qualitative objectives. In that case, the auditors should interpret and specify the audit criteria using a broad range of different sources. It is important that the audit criteria are specified in a transparent manner and that the audited entities are provided with an opportunity to evaluate them. The more the auditors need to interpret the criteria set for appropriate activities, the more important it is to ensure that the audit criteria are specified in a transparent manner and that their acceptability is discussed.

- 3.91 When defining appropriate activities, the auditors should always apply at least some generally accepted principles that are independent of their own preferences. In this connection, it should be kept in mind that past activities should not be evaluated on the basis of criteria that have entered into force or have become generally accepted only after the completion of the activities. Similarly, if the auditors specify the audit criteria on the basis of an ideal of appropriate activities, they should, when applying the criteria, consider what can be reasonably required of the audited entity. Expecting perfection may be both unreasonable and contrary to the objective of economic efficiency.

Planning related to audit data, audit analyses and interaction

- 3.92 The data that is used to answer the audit questions, the way in which the data is collected and the resources required are all described in the planning process. The main methods that are used to analyse the data are also specified during the process. The purpose of the planning is to ensure that the audit questions can be answered and that the data and methods used are suitable for answering the questions that have been presented.
- 3.93 In the definition of audit data and analysis methods, particular consideration should be given to the possibility of using quantitative audit data and applying a quantitative analysis method.
- 3.94 Audit data refers to data collected from different data sources during the audit. The data that will primarily be used to answer the audit questions is specified in the plan. The specification should be carried out so that it can be used as a basis for estimating the likelihood of obtaining sufficient answers to the audit questions as well as the workload required to answer them.
- 3.95 Data analysis refers to the process of itemising and structuring the audit data on the basis of the audit questions and audit criteria.
- 3.96 Under section 3 of the Act on the National Audit Office, external experts can also be used in audits. If it is decided to use external experts in the audit, particular consideration should be given to the following issues: 1) how well-placed the external experts are to produce objective information on the topic; 2) the impact of the use of external experts and the purchasing process on the audit costs and timetables (when consideration is given to the time required for the service purchasing process); and 3) how confidential and secret audit information can be processed. External expertise can also be used in the audit quality control process. The use of external experts must be described in the plan for the audit.
- 3.97 Interaction during the audit should also be planned as part of the planning process and it should be specified to whom, when and how information on the audit should be disseminated to best advance the objective and impacts of the audit.

Required expertise

- 3.98 Ensuring that the audit project has the expertise required for carrying out the audit is a key part of the audit planning process. In performance audit, the expertise is closely connected with the understanding of the audit topic, establishment of the audit design, adequate management of the data acquisition and analysis methods, advancement of the audit process, interaction with the audited entities, and disseminating information on audit results.

Audit planning matrix and project plan

- 3.99 The audit design and the conducting of the audit are summarised in a planning matrix and an audit project plan.
- 3.100 The planning matrix is a table summarising the audit purpose and objective, audit questions and sub-questions, audit criteria and their sources as well as audit data and methods itemised by sub-question.
- 3.101 The audit project plan lists the auditors, the working hours allocated to the project, other resources needed, audit stages and the audit timetable.

- 3.102 The timetable is determined by dividing the audit into stages. The estimated workload and start and end date of each stage are entered in the project plan.
- 3.103 Significant changes to the project plan are comparable to preparing the plan and for this reason, decisions on them are made in the same manner as on the plan report.

Risks to conducting an audit and audit impacts

- 3.104 An important part of the planning process is to determine the risks and uncertainties involved in conducting the audit and to document them. The risk to conducting an audit refers to the risk that, for some reason, the audit cannot be conducted as planned or it is no longer relevant due to changed circumstances. The audit risks do not only apply to the audit process, but also to the fact that no answers to the audit questions are received or that the answers are not reliable.
- 3.105 When risks are considered, it is also necessary to identify measures to mitigate and counter the risks.
- 3.106 In the planning of the audit, it is advisable to consider and prepare for foreseeable risks and uncertainties that, if realised, would undermine the impacts of the audit and would favour substantial changes in the audit design or the suspension of the audit.
- 3.107 Risks and uncertainties should be discussed at different stages of the audit planning process with the parties involved. Discussions with the audited entity and the responsible ministry often help to clarify the risks associated with the carrying out of the audit. Observed risks influence the manner in which the audit design is determined.
- 3.108 Expertise of the auditors involved is a major risk factor in the carrying out and impact of performance audits. The expertise must be assessed during the planning stage and the process must be documented in the plan for the audit, appendices to the plan or the working papers of the planning stage.
- 3.109 The planning report should give a clear and detailed picture of the risks associated with the carrying out of the audit and the use of the audit results. The report should also deal with the factors that may influence the risk level. The decision to start an audit must be made on the basis of adequate information, which is one reason why the uncertainties should be detailed in the report. The risks associated with the selected audit design should also be documented before the audit starts. The uncertainties presented in the planning report also provide tentative grounds for any changes to the audit design or for giving only a partial answer to the audit question.

Planning report

- 3.110 The planning report must describe the audit design of the planned audit and present the planning matrix and the project plan.
- If it is decided that the audit should not be carried out, the reasons for not proceeding with the audit must be given in the planning report. The decision not to start the audit is taken by the Auditor General.
- 3.111 The planning report is written on a report template. The report should be concise and brief. In performance audits, the indicative contents and structure of the report are as follows:
- Reasons for selecting the audit topic
 - Defining the audited entity and its economic, efficient and effective operations as well as the key prerequisites for such operations
 - Audit purpose and objective, audit approaches and intended uses of the audit results
 - Audit questions, criteria and data
 - Carrying out the audit and the risks involved
 - Appendices: planning matrix, project plan and other appendices specified in the reporting template.

- 3.112 In connection with the intended uses of the audit results, the planning report should also discuss the interaction with relevant parties during the audit and audit reporting. The indicative contents of the planning report are described in more detail in the report template.
- 3.113 Following the completion of the audit, the planning report is considered a public document and it is available from the registry of the National Audit Office on request. If the report contains confidential information, a decision must be made to keep such parts of the report secret.

Planning a fiscal policy audit

Starting point

- 3.114 The purpose of the planning process is to produce an audit design describing how the audit is targeted and conducted.
- 3.115 The explanatory memorandum should specify why the topic has been included in the audit plan, describe the purpose of the audit and outline the audit approach.
- 3.115.1 The explanatory memorandum provides the basis for the audit planning process and it must be considered when the plan is prepared. The memorandum may highlight issues concerning the audit objective and basic audit selections that are particularly significant in terms of the formulation of the audit design.
- 3.115.2 The explanatory memorandum on the audit topic may also highlight specifics about the users of the audit report. These factors should also be taken into account when the audit design is formulated.
- 3.115.3 Selections made in the explanatory memorandum and their timeliness should be reviewed and a well-reasoned proposal for an audit design based on different starting points should be presented during the planning process.
- 3.116 The planning process will result in a plan to carry out the audit. If the audit is not started, the reasons for this decision must be given in the plan.

Formulating the audit design

- 3.117 Most of the resources and time in the planning process should be used for the formulation of the audit design and this should be done by analysing different audit designs and different ways to conduct the audit.
- 3.118 The purpose and objective of the audit presented in the explanatory memorandum should be specified during the planning process. The purpose of the audit discloses why the audit is conducted and what it aims to advance or verify. The audit objective, in turn, discloses the questions that the audit aims to answer and the subject matter on which the audit aims to provide information.
- 3.119 The planning process will result in an audit design, on the basis of which the audit will be conducted. The audit design determines the content and framework of the audit:
- purpose and objective of the audit and a possible main audit question
 - audit questions
 - audit criteria and their sources
 - audit scope
 - main audit data
 - methods for collecting and analysing the audit data
 - a project plan specifying the timetables and the required resources.
- 3.120 The societal impact is the most essential in any audited activities. This perspective should be highlighted throughout the audit and in the reporting.

- 3.121 As considerably less time is spent on the planning of the audit than on the audit itself, it is not necessary to verify the information used as a basis for the audit design from more than one source. The analysis must, however, be based on reasoned opinions on the state of affairs.
- 3.122 Alternative ways to focus the audit should be discussed with the person deciding on the audit plan. Once the main perspectives of the audit have been agreed, the audit design can be supplemented by specifying the audit questions and criteria, the main audit data and methods, the audit timetable, and the necessary resources.

Specifying the audit purpose, objective, questions and scope

- 3.123 The explanatory memorandum discussing the audit topic and the analysis of the audited entity guide the manner in which the audit purpose and objective, audit questions and audit scope are defined. These should be specified during the planning stage in such detail that they can also steer the audit and the selections and decision-making required in the process.
- 3.124 The auditors should formulate between three and five relevant audit questions on the basis of the audit objective or the main audit question. For each audit question, the auditors should also formulate sub-questions that describe the audit content in more detail.
- 3.125 The audit questions should be presented in the form of questions that are clear and easy to understand.
- 3.126 Audit questions should be evaluative in nature (have activities been carried out as they ought to be?). The purpose of sub-questions may be to examine the state of affairs without any evaluative aspect (how have activities been carried out?).
- 3.127 Questions about economic efficiency can only be asked and the economic perspective applied to the audit if the significance of the audited issue to central government finances and the determination and targeting of inputs are thoroughly examined during the planning stage. The relevance of the financial perspective and the way in which the audit topic can be analysed from this perspective should also be considered during the planning stage.
- 3.128 The audit scope should also be presented in the plan for the audit. The audit questions already outline which matters should be included in the audit scope and which matters should be excluded from the audit questions and data collection. Temporal, regional or administrative limitations can also be made. The limitations must be well-grounded.

Specifying the audit criteria

- 3.129 At least one evaluative audit question and a related audit criterion must be defined for a fiscal policy audit.
- 3.130 Audit criteria must be set for all evaluative audit questions. The audit criteria must be indicated in a clear and easy-to-understand manner. They should be specified so that they enable Parliament, representatives of the audited entity and audit stakeholder groups to understand the standards against which the audited matters are evaluated.
- 3.131 Already when the audit criteria are considered, it should be kept in mind that the NAOF cannot make any conclusions or recommendations on matters for which no specific audit criteria have been defined.
- 3.132 Audit criteria must be separated from the sources from which they are derived. These sources must be clearly indicated.
- 3.133 Audit criteria are primarily derived from decisions made by Parliament, including legislation on the audited activities, the Budget and related background material, or legislation regarding public administration in general, such as the Administrative Procedure Act, the State Budget Act and the Act on the Openness of Government Activities.

The criteria may also be based on EU-level agreements, such as the Stability and Growth Pact or other fiscal policy treaties, and the recommendations, guidelines and best practices issued by the EU and other international organisations, such as the OECD and the IMF.

