

## **Performance Audit Manual**

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# Preface

Performance audit manual was last issued in 2002. This concerned the audit process, preliminary studies and audit reports. The manual has now been expanded to include performance audit conducted by the National Audit Office as a whole, from identifying its basic task and planning audit work through the preliminary study, the production of audit evidence and reporting to follow-up monitoring and quality control of the entire process.

On a more general level performance audit is guided by the Act on the National Audit Office and the National Audit Office's Working Order and strategy as well as international auditing standards. This manual describes and defines what legislation, the National Audit Office's other guidelines and international standards mean for performance audit. Together with legislation the manual creates the preconditions for performance audit according to the INTOSAI Auditing Standards.

The manual goes over the fundamentals of performance audit and is intended to serve as a basic tool for auditors. The manual contains the most important elements that make up quality performance audit. They present the conceptual and operational framework within which performance audit is conducted and set out general rules for all actors in performance audits. Although the manual contains some purely technical points, it does not tell how to act in every situation that may arise in the course of audit work but leaves plenty of room for auditors to use their own discretion and professional judgment. In this way the manual promotes the production of innovative and useful audit information, which is important for the effectiveness of audit work.

The manual does not cover audits that are conducted in cooperation with other parties. This includes cooperation between the National Audit Office's units as well as joint and parallel audits that are conducted with other Supreme Audit Institutions. Nor does the manual deal with expert activities related to performance audit.

The manual will also serve as a tool for implementing the National Audit Office's strategy for 2007–2012. It is designed to promote the proper focusing of resources and quality management and to enhance auditors' expertise and professional identity. By improving documentation the manual can play an important role in promoting the transparency and accountability of performance audit.

Internationally performance audit takes many forms and defining its content in an exhaustive way has proved challenging. This manual can

bring added value to the discussion and increase understanding regarding perspectives, approaches and ways of producing audit evidence that are typical features of performance audit.

Changes are constantly taking place in audit focuses and the operating environment, and these also affect performance audit. The goal of constant improvement applies to audit work and related guidelines. The implementation of the manual will be monitored and evaluated with different evaluation measures. The manual will be revised as necessary.

Helsinki, 23 August 2007

A handwritten signature in black ink, reading "Vesa Jatkola". The signature is written in a cursive style with a prominent loop at the end.

Assistant Auditor General, Performance Audit Vesa Jatkola

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# Summary

- Performance audit emphasizes sound financial management. This is described with the help of an input-output model, in which inputs lead to action, which leads to outputs, which lead to outcomes. This is referred to as the effectiveness model..
- Sound financial management means economy, efficiency and effectiveness. In other words every part of the effectiveness model should operate according to these principles, which are used as criteria in all performance audits.
- The selection of audit topics is guided by the National Audit Office's strategy for 2007–2012.
- The preliminary study determines whether an audit will be conducted. This is done by analysing the financial significance of the topic and associated risks. The preliminary study also formulates the audit framework. The fundamental question is always whether activities have met the requirements of economy, efficiency and effectiveness. The audit framework is formulated accordingly.
- Auditors answer questions by producing audit evidence using objective and reliable methods. In producing audit evidence auditors must take a critical approach.
- An audit's conclusions and the positions taken by the National Audit Office are reported in the audit report. This must be objective, reliable and transparent, and matters must be presented in a readable form.
- Follow-up determines to what extent recommendations have been implemented. Follow-up is reported to Parliament and the auditee.



# 1 Task of performance audit

## Performance audit in the National Audit Office

- 1.1 The position and tasks of the National Audit Office are prescribed in section 90 of the Constitution of Finland (Statutes of Finland 731/1999). Further provisions regarding tasks are contained in the Act on the National Audit Office (676/2000) and the Act on the Right of the National Audit Office to Audit Certain Credit Transfers between Finland and the European Communities (353/1995). Article 248 of the Treaty Establishing the European Community requires the National Audit Office to cooperate with the Court of Auditors.
- 1.2 The task of the National Audit Office is to audit the legality and effectiveness of the state's financial management and compliance with the budget.
- 1.3 The National Audit Office has decided to carry out its statutory task by conducting financial audits and performance audits. To this end the National Audit Office has been divided into Financial Audit and Performance Audit units, which work together whenever this is necessary.
  - 1.3.1 Performance audit emphasizes sound financial management, while financial audit is more concerned with legality and compliance with the budget. Performance audits are focused and audit questions are formulated from the perspective of economy, efficiency and effectiveness and attention is also paid to any problems that may be observed regarding the legality of financial management and compliance with the budget.
  - 1.3.2 A performance audit can also focus specifically on legality and compliance with the budget if the topic requires extensive research. Such an audit would be conducted in cooperation with the Financial Audit Unit.
- 1.4 The objectives of financial and performance audit as well as related expert activities are specified in the National Audit Office's strategy. Briefly the goal is to
  - ensure compliance with the budget and regulations concerning

the state's financial management as well as true and fair information on state finances<sup>1</sup>

- promote the social effectiveness and operational performance of the state's financial management as well as good governance.

## Characteristics of performance audit

- 1.5 In all audit work the question is whether an actor's present state of affairs is in line with the decisions made or the will expressed by the competent bodies. In performance audit this means seeing whether those who are accountable in administration have arranged financial management properly and in so doing complied with Parliament's will.
- 1.6 Performance audit, like other audit work, calls actors to account, concerns past activity and applies given criteria in its evaluations.
  - 1.6.1 Performance audit focuses on activities for which an actor is responsible or which an actor performs. An audit cannot focus on a phenomenon or concept that does not involve some actor's concrete responsibility for a particular activity or responsibility to do a particular thing.
  - 1.6.2 Performance audit focuses on past activity and its task is not to anticipate social development or activities this may require. An audit can focus on planning or preparation for future risks, however.
  - 1.6.3 Performance audit is basically evaluative. Evaluation is based on audit criteria, which describe the state of affairs that can be considered good or intended. Audit criteria are derived primarily from legislation and related background materials, the budget and other positions taken by Parliament.

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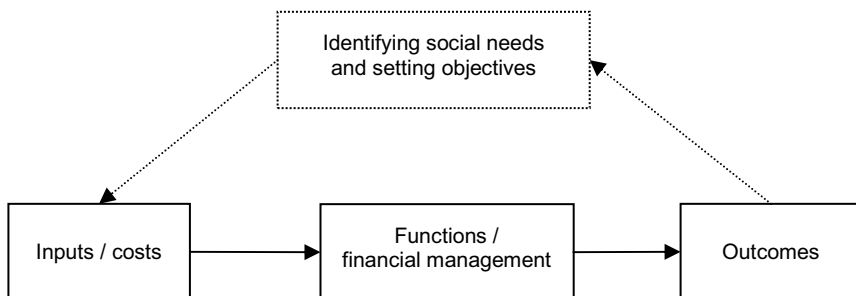
<sup>1</sup> *The term state finances means here both central government finances and central government unincorporated enterprises.*

## Focus on sound financial management

### The state's financial management

1.7 Performance audit focuses on the state's financial management. This is defined as activities in which authorities use resources to achieve certain outcomes (Figure 1).

1.7.1 Financial management is described in this manual with the help of an effectiveness model. In this model inputs lead to action, which leads to outputs, which lead to outcomes. The stages in the model are defining social needs, setting objectives, organizing activities and assigning resources, taking action and managing and steering activities, the cost of activities, outputs and their impacts (Figure 2, p. 13). Financial management also includes collecting income and taking care of assets. Here again resources are used to achieve certain objectives - tax revenues or a certain level of assets. The concept of the state's financial management is thus interpreted broadly in performance audit: it also includes decision-making related to substantial matters that results in direct or indirect financial consequences.



**FIGURE 1. The state's financial management.**

1.7.2 A narrow interpretation of financial management would only cover certain aspects of financial administration such as budgeting, the handling of transactions, the monitoring of appropriations and reporting. Although performance audit does not especially focus on these areas, their proper functioning has a considerable significance in supporting the effectiveness of the state's activities and therefore in the field of performance audit.

## What sound financial management means

- 1.8 The basis for performance audit and the fundamental viewpoint in all performance audits is sound financial management or in other words economy, efficiency and effectiveness. Sound financial management means that the responsible authority promotes the optimal use of resources to achieve intended outcomes with the lowest possible costs. This is based on the principle of economic rationality, according to which public resources should be used to achieve the greatest possible benefits.
- 1.9 The State Budget Act (423/1988), the State Budget Decree (1243/1992) and particularly general provisions concerning the application of the budget, and the Administrative Procedure Act (434/2003) all contain requirements concerning performance. The State Budget Act and the State Budget Decree divide this into policy effectiveness and operational performance, which is in turn divided into operational efficiency, quality management and human resource management (the basic performance criteria, see Appendix 1).
- 1.10 Economy, efficiency and effectiveness can be described and evaluated with the help of the effectiveness model (Figure 2). For financial management to work properly, every stage in the model must be economical, efficient and effective. Defined in this way, economy, efficiency and effectiveness are general criteria that must be applied in all performance audits.
- 1.11 In all performance audits the aim is to determine whether objectives are achieved with the lowest possible costs. Audits must examine all the stages in the effectiveness model to ensure a cause-and-effect relation between activities and observed impacts. Finding reasons for observed shortcomings also requires the examination of the entire effectiveness model. Audits must also examine the stages in the model even if economy, efficiency and effectiveness are difficult to evaluate.
- 1.12 Individual audits often need to focus more attention on some particular part of the effectiveness model. An audit may be restricted to steering systems, for example. This may be because a particular stage in the model is judged to involve greater risks. If an audit is restricted to some part of the model, its significance for economy, efficiency and effectiveness must be explained. For more on examining the effectiveness model, see Chapter 3 (Preliminary study).

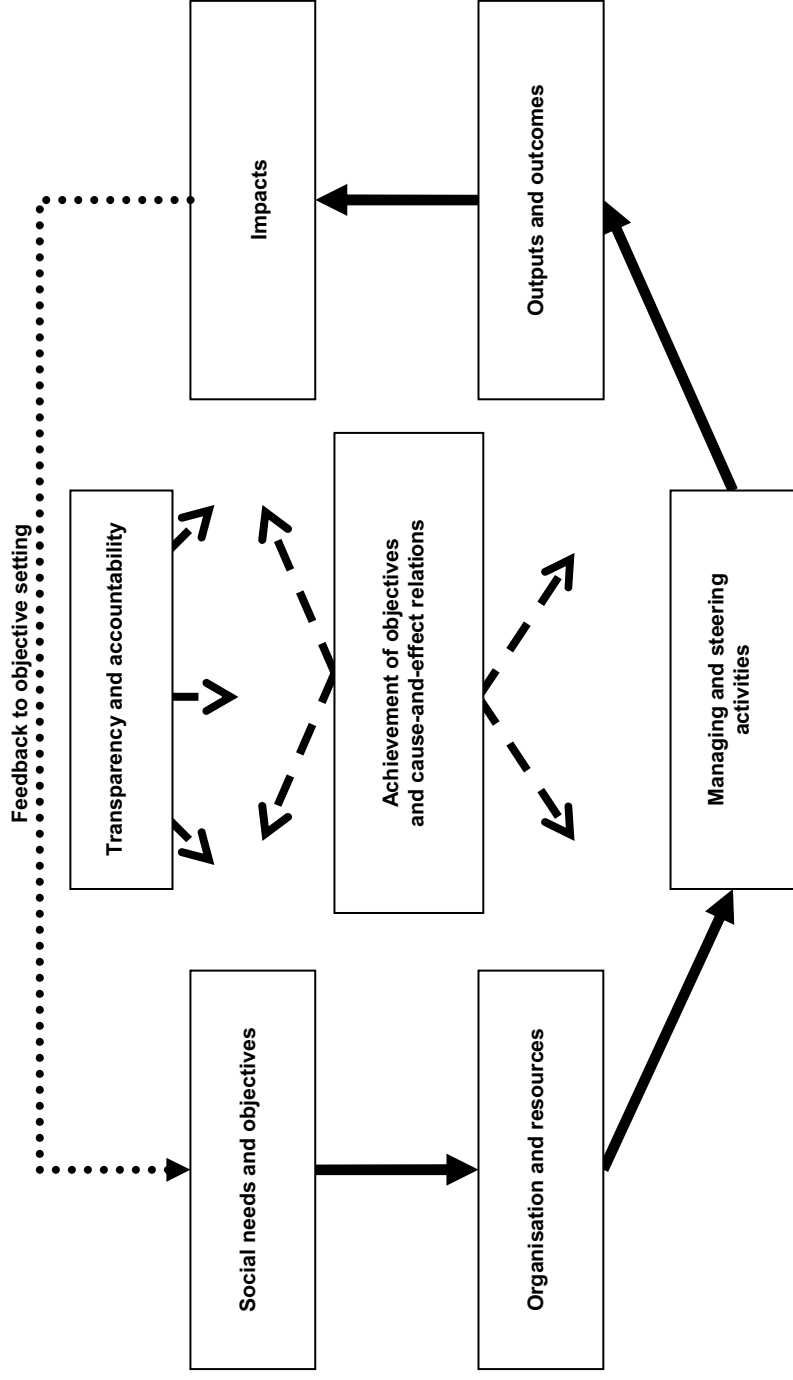


FIGURE 2. The effectiveness model.

## Viewpoint of state finances

- 1.13 Performance audit always approaches activities from the viewpoint of state finances. This means evaluating whether activities have met social needs and whether they have set about achieving objectives with the lowest possible costs. Each audit focuses attention on both objectives and the costs of achieving them. The achievement of objectives cannot be evaluated without considering resulting costs.
- 1.13.1* Performance audit does not focus on activities that do not have a significant linkage to state finances. A significant linkage to state finances means that substantial resources are used for this purpose or the activity has an essential impact on the state's revenues, expenses or assets. An audit may examine the functioning of legislation if the matter in question has a direct or indirect impact on state finances. Activities prescribed in legislation and related objectives that do not have a linkage to state finances are not examined in an audit even if legislation and its implementation may be socially important and result in substantial costs for financial units outside the budget.
- 1.13.2* Audits also pay attention to activities' indirect impacts on state finances. In dealing with indirect impacts it is necessary to demonstrate the linkage to state finances. The more indirect and uncertain an impact is, the stronger the evidence must be that there is a linkage.
- 1.13.3* Audits must also pay attention to undesired costs and impacts that concern financial units outside the budget. Identifying these is part of examining objectives and their achievement. In some cases the commentary to legislation may have already presented evaluations of the impacts on other financial units.

## General principles guiding performance audit

### Working in cooperation

- 1.14 The National Audit Office decides on what topics to include in its audit plan, when to start audits and the issuing of audit reports. Performance audits are conducted as a team: the auditor in charge is assisted by other auditors, the unit's management, superiors and supporting services. If necessary representatives of the National

Audit Office's other units may also participate. All performance audits are conducted according to the performance audit manual.