- 3.134 Objectives defined by the Government or public administration can be used as secondary audit criteria if they are in accordance with the decision of Parliament. If the objectives set by public administration are not in accordance with decisions made by Parliament, the matter should be discussed with the audited entity and addressed in the planning report.
- 3.135 Primary audit criteria sources in particular do not always contain clear criteria for an audit. This may especially be the case when the audited activities have qualitative objectives. In that case, the auditors should interpret and specify the audit criteria using a broad range of different sources. It is important that the audit criteria are specified in a transparent manner and that the audited entities are provided with an opportunity to evaluate them. The more the auditors need to interpret the criteria set for appropriate activities, the more important it is to ensure that the audit criteria are specified in a transparent manner and that their acceptability is discussed.
- 3.136 When defining appropriate activities, the auditors should always apply at least some generally accepted principles that are independent of their own preferences. In this connection, it should be kept in mind that past activities should not be evaluated on the basis of criteria that have entered into force or have become generally accepted only after the completion of the activities. Similarly, if the auditors specify the audit criteria on the basis of an ideal of appropriate activities, they should, when applying the criteria, consider what can be reasonably required of the audited entity. Expecting perfection may be both unreasonable and contrary to the objective of economic efficiency.

Planning related to audit data, audit analyses and interaction

- 3.137 The data that is used to answer the audit questions, the way in which the data is collected and the resources required are all described in the planning process. The main methods that are used to analyse the data are also specified during the process. The purpose of the planning is to ensure that the audit questions can be answered and that the data and methods used are suitable for answering the questions that have been presented.
- 3.138 In the definition of audit data and analysis methods, particular consideration should be given to the possibility of using quantitative audit data and applying a quantitative analysis method.
- 3.139 Audit data refers to data collected from different data sources during the audit. The data that will primarily be used to answer the audit questions is specified in the plan. The specification should be carried out so that it can be used as a basis for estimating the likelihood of obtaining sufficient answers to the audit questions as well as the workload required to answer them.
- 3.140 Data analysis refers to the process of itemising and structuring the audit data on the basis of the audit questions and audit criteria.
- 3.141 Under section 3 of the Act on the National Audit Office, external experts can also be used in audits. If it is decided to use external experts in the audit, particular consideration should be given to the following issues: 1) how well-placed the external experts are to produce objective information on the topic; 2) the impact of the use of external experts and the purchasing process on the audit costs and timetables (when consideration is given to the time required for the service purchasing process); and 3) how confidential and secret audit information can be processed. External expertise can also be used in the audit quality control process. The use of external experts must be described in the plan for the audit.
- 3.142 Interaction during the audit should also be planned as part of the planning process and it should be specified to whom, when and how information on the audit should be disseminated to best advance the objective and impacts of the audit.

Required expertise

- 3.143 Ensuring that the audit project has the expertise required for carrying out the audit is a key part of the audit planning process. In fiscal policy audit, the expertise is closely connected with the understanding of the audit topic, establishment of the audit design, adequate management of the data acquisition and analysis methods, advancement of the audit process, interaction with the audited entities, and disseminating information on audit results.

Audit planning matrix and project plan

- 3.144 The audit design and the conducting of the audit are summarised in a planning matrix and an audit project plan.
- 3.145 The planning matrix is a table summarising the audit purpose and objective, audit questions and sub-questions, audit criteria and their sources as well as audit data and methods itemised by sub-question.
- 3.146 The audit project plan lists the auditors, the working hours allocated to the project, other resources needed, audit stages and the audit timetable.
- 3.147 The timetable is determined by dividing the audit into stages. The estimated workload and start and end date of each stage are entered in the project plan.
- 3.148 Significant changes to the project plan are comparable to preparing the plan and for this reason, decisions on them are made in the same manner as on the plan report.

Risks to conducting an audit and audit impacts

- 3.149 An important part of the planning process is to determine the risks and uncertainties involved in conducting the audit and to report on them. The risk to conducting an audit refers to the risk that, for some reason, the audit cannot be conducted as planned or it is no longer relevant due to changed circumstances. The audit risks do not only apply to the audit process, but also to the fact that no answers to the audit questions are received or that the answers are not reliable.
- 3.150 When risks are considered, it is also necessary to identify measures to mitigate and counter the risks.
- 3.151 In the planning of the audit, it is advisable to consider and prepare for foreseeable risks and uncertainties that, if realised, would undermine the impacts of the audit and would favour substantial changes in the audit design or the suspension of the audit.
- 3.152 Risks and uncertainties should be discussed at different stages of the audit planning process with the parties involved. Discussions with the audited entity and the responsible ministry often help to clarify the risks associated with the carrying out of the audit. Observed risks influence the manner in which the audit design is determined.
- 3.153 Expertise of the auditors involved is a major risk factor in the conducting and impact of a fiscal policy audit. The expertise must be assessed during the planning stage and documented in the plan for the audit, appendices to the plan or the working papers of the planning stage.
- 3.154 The planning report should give a clear and detailed picture of the risks associated with the carrying out of the audit and the use of the audit results. The report should also deal with the factors that may influence the risk level. The decision to go ahead with an audit must be made on the basis of adequate information, which is one reason why the uncertainties should be detailed in the report. The risks associated with the selected audit design should also be documented before the audit starts. The uncertainties presented in the planning report also provide tentative grounds for any changes to the audit design or for giving only a partial answer to the audit question.

Planning report

- 3.155 The purpose of the planning report is to describe the audit design and present the planning matrix and project plan.

If it is decided that the audit should not be carried out, the reasons for not proceeding with the audit must be given in the planning report. The decision not to start the audit is taken by the Auditor General.

- 3.156 The planning report is written on a report template. The report should be concise and brief. In fiscal policy audits, the indicative contents and structure of the report are as follows:
- Reasons for selecting the audit topic
 - Defining the audited entity and objectives
 - Audit purpose and objective, audit approaches and intended uses of the audit results
 - Audit questions, criteria and data
 - Carrying out the audit and the risks involved
 - Appendices: planning matrix, project plan and other appendices specified in the reporting template.
- 3.157 In connection with the intended uses of the audit results, the planning report should also discuss the interaction with relevant parties during the audit and audit reporting. The indicative contents of the planning report are described in more detail in the report template.
- 3.158 Following the completion of the audit, the planning report is considered a public document and it is available from the registry of the National Audit Office on request. If the report contains confidential information, a decision must be made to keep such parts of the report secret.

4 Conducting an audit

Common factors

- 4.1 As part of the audit implementation process, the auditors obtain and analyse a broad range of different data, on the basis of which the National Audit Office can formulate its opinion on the audited matter.
- 4.2 The position and credibility of the NAOF as an independent external auditor requires that the audit is of high quality and based on a robust audit design. The NAOF's conclusions and recommendations must be reasonably derived from the audit findings.

Right to access information

- 4.3 The NAOF has extensive statutory rights to access information. Good interaction with the audited entities facilitates access to the information required for the audit.
- 4.4 The statutory right to access information may only be used to perform tasks approved in the audit plan and in accordance with the plan prepared in advance.
- 4.5 The right to access information should be exercised to the extent required by the audit design and audit questions.
 - 4.5.1 Because of the added value generated by the audit, it is important to make use of data that is only partially accessible to others even if finding the data would require considerable efforts. Restricted data includes preparatory material not contained in the official registers, intranet data, and classified data.
 - 4.5.2 Auditors also have the right to view public officials' personal preparatory material kept in archives, offices, electronic files and other similar locations. It may be difficult to obtain all preparatory material required for the audit. If decision documents contain figures without calculations or explanations, the auditors can ask the preparing officials to supply the relevant preparatory files or working papers. If the auditors are told that the requested background information does not exist, this should also be reported as an audit finding.
 - 4.5.3 Despite possessing extensive information access rights, the auditors should act in a courteous manner when requesting and collecting data. At the same time, however, the auditors must ensure that they receive all the documents that they need for the audit. Problems in accessing data should be resolved in cooperation with the responsible official in the audited entity or their supervisor, with the support of the audit coordinator.
 - 4.5.4 As a last-resort measure, the NAOF can, under section 15 of the Act on the National Audit Office, impose a conditional fine to obtain access to the requested information. Any serious problems concerning access to information should be detailed in the audit report.
- 4.6 When dealing with classified data coming under the scope of the right to access information, the auditors must observe the NAOF's guidelines on applying the Act on the Openness of Government Activities and on the handling of confidential data.

Audit evidence

- 4.7 Audit conclusions must be founded on the audit design and systematic analysis as well as on adequate and convincing audit evidence on the basis of which the auditors have been able to reach the conclusions presented in the audit in a credible manner.
 - 4.7.1 Audit evidence means the audit findings and supporting observations, analyses and conclusions that form the basis for the conclusions derived from the audit.
 - 4.7.2 The evidence provides a sufficient basis for conclusions when another knowledgeable person could arrive at the same conclusions using the same evidence.

Conclusions and recommendations of the National Audit Office

- 4.8 Conclusions and recommendations of the National Audit Office mean the conclusions and recommendations issued by the NAOF on the basis of an audit. Answers to the audit questions are the NAOF's opinions and conclusions based on the audit findings. The NAOF's conclusions and recommendations are also based on other conclusions and recommendations that it has issued.
- 4.9 The NAOF's conclusions and recommendations are based on its evaluation of what can be stated on the audit topic on the basis of the audit findings. The conclusions and recommendations cannot be extended beyond what can be formulated based on the audit findings even if the objective of the audit had been more broadly set.
- 4.10 The NAOF's conclusions and recommendations are primarily intended for the use of the management of the audited entity and the ministry steering the entity. For this reason, only the opinions deemed most essential from the perspective of the audit topic are included in the conclusions and recommendations. The conclusions and recommendations must, however, be sufficiently specific so that they are understood.

Documentation of the audit process

- 4.11 Audit evidence supporting the audit conclusions must be presented in the audit report or otherwise made available and traceable to ensure the credibility of the audit conclusions.
- 4.12 Using the audit documentation and the content of the audit report as a basis, it must be possible to determine how the audit findings and conclusions were reached. The audit documentation and the data presented in the audit report must allow audit quality assurers and other experts to reach the same conclusions as the auditors.

Conducting a compliance audit

Collecting and assessing audit evidence

- 4.13 The auditors select and perform the audit measures that are appropriate in relation to the audit questions and the circumstances. The findings and conclusions made by the auditors must be founded on adequate, appropriate and relevant audit evidence.
- 4.14 The auditors must plan and perform the procedures to obtain sufficient and appropriate audit evidence so that they can form conclusions with the selected level of assurance.
- 4.15 It is a standard practice in compliance audit to assess internal control procedures related to the audited entity and the subject matter and the internal control risks associated with them that may result in a failure to notice material deviations. The level of attention given by the auditors to the amount and quality of the audit evidence depends on the severity of the internal control risks determined by the auditors.
- 4.16 However, the audit methods often depend on the subject matter and the audit criteria. The auditors can also select audit methods on the basis of their own assessment. However, the auditors must select audit methods that provide a response to the assessed and identified risks and are compatible with the audit criteria.
- 4.17 The auditors must identify the subject matter and the key audit criteria no later than in the audit planning stage so that they can outline how to collect the evidence. The amount and quality of the evidence available have an effect on whether an opinion of reasonable assurance or limited assurance is issued on the audit. If obtaining evidence proves more difficult than what was estimated during the audit planning process, it may be necessary to change the nature of the opinion or, more broadly, the nature of the audit report. In that case, instead of an audit report, a review is prepared on the audit topic. The auditors must also assess the costs and benefits of collecting evidence.