### Audit work and legislation

- 1.15 Performance audit does not question the social needs or objectives approved by Parliament, which are usually expressed in legislation and related preparatory materials. However, a particular audit may evaluate the clarity of the grounds or the setting of objectives in preparatory materials, for instance. Furthermore administrative units' operational objectives that are derived from legislation should be evaluated in audits. Performance audit can also report that the need expressed in a political decision no longer exists or has changed substantially owing to altered circumstances. Performance audit can also report on any conflicts between legislation if these have negative impacts on state finances.
- 1.16 Legislation may prescribe means to achieve objectives. If an audit indicates that such means are not effective or have undesired impacts, this should be noted in the audit report.

### Audit activities and administration's responsibility

- 1.17 Administrative units are responsible for carrying out the tasks assigned to them and meeting performance objectives, arranging internal control and risk management to ensure proper performance, and reporting true and fair information on performance. The task of performance audit is to produce information on how well administration has fulfilled these responsibilities.
- 1.18 Conducting an audit and issuing an audit report does not reduce administration's responsibility in any way. Performance audit's responsibility is limited to conducting an audit and issuing an audit report according to quality requirements.
- 1.19 Audits evaluate whether administration's steering and reporting systems and measures to ensure performance have been adequate. Therefore performance audit must also evaluate systems and procedures designed to ensure performance as part of internal control and risk management.
- 1.20 Each performance audit strives to determine whether administration gives a true and fair picture of performance. If administration has not taken care of ensuring performance or has

not produced proper information on performance, an audit does not confine itself to noting this fact. By examining the matter itself an audit can give Parliament a better picture of performance. In reporting, however, it is important to focus above all on whether administration has fulfilled its responsibilities adequately. Findings regarding substantial shortcomings in performance reporting should be included in an audit report. Minor shortcomings can be documented in an audit's working papers.

### Producing audit evidence in performance audit

- 1.21 Performance audit is demanding work in which data must be obtained, structured and analysed using different methods. The National Audit Office's constitutional position as an independent external audit body requires that the production of audit evidence is of high quality and that the positions taken by the National Audit Office are clearly based on audit findings.
- 1.22 Performance audit strives to show as reliably as possible how well administration has fulfilled its duties. The existing state of affairs or even operational objectives are not always easy to define, however.
- 1.23 The positions taken by the National Audit Office are based on a careful deliberation of what conclusions can be drawn from audit data. The production of audit evidence must therefore be as reliable and generally acceptable as possible. In order to ensure reliability and acceptability, the production of audit evidence must follow certain principles regarding research and analysis methods (see Chapter 4).
- 1.24 A special part of the production of audit evidence is ensuring the reliability of findings by using different kinds of data and methods. Original sources are used as far as possible in ensuring findings. In producing audit evidence emphasis should be placed on a critical attitude and a well-grounded audit framework.
- 1.25 The National Audit Office has extensive rights to obtain information. It uses these rights to the full in order to increase reliability in the production of audit evidence.
- 1.26 The National Audit Office must also demonstrate high quality in the production of audit evidence to outside parties. In particular Parliament, the appropriate ministry and the audited body must be convinced of the reliability of positions and reasoning. This requires clear and logical reporting.



## Other pertinent legislation, guidelines and standards

- 1.27 General legislation concerning good governance, such as the Administrative Procedure Act (434/2003), the Act on the Openness of Government Activities (621/1999) and the Language Act (423/2003), as well as the Act on Parliamentary Officials (1197/2003) all place obligations on the National Audit Office and auditors.
- 1.28 The International Organization of Supreme Audit Institutions (INTOSAI) has published its own Auditing Standards. On the basis of these and practical experience INTOSAI has also prepared Implementation Guidelines for Performance Auditing. The National Audit Office's own Performance Audit Manual is in line with the requirements in the INTOSAI Auditing Standards and the Implementation Guidelines for Performance Auditing. Some of the requirements are already met in legislation concerning the National Audit Office.

## 2 Focusing of performance audits

### Auditing rights

- 2.1 Provisions concerning the National Audit Office's auditing rights are contained in section 2 of the Act on the National Audit Office (676/2000) and in the Act on the Right of the National Audit Office to Audit Certain Credit Transfers between Finland and the European Communities (353/1995). Provisions concerning specific auditing tasks and auditing rights are also contained in certain other Acts. Most notably the National Audit Office has the right to audit state authorities and agencies as well as bodies receiving state aid.
- 2.2 Audits focus mainly on the state's income, expenses and asset management (the budget economy), state-owned companies, unincorporated state enterprises and state funds. Legislation emphasizes that the audit of state-owned companies should particularly concern owner control and the use of shareholder power. The National Audit Office does not have the right to audit Parliament or bodies or funds under Parliament's direct control, most notably the Social Insurance Institution, the Finnish Innovation Fund (SITRA) and the Bank of Finland. However, it has the right to obtain reports and other information that it needs in its activities from the Bank of Finland and the Social Insurance Institution.
- 2.3 The National Audit Office has the right to audit legal entities and private persons who have received funds or other economic support or benefits from the state (state aid) to determine whether (1) information provided in order to receive state aid is correct, (2) conditions stipulated in granting decisions have been met and (3) state aid has been used for the purpose for which it was granted. In other respects the National Audit Office does not have the right to audit the activities or accounts of recipients of state aid.
- 2.4 The National Audit Office also has the right to audit
- legal entities that have received permission from the state to procure funds for a specific purpose for state authorities to use or distribute, particularly the organizations mentioned in the Lotteries Act (1047/2001)
  - credit institutions and other organizations that take care of the

- state's transactions and have been entrusted with other tasks involving the use of state funds, the management of property or accounting to determine how transactions are managed
- other funds under the control of state authorities for which the state is responsible.
- 2.5 The National Audit Office also has the right to audit certain credit transfers between Finland and the European Communities. This includes credit transfers between the Finnish state and the European Communities and also between local authorities, municipal federations, parishes, corporations, other legal entities, foundations or private persons and the European Communities (Act 353/1995).

## Criteria for focusing audits

- 2.6 According to section 3 of the Act on the National Audit Office, the conducting of audits is based on an audit plan approved by the National Audit Office. A performance audit can only be started if the topic has been approved in the annual audit plan or the plan has been revised to allow it.
- 2.7 The selection of audit topics for inclusion in the audit plan or the focusing of audits is guided by the National Audit Office's Strategy for 2007–2012. This strategy defines (1) general criteria for focusing audit activities, (2) permanent audit areas in which audits are conducted annually and (3) strategic theme areas and reporting on annual themes to Parliament.
- 2.8 General criteria for focusing audit activities are used in selecting audit topics for inclusion in the audit plan. General criteria are the financial significance of the matter, the associated risk for the state economy and the requirement that audits should produce useful information.
- 2.8.1 The financial significance of the matter means its impact on the state economy: the state's income, expenses, assets or commitments. The matter can have a direct impact on the state economy, as when state aid is granted, or the impact can be indirect. Including a topic in the audit plan when the impact on the state economy is indirect requires a reasonable assumption that there is a linkage between the topic and the state economy. Topics are prioritized according to their significance for the state economy.

- 2.8.2 A second criterion is the risk for the state economy. This means any undesirable event, factor or problem that could have a negative impact on the state's financial management or performance. Lost opportunities to achieve objectives can also be regarded as risks. Financial risk depends on two things: (1) the probability of something with a negative impact on performance occurring and (2) the consequences of a negative impact on performance and the state economy.
- 2.8.3 A third criterion is the possibility to produce useful information. This means that information should have considerable significance for decision-making concerning the state's financial management or ensures the correctness and quality of the state's financial management.

Both conditions require that a topic has substantial importance for the state's financial management and that audit data can be produced in a timely manner.

## Risk analysis

- 2.9 The unit's proposal for an audit topic is based on the systematic and comprehensive analysis of risks in the audit area. This is done in cooperation with Financial Audit Unit and taking advantage of management's expertise. Separate guidelines have been issued on risk analysis.
- 2.10 Guidelines on risk analysis can also be used in a preliminary study when risks associated with a topic are analysed so that audit perspectives can be defined. In a preliminary study risks and problems associated with a topic are analysed in greater detail than in the audit planning stage.

## 3 Preliminary study

### Object of a preliminary study

- 3.1 The object of a preliminary study is to produce information on the basis of which a decision can be made as to whether or not an audit should be conducted. For this purpose a preliminary study should determine
- to what extent the topic is financially significant
  - what financial or operational risks are involved
  - how the topic can be audited and whether useful information can be produced on the topic.
- 3.2 If an audit is warranted, a preliminary study should also support the future audit. For this purpose a preliminary study should create an audit framework, i.e. plan what should be examined and how the audit should be carried out as well as the timetable and resources.
- 3.3 A preliminary study leads to a preliminary study report and a project plan as its concrete results. A preliminary study report justifies the need to audit a topic. It also presents a plan as to how an audit should be carried out. The preliminary study report and the project plan constitute the unit's order for an audit. The unit and the auditor also make a commitment regarding the resources required for an audit, the timetable and any uncertainties involved in conducting the audit.

### Preliminary study process

- 3.4 A preliminary study begins with the opening meeting and ends with the preliminary study meeting. The procedure for conducting a preliminary study depends largely on the topic. Resources and time use should focus on determining the need for an audit and analysing different ways to conduct the audit.

#### Opening meeting

- 3.5 The purpose of the opening meeting is to
- go over the grounds for selecting the topic and evaluate their timeliness

- outline essential features of the topic and look for different perspectives
  - tentatively delimit the topic
  - coordinate the preliminary study with audits on related topics
  - agree how many person-days and other resources the preliminary study will require.
- 3.5.1 In addition to the author(s) of the preliminary study, the opening meeting is attended by the Assistant Auditor General, the audit manager and the report manager as well as other persons who are familiar with the topic. The Auditor General should also be given the possibility to attend the opening meeting by informing him of the meeting well in advance. If the preliminary study is part of a broader audit theme, the auditor responsible for coordinating audits connected to the theme is also invited to the opening meeting. The audit manager and the auditor invite participants to the opening meeting after discussing the meeting time and who should attend the meeting.
- 3.5.2 Participants prepare for the opening meeting by going over the grounds on which a topic has been selected for the audit plan. Grounds are recorded in risk analysis reports or respective documents. An auditor can supplement grounds by preparing a background memorandum, 1–2 pages in length, to serve as a basis for discussion at the meeting. The auditor may use a few working days for this purpose. Information searches performed by the corporate services unit can also be used at the opening meeting..
- 3.5.3 If two or more auditors take part in a preliminary study, the division of labour between the auditors is decided at the opening meeting. Decisions made at the meeting with regard to resources for the preliminary study are recorded on the planning form. Key matters agreed at the meeting can also be recorded on the form.
- 3.5.4 The auditee and the responsible ministry are notified of the start of a preliminary study in a standard letter. Other auditors are also notified of the start of a preliminary study internally. The unit secretary sends internal and external notifications.

#### Division of labour in a preliminary study and contacts with the auditee

- 3.6 A preliminary study is conducted by the assigned auditor(s). The audit manager supervises, oversees and supports auditors and makes sure that the preliminary study is conducted according to the audit manual. The audit manager approves that the preliminary study report is ready for the preliminary study meeting.

- 3.7 During a preliminary study discussions are held with the responsible unit and/or ministry. In cross-sectoral topics discussions are held with responsible units. The purpose of discussions is to determine the views of the auditee and/or ministry particularly concerning (1) the significance of the matter and risks, (2) audit perspectives, (3) planned audit criteria and (4) possibilities to produce useful information on the topic. Discussions should also clarify why a preliminary study has been started. Reaching an understanding with the auditee concerning basic matters generally makes it easier to conduct an audit and improves the effectiveness of an audit. As a rule the audit manager takes part in discussions with the auditee and the ministry during a preliminary study.

### Preliminary study meeting

- 3.8 A preliminary study ends with the preliminary study meeting. The purpose of this meeting is to decide what measures to take on the basis of the preliminary study. Usually the decision is made to start an audit. In this case the meeting should brief participants on the observations made in the preliminary study and decide on the audit framework, resources and division of labour.
- 3.8.1 As a rule a preliminary study meeting is attended by the same persons as the opening meeting. The Auditor General should be given the possibility to attend the preliminary study meeting by informing him of the meeting well in advance.
- 3.8.2 The draft preliminary study report and the tentative project plan, which the auditor has sent to participants and the Auditor General in advance, serve as the basis for discussion at the preliminary study meeting. The draft preliminary study report and project plan are revised as necessary at the meeting.
- 3.8.3 The auditee and the responsible ministry are notified of the start of an audit by letter. A letter is also sent if the auditee has been notified of the start of a preliminary study and the audit ends with the preliminary study. Other auditors are also notified of the start of an audit internally. The unit secretary sends internal and external notifications.
- 3.8.4 The preliminary study meeting can decide that there are not sufficient grounds to start an audit on the topic. In this case a topic can end in a preliminary study or a review or an initiative can be prepared to correct observed problems. The use of initiatives and reviews is discussed under reporting in points 5.95–5.97.

The Auditor General decides whether a topic should end in a preliminary study, a review or an initiative rather than an audit, since the decision concerns a revision of the audit plan that has been approved by the Auditor General. The decision can be made at the preliminary study meeting or after the meeting. The matter is presented by the Assistant Auditor General or a person appointed by the Assistant Auditor General. The presentation is made on the basis of the preliminary study report, in which grounds have been recorded, as well as the planning form, on which the presentation and the final decision are recorded.

## Determining the need for an audit

- 3.9 Topics are selected for inclusion in the audit plan according to the need for an audit. During a preliminary study the need for an audit is examined by taking a closer look at the financial significance of the matter, risks and the possibility to produce new information on the topic.
- 3.10 Before the need for an audit can be analysed, data must be collected on the topic. Data are collected only to the extent that is necessary to determine the need for an audit and formulate the audit framework.

## Determining the financial significance of a topic

- 3.11 Determining the financial significance of a topic requires the examination of financial indicators. This includes budget implementation figures, accounting information on income and expenses, balance sheet items, cost accounting and national accounting data, for example. Describing the financial significance of a topic often requires comparisons with indicators for other activities or organizations or with total expenses in the administrative sector.

A useful source for financial indicators and documents on state agencies and funds is the NETRA online reporting service. Indicators on state-owned companies, unincorporated state enterprises and recipients of state aid can be obtained from financial statements and annual reports. National accounting data are available from Statistics Finland's online service.

- 3.12 Sometimes the direct financial significance of a topic is small but the indirect financial significance is large. In this case the



linkage to state finances must be carefully explained.

### Risks associated with the topic

3.13 In addition to the financial significance of the topic, the need to audit a topic depends on the risks associated with the topic. This means any undesirable event, factor or problem that could have a negative impact on the achievement of objectives (see point 2.8.2). The purpose of risk analysis is to determine the probability of risks and their consequences.

3.14 In evaluating the risks associated with the topic, the auditor should use the effectiveness model and the audit perspectives derived from it (Figure 3). Using the effectiveness model makes it easier to get a complete picture of risks and problems.

Risk analysis using the effectiveness model may not work for topics that do not have independent objectives related to social needs. Such a topic is state administration's support functions, for example. In this case an audit should determine whether objectives have been achieved as economically as possible.

3.15 In observing and analysing risks it is important to evaluate the topic critically, taking advantage of the auditor's professional skill and experience.

Since the time available for a preliminary study is often quite short, observing and evaluating risks does not require the same production of audit evidence that takes place in an audit, using different sources. Instead risk analysis is necessarily based on well-grounded suspicions or secondary sources. Administration's own risk analyses can also be used as a source in observing risks.

3.16 The basic performance criteria that are used as a conceptual framework in performance management in state administration and the risk factors that are associated with it (see Appendix 1) can also be used in risk analysis.

### Possibility to produce useful information

3.17 In addition to the financial significance of a topic and the risks associated with the topic, the preliminary study must determine whether an audit can produce useful information on the topic (see point 2.8.3).

- 3.17.1 Producing useful information does not require that audit data always have a direct linkage to timely decision-making concerning financial management, for example reforms or development projects. To ensure accountability and transparency it is also important to audit functions in which reforms are not under way.
- 3.17.2 The need to produce useful information is even more important if the organization or activity is being reformed, changed or developed or if such measures are being prepared. In this case a preliminary study should carefully consider whether the timing is right: whether an audit should be conducted so that audit information can influence change or whether the audit should be conducted after the reform or change has taken place. To evaluate the possibility to produce useful information, a preliminary study should determine what preparation, development or decision-making processes are under way with regard to the topic.
- 3.18 The usefulness of audit information is also influenced by evaluations or studies that have been undertaken or commissioned by the auditee or other parties. Their significance for the usefulness of audit information and the start of an audit must be evaluated on a case-by-case basis. In some cases the start of an audit should be postponed until studies have been completed. In other cases an audit should start in spite of studies, for example if the study is not likely to produce answers to the questions that interest the National Audit Office or if it is necessary to conduct an independent study of the matter.

## Creating the audit framework

- 3.19 The other main object of a preliminary study is to create the audit framework, which describes what is to be audited and how this will be done, including audit perspectives and audit questions, audit criteria, the main audit data, methods for collecting and analysing data, the audit timetable and the necessary resources.

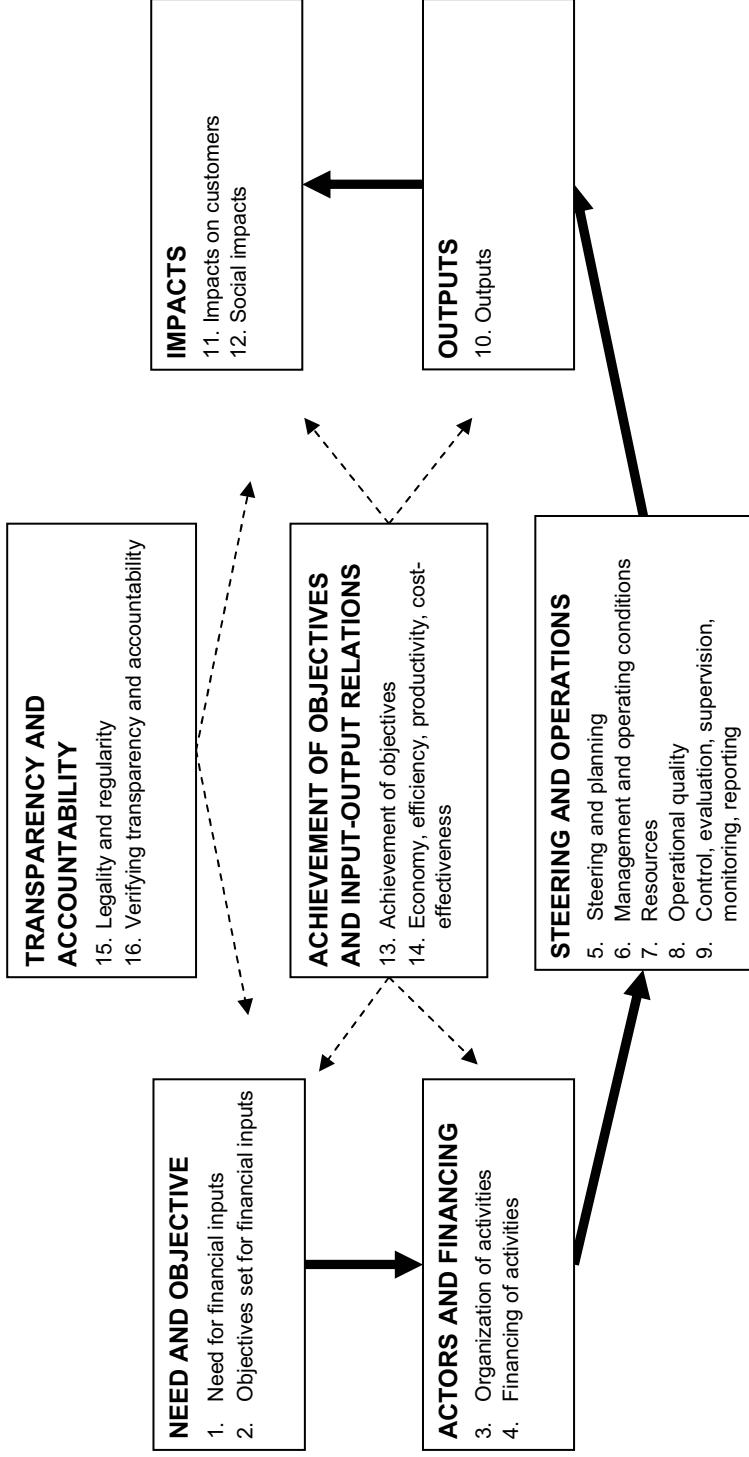
### Audit perspectives

- 3.20 In each performance audit the basic perspective and fundamental question is whether the activities examined have met the

requirements of economy, efficiency and effectiveness. The audit framework is focused accordingly. The basic perspective can be described and evaluated with the help of the effectiveness model (points 1.10–1.12).

- 3.21 In formulating the audit framework each part of the effectiveness model forms a possible audit perspective on the topic. On this basis the auditor evaluates how the parts of the effectiveness model support the achievement of objectives and whether the parts of the model involve special problems or risks that threaten performance (see Figure 3). In practice each audit uses a combination of perspectives.
- 3.22 Performance audits strive particularly to evaluate the impacts of activities and the relation between impacts and inputs. In order to evaluate effectiveness, attention must be paid to the entire effectiveness model, including steering and financing systems, for example. Audit perspectives and audit questions can be formulated for each part of the model, depending on the extent to which the selected perspectives reflect greater risks and problems for performance. In selecting perspectives it is important to consider the effectiveness model as a whole.
- 3.23 When it comes to evaluating social effectiveness, other actors besides the state are often involved in activities, such as local authorities, private companies and the third sector. In this case the impacts of the state's activities also depend on other actors' objectives and activities.
- 3.24 The auditor should discuss alternative audit approaches and perspectives with the audit manager. In discussing perspectives, and later on audit questions, attention should also be paid to the National Audit Office's strategy and the theme areas in it.

Only when the auditor and the audit manager have agreed on the main perspectives of an audit can the audit framework be supplemented by specifying the audit questions and criteria, the main audit data and methods, the audit timetable and the necessary resources.



**FIGURE 3. Audit perspectives derived from the effectiveness model.**

## Audit questions and boundaries

- 3.25 The core of the audit framework is the main question. The main question tells what the audit is intended to find out or for what purpose audit evidence will be produced.
- 3.26 The main question should be presented in the form of an interrogative sentence and should tell what the audit is about. The main question should not contain vague expressions such as "among other things", "particularly" or "primarily".
- 3.27 If the topic is approached from several audit perspectives, the auditor should find a main question that sums them up.
- 3.28 The main question should be clear and understandable. The main question is often abstract and can be presented for example in the form: "Have objectives been achieved efficiently?"
- 3.29 In order for the preliminary study to give a clear picture of what data are needed to answer the audit question, the main question should be divided into concrete audit questions. These can be on different levels. The number of questions and how specific they are depends on the topic and the audit framework. Sometimes concrete audit questions take shape during the audit process, for instance on the basis of tentative findings.
- 3.30 Audit questions linked to the audit perspectives presented in Figure 3 can include the following, among other things:
1. Need: Does the social need for the activity examined and financial inputs still exist?
  2. Objective: Is the objective based on a decision by Parliament or a need derived from a decision by Parliament and does it guide activities? Can the objective be achieved with the provided inputs?
  3. Organization: Are responsibilities and the distribution of duties clear? Have activities been organized so that objectives can be achieved efficiently and economically?
  4. Financing: Has financing been dimensioned on the proper grounds? Does the financing system encourage economy and efficiency?
  5. Steering and planning: Are activities planned and steered according to objectives? Are steering and steering tools functional? Are steering and planning based on adequate information? How has the auditee prepared for risks?

6. Management and operating conditions: Are activities managed so that objectives can be achieved? Do management and activities have sufficient preconditions? Are support functions such as procurement, IT, real estate and personnel matters arranged properly?
7. Resources: How have the effective use and development of human resources, facilities and equipment been ensured?
8. Operational quality: Are operational processes high in quality and efficient and is quality assurance properly arranged? How is operational quality being improved?
9. Evaluation, supervision, reporting and monitoring: Are activities supervised and monitored adequately? Is internal control arranged properly? Has true and fair information been reported to the supervising party?
10. Outputs: What outputs have activities produced? Are these in line with objectives and do they give good value for money?
11. Impacts on customers: Have the desired impacts on customers been achieved? Have impacts been achieved efficiently in view of resources?
12. Social impacts: Have social impacts been achieved? Have they been achieved efficiently? Have there been undesired impacts? What is the financial significance of these impacts?
13. Achievement of objectives: Have the objectives that were set in the budget and the budget statements been achieved? Have objectives been achieved efficiently in view of resources?
14. Input-output relations: Have activities been economical, efficient, productive and cost-effective?
15. Legality and regularity: Are activities legal? Has the budget been complied with?
16. Transparency and accountability: Have objectives, financing, activities and outputs been presented transparently? Has true and fair information been produced regarding performance? Are activities transparent from the viewpoint of citizens?

3.31 The preliminary study should also present the audit boundaries. The audit perspectives and questions already indicate what matters will be included in an audit and what matters will be left outside the audit and data collection. In addition temporal, regional or administrative boundaries can also be set. The reasons for exclusions should be clearly explained.

### Specifying the audit criteria

3.32 The preliminary study specifies the criteria that will be used in an audit. The audit criteria are the grounds, indicator or other property on which evaluations will be made to determine whether things are as they should be.

3.33 Audit criteria are derived primarily from decisions made by Parliament, including legislation, the budget, related background materials and other positions taken by Parliament, as well as general principles of good governance. Audit criteria can also be derived from performance agreements, objectives in programmes or objectives presented in administrative guidelines as long as these are in line with decisions made by Parliament. If objectives set by administration are not in line with decisions made by Parliament, this should be discussed with the auditee and attention should be drawn to the matter in the preliminary study report.

Sometimes primary sources do not contain clear criteria for an audit. In this case the auditor should specify the audit criteria using different sources.

3.34 One criterion in every audit is economy: the achievement of objectives cannot be evaluated without considering resulting costs.

3.35 The preliminary study should formulate and express the audit criteria clearly and unambiguously. It is especially important for the criteria and the grounds on which they have been selected to be presented clearly to the auditee and the supervising ministry.

In some cases – for example, if the objectives set for activities are unclear or contradictory – it is not possible to formulate unambiguous criteria in the preliminary study. Instead criteria only become clear during the course of the audit.

### Specifying audit data and methods

3.36 The preliminary study should also plan what data will be used to answer the audit questions, how data will be collected, what main methods will be used to analyse data and what resources are needed to collect and analyse data. The purpose of planning is to ensure that the audit questions can in fact be answered and that data and methods are suitable to answer questions.

3.37 Audit data are collected from different sources and can be in oral, written or electronic form. They also include first-hand information obtained by an auditor. Data analysis is the process of

examining data in the light of audit questions and audit criteria.

The preliminary study specifies the main data that will be used to answer the audit questions. The preliminary study also strives to specify the main methods that will be used to analyse data. The suitability of specific methods often depends on the quality and quantity of final data. Audit data are discussed in points 4.16–4.23 and methods of analysing data in points 4.24–4.32.

- 3.38 In collecting and analysing data, help can also be obtained from outside experts in special cases. Section 3 of the Act on the National Audit Office specifically states that the National Audit Office may use experts to assist in audits. If an outside expert is needed, this should be clearly explained in the preliminary study. Attention should be drawn to an outside expert's possibilities to produce objective information on the topic, the significance of the use of an outside expert and the procurement process on the audit timetable (including the time needed to procure the service) and the handling of confidential or secret information.

#### Project plan for an audit

- 3.39 The project plan for an audit works out the timetable and the resources needed for an audit.
- 3.40 The timetable is worked out by dividing the audit into stages. The amount of work required for each stage and when each stage should start and end are evaluated separately.

In every audit the timetable must be worked out for at least the following stages, which are monitored through management's information systems:

- (Survey of the topic starts)
- (Survey of the topic ends)/Preliminary study starts
- Preliminary study ends
- Audit starts
- Tentative draft audit report ready; supervision responsibility shifted to report manager
- Draft audit report to auditee(s) for feedback
- Receiving of feedback
- Final meeting
- Publication of audit report

- 3.41 During the audit the audit manager and the auditor evaluate compliance with the audit framework and project plan. Any essential change in the audit framework, such as a clear change in



an audit question, must be presented to the Assistant Auditor General and the Auditor General for approval. The auditor must report to the supervising manager if there is any need to change the timetable or the resources needed for an audit in an essential way. Any change in the project plan must be presented to the Assistant Auditor General for approval.

- 3.42 There is a sample project plan in the preliminary study template.

## Risks in conducting an audit

- 3.43 An important part of a preliminary study is to determine risks and uncertainties involved in conducting an audit and report on them. It is particularly important to discuss risks when the topic is delimited by selected audit perspectives and specifying audit questions.
- 3.44 Risk factors include:
- other studies or evaluations that may be under way at the same time
  - compliance with the audit framework
  - blurring of the financial perspective, especially if the topic is very broad or multidimensional
  - the availability of audit data
  - expertise needed to collect and handle data
  - adequacy of audit resources or the audit timetable.
- 3.45 Risks and uncertainties should be discussed with the audit manager during different stages of the preliminary study. Discussions with the auditee and the supervising ministry can also help to clarify risk involved in conducting an audit. It is also a good idea to talk with other auditors about risks.
- 3.46 The preliminary study report should give a clear and well-grounded picture of how the audit will be conducted and any factors that may threaten the usefulness of conclusions. It is important to present uncertainties so that an audit can end with a preliminary study if severe problems are anticipated. Uncertainties presented during a preliminary study may also provide tentative grounds for changing the audit framework or for giving only a partial answer to the audit question.