- 4.18 Producing audit evidence is a systematic and iterative process. It includes
- collecting evidence using different types of audit methods suitable for the purpose
 - assessing the adequacy and qualitative suitability of the evidence
 - assessing and reassessing risks in the light of the evidence already collected
 - if necessary, collecting additional data.
- 4.19 The auditors must continue to collect audit evidence until they consider that the amount of evidence is sufficient for drawing conclusions.
- 4.20 The audit evidence must be adequate, both qualitatively and quantitatively. Qualitative adequacy can be assessed from the perspective of the relevance, reliability and suitability of the evidence. Qualitative adequacy is often connected with the quantitative adequacy of the evidence. The adequacy of the audit evidence as a basis for making audit conclusions must always be assessed in a systematic manner.
- 4.21 In the collection of audit evidence, emphasis should, in addition to the risk, also be on random sampling and total coverage. Generally speaking, if a systematic audit fails to produce additional material findings, the evidence can be considered adequate. At the same time, however, if deviations are revealed, it may be necessary to obtain additional evidence by auditing other similar cases (such as the area of responsibility, supplier or cost type).
- 4.22 Below are some of the audit techniques that can be used in the collection of audit evidence:
- observations and monitoring
 - reports and surveys
 - external confirmation
 - re-performance
 - re-calculation
 - substantive testing
 - test of controls.

Sampling

- 4.23 Any sampling is implemented in accordance with the audit design and as specified in the financial audit manual.
- 4.24 The auditors must use sampling, where appropriate, to provide a sufficient number of items for drawing conclusions about the population from which the sample is selected. When designing a sample, the auditors must consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

Documentation

- 4.25 Audit documentation meeting the requirements set out in the audit manuals must be prepared of all stages of the audit.
- 4.26 The auditors must prepare the audit documentation in such detail that it fully describes the work performed, the evidence obtained and the conclusions reached. The auditors must prepare the audit documentation in a timely manner, keep it up to date throughout the audit and supplement the documentation with evidence supporting the audit findings before the audit report is issued.
- 4.27 In attestation engagements, the audit documentation should be so detailed and thorough that an experienced audit professional who did not take part in the audit in question can understand the work done and the conclusions made on the basis of the documentation.
- 4.28 The documentation must describe how the auditors defined the audit objective, subject matter, the criteria and the scope as well as the reasons why a specific analysis method was chosen. For this purpose, the documentation must be structured so that it provides a clear and direct link between the findings and the evidence that supports them.

- 4.29 Specifically in the audit planning stage, the documentation kept by the auditors must contain:
- the information needed to understand the audited entity and its operating environment that allows the auditors to assess relevant risks
 - assessment of the materiality of the subject matter
 - sources of evidence.
- 4.30 The key audit findings are presented in the audit report.
- 4.31 Further instructions on audit documentation are provided in the NAOF's financial audit manual and the appendices to it. In compliance audits, documentation must be prepared in accordance with the financial audit manual.

Interaction

- 4.32 Good interaction with the audited entity throughout the audit process contributes to effective and constructive implementation of the audit.
- 4.33 The auditors must communicate with the audited entity and responsible public officials in an effective manner throughout the audit process.
- 4.34 If the auditors discover material shortcomings in matters concerning the audited entity on the basis of the audit criteria, they must notify relevant administrative levels and, if necessary, the responsible public officials. Other significant matters arising from the audit that are directly relevant to the audited entity must also be communicated.
- 4.35 The audited entity should be provided with information on the conducting of a compliance audit in general and on the audit in progress in particular. This also helps to ensure that the audit is performed in accordance with the principles of good governance and to safeguard the rights of the parties that the audited matter concerns.
- 4.36 If necessary, during the audit implementation stage, discussions should be conducted on the audited activities with the parties responsible for the matter. All material findings and preliminary views should already be brought to the attention of the management of the audited organisation during the audit. It is recommended that the parties responsible for the administration are kept up to date on the progress of the audit. Likewise, less important findings that in the auditors' view should not necessarily be included in the audit report can be already be highlighted during the audit. Providing information on less important findings may also help the audited entity to adjust its activities. For this reason, it is advisable that the findings based on the audit should be brought to the attention of the audited entity as extensively as possible.
- 4.37 Documented audit feedback on audit visits made to organisations outside central government must be provided during the audit implementation stage. The feedback must contain the information referred to in section 39 of the Administrative Procedure Act and the key observations and conclusions made during the audit visit. The audited organisation is provided with an opportunity to present its own findings and views of the matter.
- 4.38 The auditors may be in contact with the users of the audit report during the reporting stage, if this is considered necessary.
- 4.39 The public debate that may arise as a result of the findings should also be assessed during the final stages of the audit. The assessment is made in cooperation with Communications. Issues concerning publicity should also be considered in connection with each interim report.

Reporting on non-compliance

- 4.40 Examining or investigating fraud is rarely the main purpose of a compliance audit. However, the risk of fraud must always be taken into account in a compliance audit and the role of non-compliance and the risk of fraud must be assessed.
- 4.41 If the audit reveals non-compliance that may result in legal consequences, the auditors should ensure that the audit does not impede further investigation of the matter or legal proceedings. If

necessary, the auditors must consult the legal counselling of the NAOF or notify competent investigation authorities.

- 4.42 Because of the limitations of the audit, there is always a risk that the auditors fail to detect potential violations of the law during the audit.
- 4.43 Compliance audit is based on a principle that only a competent court may make final decisions on whether the activities have been illegal.
- 4.44 In a compliance audit, consideration must be given to the fact that the audit may result in legal and administrative action that has major bearing on the legal status of the audited public authority or legal person and the persons working in the audited entity. These include preliminary criminal investigation and other measures in the field of criminal law and procedures that may lead to sanctions under administrative law.
- 4.45 In the reporting on a compliance audit, consideration must be given to the presumption of innocence so that the audited entity or its representatives are not unjustifiably stigmatised on the basis of the audit.
- 4.46 Compliance audits should not cover or produce opinions on matters on which court proceedings are pending or which are under investigation by a competent law enforcement authority.

Assessing the evidence

- 4.47 The auditors must plan and perform the audit measures in such a manner that they can obtain a sufficient amount of appropriate audit evidence in order to make reasonable conclusions to support their opinion.
- 4.48 The auditors must compare the audit evidence they have obtained with the stated audit criteria to form audit findings for the audit conclusions.
- 4.49 The auditors must assess the adequacy and appropriateness of the audit evidence so that they can determine whether the audit risk remains at acceptable level. The auditors must use professional judgement in the assessment and determine whether the audit evidence provides information on the regularity of the audited matter or whether it directs the auditor to examine its non-compliance aspects.
- 4.50 The auditors must assess the audit data that they have collected so that they can determine any material errors. Materiality should already be assessed during the audit planning stage.
- 4.51 Using the audit evidence as a basis, the auditors should be able to assess whether the subject matter is arranged and implemented in an appropriate manner. Audit evidence must be assessed in relation to all material criteria laid down for the audit. However, it should be remembered that the methods used in the audit will not always result in the identification of all operational irregularities.
- 4.52 When determining whether they can assess the appropriateness of the audited entity's activities on the basis of the audit evidence, the auditors should consider the qualitative and quantitative correctness of the transactions.
- 4.53 The auditors can use the following factors when assessing the audit evidence and the materiality of the irregularities:
 - number and economic scope of the transactions (total sum of the observed errors, total number of erroneous transactions, number of agencies involved, etc.)
 - circumstances in which irregularities have occurred
 - nature of the irregularities
 - causes of the irregularities
 - possible effects of the irregularities (such as effects on future decision-making)
 - extensive publicity or sensitivity of the subject matter (such as support for the deprived and errors occurring in it)

- specific interest of the users of the audit results in the matter (such as Parliament and the public)
- status of the public authorities involved
- objectionability of the procedures and negligence behind the irregularities, when assessed from the perspective of the legal obligations of the audited entities
- general significance of the irregularities to trust in the realisation of the rule of law and good governance in matters and functions audited by the National Audit Office.

Drawing conclusions

- 4.54 The auditors must draw the right conclusions on the basis of the evidence.
- 4.55 Based on the audit findings and materiality, the auditors must be able to conclude whether the subject matter is, in all material respects, in compliance with the applicable audit criteria.
- 4.56 The auditor must communicate on the level of assurance in a transparent manner.
- 4.57 Based on the materiality of the audit findings, the auditors determine whether it can be concluded that the subject matter is not in compliance with the audit criteria in all material respects. Depending on the nature of the subject matter, the auditors must take into consideration value, nature and context. This means that instances of non-compliance that the target group can consider material by nature or context can also lead to a conclusion on non-compliance.
- 4.58 The auditors must strengthen the trust of the target group in the audit results. They should do this by explaining how the reasoning and different aspects have been considered in the formation of the results, criteria and conclusions and how certain general conclusions and recommendations have been established on the basis of the audit results.
- 4.59 The auditors must also assess, whether after the conducting of the audit there have been changes in the audited entity or subject matter that should be considered in the audit conclusions or audit reporting.

Conducting a performance audit

Principles and concepts related to knowledge formation

- 4.60 The position and credibility of the NAOF as an independent external auditor requires that the knowledge formation is of high quality and based on a robust audit design. The NAOF's opinions must also be clearly derived from audit findings.
- 4.61 The knowledge formation must be reliable and the methods used must be generally acceptable so that it can be ensured that the NAOF can formulate well-founded conclusions and recommendations on their basis.
- 4.62 The purpose of knowledge formation is to answer audit questions in accordance with the audit plan and the audit design. The audit design defined in the audit plan comprises the purpose and objective of the audit, audit questions, audit criteria and the plan describing the data and methods to be used in the audit. The audit resources and timetable are also laid out in the plan.
- 4.63 The methods used for gathering and analysing data in performance audit are based on the same principles as those applied in research. This means that the knowledge formation must be objective, critical and logical. Moreover, the grounds for the knowledge formation must be adequately specified and verified so that the conclusions can also be traced and assessed by others.
- 4.63.1 A robust audit design supports objective and logical knowledge formation. In an audit, the knowledge formation must proceed in a systematic manner in accordance with the audit design set out in the plan.

However, a performance audit may also require flexibility and the auditors may have to take into account matters arising during the audit. It is always better to change a carefully

determined audit design than to apply an audit design that proves deficient as the audit progresses.

- 4.63.2 Scepticism is an inherent part of audit work and knowledge formation during audits. It includes a critical evaluation of the data sources, as well as of the reasoning and conclusions presented. However, it should not involve subjective or otherwise inappropriate criticism of audited issues.
- 4.63.3 An audit does not have to cover every aspect of the audit topic or problems. The audit design sets boundaries on the knowledge formation, which means that the focus can and should be on issues that are material in terms of the audit objectives and questions. On the other hand, it is not always possible to obtain absolute certainty of the audited issues, which should also be considered in the reporting.
- 4.63.4 When forming knowledge in the same manner as researchers, auditors make judgements on the basis of their professional experience. These judgements must be based on sufficient audit findings and they must be objective so that other auditors could be expected to arrive at similar conclusions in a similar situation.
- 4.63.5 Striving towards objectivity is an essential part of successful knowledge formation. It means that the auditors must select the relevant data, analyse it and present their findings without bias. Making judgements and selections is part of the audit process, but they should be guided by the audit objective, audit questions and audit criteria included in the approved audit design and not by the auditors' personal preferences.