## Topic survey and theme plan

- 3.47 In some cases a topic that has been approved to the audit plan is very broad and complex, in which case a preliminary study should start with a topic survey. The purpose of this is to break down the topic for the preliminary study.
- 3.48 The decision to conduct a topic survey is made at the opening meeting, although in some cases the audit plan may have already made provisions for this. The amount of work reserved for the topic survey and work days are recorded on the planning form.
- 3.49 The audit manager supervises the topic survey. In collecting data the same methods are used as in risk analyses and preliminary studies.
- 3.50 After the topic survey has been completed and a memorandum has been written, a new opening meeting is held. This meeting decides what topic will be the subject of a preliminary study or whether more than one preliminary study should be undertaken on the basis of the survey. The meeting also decides on the number of work days to set aside for the preliminary study.
- 3.51 The secretary files the memorandum on the topic survey. The final preliminary study can be the subject of a separate report or can be added to the topic survey.
- 3.52 The audit plan can also include broad audit topics or themes concerning which the National Audit Office intends to report to Parliament in the coming years. If a topic survey is conducted, it should include a theme plan. A theme plan is the National Audit Office's work plan regarding how many audits concerning the theme should be conducted in the coming years and on what topics so that the audit of the theme is sufficiently comprehensive and reporting to Parliament is well-grounded.
- 3.53 A topic survey including a theme plan is handled in the same way as a normal topic survey but the opening meeting also goes over the theme plan to make sure it is realistic.

## Preliminary study report

- 3.54 The key content of a preliminary study report is grounds for starting an audit and for selecting audit perspectives (or ending an

audit with a preliminary study) and a description of the audit framework.

3.55 A preliminary study report is written on a template. The report should discuss at least the following matters:

1. Preliminary study process (what was done in the preliminary study)
2. Description of the topic and its financial significance
3. Risks and problems
4. Possibility to produce useful information
5. Alternative perspectives
6. Audit questions and boundaries
7. Audit criteria
8. Collecting and analysing audit data
9. Risks in conducting an audit
10. Project plan

Appendix 1 contains questions that can be used in writing a preliminary study report.

3.56 The draft preliminary study report is discussed at the preliminary study meeting and is revised as necessary. The secretary files the preliminary study report.

3.57 The preliminary study report is a public document and is available from the National Audit Office's registry on request. This should be kept in mind in style and appearance. If the preliminary study report includes confidential matters, these must be kept secret.

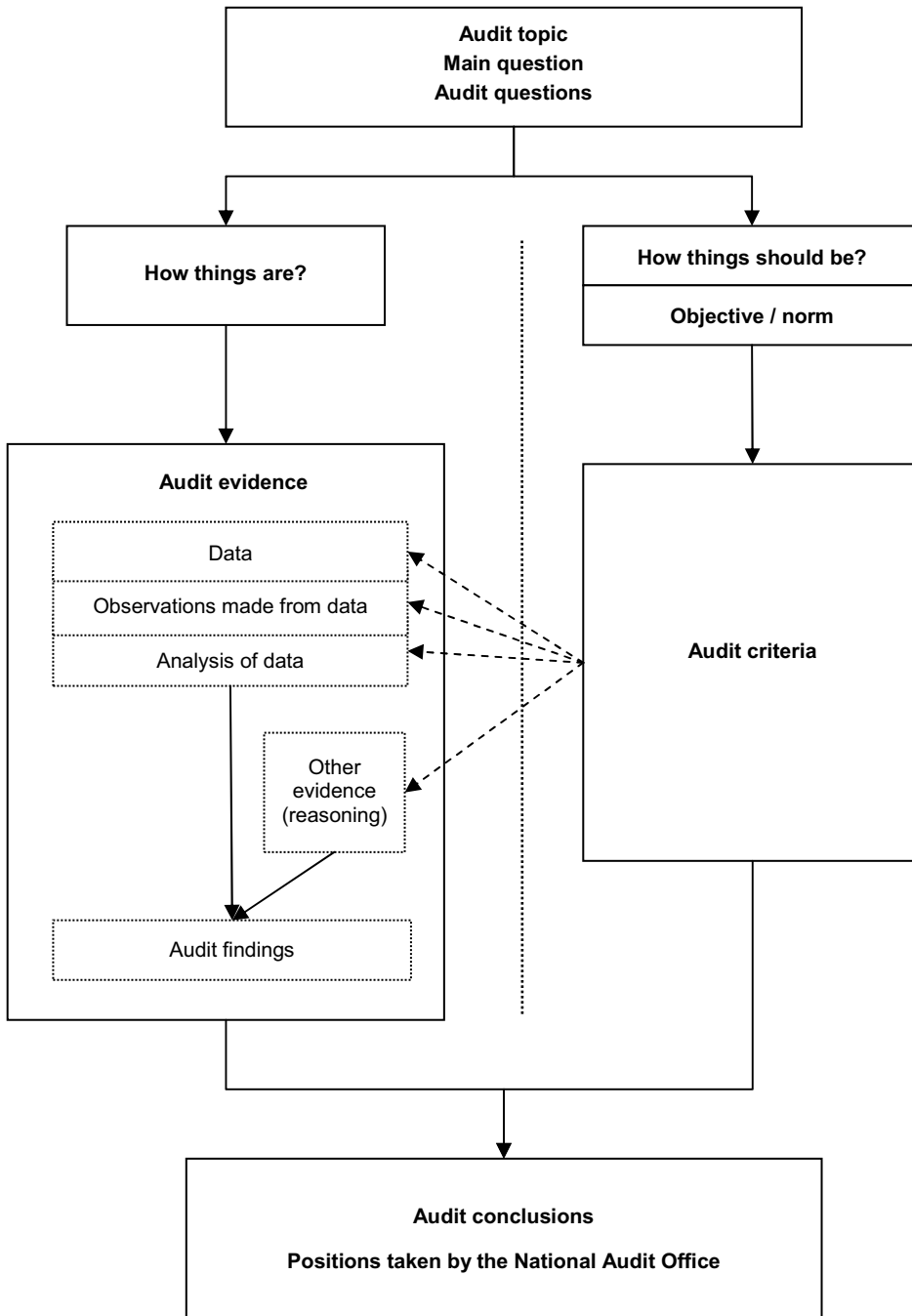
# 4 Producing audit evidence

## Principles and concepts regarding the production of audit evidence

- 4.1 The purpose of producing audit evidence is to answer audit questions according to the audit framework in the preliminary study. The goal is to create a sound basis for the positions taken by the National Audit Office.
- 4.2 The production of audit evidence takes place mainly during the actual audit, but it also includes data that was collected and findings that were made in the preliminary study.
- 4.3 The production of audit evidence must be reliable and the methods used must be generally acceptable so that the positions taken by the National Audit Office are well grounded.
- 4.4 Methods used in collecting and analysing data are subject to the same principles that apply to research. This means that the production of audit evidence must be objective, critical and proceed in a logical manner. The grounds used in the production of audit evidence must also be adequately specified and verified so that conclusions can be followed and evaluated by others. On the other hand it is not always possible to find the absolute truth about a particular matter. Audits make the most likely interpretations according to chosen assumptions.
  - 4.4.1 Audits do not always have to go over every aspect of a topic or problems. The production of audit evidence can show convincingly that problems exist in the activities that are being examined. In this case it may be sufficient to recommend that an authority studies the matter and takes measures accordingly. Such a recommendation must be supported by evidence.
  - 4.4.2 In producing audit evidence, as in research, auditors make evaluations on the basis of their professional experience. Evaluations must be based on sufficient audit findings and must be objective, so that other auditors could be expected to reach similar conclusions in the same situation.
  - 4.4.3 Different approaches are used in producing audit evidence, as in research. An explanatory approach strives to find cause-and-effect relations that are important to identify problems and risks.

Often an audit strives to understand actors' operating methods and motives as well. This approach is important because it allows the production of audit evidence and analysis to focus on the right things: identifying real problems and risks requires an understanding of the activities that are being examined. On the other hand the approach is useful in drawing conclusions, so that matters are seen from different perspectives and one can anticipate counter-arguments and know what can be demanded.

- 4.5 Ensuring reliability requires using different kinds of data and different methods of analysis, which together provide the grounds for conclusions and recommendations. Few specifically formulated audit questions can be answered on the basis of a single source or using a single kind of data. The use of multiple sources is discussed in point 4.20.
- 4.6 The main stages in the production of audit evidence are collecting data, analysing data and drawing conclusions. In practice these stages overlap, with tentative observations and conclusions leading to the collection and analysis of additional data. The main stages in the production of audit evidence are discussed separately below.
- 4.7 Figure 4 presents the links between the three main stages in the production of audit evidence. The point of departure in producing audit evidence is the basic question in the audit framework: are things as they should be? In order to answer this question an audit must determine how things are and compare this with how things should be.
  - 4.7.1 The preliminary study will have already examined how things should be in connection with the defining of the audit criteria. This is further refined during the course of the audit. The actual audit begins by determining how things are. Then it evaluates how well this corresponds to how things should be. The question of how things should be is not only the basis for comparison, however. The question also guides the collection and analysis of data according to what is essential. The question of how things are should be answered solely on the basis of those matters that are relevant for the question of how things should be.



**FIGURE 4. Outline of the production of audit evidence.**

## Audit criteria

- 4.8 Audit criteria play an important role in the outline of the production of audit evidence in Figure 4. Audit criteria give concrete form to how things should be and thus provide a basis for comparison. They form an operational factor that steers choices concerning data and analysis and also provide a tool for evaluating whether what is observed corresponds to the intended state of affairs. Audit criteria and how to derive data are discussed in points 3.32–3.35.
- 4.9 When objectives for the activities examined have been set with the help of a purely quantitative indicator, objectives and criteria mean the same thing. In this case the use of criteria as the basis for producing audit evidence is fairly straightforward. On the other hand, if objectives have been expressed in qualitative terms, audit criteria must be interpreted and evaluating activities is not so simple. Criteria should nevertheless be expressed as simply and transparently as possible. For example, previous performance or the level of performance in activities of a similar level can be used as criteria.
- 4.10 The selected audit criteria do not necessarily define how things should be. Consequently a more general interpretation of the intended state of affairs should be used as a basis for steering the production of audit evidence. In Figure 4 one can see that how things should be also steers the production of audit evidence directly and not just through the audit criteria.

## Audit findings

- 4.11 Audit findings are observations concerning how things are. Findings should be relevant from the viewpoint of audit questions and criteria and are based on facts. Simply noting how things are is not enough: findings must be interpreted on the basis of audit questions and criteria. Individual audit findings tell for their part whether things are as they should be.
- 4.12 Reaching audit findings first requires collecting data that is essential from the viewpoint of audit questions and criteria and then analysing these data. Often observations can be made directly from data, but audit findings require the analysing of data.
- 4.12.1 Audit findings must be based on adequate, essential and reliable data and their thorough analysis. Data and data collection are

discussed in points 3.36–3.38 and principles concerning the collecting and use of data in points 4.16–4.23. Analysing data is discussed in a general way in points 3.37 and 3.38 and in more detail in points 4.24–4.32.

- 4.12.2 During the production of audit evidence different types of observations are made, but some of these are rejected as irrelevant from the viewpoint of the audit framework. Individual observations that may appear to have little significance should nevertheless be kept in mind and recorded, since later on they can together form the basis for what may be a significant audit finding. Such observations can also serve as clues that lead to audit findings.

### Audit evidence

- 4.13 Audit evidence is the sum total of audit findings and logical conclusions that forms the basis for the positions taken by the National Audit Office and provides proof for these positions.
- 4.13.1 In order for audit conclusions and the positions taken by the National Audit Office to be convincing, an audit must produce essential and sufficient evidence and this must be properly documented.
- 4.13.2 Since audit findings stem from collected data, audit evidence also relies ultimately on the data that are used in an audit.
- 4.13.3 In some cases audit evidence depends more on reasoning ("other evidence" in Figure 4) than on findings made with regard to data. This can happen, for example, if an audit indicates that there have been sufficient preconditions for achieving a particular impact. Such reasoning is based on data and findings, but these alone would not be sufficient reasons for the National Audit Office to take a position.
- 4.13.4 Precise and comprehensive audit findings form strong evidence for positions taken by the National Audit Office. The same applies to logical reasoning. An audit can also make use of weaker evidence or individual findings that are made on the basis of data. Taken individually these may not form sufficiently strong evidence, but interpreted together they may provide credibility for conclusions.

### Conclusions and positions

- 4.14 The production of audit evidence ends when an audit has



formulated proposals for the National Audit Office's conclusions and positions. This stage is discussed in points 4.33–4.39.

### Changing the audit framework

4.15 The production of audit evidence may bring to light matters not anticipated in the preliminary study that affect the audit framework. The audit framework should not be changed unless there are solid grounds to do so, however. This matter should be discussed with the audit manager, who will decide whether the change is significant enough to require that the matter must be presented to the Assistant Auditor General or the Auditor General in accordance with the National Audit Office's Working Order. Approved changes in the audit framework must be documented.

### Data

4.16 Data are collected from different sources and can be in oral, written or electronic form. They also include first-hand information obtained by an auditor. Data can be analytical if they have been collected by analysing other data.

4.17 Data are the basis of the production of audit evidence. The goal of collecting data is to produce audit evidence. To achieve this auditors seek answers to the question of how things are by studying data. In the course of collecting and studying data auditors also get a better picture of the activities examined in order to understand their essential features.

4.18 Audit data and sources include

- Acts of Parliament, decrees and other norms
- other materials produced by Parliament
- administrative documents such as operational plans and performance management documents
- budgets, accounts, financial statements and cost accounting
- decisions concerning the activities examined and background materials
- information systems
- oral sources
- questionnaires
- statistical data

- information from findings
- studies and evaluations
- expert statements and reports
- previous audit reports and related data.

## Efficient use of data

- 4.19 Audits must collect and use data efficiently. The collecting of data should stop when the cost of obtaining additional data exceeds the benefits. This is true when the same matters keep coming up in data, for instance.
- 4.19.1* The efficient collecting of data requires focusing on sources that are judged to be most essential. It also requires constant and active selection of data guided by audit questions and criteria and the ability to exclude some sources altogether.
- 4.19.2* A source that is judged to be essential offers a lot of reliable data for considering the audit question and little data that is irrelevant. However, the amount of irrelevant data is not very significant if the audit uses effective methods of collecting data. Essential sources include documents that have been prepared on the topic and offer direct answers to the question of how things are, for example.
- 4.19.3* Data available in documents such as reports and studies regarding how things are can be transformed into audit findings if data are evaluated using audit criteria. Existing knowledge can thus receive new content and significance. Even if it does not receive new significance, this knowledge can be important in producing audit evidence.
- 4.19.4* It is seldom possible to answer the question of how things are using only a few sources. Usually data must be sought and collected from several sources, which may contain a lot of unnecessary data that are hard to sift out. Particularly in dealing with this kind of data it is important to be selective. An auditor must also know how to exclude some sources altogether even if these may contain pertinent data.
- 4.19.5* It is important for an audit to use sources that touch on a topic although they approach it from a different angle or ask different questions. These can be referred to as "non-specific sources". Since they do not involve interests linked to the topic, they offer a chance to test data presented in other sources. They can also lead to entirely new perspectives and findings. Furthermore they may

contain concrete examples that support and shed light on audit findings. Concrete examples have great significance in assuring that an audit presents more than suppositions.

### Multiple sources

- 4.20 Collecting data from different sources helps increase the reliability of audit findings, since data can be cross-checked. Examining the audit question using different sources can also reveal connections and findings that might not be clear otherwise.
- 4.20.1 Different sources should be used in an interactive way in order to achieve the greatest benefit. This can mean, for example, preparing a questionnaire on the basis of interviews and documents and then discussing the results and seeking more data if this is necessary.
  - 4.20.2 Using different sources does not mean answering one question on the basis of one source and answering another question on the basis of a second source, without making sure that these sources support or corroborate each other.
  - 4.20.3 The more open a matter is to interpretation, the greater the need to use different sources. There are also situations in which an audit should only use a single source. This includes key data regarding financial management, such as budget data, which should always be obtained from original documents.
  - 4.20.4 All audits must study key documents and other written data.
  - 4.20.5 First-hand information obtained by an auditor can be used to support other sources whenever this is possible. Data can be collected by observing people at work, buildings, facilities, equipment etc. An auditor may also attend meetings or training sessions that concern the topic. Obtaining first-hand information can be time-consuming and can alter the way the auditee performs. Auditors should be careful not to identify with auditees, however. The advantage of first-hand information is that it is obtained directly and independently.
- 4.21 Oral sources have a special position in the production of audit evidence. Oral data can be obtained through interviews, questions or discussions. Producing oral data should be an interactive process. Using oral sources may be problematic, but if it is done carefully oral data can be very important, since written sources do not exist for many matters. Oral data are particularly useful in providing background, clarifying matters or showing where

additional research is needed.

- 4.21.1 As a rule oral data should not be used as the sole basis for audit findings. Oral data should be corroborated using other sources. This should always be done for key matters in an audit whenever other sources are available.
- 4.21.2 Oral sources can also provide data that are suitable as evidence if they show how things have actually been done. Better results are achieved if oral data are linked to analytical evidence. For example, an audit can describe how things should be in a process and then ask people how things are. Audit findings can be derived by comparing the relation between these.
- 4.21.3 Since oral sources are used extensively in audits, all auditors should be familiar with good practice in collecting and recording oral data..
- 4.22 Contradictions between data obtained from different sources should always be noted and an effort should be made to find out why these exist. This also applies to what was said above about confirming oral data using written sources. One should not assume automatically that a contradiction is due to the unreliability of an oral source. Examining contradictions can also lead to essential new audit findings.
- 4.23 The National Audit Office's right to obtain information should be used to the full. It is important to make use of data that are not accessible to others, even if searching for such data may require considerable effort. This includes preparatory materials that are not included in the official registers, intranet data and classified data.
  - 4.23.1 An auditor has the right to look at officials' own preparatory materials in archives, offices, electronic files etc. Preparatory materials that only exist in electronic form can be particularly hard to find. If decision documents present figures without calculations or explanations, an auditor can ask an official to present the relevant preparatory files or working papers. If an auditor is told that background information does not exist, this in itself should be reported as an audit finding.
  - 4.23.2 In spite of the National Audit Office's right to obtain information, auditors should be polite in requesting and searching for data. On the other hand they must make sure that the necessary data are obtained. Any problems in obtaining data should be resolved

preferably with the person concerned and if necessary with this person's superior, assisted by the audit manager. Ultimately the National Audit Office can impose a conditional fine on the basis of section 15 of the Act on the National Audit Office in order to obtain information. If serious problems arise in obtaining information, these should be noted in the audit report.

- 4.23.3 In dealing with classified data, auditors should follow the National Audit Office's procedural guidelines on applying the Act on the Openness of Government Activities (621/1999) as well as provisions concerning the handling of confidential data in electronic form.

## Analysing audit data

- 4.24 Audit data must be analysed in the light of audit questions and criteria. Analysis should provide adequate information on how things are.
- 4.25 The nature of audit data (quantitative, qualitative) determines what kind of analysis can be made. A suitable method should be used so that data can be organized in the best way. The audit trail should also be clear in order to ensure the reliability of results.
- 4.26 When analysing the data the auditor should have an active, critical and objective attitude. Analysis is the active using and interpreting of data, in which light is shed on the audit question from different angles and additional data are sought from different sources to corroborate or challenge previous data or the picture that has already been formed. Analysis is also combining data insightfully in order to get beyond trivial matters and reach significant audit findings.
- 4.27 One part of analysis is constantly organizing data and making findings, and it is difficult to apply standard methods to this. The need to use different sources interactively increases this difficulty. 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 better way to get the job done.
- 4.28 Sometimes in analysing qualitative as well as quantitative data it is possible and advisable to use standardized methods.
- 4.29 The benefits of using qualitative and quantitative methods are efficiency, traceability and the reliability of results. Especially in

the case of quantitative data it is easy to apply methods for which different software programmes have been developed (for instance statistical and spreadsheet programmes). Programmes can sometimes be fairly easy to use, even if they perform quite complicated operations. It is therefore extremely important to know when to use different methods and programmes and to understand what takes place in programme analysis. Otherwise there is a high possibility that results will be interpreted incorrectly.

Applying a method usually forms a clear stage of an audit. As a result supporting staff only need to provide help during the time that is required to complete this stage. They do not need to have a thorough knowledge of the matter that is being analysed. Help can also be obtained from outside experts.

- 4.30 A quantitative analysis can be a calculation demonstrating linkages between matters or a statistical analysis that is based on probabilities calculated from a sufficient number of cases, for example. In a qualitative analysis the number of units is usually so small that statistical analysis is not possible. Qualitative data are often examined as a whole, with the goal of revealing some kind of internally logical structure.
- 4.31 Although it is more difficult to use standardized methods on qualitative data, there are also software programmes that can make this job easier, particularly if a lot of data must be analysed. One benefit of such tools is that they promote the systematic handling of data, which in itself increases traceability and the reliability of results.
- 4.32 An audit can achieve good results by combining qualitative and quantitative analysis. Qualitative analysis can be used to make tentative findings and then these can be tested and revised with the help of quantitative analysis.

## Conclusions

- 4.33 Conclusions in this context are the results of an auditor's evaluations and reasoning. These concern how things are and whether things are as they should be. The positions taken by the National Audit Office sum up conclusions of the audit findings and the need to make changes concerning the activities examined.

- 4.34 Analyses of data and comparisons with criteria are the starting points in drawing conclusions concerning how things are. Analyses or comparisons alone do not show how things are; auditors must draw conclusions from them. Conclusions can also bring out something that is not contained in the analysed data.
- 4.35 Insofar as conclusions are based on reasoning, it should be simple to verify whether a conclusion is correct or not. In a quantitative analysis the situation is usually the same, since conclusions derived by the rules of reasoning are often an integral part of analysis.
- 4.36 In a qualitative analysis conclusions are generally drawn by forming an overall interpretation of the data that have been analysed. In this case whether conclusions are correct cannot be verified indisputably and sometimes this can even be irrelevant. Such conclusions must meet other requirements such as objectivity, balance and fairness. This applies especially to conclusions regarding whether things are as they should be or what should be done. To some extent it also applies to conclusions regarding how things are. Sufficient grounds should also be given for conclusions that are based on reasoning.
- 4.37 Justification means that sufficient evidence is presented to support conclusions. It is not possible to present general requirements concerning the quantity or quality of required evidence, particularly in the case of conclusions that are based on qualitative analyses. The quantity and quality of required evidence depend entirely on the nature of matters and connections between matters. Details that may seem insignificant but independently point in the same direction may provide strong justification for a conclusion. In some cases one significant finding can provide decisive support for a conclusion. Whether evidence is sufficient can be determined by asking whether a reasonable person would be convinced that it supports conclusions. During an audit one can also verify fairly well that evidence is sufficient if additional data do not essentially shed new light on the matter, but the same findings keep cropping up. Statistical handbooks contain rules concerning the amount of data that is required in a quantitative analysis.
- 4.38 The confidence level of conclusions may vary. The more controversial a conclusion is likely to be, the higher the confidence level and justification one should aim for. In this case

a large amount of evidence should be collected to support the conclusion and the conclusion should be analysed in greater detail. Justifying conclusions drawn from a qualitative analysis can require even more effort. Since conclusions may be based on an overall interpretation of data, it may be hard to point out individual matters that support a conclusion. In this case special attention should be focused on conclusions as a whole.

- 4.39 An audit may reach conclusions that are significant but have trouble achieving a sufficient confidence level. Such conclusions may need to be reported, but the lack of certainty should be clearly pointed out.

## Audit documentation

- 4.40 The data that are used in an audit and the methods that are used to analyse them should be presented and recorded so as to show how audit findings and conclusions were reached. Key summary documentation may be mentioned in the audit report, but the data on which this is based (for example written data obtained from the auditee or interview notes) must be kept in an audit's working papers. Data mentioned in the audit report's sources that are available to the general public do not have to be included in working papers. The audit questions and the data and methods that are used in an audit have a large effect on how detailed working papers should be and what working papers should be stored after an audit.
- 4.41 An audit's working papers and other evidence should be stored for six years after an audit report has been issued, preferably in electronic form.



# 5 Reporting

## Basis and reporting methods

- 5.1 The Act on the National Audit Office prescribes two main reporting methods: individual audit reports according to section 5 and the annual report to Parliament on the National Audit Office's activities according to section 6. The National Audit Office can also issue separate reports to Parliament as necessary.
- 5.2 The main reporting method in performance audit is an audit report according to section 5 that presents the findings made in the audit together with the positions taken by the National Audit Office. This section reads: "The National Audit Office shall submit an audit report for information and necessary measures to the auditee and the ministry in whose sector the auditee is included and for information to the Parliamentary Audit Committee and the Ministry of Finance."
- 5.3 The annual report to Parliament under section 6 covers the National Audit Office's activities and findings as a whole. The Auditor General decides on the content of the annual report to Parliament. The Auditor General also decides whether separate reports should be submitted to Parliament. Legislation does not spell out requirements regarding separate reports. Reports can be submitted by Financial Audit, Performance Audit or both working together. The National Audit Office's strategy calls for the National Audit Office to submit separate reports to Parliament on annual themes or summarize findings in its annual report to Parliament.
- 5.4 In addition to audit reports and the annual report to Parliament, Performance Audit can submit initiatives, reviews and letters. These are not used to report ordinary audit findings, however. Initiatives, reviews and letters are discussed in points 5.95–5.97.

## Stages of reporting

### Drafting stage

- 5.5 A report is submitted after an audit has been conducted, but the drafting stage cannot be separated temporally from the rest of an audit. Particularly the analysis and drafting stages overlap, since

drafting is a tool in analysing data and drawing conclusions.

- 5.6 An auditor produces texts throughout an audit project, and some of these can and should be used in the final report. The preliminary report may contain text that can be used in the audit report to describe the topic or audit framework. Working papers drawn up on the basis of interviews, questionnaires, statistics or written sources may also be usable as they are in the audit report.

### Drafting and supervision

- 5.7 The auditor in charge and other auditors draft an audit report according to the agreed division of labour. The auditor in charge is responsible for making sure that the parts of an audit report fit together and form a whole. The auditor in charge presents the audit report for approval.
- 5.8 The audit manager and the report manager supervise the drafting of an audit report. It is the audit manager's task to ensure that sufficient evidence has been collected to answer audit questions so that an audit report can be submitted. It is also the audit manager's task to go over the draft audit report and make sure that the content corresponds to what was agreed in the preliminary report and that the tentative structure is balanced. The report manager decides when the draft audit report is ready and can be sent to the auditee for feedback. The shifting of responsibility from the audit manager to the report manager is agreed on a case-by-case basis. The essential thing is for the auditor and the managers to know at all times who is responsible for supervision.
- 5.9 Before a draft audit report is sent to the auditee, feedback can be requested from Financial Audit if the auditor and the report manager think that this can be of value.

### Requesting feedback

- 5.10 The draft audit report is sent to the auditee and the ministry in charge of the administrative sector for feedback. The purpose is to give the auditee an opportunity to comment on the adequacy of the evidence that is presented in the draft audit report and to make sure that the draft audit report does not contain misunderstandings and that the content does not come as a surprise to the auditee.
- 5.11 Feedback is requested from the parties that are essentially responsible for the activities that have been examined, as a rule the auditee and the ministry in whose administrative sector the auditee

is included. In other words feedback is given by the same organizations to which the audit report is submitted according to section 5 of the Act on the National Audit Office. Feedback is not requested from stakeholders, interest groups or other parties from which audit data have been collected.

- 5.12 The draft audit report and feedback regarding it are not a data collection tool. Instead the draft audit report should be as close as possible to the final audit report in content and form. The auditor can also communicate with the auditee in writing during the course of an audit, before a draft audit report is sent. Any letters, memorandums or other correspondence should clearly indicate by their content and form that they are not part of a draft audit report.
- 5.13 Before a draft audit report is sent for feedback, the unit secretary puts it in the proper style for a performance audit report. The unit secretary sends the request for feedback and the draft audit report by e-mail. The secretary also files the draft audit report and feedback. If feedback is sent by post or e-mail, the unit secretary forwards it to the auditors, the report manager(s) and the Assistant Auditor General.
- 5.14 The request for feedback is signed by the report manager and the auditor in charge. The auditee is generally given two weeks to send feedback. The way in which feedback should be sent is left open.
- 5.15 If feedback is given orally at a feedback meeting, the auditor prepares a meeting memorandum, which is also sent to the auditee. In addition to the auditors, the report manager and if necessary the Assistant Auditor General and the audit manager participate in a feedback meeting.

#### Handling feedback

- 5.16 The auditors who wrote the report and the report manager go over feedback. On the basis of feedback and discussion with the report manager, the auditors supplement and correct the audit report as necessary. The handling of feedback is recorded in working papers so that any changes that are made to the draft audit report on the basis of feedback, as well as grounds for not making changes, are documented.
- 5.17 If feedback is unclear or if the party sending feedback appears to have misunderstood the draft audit report and it is fair to assume that otherwise the content of feedback would have been essentially different, a request can be sent for a clarification or further

explanation. This request can also be made orally. Further explanations are documented and filed in the same way as actual feedback. As a rule specific references to feedback in audit reports are only made in cases where the content of feedback is in conflict with data that have been collected previously.

## Final meeting

5.18 The report manager approves the presentation of the audit report at the final meeting. The report and abstract are submitted to the Assistant Auditor General and to the Auditor General for information at least a week before the final meeting.

5.19 A follow-up plan is also prepared before the final meeting. This is done by the auditor and supervised by the report manager. The plan is submitted to the Assistant Auditor General before the final meeting. For more about the content of the follow-up plan and related procedures, see Chapter 6.

5.20 The purpose of the final meeting is to

- decide whether an audit report can be issued and whether other measures are warranted
- discuss the provision of information on the audit
- discuss and decide on a follow-up plan
- evaluate the audit process.

The final meeting is attended by the auditors, the Assistant Auditor General, the report manager(s) and the audit manager. The final meeting may also be attended by the Auditor General.

5.20.1 The final meeting discusses whether the National Audit Office can issue the audit report and whether the draft audit report should be revised. The Assistant Auditor General decides whether a report can be issued. The final meeting also discusses and decides whether other measures are warranted by the audit, such as further discussions with the auditee.