It may be justified to present a certain audit conclusion even if an individual matter would lend support to a different conclusion. Objective knowledge formation also requires that the auditors carefully consider the role of evidence pointing to different directions and do not hide the existence of conflicting information.

- 4.63.6 As in research, different approaches are used in the knowledge formation. An explanatory approach strives to find cause-and-effect relations, which is important in the identification of problems and risks.

An audit often strives to understand actors' operating methods and motives. This approach is important because it helps the auditors to focus on the right things in the collection of audit information and in their analysis: identifying real problems and risks requires an understanding of the entities being audited. At the same time, this approach is needed when conclusions are drawn so that matters can be put into perspective, counter-arguments can be anticipated and the capacity of public administration is known.

- 4.63.7 To ensure reliable knowledge formation, a broad range of different data and analysis methods should be used in the audit. Only a small number of specific audit questions can be answered using a single source or a single type of data.

Quantitative data and methods should be used whenever possible. Examination of monetary values and other quantitative data are essential to the perspective of central government finances, which is considered in performance audit.

- 4.64 Collecting and analysing audit data, drawing conclusions and documenting audit findings are the main stages of knowledge formation. In practice, these stages overlap and are interdependent.
- 4.65 The fundamental audit question 'Are things as they ought to be?' is the starting point of knowledge formation. To answer this question, the auditors must determine the existing state of affairs and compare it with the desired state of affairs. Figure 4 presents an overview of knowledge formation.
 - 4.65.1 The desired state of affairs ('how things ought to be') is examined in the audit planning process in connection with the definition of the audit criteria. The desired state of affairs is further specified as the audit progresses.
 - 4.65.2 In an audit, the actual knowledge formation begins by determining the existing state of affairs. Following this, it is examined whether the existing state of affairs corresponds to a sufficient degree with the desired state of affairs.

4.65.3 The question ‘How should things be?’ is not only a benchmark but it also directs the auditors to collect audit data relevant to the audit questions and analyse it from essential perspectives. The question ‘What is the existing state of affairs?’ should be answered solely on the basis of the matters that are relevant to the question ‘What is the desired state of affairs?’.

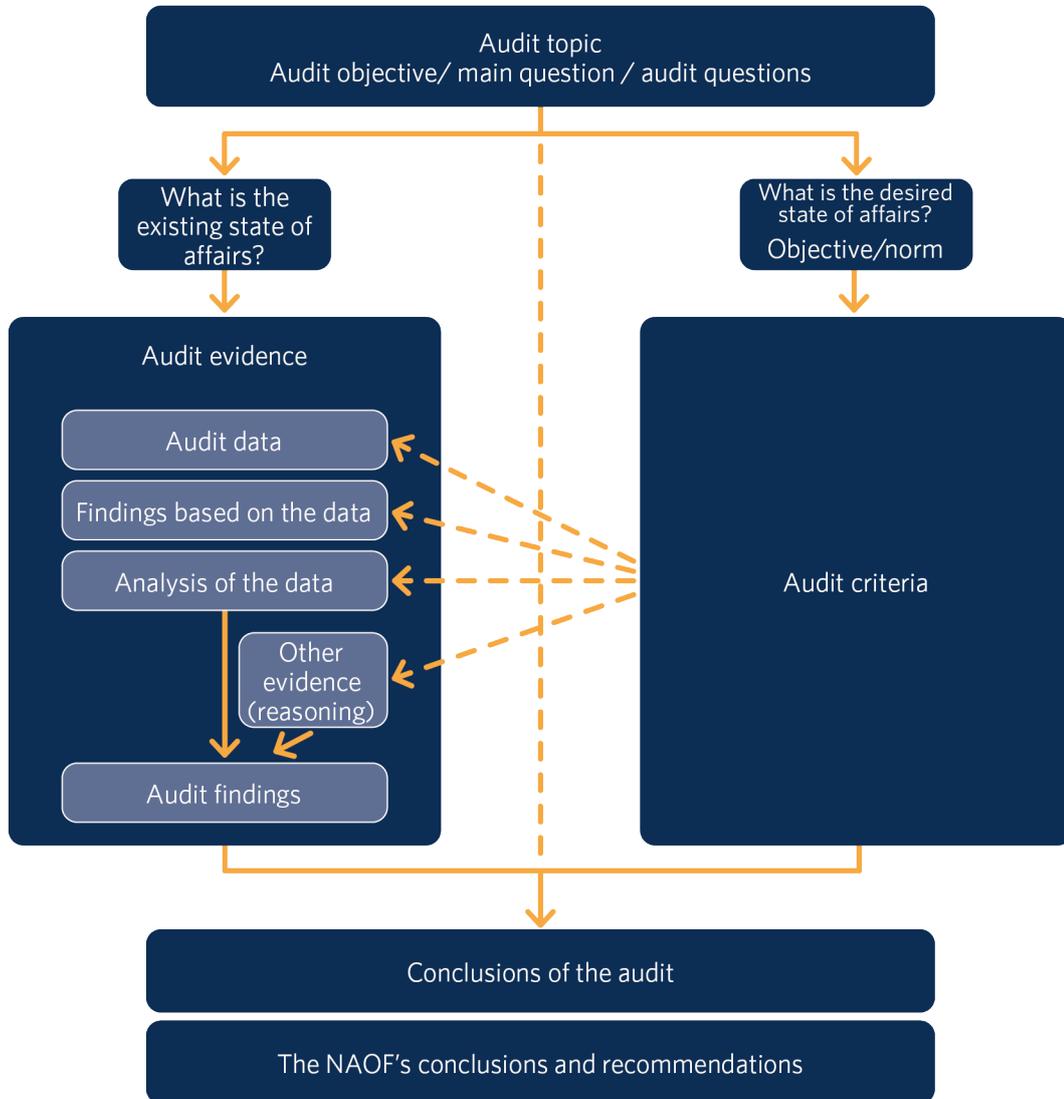


Figure 4: Knowledge formation in an audit

Audit criteria

- 4.66 Audit criteria refer to the assessment or evaluation criteria, benchmarks, indicators or other characteristics that describe the state of affairs that can be considered good or desirable. Audit criteria play an important role in the knowledge formation during an audit. They concretise the desired state of affairs behind the question ‘How should things be?’ and serve as a basis for determining whether the observed state of affairs corresponds to the desired one. Thus, they also form an operational factor that steers choices concerning audit data and analysis and provides a tool for evaluating whether the observed state of affairs corresponds to the desired one (Figure 4).
- 4.67 The audit criteria are defined in the audit plan. The formulation of the criteria is described in more detail in the chapter on planning in this manual.

The objectives set for the activities may be both qualitative and quantitative:

- When an objective for activities is presented as a clear quantitative indicator, the objective and the criterion are the same thing. In that case, the use of the criterion as the basis for knowledge formation is fairly straightforward.
- On the other hand, if the objective is expressed in qualitative terms, the audit criterion must be interpreted, and evaluating the activities is not a simple matter. In fact, a qualitative objective should be expressed as an audit criterion as unambiguously and transparently as possible.

Economic efficiency is always used as an audit criterion.

- 4.68 The audit criteria do not necessarily define exhaustively the desired state of affairs. Consequently, a more general interpretation of the desired state of affairs should also be used as a factor guiding the knowledge formation.

Audit findings

- 4.69 Audit findings are fact-based observations concerning the state of affairs that are relevant from the perspective of audit questions and criteria. Stating the existing state of affairs is not sufficient as an audit finding. Stating the existing state of affairs can be formulated into an audit finding when the state of affairs observed is connected with interpretations derived from audit questions and criteria. Individual audit findings indicate whether the state of affairs is as it should be.

- 4.70 Arriving at audit findings requires collecting and analysing data that is essential from the perspective of audit questions and criteria. In many cases, observations can be directly derived from data, but real audit findings arise from analysed data.

4.70.1 Audit findings must be based on sufficient, relevant and reliable data and on the analysis of this data.

4.70.2 Observations are continuously made during the knowledge formation but some of them are rejected as irrelevant to the audit design. However, seemingly irrelevant observations can together form the basis for significant audit findings. Such observations can also serve as clues that lead to audit findings.

Audit evidence

- 4.71 Audit conclusions must be founded on the audit design and systematic analysis as well as on adequate and convincing audit evidence on the basis of which the auditors have been able to reach the conclusions presented in the audit in a reliable manner.

4.71.1 Audit evidence refers to the audit findings and supporting observations, analyses and conclusions that form the basis for the NAOF's conclusions and recommendations.

4.71.2 The evidence provides a sufficient basis for conclusions when another knowledgeable person could arrive at the same conclusions using the same evidence.

4.71.3 Sufficient and essential evidence can be obtained by analysing key audit data with methods that are generally considered reliable.

In addition to data-based evidence, reasoning not based on data may occasionally be a key part of the production of audit evidence. This is the case, for example, when auditors establish the essential and sufficient prerequisites for achieving a certain impact. Individual findings derived from data are used to determine whether the prerequisites have been met. Taken individually, these findings may not provide a sufficient basis for the NAOF's conclusions and recommendations.

Audit data

- 4.72 Audit data refers to data collected from different sources. It can include oral or written data or it can be based on the observations made by the auditors. The audit data must be available in physical form, or it must be converted into physical form (in the case of oral or observation-based information).
- 4.73 The purpose of collecting data is to produce audit findings and evidence. In the course of collecting and reviewing data, auditors also get a better picture of the audited activities so that they can understand their essential features.
- 4.74 It is important that the reliability of the audit data is verified. The auditors must exercise scepticism when using any data sources. Irrespective of the data sources, auditors are responsible for using the data in the audit.
- 4.75 Sources of audit data always include the following:
- acts, decrees and other norms
 - other material produced by Parliament
 - administrative documents such as action plans and performance management documents
 - financial audit reports related to the topic
 - budgets, accounting, financial statements and cost accounting
 - decisions concerning the audited activities and related background material.
- 4.76 Other sources that may be needed include:
- information systems
 - oral sources of information
 - questionnaires
 - statistical data
 - observations
 - studies and reviews
 - expert opinions and reports
 - previous audit reports and related data
 - other data deemed useful in term of the audit.

Efficient use of data and source criticism

- 4.77 Auditors should collect sufficient relevant data on the audited entity in an economical and efficient manner from the viewpoint of the NAOF and the audited entity. There is no reason to continue collecting data once reliable answers to the audit questions can be provided or the same matters keep coming up.
- 4.78 However, the objective of efficient knowledge formation should not jeopardise the achievement of the most important goal: reliable formation of knowledge of matters that are relevant to the audit.
- 4.78.1 In order to be able to use the audit data efficiently, auditors must focus on the sources that they consider of material importance. In addition, guided by audit questions and criteria, the auditors must also continuously select data and be able to exclude sources.
- 4.78.2 An efficient method of knowledge formation is to use existing data. The auditors can convert such data into audit findings by combining it with other data and by interpreting and evaluating the data using audit criteria. In such cases, data known in advance may gain new content and become meaningful in a new manner to those responsible for steering the activities. When the auditors use data that is already available, they must ensure its reliability.