5.20.2 The final meeting also discusses different ways to distribute information and the number of reports that should be printed. The main rule is that a press release is issued on audit reports. The Auditor General decides whether to hold a press conference or seminars for stakeholders in connection with the publishing of an audit report. Other ways to distribute information include articles in specialist publications or the presentation of findings at other occasions. The final meeting also decides how large a demand there is for printed reports, in addition to the regular distribution.

The auditor informs the unit secretaries of decisions.

- 5.20.3 The final meeting goes over the follow-up plan, which is approved by the Assistant Auditor General.
- 5.20.4 The final meeting discusses and evaluates the audit process. The following questions may be used for this purpose, for example: Did the audit answer the audit questions and was the audit conducted in the desired scope? How well did the audit succeed in terms of cooperation with the auditee and other stakeholders and within the National Audit Office? Did the audit fail to follow guidelines in any respect? How well did the audit achieve timetable and resource objectives? To facilitate evaluation, the auditor should clarify timetable and resource objectives as well as the actual timetable and person-days in the audit beforehand.
- 5.21 If the Auditor General does not attend the final meeting, the report should be sent to him so that he can study it before the final content is decided.

#### Publishing the audit report and distributing information on the audit

- 5.22 The goal in publishing an audit report and distributing information on an audit is to promote the effectiveness of the audit. Standard means of distributing information are audit reports and press releases.
- 5.23 The unit secretaries have the abstract translated and prepare the audit report for publication. The abstract is written by the auditor.
- 5.24 The information officer prepares a press release in cooperation with the auditor and agrees on the publication date for the audit.
- 5.25 The audit report is sent to the auditee and the ministry in whose administrative sector the auditee is included for their information and for the necessary measures. Copies of the audit report are also sent to the Parliamentary Audit Committee, the Ministry of Finance and the Government Financial Controller's Function.
- 5.26 The printed audit report and press release are sent to the auditee so that the report arrives at least three working days before the publication date.
- 5.27 The audit report is also sent to stakeholders on the regular distribution list and to other relevant parties according to the auditor's own distribution list.

## Requirements concerning the content of an audit report

- 5.28 An audit report is part of the audit process and promotes the effectiveness of an audit. An audit report is also a document on the basis of which people outside the National Audit Office largely form their view of how the Office operates as an independent external audit authority.
- 5.29 An audit report is subject to the same requirements as the audit process in general: It should be objective, reliable, transparent and useful.
- 5.30 Objectivity means that an audit report presents matters in a multifaceted, balanced and neutral way. The report deals with the topic from different perspectives and does not give a one-sided or limited view of the topic. The report presents the positions which the National Audit Office has taken on the basis of the audit and does not serve as a spokesman for other parties. The choice of words in the report is neutral.
- 5.31 Reliability means that the matters presented in the report are justified. The report must clearly show that conclusions and recommendations are based on findings made in the audit. Findings are based on a clearly documented audit process and sufficient evidence. The methods and data used in the audit process are grounded in relation to the audit questions. The audit questions are grounded in relation to the audit objective and the audit topic is grounded in relation to the National Audit Office's strategy and the criteria used in selecting topics.
- 5.32 Transparency means that a report clearly indicates the assumptions that have been made, the measures that have been taken and how the conclusions have been reached. Transparency also means that the audit boundaries are presented clearly. This includes telling what has been left outside the audit, what weaknesses may exist in the audit's approach, data and methods, and what conclusions cannot be drawn on the basis of the audit.
- 5.33 Usefulness means that the topic is discussed in a clear and understandable way and the audit report is readable. The audit report focuses on findings that are essential to answer audit questions and the findings are presented clearly. The audit report does not need to cover everything that was observed in an audit and does not need to contain more information than is required to make findings understandable and provide grounds for positions.

The audit report should be written in a way that provides a basis for correcting shortcomings and problems. The audit report should form a clear and logical whole. It should present the key content of the topic clearly and effectively without needing to refer to other documents.

## Structure and content of an audit report

- 5.34 All audit reports should include the same things as a rule. The actual report comprises the following sections:
1. Introduction, explaining why the audit was undertaken
  2. Audit framework including
    - audit objective, questions and boundaries
    - audit criteria
    - audit data and methods
  3. Audit findings
  4. Positions taken by the National Audit Office, presenting conclusions and possible recommendations
- 5.35 Appended to the manual is a list of questions that can be used in drafting an audit report.

### Introduction

- 5.36 The first section of an audit report presents the background of the audit. This section is titled Introduction. The purpose of the section is to tell the reader why the audit was conducted and why auditing the topic was necessary. The section is short, no more than 3–4 pages, and should not be divided into subsections.
- 5.37 The section begins by presenting the topic in a brief and general way. It also describes the significance of the topic for the state economy and should place the topic in proper perspective. The topic is described in greater detail in the second section of the report.
- 5.38 After a general discussion the section tells on what grounds the topic was selected by the National Audit Office. If the topic is based on previous audits these should be specified. The section also describes timely and significant positions that have been taken by Parliament and its organs with regard to the topic.
- 5.39 The section also describes the audit objective. This is a general evaluation of how the information produced in the audit can be utilized.

## Audit framework

5.40 The second section of the report is titled Audit framework. It relates what has been audited and how the audit was conducted. The goal is for the reader to be able to proceed directly to the positions taken by the National Audit Office at the end of the report after reading the introduction and the audit framework. Although the focus in audit work is on making findings, a busy reader is often most interested in what was audited and what conclusions were drawn on the basis of the audit.

5.41 The section should be divided into subsections dealing with the following matters:

- description of the topic
- main question and concrete audit questions
- delimitation of the objective with explanations
- audit criteria
- audit data and methods of analysis
- organizational, temporal and regional boundaries and the significance of boundaries for conclusions

All these things are connected and the order of presentation and headings should be considered on a case-by-case basis. The above order of presentation is recommended, however.

Except for the description of the topic, the past tense should be used in the section: the section tells that an audit has been conducted and that a report has been drafted concerning the audit.

5.42 The description of the topic should present the activities in question, the resources applied for this purpose, responsible authorities and the legal basis. If significant changes have occurred in this respect, these should also be explained. The report can also describe the topic's connections to other activities or organizations.

The purpose of the description is to help the reader to understand the audit objective and questions. Accordingly the description should focus on matters regarding activities, the organization or legislation that are connected to audit questions. The description of the topic should be brief, no more than 3–4 pages. The description of the topic should not simply repeat what was said in the introduction.

5.43 After the description of the topic the report should present the main question and concrete audit questions. It should be possible to express the main question in a single clear sentence. The main



question should be precise and should not include vague expressions such as "among other things", "particularly" or "mainly".

The main question should generally be divided into concrete audit questions. The main question and the audit questions should form a logical whole. Questions should also be in line with the conclusions that are presented later on. The report should not present audit questions that have not been examined or have not been answered in conclusions.

- 5.44 After the main question and audit questions the report should present the audit boundaries insofar as they are connected to the audit objective and questions. The audit boundaries indicate what questions the audit has answered and what questions it has not. Often it is easier for the reader to indicate what issues the audit has not addressed.
- 5.45 The audit criteria or grounds on which findings are evaluated should be presented clearly, along with how they were derived and why they were selected. Criteria often concern compliance with regulations, the achievement of objectives or good financial management and governance. Since an audit is ex post appraisal, special attention should be paid to the validity and fairness of criteria at the time of the audit. Opinions regarding how things should be, expressed by the auditor or others, are not adequate criteria. If different criteria are used for different audit questions, these can be described in more detail when findings are discussed.
- 5.46 Data and methods are also presented in this section: What data have been used in the audit, how data have been collected and what methods have been used to analyse data. Data and methods should be presented on a general level. If different data and methods have been used for different audit questions, these can be described in connection with audit questions. Generally the description of data and methods also includes the grounds on which data and methods have been selected. If data and methods involve weaknesses or factors that threaten the audit's conclusions, these should be mentioned. Data and methods can also be described in more detail in connection with findings or in an appendix if necessary.
- 5.47 The section should also explain how the selection of data and methods has set boundaries on the audit. Boundaries can be administrative, temporal or regional. An administrative boundary

tells which organizations are covered by the audit and which are not. A temporal boundary tells what period the audit covers and a regional boundary tells what area it covers.

The report should briefly explain the reasons why all the boundaries have been set. It is also good to explain what the boundaries signify for conclusions and their generalizability. The report can, for instance, mention what kinds of results the boundaries exclude and what can be concluded on the basis of the audit. Clearly presenting boundaries and explaining their significance reduces expectation gaps and unfounded criticism concerning the results of the audit.

- 5.48 Next the section should list the parties who have been asked for feedback and who have supplied feedback and describe how feedback has been received. It should mention that feedback has been taken into consideration in preparing the final report. If feedback concerning findings has been requested from the auditee or other parties during earlier stages of the audit process and these can be considered documents that are subject to the provisions in the Act on the Openness of Government Activities, this can be mentioned briefly.
- 5.49 Lastly this section should give the names of the authors and supervising managers. The division of labour between auditors can also be described in brief.

### Audit findings

- 5.50 The Audit findings section is the core of the report. The goal is to create an effective factual basis for the conclusions that are drawn at the end of the report.
- 5.51 The important thing in preparing this section is to remain problem-centred. The text should focus on the audit questions and answering them. The text should clearly distinguish between findings made during the course of the audit and general descriptions of the matter. General descriptions may be included to the extent that they are necessary to understand the audit question and the answer to it.

Audit findings should be written in a way that shows that they are based on sufficient, essential and reliable data. The text should clearly tell what criteria have been used in making evaluations. The text should also indicate what each finding means from the viewpoint of the audit criteria: Is the situation good, satisfactory or

poor? In other words findings should be interpreted in relation to the criteria used in the audit. The interpretation must not be left up to the reader.

- 5.52 The important thing in preparing this section is to remain problem-centred. The text should focus on the audit questions and answering them. The text should clearly distinguish between findings made during the course of the audit and general descriptions of the matter. General descriptions may be included to the extent that they are necessary to understand the audit question and the answer to it.

Audit findings should be written in a way that shows that they are based on sufficient, essential and reliable data. The text should clearly tell what criteria have been used in making evaluations. The text should also indicate what each finding means from the viewpoint of the audit criteria: Is the situation good, satisfactory or poor? In other words findings should be interpreted in relation to the criteria used in the audit. The interpretation must not be left up to the reader.

- 5.53 As a rule each subsection should present the most significant findings first. Less significant findings should follow. The Audit findings section can also start with a conclusion and then support this with documentation, as long as this approach is followed consistently. Findings can also include successful solutions, for example when these could be generalized.

- 5.54 If there are numerous subsections or these require extensive text, findings can be summarized at the end of each subsection or at the end of the Audit findings section. Such a summary should be easily distinguished from the conclusions presented in the National Audit Office's positions, however. The latter indicate what findings mean from the viewpoint of the audit's main question, while summaries present the main findings in compact form. The difference is that the National Audit Office's positions are on a more general level and answer the main question on the basis of findings.

- 5.55 In addition to problems, findings should draw attention to the reasons behind them. The constructive analysis of the reasons for problems promotes the effectiveness of an audit. Recommendations concerning how to eliminate problems should be presented under Positions taken by the National Audit Office.

If the auditee has started taking measures on the basis of the

audit during the audit process, this should generally be mentioned along with each finding. If the measures taken by the auditee have been very significant from the viewpoint of the audit's conclusions, these measures can be discussed in a separate subsection at the end of the Audit findings section.

- 5.56 Feedback received from the auditee should only be mentioned insofar as it is relevant to the objectives, results and conclusions of the audit. Lengthy quotations from feedback should not be presented.
- 5.57 Sometimes the Audit findings section can be quite long. The following questions may be useful in evaluating content:
- Does the section include descriptions that do not qualify as a finding? Are these descriptions necessary to understand a finding?
  - Do findings serve as the basis for the positions that are presented in the next section? If not, is there any need to present findings at such length?

### Conclusions and recommendations

- 5.58 The last section of an audit report presents the positions taken by the National Audit Office. This includes the conclusions drawn from the audit as well as recommendations if these are necessary. The section should present the audit's conclusions and recommendations neutrally, clearly and concisely.
- 5.59 The conclusions of an audit are the answer to the main question and audit questions. They are the National Audit Office's positions concerning the audit topic. Conclusions are not the same as audit findings. The latter concern individual audit questions while conclusions concern what can be deduced on the basis of findings. Conclusions answer what findings mean from the viewpoint of the main question.
- 5.60 The positions section should generally be no longer than 4–5 pages. It should not be divided into subsections. If the section is fairly long, in practice more than 2 pages, headings can be used based on the answers to audit questions. Headings can also be in the form of concise sentences.
- 5.61 The section can begin by briefly reviewing the audit topic, the main question and the most important audit questions. This should be done especially if the report is long. Otherwise the audit framework usually does not need to be discussed in the positions

section.

The conclusions should clearly indicate what is the answer to the main question. They should also provide an evaluation of the main question: in what respects are things in order and where is there room for improvement? Conclusions should be clearly connected to audit findings, although the text should rise to a more general level than individual findings.

- 5.62 Conclusions should mention whether the auditee has interpreted the audit criteria in a different way from the report and thus disagrees with the conclusions that have been drawn in the audit.
- 5.63 In addition to conclusions this section can also present recommendations. This depends on the case. In presenting recommendations attention should be paid to resulting benefits and costs. There is no need to present recommendations if they are clearly implied by conclusions. Recommendations should be general. They can point the direction in which to proceed on the basis of the audit but not concrete measures that should be implemented.
- 5.64 Conclusions and recommendations should be connected to what has previously been presented in the report. This section should not present new findings or bring up new matters. If audit findings have opened new perspectives on the audit topic, these can of course be presented and discussed. New perspectives should also be connected to what has previously been presented in the report, however.
- 5.65 This section should not refer to other parts of the report nor should it use footnotes or quotes, since the section is the National Audit Office's position on the matter.

## Other standard parts of an audit report

- 5.66 An audit report also contains other standard parts besides the actual text: a decision page, key words, a table of contents, an abstract, a list of references and appendices if necessary. The main content of these is presented briefly below. Guidelines concerning the table of contents and headings are provided in the section Layout of an audit report.

## Decision to issue a report

5.67 A decision must be made to issue an audit report. Consequently each audit report begins with a decision page, which is signed by the person making the decision as well as the person who presents the matter. According to the Working Order the Assistant Auditor General decides whether an audit report should be issued. The auditor who has prepared the report generally presents the matter.

The decision page states that the National Audit Office has conducted an audit included in the audit plan on the basis of which it has issued an audit report. It then notes that the audit has been conducted according to performance audit guidelines. The page lists the organizations to which the audit report is issued on the basis of section 5 of the Act on the National Audit Office. A copy of the report is also sent to the Government Financial Controller's Function. The decision does not usually mention other organizations.

The decision page also mentions that the National Audit Office will conduct a follow-up to see what measures have been taken to remedy problems, together with a deadline for this.