- 4.78.3 When requesting data from the audited entity, auditors must assess the costs arising to the audited entity from collecting or editing such data and determine whether the costs are reasonable considering the audit objectives. Before requesting large amounts of data, the auditors should discuss the costs arising from the request with the audited entity and, if necessary, explain to the audited entity why the data is necessary in view of the audit objectives.
- 4.79 The auditors must evaluate the reliability of all data sources and the accuracy of the data presented. This is referred to as source criticism.
- There are no universal rules that could systematically be applied to source criticism. No data source is by default more reliable than another type of data source. The auditor should apply source criticism to all documentation, statistical data and interview data.
- 4.80 In source criticism, it is important to evaluate how the data was generated, how the data quality has been verified and for what purpose the data was produced. The auditor should also evaluate whether the producer of the data has had any particular motive to present the data in a certain way. A specific purpose or an underlying motive may impact the way in which the data are presented in the original source.
- 4.80.1 Some data sources, such as annual reports, can contain a lot of information that is material in terms of the audit questions or to give direct answers to them. When auditors use such sources to support audit findings, they must verify the reliability of the sources by using data that is free from interests concerning the audited activities. Data sources that have been produced or that have emerged independent of the audited activity are useful in data verification.
- 4.80.2 The use of verifying data sources can also provide completely new perspectives and aspects. They can also support and clarify audit findings through practical examples, which can further strengthen the credibility of audit findings and conclusions. The downside of using verifying data sources is that they often have only an indirect link to the audit questions, which may result in lack of efficiency in the knowledge formation.
- 4.80.3 Data sources are often applied to conclusions that concern different matters than those for which the data source was produced. Such data sources are particularly useful in data verification, since they are free of any interests concerning the audit topics. When using data sources produced for a different purpose, auditors need to make several interpretations, which involves the risk of subjectivity.
- 4.80.4 If the source or its producer has a close temporal, regional or factual connection with the topic examined, this has an impact on the reliability of the data source. On one hand, such a connection could strengthen the reliability of the source. On the other hand, a person with a close connection with the events under review could have had an underlying interest to present the matter concerned in a certain way, which the auditors should take into account.

Use of multiple data sources

- 4.81 The auditors should aim to answer the audit questions by using many different kinds of quantitative and qualitative data. In addition to source criticism, this is another good method to verify the reliability of audit data and audit findings.
- 4.81.1 The use of data from different sources increases the reliability of audit findings, since data can then be cross-checked. Answering an audit question using data from different sources can also reveal connections and findings that might not become sufficiently clear from any single data source.
- 4.81.2 Different sources should be used in an interactive way in order to achieve the greatest overall benefit. This can mean, for example, preparing a questionnaire on the basis of interviews and documents and then discussing the findings and seeking additional information, as necessary.

- 4.81.3 The principle of using multiple data sources means that data from more than one source should be used to answer each audit question and that these data should support each other.
- It does not mean answering one question on the basis of one source and another question on the basis of a second source, without making sure that the data from these sources support each other. The requirement of using multiple sources is also not satisfied if the auditors have collected and reviewed data from various sources but use only one data source as the basis of their analyses and conclusions.
- 4.81.4 The auditors must always familiarise themselves with key documents and other written material.
- 4.81.5 As a rule, the auditors should use original sources. There are also situations in which auditors should only use a single source. Such situations include key financial management data, such as budget data, which should always be directly obtained from original documents.
- 4.81.6 If the auditors find discrepancies between data from different sources, they must always draw attention to them and endeavour to determine the reasons for the discrepancies. This can also lead to essential new audit findings.

Oral sources

- 4.82 Oral sources play a special role in the knowledge formation. Oral data is considered important since in many cases written documents simply do not exist. Oral data is particularly useful in providing background and clarifying information and showing where additional examination is needed.
- Oral data must be handled in a systematic manner, and any findings made on the basis of oral data must be documented in writing.
- 4.82.1 Oral data can be obtained through interviews, questions or discussions. Data obtained via questionnaires or email can often be treated as oral data: the interaction between the auditors and the data source (what is asked and how) can affect the data obtained. It should be noted that in many cases, written documents do not essentially differ from oral data: they can concern communication of data from oral sources or, as in the case of oral data, convey information that is based on recollection, and therefore auditors should evaluate them using the same criteria as with oral data.
- 4.82.2 When evaluating the reliability of oral data, the auditors should keep in mind that it often reveals more of the significance of the activity in question than of the activity itself. Oral data does not only reveal what public-sector actors are doing but also what they have set out to do, believed to be doing, or estimated to have done in hindsight. However, this does not mean that oral data cannot present the events truthfully. For example, interviews can reveal previously unknown events or facts that could not be otherwise established. It is also important that the auditors investigate the underlying motives of the public-sector actors, since they may have significance when the NAOF gives development recommendations.
- 4.82.3 The value of oral data as evidence improves when it focuses on the measures actually taken. At the same time, the quality of evidence improves when oral data is included in the reasoning. The auditors may, for example, first determine what the operating process should be like and only then ask people what has been done in the process.
- Responsible parties often try to present their own actions in a positive light. The auditors can manage this tendency by asking explicit and detailed questions about specific situations. This requires careful groundwork and as part of it, the auditors must highlight concrete cases involving problems. Good interaction between the auditors and the audited entity also helps to ensure that the oral data obtained is reliable.

Analysing audit data

4.83 Analysis of audit data means the analysis and structuring of data on the basis of audit questions and audit criteria. The analysis of audit data aims to provide adequate information on the existing state of affairs.

4.84 The auditors should be critical and objective when analysing data. The auditors must analyse the internal consistency of the audit data and conclusions and examine the reasons for any discrepancies between them.

When analysing the data, auditors should actively use and interpret the data so that they examine the audit question from different angles and use a variety of different sources to find additional information either supporting or contradicting the existing data or the picture that they have formed.

In their analysis, auditors should also combine matters in an insightful manner. This allows them to proceed from insignificant matters to important audit findings that support the management of the audited entity in the development of the activities.

4.85 The nature of audit data (e.g. quantitative/qualitative) guides the selection of the analytical methods that can and should be used. The auditors should select an analysis method that allows them to dissect and organise the data in the most efficient and transparent manner. Transparency means that the audit trail should be traceable.

An audit should aim to combine both qualitative and quantitative analysis. Qualitative analysis can be used, for example, to make preliminary findings that can then be tested and specified with the help of quantitative analysis.

4.86 Analysing data often involves organisation of data and collecting findings in an on-going process.

4.86.1 In the case of qualitative data, this work, which is closely linked to data gathering, can form the bulk of analysis and there may not be any alternatives to it. In the analysis, the auditor can utilise software intended for the analysis of qualitative data.

4.86.2 A quantitative analysis can concern a cost-efficiency calculation, a calculation demonstrating linkages between matters and data, or a statistical analysis that is based on probabilities calculated from a sufficient number of cases and on the basis of a carefully specified dataset.

In the case of standardised methods, it is possible to use analytics software, the benefits of which include efficiency and traceability and the reliability of results. However, it is important for the auditors to know when to use different methods and software and to understand the process of the analytics software used. Otherwise there is a high possibility that results will be interpreted incorrectly.

Applying the method is usually an integral part of the audit. This allows the NAOF's methodology experts to assist in an audit. Parties outside the agency can also be used as methodology experts.

4.86.3 A qualitative analysis does not typically require or allow performing a statistical analysis, even though the auditors should endeavour to provide a quantitative description of the data reviewed. Qualitative data is often analysed to obtain an overall picture, with the goal of revealing an internally logical structure.

Conclusions

4.87 Conclusions in this context refer to the results of the auditors' evaluations and reasoning. These concern conclusions regarding what the existing state of affairs is and whether things are as they ought to be.

The aim in audits is to draw conclusions that can be useful for persons responsible for the steering and development of operations. During the audit, the auditors make numerous observations about the existing state of affairs which do not as such support the above objective and which are thus not reported. Audit observations, however, provide a foundation for making audit findings and for drawing conclusions that will be reported.

- 4.88 Analyses of audit data and comparisons based on audit criteria are the starting points in drawing conclusions concerning the state of affairs. Analyses or comparisons alone do not show the state of affairs but auditors use them to draw conclusions. Conclusions should bring out something that is not as such contained in the analysed audit data.
- 4.89 Insofar as the conclusions are based on reasoning, it should be simple to verify whether the rules of reasoning have been observed and conclusions are correct. In a quantitative analysis this is usually the case since conclusions steered by the rules of reasoning are often an integral part of analysis.
- 4.90 In a qualitative analysis, conclusions are generally drawn by forming an overall interpretation of the data that has been analysed. In that case, the correctness of conclusions cannot be verified indisputably or the assessment of the correctness may even be irrelevant. What is more important is whether the conclusions are credible. Conclusions must avoid contradictions and meet other requirements such as objectivity, balance and fairness. The credibility of conclusions arises from the quality and strength of evidence.
- 4.90.1 In a qualitative analysis, the strength of evidence depends on the nature of matters and their interconnections in each situation. In the overall assessment of the data, it is often impossible to point at specific matters that easily justify a conclusion. Instead, attention must be paid to the overall picture that has been formed.
- 4.90.2 At the same time, individual matters that interdependently point in the same direction may provide sufficient evidence for a credible conclusion, or a single finding may even be decisive. The strength of evidence can be determined by asking whether another person familiar with the matter would be convinced that the facts and connections between them support the conclusions made.
- 4.91 The level of assurance of conclusions may vary. Conclusions that are expected to be particularly controversial must be based on stronger audit evidence. This may require collecting an exceptionally large number of facts to support the conclusion and focusing more attention than usual on showing the interconnections between the facts.
- 4.92 The level of assurance of the conclusions and any reservations concerning the conclusions must be clearly and transparently presented in the audit report. This may also require reporting audit findings that do not support the conclusions.
- Auditors may also report on conclusions associated with serious reservations if they concern important issues involving significant risks. In such cases, the auditors must exercise particular care to ensure that the reporting is not suggestive in a harmful manner.

Conclusions and recommendations of the National Audit Office

- 4.93 Conclusions and recommendations of the National Audit Office refer to the conclusions and recommendations issued by the agency on the basis of an audit.
- 4.94 Answers to the audit questions are the NAOF's opinions and conclusions based on the audit findings conclusion. The NAOF's conclusions and recommendations are also based on other conclusions and recommendations that it has issued.
- 4.95 The NAOF's conclusions and recommendations are based on its evaluation of what can be stated on the audit topic on the basis of the audit findings. Conclusions and recommendations cannot be extended beyond the conclusions that can be drawn based on the audit findings, even if the audit objective had been more broadly defined.
- On the other hand, where an audit is focused on a specific part of the performance chain, the NAOF should, in its conclusions and recommendations, strive to interpret what the audit findings mean in terms of the performance of the entire performance chain. Conclusions can contribute more to the development of the audited entity's activities when auditors are able present well-founded conclusions on the entire performance. However, such interpretations should not be drawn unless there is sufficient audit evidence to support them.

- 4.96 The NAOF's conclusions and recommendations are primarily intended for the use of the management of the audited entity and the ministry steering its operations. For this reason, only the opinions deemed most essential from the perspective of the audit topic are included in the conclusions and recommendations. The conclusions and recommendations must, however, be sufficiently specific so that they are understood.

Audit documentation

- 4.97 Audit evidence supporting the audit conclusions must be presented in the audit report or otherwise made available and traceable to ensure the credibility of the audit conclusions.
- 4.98 A broad range of data is collected and analysed to answer the audit questions. Some of the data and related analyses result in audit findings and conclusions, on the basis of which the National Audit Office formulates its conclusions and recommendations.
- The audit data and methodology descriptions on the basis of which the NAOF formulates its conclusions and recommendations are considered audit presentation documents as referred to in the Act on the Openness of Government Activities. These documents form the audit documentation.
- 4.99 Audit documentation and the information in the audit report should be presented so as to show how the audit findings and conclusions were reached. The audit documentation and the information presented in the audit report must allow audit quality assurers and other experts to reach the same conclusions as the auditors.
- 4.99.1 Audit evidence is included in a large number of documents in a variety of locations. The auditors must demonstrate, in the manner described in this manual, the connection between the audit evidence included in the audit documentation and the findings and conclusions produced in the audit.
- 4.99.2 Some of the documents are part of material available to the general public, published by the NAOF or other parties. Such material should be cited in the audit report using the normal referencing practice.
- 4.99.3 Audit documentation can also include documents that support the decision-making of the NAOF regarding the audit. These are not separately published but, under the Act on the Openness of Government Activities, these documents must also be disclosed on separate request. The audit documentation must be stored in the workspace of the audit, and the following rules must be observed in order to ensure the traceability of the documents.
- 4.100 The auditor must demonstrate the link between the evidence contained in the documentation in the audit workspace and the findings and conclusions by means of various complementary methods, which are as follows:
- referencing techniques
 - summary and explanatory memoranda
 - informative file naming practices.
- 4.100.1 The connection between the audit findings and conclusions on the one hand and the audit evidence contained in the documentation stored in the workspace on the other must be established by referencing. If a conclusion has been made on the basis of extensive data by combining different types of data, the auditor should draw up a brief explanatory memorandum of the matter. A separate guide is available on the referencing technique applied.
- The references to the documentation stored in the workspace must be removed from the final audit report and from the draft audit report submitted for commenting.
- 4.100.2 If a conclusion has been made on the basis of extensive data by combining different types of data, the auditor should draw up a brief explanatory memorandum of the matter. The memorandum should summarise the key supporting audit data that can help to trace and follow how the auditor has reached the relevant conclusion. A reference to the explanatory memorandum should be included in the draft audit report as specified above.

A summary memorandum should be drawn up in the case of, for example, extensive interview documentation composed of several transcribed or recorded interviews. In such a case, a summary memorandum is necessary because the NAOF cannot make its conclusions and recommendations directly on the basis of the original extensive interview documentation. The summary memorandum must indicate the interviews on the basis of which the conclusions were made. It is not necessary to disclose the interviewees' identity or provide a detailed description of what they said. The summary memorandum is stored in the workspace as part of the audit documentation. Original transcriptions or recordings are not considered audit presentation documents and should not be included in the audit documentation.

- 4.100.3 The documents stored in the workspace must be named so that the name gives an apt description of the contents. This makes it easier to get a good overview of the document contents.
- 4.101 In most cases, the methodology is adequately described in the audit plan. However, it may be necessary to supplement the methodology description contained in the plan to ensure that the conclusions can be understood. This is done by preparing and storing a separate methodology description in the workspace or by adding the necessary supplements to the plan for the audit and saving the revised version in the workspace under a different name than the original plan.
- 4.102 As part of the audit presentation material, the auditors should also save in the workspace the draft audit report that includes the references to the audit documentation stored in the audit workspace.
- 4.103 Documents available to the general public should not be stored in the workspace, even if they are part of the audit presentation documentation. After the publication of the audit report, the audit documentation must be archived as specified in the NAOF's knowledge formation plan.

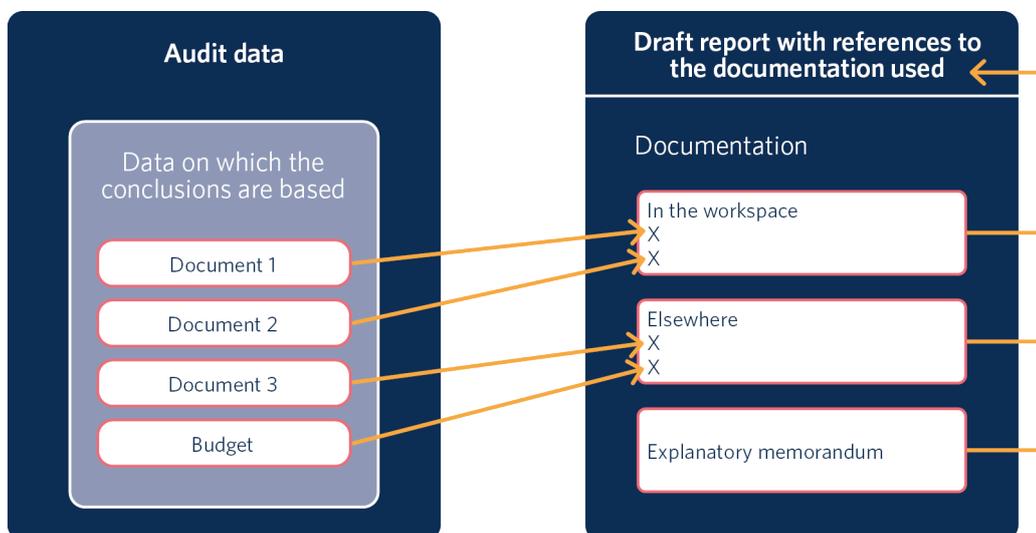


Figure 5: Audit data and documents

Conducting a fiscal policy audit

Principles and concepts related to knowledge formation

- 4.104 The common issues described in this chapter above also apply to the conducting of a fiscal policy audit.
- 4.105 The methods used for gathering and analysing data in a fiscal policy audit are based on the same principles as those applied in research. This means that the knowledge formation must be

objective, critical and logical. Moreover, the grounds for the knowledge formation must be adequately specified and verified so that the conclusions can also be traced and assessed by others.

- 4.106 However, a fiscal policy audit may also require flexibility and the auditor may also have to take into account matters arising during the audit. It is always better to change the audit design than to use an audit design that has proven to be deficient in the course of the audit.
- 4.107 Scepticism is an inherent part of audit work and knowledge formation during audits. It includes a critical evaluation of the reliability of the data sources, as well as of the reasoning and conclusions presented. However, it does mean subjective or otherwise inappropriate criticism of audited issues.
- 4.108 An audit does not have to cover every aspect of the audit topic or problems. The audit design sets boundaries on the production of information, which means that the focus can and should be on issues that are material in terms of the audit objectives and questions. On the other hand, it is not always possible to obtain absolute certainty of the audited issues, which should also be considered in the reporting.
- 4.109 When forming knowledge in the same manner as researchers, auditors make judgements on the basis of their professional experience. These judgements must be based on sufficient audit findings and they must be objective so that other auditors could be expected to arrive at similar conclusions in a similar situation.
- 4.110 Striving towards objectivity is an essential part of successful knowledge formation. It means that the auditors must select the relevant data, analyse it and present their findings without bias.
- 4.111 Objective knowledge formation also requires that the auditors carefully consider the role of evidence pointing to different directions and do not hide the existence of conflicting information.

Audit criteria

- 4.112 The selected audit criteria do not necessarily define exhaustively what the desired state of affairs should be. Consequently, a more general interpretation of the desired state of affairs should also be used as a factor guiding the knowledge formation.
- 4.113 In the case of a fiscal policy audit, the general audit criteria include compliance with regulations, openness and transparency of reporting, and reliability and adequacy of the view given of general government finances.

Efficient use of data and source criticism

- 4.114 Auditors should collect sufficient relevant data on the audited entity in an economical and efficient manner from the viewpoint of the NAOF and the audited entity. There is no reason to continue collecting data once reliable answers to the audit questions can be provided or the same matters keep coming up.
- 4.115 However, the objective of efficient knowledge formation should not jeopardise the achievement of the most important goal: reliable formation of knowledge of matters that are relevant to the audit.
 - 4.115.1 In order to be able to use the audit data efficiently, auditors must focus on the sources that they consider of material importance. In addition, guided by audit questions and criteria, the auditors must also continuously select data and be able to exclude sources.
 - 4.115.2 An efficient method of knowledge formation is to use existing data. The auditors can convert such data into audit findings by combining it with other data and by interpreting and evaluating the data using audit criteria. In such cases, data known in advance may gain new content and become meaningful in a new manner to those responsible for steering the activities. When the auditors use data that is already available, they must ensure its reliability.

- 4.115.3 When requesting data from the audited entity, auditors must assess the costs arising to the audited entity from collecting or editing such data and determine whether the costs are reasonable considering the audit objectives. Before requesting large amounts of data, the auditors should discuss the costs arising from the request with the audited entity and, if necessary, explain to the audited entity why the data is necessary in view of the audit objectives.
- 4.116 The auditors must evaluate the reliability of all data sources and the accuracy of the data presented. This is referred to as source criticism.
- 4.117 The auditors should aim to answer the audit questions by using many different kinds of quantitative and qualitative data. In addition to source criticism, this is another good method to verify the reliability of audit data and audit findings.
- 4.118 The auditors must always familiarise themselves with key documents and other written material.
- 4.119 Oral sources play a special role in the knowledge formation. Oral data is considered important since in many cases written documents simply do not exist. Oral data is particularly useful in providing background and clarifying information and showing where additional examination is needed.
- 4.120 Oral data must be handled in a systematic manner, and any findings made on the basis of oral data must be documented in writing.
- 4.120.1 Oral data can be obtained through interviews, questions or discussions. Data obtained via questionnaires or email can often be treated as oral data: the interaction between the auditors and the data source (what is asked and how) can affect the data obtained. It should be noted that in many cases, written documents do not essentially differ from oral data: they can concern communication of data from oral sources or, as in the case of oral data, convey information that is based on recollection, and therefore auditors should evaluate them using the same criteria as with oral data.
- 4.120.2 When evaluating the reliability of oral data, the auditors should keep in mind that it often reveals more of the significance of the activity in question than of the activity itself. Oral data does not only reveal what public-sector actors are doing but also what they have set out to do, believed to be doing, or estimated to have done in hindsight. However, this does not mean that oral data cannot present the events truthfully. For example, interviews can reveal previously unknown events or facts that could not be otherwise established. It is also important that the auditors investigate the underlying motives of the public-sector actors, since they may have significance when the NAOF gives development recommendations.
- 4.120.3 The value of oral data as evidence improves when it focuses on the measures actually taken. At the same time, the quality of evidence improves when oral data is included in the reasoning. The auditors may, for example, first determine what the operating process should be like and only then ask people what has been done in the process.
- Responsible parties often try to present their own actions in a positive light. The auditors can manage this tendency by asking explicit and detailed questions about specific situations. This requires thorough groundwork and presentation of concrete cases. Good interaction between the auditors and the audited entity also helps to ensure that the oral data obtained is reliable.