5.68 In exceptional cases the decision page can also mention that the auditee should inform the National Audit Office concerning what measures have been taken as a result of the findings made in the audit. This presupposes that the audit report draws attention to problems on the basis of which the auditee is expected to start taking corrective measures immediately. The date by which the auditee should provide this information should also be given. In addition the report should specify the section in which problems requiring corrective measures have been presented. This paragraph follows a standard form and is included in the template.

## Abstract

5.69 The abstract briefly presents the main points in the audit. The reader should rapidly be able to obtain an overall picture of the audit and its main conclusions and recommendations from the abstract.

The abstract does not have to follow the order of presentation in the audit report. The main emphasis in the abstract should be on the background of the audit, the financial significance of the topic, the audit questions and the National Audit Office's conclusions and recommendations. The audit data and methods should be

mentioned briefly, if at all. The abstract should present the main findings, not necessarily all findings. Conclusions should be presented clearly.

The abstract should be an independent text and should not refer to other parts of the audit report or outside sources. Nor should it use footnotes or abbreviations. The maximum length of the abstract is three pages. If an audit is extensive, the abstract may simply outline findings and positions.

## Key words

- 5.70 After the decision page and before the table of contents, key words should be given. The goal is to make it easier for library personnel and information officers to categorize audit reports and thus improve accessibility through searches.

Key words should come from a key word list. The Library of Parliament's key word list, the Ministry of Finance's key word list or the general Finnish key word list (particularly 71. Administration. Organizational research. Public administration) can be used. Key words should describe what has been examined in the audit and should not be too general. The number of key words depends on the topic. In a performance audit a suitable number is 4–8.

## References

- 5.71 Every audit report must contain a list of references. This list includes the data on which the matters presented in the audit report are based (see point 4.18). References come at the end of the audit report before appendices. The title of this section is References and it should also be included in the table of contents.

References include actual audit data and other data used in the audit. Actual audit data are interviews, responses to questionnaires and documents concerning the topic. Data that are presented in appendices should also be mentioned in the list.

Other data used in the audit include Acts, Decrees and related preparatory documents as well as studies and reports concerning the audit topic. These data should be mentioned in the list of references if they are referred to in the text. (See points 5.84–5.86.)

The list of references should only include sources that are referred to in the text. It should not include sources that are not referred to in the text even if these have been read in connection with the audit.

The list should present different types of sources separately and should be arranged so that the reader can easily find the source that is referred to in the text. If a reference gives the author's name and a date, for example, sources should be in alphabetical order according to the name of the author. A model list of references with examples of how references should be indicated in audit reports can be found on the intranet.

## Appendices

5.72 An audit report may contain appendices if it is necessary to present data supporting the actual text. Data that are not indispensable for the reader to understand the message of the report but that provide support or depth can be presented in the form of an appendix.

Care should be taken in using appendices, since the body of the audit report should contain the information that is essential for the reader. Instead of using appendices, a separate memorandum concerning supporting data can be written and mentioned in a footnote in the audit report.

An appendix should only present data that are referred to in the report. An appendix should not contain data that are not connected to the actual text. Matters presented in an appendix can include information concerning the procurement of audit data and methods of analysis, reports that are too broad to be presented in the actual text and extensive numerical data that have been used to prepare tables in the actual text, for example. Feedback on the draft audit report should not be appended to an audit report.

## Layout of an audit report

### Style and length

5.73 Audit reports issued by the National Audit Office should have a uniform appearance. Audit reports should follow the National Audit Office's graphic guidelines and approved style of writing. The unit secretaries are responsible for putting the final touches to the report. The approved style of writing should be used beginning in the drafting stage. The draft audit report that is sent to the auditee should be as close to the final report as possible in terms of appearance as well as content.



- 5.74 The style of an audit report may not make an audit better in terms of content, but the significance of the appearance of a report should not be underestimated. A careless and messy style can distract the reader's attention from the matter at hand and the results of the audit. The appearance of an audit report should in fact make it easier for the reader to follow the report.
- 5.75 An audit report should be concise and to the point. This means that the report should only include text that leads the reader towards the results of the audit. Descriptions, problems and analyses that are not connected to the actual audit questions do not belong in an audit report. Although it is impossible to give a general rule of thumb, in most cases a report that is concise and to the point should not exceed 60–70 pages.

It is important to be concise because most of the people who are likely to read an audit report are decision-makers or experts whose time is limited. Reports should clearly convey the main findings that have been made in an audit and the positions taken by the National Audit Office. Special attention should therefore be paid to the Abstract, Introduction and Audit framework sections as well as Positions taken by the National Audit Office.

#### Title, headings and structure

- 5.76 The title of an audit report should be informative and precise. The title should be brief but must tell what the audit is about. The title should preferably take the form of a noun phrase.

If all the desired information concerning the topic or perspective cannot be fitted into the title, a two-part title can be used. In this case the second part supplements the main title (for example, The Employment and Economic Development Centres – effectiveness of supervision and management systems). The second part of a title should also be brief and concise. The perspectives presented in point 3.30 can also be used in titles.

- 5.77 Headings divide a report into sections and subsections. Headings and the table of contents that they form show how the report proceeds and how matters are connected.

The following section headings are standard: Introduction (section 1), Audit framework (section 2), Audit findings (section 3) and Positions taken by the National Audit Office (section 4). Sections 1 and 4 should not be divided into subsections. Any subsections in sections 2 and 3 should have headings according to

the matter discussed. Headings should be precise and concise but should clearly indicate what is discussed in each section or subsection.

- 5.78 An audit report may have three levels of headings (for example, section 3, subsection 3.1 and subsection 3.1.1). Using more levels hurts the flow of the text, complicates the table of contents and makes it harder to follow the report. If a subsection seems too long it can be divided into several subsections. The text can also be grouped with the help of paragraphing and subheadings. These should not be numbered or included in the table of contents, however.

Subsections and their headings must be clearly subordinate to main sections. A section divided into subsections must have at least two subsections; subsection 3.1 requires subsection 3.2. The number of subsections should not be more than 5 or 6, since a larger number of subsections makes it more difficult to understand the main message.

### Tables and figures

- 5.79 Tables and figures can be used in an audit report. Tables and figures can supplement text, highlight and emphasize the results of the audit and make the text and message easier to understand. Figures include drawings, graphs, charts etc.
- 5.80 If tables and figures are used in an audit report, these must be referred to in the main text and sources must be indicated. Tables and figures should be referred to by number.
- 5.81 Before using a table or figure it is important to consider what the table or figure is meant to present. The biggest difference between a table and a figure is that a figure is more vivid. This means that the reader can get a general understanding of the matter faster and more directly from a figure than from a table. Trends or correlations can also be observed more easily in a figure than in a table. The information in a figure tends to be more general, however, while a table can be more detailed.
- 5.82 The most common figures include bar, column, horizontal bar and pie charts. Since there are different types of figures, only general guidelines are presented here.

All figures must have a title, which is written underneath the figure. Figures should be numbered in running order. They must include all the explanations that are necessary to understand them.

Remember that extraneous factors such as scales can have a strong influence on the appearance of a figure and the message it conveys.

Figures should use colours according to the National Audit Office's graphic guidelines if this is possible.

- 5.83 The tables used in an audit report should be written on the appropriate template unless there is special reason to use another format. All tables must have a title, which is written at the top. The title should be informative enough so that the reader can get an idea of the content of the table simply by reading the title. Tables should be numbered in running order.

### References to sources

- 5.84 If an audit report includes quotes or if the information presented in a report is based on an outside source, the appropriate references must be given. The organization that is the source of information should be mentioned as a rule. Specific persons do not need to be mentioned by name or official position in the text or footnote.

- 5.85 References to written sources should be in the form of footnotes. A reference should include the author and year of publication. If the author is not an individual but a ministerial working group, for example, the reference should give the name of the organization and the year of publication (for example Ministry of Labour 2006). An alternative way is to refer to a work by its title (for example Museum 2000 – Museum Policy Programme). If the same author has more than one publication in the same year, publications should be indicated in references and in the list of references using the year plus a letter (for example Ministry of Labour 2006a, Ministry of Labour 2006b).

A reference should include a page number so that the reader can locate what pages the information is from. Page numbers should always be given if a source is directly quoted. Direct quotes should be in quotation marks.

A reference to legislation should mention the original number of the statute. Specifics concerning amendments should be included only if they are relevant to the matter being discussed.

- 5.86 If information is based on interviews, this should be indicated in the actual text. The name of the person who has been interviewed should not be mentioned unless there is some special reason for this.

## Language

- 5.87 In addition to the content and structure of a report, attention should be paid to matters regarding language, linguistic form and layout. A suitable style and appearance make it easier to read a report and understand its message.
- 5.88 The goal is for the text in a report to be clear and precise. Matters should be expressed simply and concisely. Sentences should be easy to understand and not too long. Complicated clauses with subclauses and long participial phrases should not be used. The text should not contain unnecessary words and terms should be unambiguous and used consistently throughout the report. The text should contain vocabulary that is in common usage.
- 5.89 The text should be grammatically correct and should not contain typing errors. The correctness of numerical data is particularly important.
- 5.90 The text should avoid the passive voice particularly in documenting sources and presenting recommendations. The use of the passive voice can give the impression that the auditor is trying to present his subjective opinion as an objective finding. The text should clearly indicate where views, evaluations or facts come from.
- 5.91 Underlining, bold text and italics should be used sparingly. Overusing them can give the text a messy look. The main points should stand out because of the message in the text, not the text's appearance. If the writer wishes to emphasize a particular word or phrase, italics should be used.
- 5.92 Footnotes should mainly be used to indicate references. Long portions of text should not be written in footnotes since this makes it difficult for the reader to follow the text. Matters that are essential for conclusions should be presented in the actual text.
- 5.93 The use of abbreviations should be avoided in the text of a report. Rarer abbreviations may be difficult for the reader to understand and the use of numerous abbreviations makes a text look messy. If abbreviations are used, they should serve the reader by replacing a clearly longer phrase that would otherwise have to be used. The first time an abbreviation is used, the unabbreviated form must be given in full. Abbreviations should not be used in the abstract or in the section Positions taken by the National Audit Office.

## Initiatives, reviews and letters

- 5.94 In some cases the National Audit Office needs to present the results of an audit in some other form besides an audit report. Such forms are initiatives, reviews and letters. These are subject to the same requirements as audit reports with regard to content and reporting, as far as these apply.

### Initiatives

- 5.95 The National Audit Office can submit an initiative if this is considered necessary to correct observed shortcomings in legislation or administration, for example. To do so the National Audit Office must have sufficient evidence of the shortcoming and its negative impacts. The information basis for an initiative can result from the monitoring of a particular audit area, risk analysis, preliminary study or audit, for example.

An initiative should always be aimed at achieving concrete change. An initiative should therefore focus on a specific problem and its solution. The observed problem must be clearly connected to the legality and effectiveness of the state's financial management for it to come within the National Audit Office's mandate. It depends on the content whether the Auditor General or the Assistant Auditor General submits an initiative and who presents it. This is decided on a case-by-case basis.

### Reviews

- 5.96 Other publications besides audit reports that are produced by Performance Audit are called reviews. As a rule these are distributed in the same way as audit reports. The main difference is that a review does not contain positions taken by the National Audit Office. A review is an exception to the normal way in which the National Audit Office presents findings. Consequently specific grounds must be given for submitting a review. These must indicate the purpose of the review and the objective. A review may be necessary if, for example
- the review tentatively examines a broad subject in order to find audit topics
  - the subject in itself is significant but the National Audit Office has not formed a clear position
  - other actors besides the state are involved and it is not clear whether the matter comes within the Office's mandate

- the publication summarizes existing data.

## Letters

5.97 The purpose of a letter is to inform administration of the progress of an audit. Letters regarding the start of a preliminary study and the start of an audit, a letter requesting feedback on the draft audit report and a cover letter sent with the audit report form part of the audit process. Letters are also used in exceptional cases as described in point 5.68.

A letter is used as an independent form of reporting if an audit is terminated without issuing an audit report. Letters regarding the start of a preliminary study and the start of an audit are sent for every audit. A letter regarding the termination of an audit is only sent when this is necessary.

A template is used for a letter regarding the termination of an audit. The letter is sent to the permanent secretary at the appropriate ministry as well as the management of the audited unit. The letter briefly explains why the audit is being terminated. If the grounds do not fit on a single page, they can be appended to the letter in a separate memorandum. The letter is presented by the auditor, and the decision to send the letter is made by the unit director.

Audits that end in a letter as well as initiatives and reviews can be mentioned in the annual report to Parliament. The Auditor General decides on the content of the annual report to Parliament.

## 6 Follow-up

### Objective and purpose of follow-up

- 6.1 The objective of follow-up is to determine what measures the auditee has taken on the basis of the conclusions and recommendations presented by the National Audit Office and whether these measures are adequate in view of the shortcomings or development needs that were observed in an audit. In other words follow-up should give a picture of whether the problems that were observed have been corrected adequately and what further steps the National Audit Office should take with regard to the topic.
- 6.2 In addition to the implementation of recommendations or the correcting of problems, follow-up can also determine whether other essential changes have taken place in activities. The purpose of follow-up is not to re-evaluate the topic as a whole, however, but to concentrate on whether positions have been taken into consideration and recommendations have been implemented.
- 6.3 Follow-up also strives to determine to what extent an audit has led to changes in activities. Since an audit is only one factor that influences activities and verifying cause-and-effect relations is difficult, follow-up usually has to rely on a reasonable assumption concerning what effect an audit has had on changes in activities.
- 6.4 The purpose of follow-up is to promote and support the effectiveness of an audit and the implementation of the National Audit Office's positions and to report on the implementation of these positions to Parliament. Through the follow-up process the National Audit Office returns to a topic and requires the auditee to look again at the conclusions and recommendations presented in an audit. The National Audit Office shows the auditee, the supervising ministry and Parliament that it continues to monitor the topic and remains interested in the activities that have been audited.
- 6.5 The purpose of follow-up is also to produce information to help the National Audit Office in its own planning. Planning is aided by information regarding the current state of audited activities, the extent to which auditees have implemented the National Audit Office's recommendations and whether the implementation of

recommendations has resulted from the audit or other factors that may have influenced activities.

- 6.6 Follow-up is also part of the performance audit process by means of which the National Audit Office carries out its statutory task. The legal basis for follow-up procedures and requests for information is the same as in audits. According to section 4 of the Act on the National Audit Office, the National Audit Office shall have the right to obtain from authorities and other parties as referred to in section 2 without delay documents, reports and other information necessary for the National Audit Office to perform its prescribed task.
- 6.7 According to section 5 of the Act on the National Audit Office, the auditee and the ministry in whose sector the auditee is included must inform the National Audit Office regarding what measures have been taken as a result of the remarks presented in the audit report. This obligation concerns audit findings that in the opinion of the National Audit Office require special, concrete and immediate measures on the part of the responsible authority. The decision page in the performance audit report specifically mentions whether an auditee must supply this kind of report.
- 6.8 Follow-up is not an audit but the monitoring of changes in audited activities. The findings in the audit report on which the positions taken by the Office are based should be verified very carefully. In follow-up the need to verify findings is weaker and the focus is narrower, so methods for producing audit evidence and ensuring quality differ from those in an audit.