Analysing audit data

- 4.121 The auditors should be critical and objective when analysing data. They must analyse the internal consistency of the audit data and conclusions and examine the reasons for any discrepancies between these.
- 4.122 When analysing the data, auditors should actively use and interpret the data so that they examine the audit question from different angles and use a variety of different sources to find additional

information either supporting or contradicting the existing data or the picture that they have formed.

- 4.123 In their analysis, auditors should also combine matters in an insightful manner. This allows them to proceed from insignificant matters to important audit findings that support the management of the audited entity in the development of the activities.
- 4.124 Applying the method is usually an integral part of the audit. This allows the NAOF's methodology experts to assist in an audit. Parties outside the agency can also be used as methodology experts.
- 4.125 A quantitative analysis can concern a cost-efficiency calculation, a calculation demonstrating linkages between matters and data, or a statistical analysis that is based on probabilities calculated from a sufficient number of cases and on the basis of a carefully specified dataset.
- 4.126 A qualitative analysis does not typically require or allow performing a statistical analysis, even though the auditors should endeavour to provide a quantitative description of the data reviewed. Qualitative data is often analysed to obtain an overall picture, with the goal of revealing an internally logical structure.

Conclusions

- 4.127 Conclusions in this context refer to the results of the auditors' evaluations and reasoning. These concern conclusions regarding what the existing state of affairs is and whether things are as they ought to be.
- 4.128 The aim in audits is to draw conclusions that can be useful for persons responsible for the steering and development of operations. During the audit, the auditors make numerous observations about the existing state of affairs which do not as such support the above objective and which are thus not reported. Audit observations, however, provide a foundation for making audit findings and for drawing conclusions that will be reported.
- 4.129 Answers to the audit questions are formulated towards the end of the knowledge formation process as conclusions drawn from the various audit findings. These, in turn, provide the foundation for the recommendations of the National Audit Office.
- 4.130 In a qualitative analysis, conclusions are generally drawn by forming an overall assessment of the data that have been analysed. In this case, the correctness of conclusions cannot be verified indisputably or can even be irrelevant. What is more important is whether the conclusions are credible. Conclusions must avoid contradictions and meet other requirements such as objectivity, balance and fairness. The credibility of conclusions depends on the quality and strength of evidence.
- 4.131 The level of assurance of conclusions may vary. Conclusions that are expected to be particularly controversial must be based on stronger audit evidence. This may require collecting an exceptionally large number of facts to support the conclusion and focusing more attention than usual on showing the interconnections between the facts.
- 4.132 The level of assurance of the conclusions and any reservations concerning the conclusions must be clearly and transparently addressed in the audit report. This may also require reporting audit findings that do not support the conclusions.

Conclusions and recommendations of the National Audit Office

- 4.133 Conclusions and recommendations of the National Audit Office refer to the conclusions and recommendations issued by the agency on the basis of an audit.
- 4.134 Answers to the audit questions are the NAOF's opinions and conclusions based on the audit findings conclusion. The NAOF's conclusions and recommendations are also based on other conclusions and recommendations that it has issued.
- 4.135 The NAOF's conclusions and recommendations are based on its evaluation of what can be stated on the audit topic on the basis of the audit findings. Conclusions and recommendations cannot be

extended beyond the conclusions that can be drawn based on the audit findings, even if the audit objective had been more broadly defined.

- 4.136 The NAOF's conclusions and recommendations are primarily intended for the use of the management of the audited entity and the ministry steering its operations. For this reason, only the opinions deemed most essential from the perspective of the audit topic are included in the conclusions and recommendations. The conclusions and recommendations must, however, be sufficiently specific so that they are understood.

Audit documentation

- 4.137 The audit data and methodology descriptions on the basis of which the NAOF formulates its conclusions and recommendations are considered audit presentation documents as referred to in the Act on the Openness of Government Activities. These documents form the audit documentation.
- 4.138 Audit documentation and the information in the audit report should be presented so as to show how the audit findings and conclusions were reached.
- 4.138.1 Audit evidence is included in a large number of documents in a variety of locations. The auditors must demonstrate, as specified in these guidelines, the connection between the audit evidence included in the audit documentation and the conclusions reached in the audit.
- 4.138.2 Some of the documents are part of material available to the general public, published by the NAOF or other parties. Such material should be cited in the audit report using the normal referencing practice.
- 4.138.3 Audit documentation can also include documents that support the decision-making of the NAOF regarding the audit. These are not separately published but, under the Act on the Openness of Government Activities, these documents must also be disclosed on separate request. The audit documentation must be stored in the workspace of the audit, and the following rules must be observed in order to ensure the traceability of the documents.
- 4.139 The connection between the audit evidence contained in the documentation stored in the audit workspace and the audit conclusions is demonstrated using different but complementary methods, which are as follows:
- referencing techniques
 - summary and explanatory memoranda
 - informative file naming practices.
- 4.139.1 The connection between the audit conclusions on the one hand and the audit evidence contained in the documentation stored in the workspace on the other must be established by referencing. The audit conclusions presented in the lead paragraphs of the draft audit report sections concerning audit findings should be provided with references to the documents that include the evidence for the conclusions in question. A separate guide is available on the referencing technique applied.
- The references to the documentation stored in the workspace must be removed from the final audit report and from the draft audit report sent for comments.
- 4.139.2 If a conclusion has been made on the basis of extensive data by combining different types of data, the auditor should draw up a brief explanatory memorandum of the matter. The memorandum should summarise the key supporting audit data that can help to trace and follow how the auditors have reached the relevant conclusion. A reference to the explanatory memorandum should be included in the draft audit report as specified above.
- A summary memorandum should be drawn up in the case of, for example, extensive interview documentation composed of several transcribed or recorded interviews. In such a case, a summary memorandum is necessary because the NAOF cannot make its conclusions and recommendations directly on the basis of the original extensive interview documentation. The summary memorandum must indicate the interviews on the basis of

which the conclusions were made. It is not necessary to provide a detailed description of what the interviewees had said. The summary memorandum is stored in the workspace as part of the audit documentation. Original transcriptions or recordings are not considered audit presentation documents and should not be included in the audit documentation.

- 4.139.3 The documents stored in the workspace must be named so that the name gives an apt description of the contents. This makes it easier to get a good overview of the document contents.
- 4.140 In most cases, the methodology is adequately described in the audit plan. However, it may be necessary to supplement the methodology description contained in the plan to ensure that the conclusions can be understood. This is done by preparing and storing a separate methodology description in the workspace or by adding the necessary supplements to the plan for the audit and saving the revised version in the workspace under a different name than the original plan.
- 4.141 As part of the audit presentation material, the auditors should also save in the workspace the draft audit report that includes the references to the audit documentation stored in the audit workspace.
- 4.142 Documents available to the general public should not be stored in the workspace, even if they are part of the audit presentation documentation. After the publication of the audit report, the audit documentation must be archived as specified in the NAOF's knowledge formation plan.

5 Audit report

Reporting as a tool to achieve the audit objective

- 5.1 High-quality reporting supports the achievement of the audit objective and the impact of the audit. A well-conducted audit provides a solid basis for high-quality reporting. A successful audit, in turn, is based on versatile and smooth interaction with relevant parties. Good interaction during the audit can also significantly improve the likelihood that the reporting can advance the objectives and impact of the audit.
- 5.2 Correctly targeted and high-quality reporting can also advance the impact of the audit by creating a foundation for a follow-up of relevant matters.
- 5.3 In the audit planning stage, it is specified to whom, when and how the audit should be reported in order to best advance the objective and impact of the audit. This plan can be specified when the audit process enters the reporting stage. As a rule, audit reports are intended for the top management of the audited entities and the ministry steering their activities.
- 5.4 Under section 5 of the Act on the National Audit Office, the NAOF must report on its audits by issuing audit reports. Other forms of reporting on concluded audits include reports to Parliament, as well as letters and, where necessary, related memoranda. The NAOF must apply one of the above methods to report on all the audits it has initiated in accordance with its audit plan. When the NAOF issues recommendations and conclusions regarding audited activities, the form of reporting is always the audit report.
- 5.5 Under section 6 of the Act on the National Audit Office, the NAOF is required to submit an annual report to Parliament on its activities by the end of September each year, as well as separate reports, as necessary. In the annual report, the NAOF provides a summary of its most significant audit findings.
- 5.6 The Auditor General may decide that an audit report should also be submitted to Parliament as a separate report.
- 5.7 If it is deemed appropriate to conclude an audit without issuing an audit report, the matter should be decided by the Auditor General. Once the Auditor General has taken a decision to this effect, the audited entity must be notified of the matter in a letter that summarises the grounds for concluding the audit. The letter can be supplemented with a memorandum providing a more detailed description of the progress of the audit, any preliminary findings made and the reasons to conclude the audit without issuing an audit report. This memorandum will not include any conclusions or recommendations by the NAOF.
- 5.8 Audit results can also be discussed in meetings with the audited entity or stakeholder groups, social media and seminars and workshops, or by issuing articles, briefing papers or other writings about the results. Such communications supplement the reporting by the NAOF and can substantially enhance the impact of the audit. The supplementary reporting and communications can be implemented through a broad range of means determined on a case-by-case basis.

Audit report as a form of reporting

Status of the audit report and the drafting principles

- 5.9 The audit report holds a special position in the reporting process as provisions on it are contained in the Act on the National Audit Office (676/2000). Under section 5 of the Act, the NAOF must submit an audit report to the audited entity and the ministry responsible for the sector in question for information and for further measures, as well as to the Parliamentary Audit Committee and the Ministry of Finance for information. The NAOF has also decided to submit the reports to the Government Financial Controller's Function for information.

- 5.10 A separate audit report guidelines issued by the National Audit Office must be applied to the preparation of audit reports. The guidelines lay out the main features of the content and form of compliance, performance and fiscal policy audit reports.

Writing the audit report

- 5.11 The auditors write the audit report according to the division of labour agreed in the audit plan. The auditor presenting the audit is responsible for the consistency of the different parts of the report and the report's overall content and for presenting the report for decision-making. The person deciding on the audit report steers the audit process but does not conduct the audit him/herself or write the audit report.
- 5.12 The person supervising the quality of the audit must
- ensure that sufficient evidence has been collected to answer audit questions so that an audit report can be submitted
 - before the drafting is started, review with the auditors the main contents and messages that are intended to be included in the report to verify their materiality. These matters are discussed at the audit follow-up meeting.
 - ensure that the content of the draft report corresponds with the audit design agreed in the plan for the audit and that the conclusions made are reliable and relevant
 - ensure that the audit report is in accordance with the guidelines on the structure and content of the report.
- 5.13 The auditors involved may have different views on the kinds of conclusions and recommendations that can be issued on the basis of the audit. Internal disagreements should be discussed and documented before the report is issued.
- 5.14 Separate guidelines have been issued on audit quality control and quality review, which also cover the quality control of the audit report. The person supervising the quality of the audit must observe these guidelines.

Feedback process and decision to issue an audit report

- 5.15 The audited entity and the ministry responsible for its sector must be requested to give feedback on the draft audit report. To receive the feedback, the National Audit Office sends the draft audit report to the audited entity and the ministry responsible for its sector and asks them to comment on the draft. The purpose is to make sure that the draft audit report does not contain factual errors or misunderstandings that could influence the conclusions and recommendations issued on the basis of the audit, as well as to give the relevant parties an opportunity to express their view of the draft conclusions and recommendations of the National Audit Office.
- 5.16 Only the parties that are essentially responsible for the audited activities are requested to submit comments. The parties submitting comments are mostly the organisations that receive the audit report under section 5 of the Act on the National Audit Office. No comments are requested from the stakeholders of the audited organisation, interest groups or all those parties that have provided audit material.
- 5.17 The draft audit report and the feedback requested on it are no longer a tool for obtaining information from the audited entity as the final audit report issued by the NAOF must, to the extent possible, correspond to the draft audit report.
- 5.18 The auditors can also communicate about the preliminary audit conclusions with the audited entities in writing during the course of the audit, before sending the draft audit report. However, letters, memoranda and other similar documents must, through their form and content, clearly show that they are not yet the draft audit report.
- 5.19 In order to ensure smooth interaction, it is recommended to arrange a feedback meeting on the draft report to which the auditors should invite the key actors as regards feedback. At the feedback meeting, the audited entities are presented with the preliminary opinions (conclusions and recommendations) of the National Audit Office and they can also give their views on the matter.

This provides an opportunity to clarify clear misunderstandings, facilitate the processing of feedback and make the audited entities better prepared to handle criticism. Feedback meetings should be held before the report is officially circulated for comments.

- 5.20 Based on the feedback received, the auditors make the agreed additions and corrections in the draft report.
- 5.21 The draft report should only be amended insofar as this is deemed necessary based on the feedback received. No changes should be made if the audited entities have failed to provide sufficient and transparent arguments for the change.
- 5.22 The handling of feedback, changes to the draft report and the grounds for not making changes should be documented. The auditors prepare a summary of the handling of comments, which is published on the NAOF website.
- 5.23 If feedback is unclear or if the party submitting comments has misunderstood the draft audit report, a request can be sent for a clarification or further explanation. The request and any clarifications received must also be documented.
- 5.24 The audit report can be issued once the NAOF has made a decision on this in accordance with the agency's rules of procedure. This decision should be presented at the beginning of the audit report. The audit is presented by the principal auditor or the person ordered to present the matter.
- 5.25 In exceptional cases, the decision can also state that the audited entity is required to report to the National Audit Office what measures it has taken as a result of the cautions contained in the audit report, as well as indicate the time limit for the submission of such report. The reporting obligation is laid down in section 5 of the Act on the National Audit Office. Such an entry can be made, provided that the audit report draws attention to problems that require the audited entity to take immediate corrective measures. The entry should also specify the section of the audit report that presents the problems requiring corrective measures.
- 5.26 When making the decision to issue an audit report, alternative ways to communicate audit findings should also be discussed. Other ways to communicate about the audit include articles in specialist publications or the presentation of the findings at specialist meetings or via social media. Distribution of information on the audit by the auditors helps to ensure that all officials specialising in the topic are informed of the completion of the audit report.
- 5.27 In connection with the decision to issue an audit report, a decision should also be made on the follow-up plan. The plan is presented by the auditor responsible for the presentation of the audit.

Requirements for the contents of the audit report

- 5.28 An audit report is a document on the basis of which people outside the National Audit Office form their view of how the agency has reached its conclusions and recommendations and how it functions as an independent external audit authority.
- 5.29 The main purpose of the audit report is to present the conclusions and recommendations of the National Audit Office, the most important findings with reasoning and any opinion on the audited matter. A summary of the audit design (purpose and objective of the audit, audit questions and criteria, material data and methods) and information on the implementation of the audit are presented as appendices to the report. More detailed information can be provided in the audit working documents.
- 5.30 When the audit report is drafted, it must be kept in mind that the audience is mainly composed of the top management of the audited entity and the ministry steering its activities. Needs of Parliament must also be taken into account when the report is drafted.
 - 5.30.1 In fiscal policy audits, matters are primarily assessed from the perspective of the fiscal powers and needs of Parliament. Matters to be reported to satisfy these needs include observations concerning errors or shortcomings that can be reasonably expected to affect the contents of fiscal policy decisions, related evaluations or conclusions regarding the necessity of certain policy measures and their alternatives and effectiveness.

- 5.31 An audit report must be objective, reliable, transparent and useful.
- 5.31.1 Objectivity means that the audit report presents matters in a multifaceted, balanced and neutral manner. It must not give a one-sided or narrow view of the topic, and findings that do not support the conclusions made must also be transparently presented. The report must only present the conclusions and recommendations that the National Audit Office has made on the basis of the audit and should not echo the views of third parties. The report must be worded in a neutral manner.
- 5.31.2 Reliability means that the matters presented in the report are supported by reasoning. If it is necessary to discuss in the report a matter that is deemed important but that also involves uncertainties, any related reservations must be clearly indicated. The report must clearly state how the National Audit Office reached its conclusions and recommendations on the basis of the audit findings. The findings, in turn, must be based on a clearly documented audit process and sufficient audit evidence.
- 5.31.3 Transparency means that the report clearly indicates the audit perspectives, the measures that have been taken in the course of the audit, and how the conclusions and recommendations have been reached.
- Transparency also means that the scope of the audit must be presented in a clear manner. The scope indicates what has been left outside the audit report and what conclusions cannot be drawn on the basis of the report. Transparent presentation of the audit scope and its importance help to manage expectations and to reduce unfounded criticism towards audit findings.
- Transparency also means that the report should not be suggestive: it must clearly indicate whether a statement includes a conclusion. At the same time, the report should not cover matters that do not require interpretation or lead to a specific conclusion.
- 5.31.4 Usefulness means that the audit topic is discussed in a realistic, clear and understandable way and that the audit report is easy to read.
- Usefulness can involve partially different requirements from the perspectives of ministries' top management and Parliament. Ministries' top management must be provided with a concise audit report containing enough information to support concrete steering decisions, whereas Parliament must be provided with a good overview of the audited matter.
- 5.32 The report should focus on audit findings that are material in terms of the audit questions, as the NAOF formulates its conclusions and recommendations on the basis of these findings. The report should not contain more information than is required to make audit findings understandable and justify conclusions and recommendations.
- 5.33 Audit findings should be interpreted in the light of the audit criteria applied to the audit. The reported finding should clearly indicate whether the state of affairs is good, satisfactory or unsatisfactory. In addition to the problems observed, attention should also be paid to their causes. Constructive analysis of the causes improves the acceptability of recommendations and the impact of the audit.
- 5.34 The audit report must be drafted so that it creates preconditions for public administration to enhance the legality and cost-effectiveness of financial management and to correct any shortcomings or problems. This requires that the recommendations given are realistic, sufficiently concrete and targeted at the responsible parties.
- 5.35 Conclusions and recommendations of the National Audit Office must be presented so that they can be clearly traced to audit findings. However, it is possible to also discuss findings at a more general level in the body text. When formulating recommendations, attention should also be paid to the benefits and costs to the central government resulting from the implementation of the recommendations.

5.35.1 If a performance audit has been limited to preconditions for economic, efficient and effective operations, the auditors should aim to interpret in the conclusions and recommendations what the audit findings mean in terms of performance. However, such interpretations should only be made if the audit findings overall support them.

6 Follow-up

Purpose and objective of follow-up

- 6.1 Follow-up is part of the audit process. It means monitoring what measures have been taken in the audited subject matter after the audit. This monitoring is referred to as follow-up. The purpose of follow-up is to enhance the impact of the audit by paying attention to how the recommendations issued in the audit have been implemented and how the NAOF's opinions have been observed.
- 6.2 Follow-up is part of the audit process and has the same legislative basis as in the audit. Under section 4 of the Act on the National Audit Office, the NAOF has the right to obtain from audited entities, without delay, the documents, reports and other information necessary for the NAOF to perform its statutory task.
- 6.3 The objective of follow-up is to determine what measures the audited entity has taken on the basis of the NAOF's conclusions and recommendations and whether the NAOF considers these measures adequate to correct the shortcomings observed in the audit.
 - 6.3.1 By carrying out follow-ups, the NAOF demonstrates to the audited entity and the responsible ministry that it monitors the audited entity and also takes an interest in the state of the matter after the actual.
 - 6.3.2 Follow-ups also enable the NAOF to evaluate what measures it should take regarding the matter in the future. Follow-up also produces general data for the purposes of operational planning within the NAOF.
- 6.4 Follow-up is not auditing but a matter of monitoring changes taking place in the audited entity. The requirement to verify findings in follow-ups is not as strong as in audits. The auditors must, however, ascertain that the audited entity has appropriately taken the development measures that it has listed in the report submitted for the follow-up. Actual impacts of the measures are not investigated in the follow-up unless there are particular reasons for doing that.
- 6.5 Under section 5 of the Act on the National Audit Office, the audited entity and the ministry under whose administrative sector the audited entity operates, must notify the NAOF of the measures taken on the basis of the cautions contained in the audit report (see section 5.25). This obligation concerns non-compliance identified in the audit that in the NAOF's opinion requires special, concrete and immediate corrective measures on the part of the responsible public authority. Although they are not part of the actual follow-up process, such reports may nevertheless be taken into account in follow-up.

Planning and conducting the follow-up and reporting on the process

- 6.6 Follow-up must be conducted on the audits in which a separate audit report has been issued. Follow-up is not necessarily conducted if substantial changes have taken place in the audited entity. A separate decision must be made in such cases.
- 6.7 Follow-up is conducted in two stages: first a follow-up plan is drafted and then a follow-up report.
- 6.8 A follow-up plan is prepared in connection with the issuing of an audit report. The follow-up plan should indicate (1) what matters will be followed up, (2) how the follow-up will be conducted, and (3) when the follow-up report will be submitted. The plan is prepared on a document template that gives further instructions regarding the contents of the plan.
- 6.9 Follow-up monitors the implementation of the NAOF's recommendations presented in the audit report. The recommendations that are to be monitored should be clearly indicated in the follow-up plan.
- 6.10 The time limit for the follow-up reporting is specified on the decision page of the audit report and in the follow-up plan. This is usually 2–3 years after the completion of the audit. When deciding on

a time limit, it is necessary to evaluate the scope of the measures and changes that are required in the audit conclusions and recommendations and how long it may take to implement or initiate these measures.

- 6.11 In a follow-up, a request for information is always sent to the audited entity and the responsible ministry regarding the specific measures they have taken on the basis of the audit and the results achieved. Otherwise the same knowledge formation methods can be used as in audits (collecting and analysing financial information, documents or statistics, interviews or questionnaires, etc.).
- 6.12 The follow-up report should discuss whether the recommendations made by the National Audit Office have been implemented and whether the measures taken are adequate to correct the shortcomings that were observed in the audit.
- 6.13 The report should also list the measures taken by the NAOF on the basis of the follow-up. Follow-up is no longer continued when the NAOF considers that the shortcomings observed have been corrected adequately. Follow-up can continue if the NAOF has not obtained sufficient assurance that the shortcomings have been corrected. A proposal can also be made to initiate a new audit of the topic.
- 6.14 The follow-up report is prepared on a document template that contains further instructions regarding the report contents.
- 6.15 The follow-up report is sent to the audited entity and the responsible ministry immediately after its completion.

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