## Conducting the follow-up

- 6.9 Every audit report is followed up. An exception can be made if, for example, the audited activities have changed completely and this could not be foreseen when the audit report was submitted. A separate decision must be made in such cases.
- 6.10 Follow-up is conducted in two stages: first a follow-up plan and then a follow-up report. The plan and report are written on the same template.
- 6.11 A follow-up plan is prepared in connection with the final drafting and issuing of an audit report. The following matters are decided in connection with the issuing of an audit report so that they are



linked as clearly as possible to the positions or findings in the audit, which are still fresh at the time. The follow-up plan should also be discussed at the final meeting because the decision page in the audit report gives a deadline for the follow-up.

6.12 The follow-up plan tells (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.

6.12.1 The matters that are monitored in a follow-up should always be measures that are carried out on the basis of the most important conclusions and recommendations in an audit report. In some cases Parliament may issue a statement or otherwise state its views regarding the conclusions or recommendations in an audit report. Special attention should be paid to Parliament's views in conducting a follow-up.

6.12.2 In a follow-up data should be obtained in an ongoing manner after an audit report has been submitted. The same methods can be used as in producing audit evidence, e.g. collecting and analysing financial information, documents or statistics, interviews or questionnaires. Since the amount of time that is available for collecting data and reporting in a follow-up is generally short (about 5–10 working days), the basic information source in a follow-up should often be the request for information that has been sent to the auditee. This should be written on a letter template.

6.12.3 The deadline for the follow-up report is specified on the decision page of the audit report and in the follow-up plan. This is usually 1–3 years after the completion of the audit. In deciding on a deadline it is necessary to evaluate the scope of the measures and changes that are required by the positions in an audit and how long it may take to implement or initiate measures. Even if a follow-up concerns broad system changes, which can take years to carry out, the follow-up should not have to wait more than three years after the audit report has been submitted. If Parliament has given its own timetable for a report, this must also be taken into consideration in deciding on a deadline.

## Follow-up reporting

- 6.13 The follow-up report presents the National Audit Office's views concerning whether the shortcomings that were observed in an audit have been corrected adequately and whether the recommendations made in an audit report have been implemented adequately.
- 6.14 The follow-up report presents the National Audit Office's decision concerning further measures that need to be taken with regard to the activities that have been audited and followed up. The National Audit Office can decide to end the follow-up if shortcomings have been corrected adequately or to continue the follow-up if sufficient assurance has not been obtained that shortcomings have been corrected. A proposal can also be made to amend the audit plan and start a new audit of the topic.
- 6.15 The follow-up report is written on the same template as the follow-up plan. The main points in the report are (1) the follow-up plan and its implementation, (2) follow-up findings, (3) further measures and (4) follow-up reporting to Parliament. The template contains instructions concerning the content of the report.
- 6.16 The follow-up report is mailed to the auditee and the ministry immediately after the follow-up has been completed.
- 6.17 The National Audit Office informs Parliament of follow-up findings in its annual report to Parliament. The same text is used as in point 4 in the follow-up report.

# 7 Quality assurance

## Quality assurance as part of quality management

- 7.1 The Constitution of Finland prescribes the National Audit Office's position as an independent external audit body and grants it extensive rights to conduct audits and obtain information. The National Audit Office also has the right to decide independently on what topics it wishes to submit a report to Parliament. The National Audit Office's strong and independent position, extensive rights to obtain information and ability to decide independently on audit topics means that high requirements can be set for the quality of audit work.
- 7.2 Audit quality means that audit planning, the audit process and reporting must meet the requirements that have been set for them. Quality requirements are based on the principles and policies mentioned in the National Audit Office's strategy documents, which have been spelled out in this manual.
- 7.3 On a general level key perspectives for quality management are:
1. Strategic quality requirements, according to which audit topics must be in line with the National Audit Office's basic task and strategic goals as well as criteria for focusing audits.
  2. Quality requirements regarding content, according to which the audit framework must be relevant and the positions taken by the National Audit Office must be convincingly, consistently and objectively derived from audit findings and data and positions must be expressed clearly in the audit report.
  3. Process quality requirements, according to which the audit process must be conducted carefully, efficiently and evidentially and cooperation with the auditee must be business-like and constructive.
- 7.4 Quality management refers to all the arrangements by which the National Audit Office strives to influence the quality of its work. This includes the National Audit Office's organizational structure, the guidance of the audit process, requirements concerning auditors' expertise, the recruitment of new auditors and guidelines concerning the audit process, for example. Audit quality depends especially on employees' expertise, and the most important factor in managing, ensuring and developing quality is employees'

- expertise and desire to perform their work well and improve the quality of their own work.
- 7.5 Another part of quality management is quality assurance, which means the direct observation of audit planning, the audit process, reporting and follow-up in order to improve and ensure quality. Quality assurance is not a separate function but is included in all stages of the audit process. Quality assurance measures should be integrated in the actual process as fully as possibly.
- Through quality assurance measures an individual auditor's work becomes the product of the entire National Audit Office, which at the same time stands behind audit findings and positions and takes responsibility for the consequences of positions as an organization.
- 7.6 Quality assurance is divided into three parts: quality assurance in planning audit topics, quality assurance in the audit process (including follow-up) and the post evaluation and development of audit quality.

## Quality assurance in planning audit topics

- 7.7 The purpose of planning audit topics in the unit is to prepare a proposal for the Auditor General outlining audit topics for the following year. Planning is based on the National Audit Office's strategy, which defines annual audit topics, annual themes on which the National Audit Office intends to report to Parliament and general criteria for focusing audits.
- Quality assurance in planning audit topics refers to measures aimed at ensuring that the unit's proposal outlining audit topics is in line with the National Audit Office's strategic policies as well as criteria for focusing audits.
- 7.8 Procedures for quality assurance in planning audit topics include the following:
- 7.8.1 The unit's management presents the criteria for focusing audits in the National Audit Office's strategy to audit staff before the planning round begins.
- 7.8.2 The planning system – participants, their tasks and the division of labour – has been described and sufficient guidelines are issued for the different stages of the planning system.

- 7.8.3 The administrative sector groups conduct a systematic and comprehensive risk analysis according to guidelines on risk analysis.
- 7.8.4 The audit groups discuss reports on risk analyses in order to find areas in which there may be common or cross-sectoral risks. The audit managers report the group's observations to the unit's director.
- 7.8.5 Corporate Services prepares a summary of reports in order to identify common risk areas.
- 7.8.6 During the planning year separate risk analyses are conducted concerning financially significant areas that present greater risks which the unit's management does not think have been analysed adequately in administrative sector reports.
- 7.8.7 The unit's management evaluates the need to audit topics that have been selected for inclusion in the audit plan in the past but have not been audited as well as topics that have been selected for inclusion in the audit plan in future years.
- 7.8.8 The unit's management group discusses all the texts influencing the audit plan so as to allow the comparison of proposed topics and their financial significance and associated risks. This particularly includes reports on risk analyses and their summary, other separately focused risk analyses and the reasons for including topics in the audit plan in the past.
- 7.8.9 Another criterion in selecting topics is an evaluation of available resources the following year.
- 7.8.10 The unit's management approves the reasons for the topics that have been selected for inclusion in the audit plan and documents these. Reasons should explain the connection to the policies for focusing audits that are outlined in the National Audit Office's strategy.

## Quality assurance in the audit process

- 7.9 Quality assurance in the audit process refers to measures that are taken during an audit to ensure that the quality of the preliminary study, producing audit evidence, reporting and follow-up are in line with guidelines and other requirements as well as any measures that may have to be taken on the basis of deviations in

quality.

- 7.10 The objective of quality assurance in the audit process is to improve and develop audit quality and ensure that audit planning, the audit process and reporting are of high quality. Quality assurance procedures should be integrated with actual audit planning, the audit process and reporting as far as possible.

#### Quality assurance in the preliminary study

- 7.11 Procedures and tools for quality assurance in the preliminary study include the following:
- 7.11.1 The opening meeting (see point 3.5). From the viewpoint of quality assurance the purpose is (1) to ensure that audit planners know the reasons for which the topic has been selected for inclusion in the audit plan, (2) to look for different perspectives from which the topic can be examined and (3) to set tentative boundaries for the preliminary study.
  - 7.11.2 Determining during the preliminary study how the National Audit Office has examined the topic in the past and what knowledge the National Audit Office has concerning the topic. From the viewpoint of quality assurance the purpose is to ensure that the National Audit Office's best possible expertise is used in audit planning and existing evidence is utilized.
  - 7.11.3 The audit manager's participation in the preliminary study, supervision of work and approval of the presentation of a preliminary study at the preliminary study meeting. The purpose is to improve the handling of the topic and ensure that the preliminary study is conducted according to the manual.
  - 7.11.4 Discussions with the auditee and the responsible ministry during the audit concerning the significance and timeliness of the topic and tentative audit perspectives, questions and criteria. From the viewpoint of quality assurance the purpose is to ensure that the reasons for which the topic has been selected remain valid and that the audit framework is relevant.
  - 7.11.5 Systematic information searches concerning the topic, for instance from the legislative database, the Government's decision-making information system, research databases and the Internet. From the viewpoint of quality assurance the purpose is to ensure that planning takes into account essential changes in audited activities and that the preliminary study uses data that have already been collected.

- 7.11.6 Determining the objective of the audit and the main audit question and dividing the main question into concrete audit questions (in the preliminary study report). The purpose is to ensure that an audit can be conducted and to manage risks to delivering the audit.
- 7.11.7 Preparing a project plan for the audit, including a description of the division of labour, the resources needed for the audit and the timetable for the different stages of the audit. From the viewpoint of quality assurance the purpose is to manage risks to delivering the audit and give the auditors a tool for monitoring the progress of their own work and the audit manager a tool for supervising and monitoring work.
- 7.11.8 The preliminary study meeting (see point 3.8). From the viewpoint of quality assurance the purpose is to ensure that audit planning has paid sufficient attention to the National Audit Office's strategic choices, any other perspectives regarding the topic, other audits that touch on the topic and risks to delivering the audit and sticking to the timetable.
- 7.11.9 The preliminary study report, which is prepared according to the manual and discussed at the preliminary study meeting. Other auditors as well as the auditee and the responsible ministry are informed of the preliminary study report. From the viewpoint of quality assurance the purpose is to document the choices that have been made in planning the topic as well as the project plan and to provide internal and external information on the topic.

#### Quality assurance in producing audit evidence

- 7.12 Quality assurance procedures during the full study include the following:
  - 7.12.1 Monitoring of the audit plan and project plan by the auditor and the audit manager and, if there is a need for changes, discussions with the audit managers concerning changes in plans. The audit manager reports to the unit's management on essential changes in the preliminary study and the project plan. From the viewpoint of quality assurance the purpose is to ensure that audits proceed according to plan or that the resources available for an audit project are re-evaluated.
  - 7.12.2 Management's information system, which is used to monitor the progress of audit projects and their most important stages. The most important stages after the selection of a topic for inclusion

in the audit plan are: (1) possible topic survey, (2) opening meeting, (3) preliminary study meeting: ending of a project or start of an audit, (4) preparation of a draft audit report and shifting of supervision responsibility to the report manager, (5) sending the draft audit report to the auditee for feedback, (6) receiving feedback, (7) final meeting, (8) publication of the audit report, (9) submitting of the follow-up report and (10) reporting on the audit in the annual report to Parliament.

- 7.12.3 The audit manager's supervision, advice and monitoring of an audit. The audit manager and the auditor regularly discuss the progress of the audit according to the preliminary study. Discussions should take place especially when (1) the audit framework has been formulated and the actual collecting of data begins, (2) the collecting of data has proceeded to the point that it is possible to evaluate whether the project plan is feasible and sufficient data can be collected to answer the audit questions, (3) the analysis of data has mostly been done and the content and structure of the report have been outlined. The purpose of these discussions is to ensure that the collection and analysis of data are sufficient to answer the audit questions. If an audit takes longer or if the topic is very broad, a separate meeting should be held at a stage when it is possible to evaluate whether collected data are adequate in relation to the audit questions. This meeting should be attended by the same persons as the preliminary study meeting.
- 7.12.4 A clear division of responsibility in supervising an audit so that the auditor can discuss matters with the audit manager at any stage of an audit. The shifting of responsibility from the audit manager to the report manager is agreed on a case-by-case basis. The essential thing is for the auditor and the managers to know at all times who is responsible for supervision.
- 7.12.5 Cooperation and contacts with the auditee so that the auditor can ascertain the auditee's views concerning the topic. From the viewpoint of quality assurance the purpose is to ensure that essential information from the auditee's viewpoint is provided for the National Audit Office and the audit project. Furthermore the auditee's and the responsible ministry's staff should have a general understanding of the audit questions, the main data and analysis methods in the audit and the audit timetable. The purpose is to ensure that the results of the audit do not come as a surprise to the auditee and that the auditee can take them into



consideration in activities and development work.

- 7.12.6 Consulting in-house experts in demanding audit methods or in specific areas of an audit, particularly when an in-house expert has been appointed for a specific area, and consulting with Financial Audit's experts whenever this is necessary.
- 7.12.7 Consulting external experts if sufficient expertise in the use of methods or the content of a topic is not available in-house.
- 7.12.8 Keeping an audit's working papers according to guidelines so that supervisors (and if necessary an outside evaluator) can check the audit trail from the posing of audit questions to audit findings to audit conclusions and recommendations.
- 7.12.9 The handling of audit data according to the Act on the Openness of Government Activities, the Decree on Information Security and Good Information Management and the National Audit Office's guidelines on information security and data protection.

#### Quality assurance in reporting

- 7.13 Quality assurance procedures in reporting include the following:
  - 7.13.1 A clear division of labour agreed in the project plan indicating which auditor is in charge of drafting the audit report. The purpose is to ensure that the audit report is consistent and uniform in style and presentation.
  - 7.13.2 The standard structure of the main sections of an audit report and a description of the most important content of these main sections (see chapter 5).
  - 7.13.3 The list of questions or checklist in the reporting guidelines, which the auditor in charge of drafting the audit report can use in preparing the draft audit report.
  - 7.13.4 Supervision in preparing the draft audit report and help in interpreting the reporting guidelines from the report manager. From the viewpoint of quality assurance the purpose is to ensure that the drafting of the report proceeds according to plan, that the report presents sufficient findings to answer the audit questions and that reporting is generally in line with the National Audit Office's guidelines.
  - 7.13.5 Checking of the draft audit report before it is sent to the auditee for feedback. From the viewpoint of quality assurance the purpose is to ensure that the report is grammatically correct and

easy for an outside reader to understand.

- 7.13.6 The National Audit Office's graphic guidelines, performance audit templates and the stylizing of audit reports and draft audit reports by secretaries according to guidelines and models. The purpose is to ensure that audit reports have a consistent look and are recognizable as such and that the layout complies with guidelines.
- 7.13.7 Hearing the auditee's views on the draft audit report and taking feedback into consideration in the final report. From the viewpoint of quality assurance the purpose is to ensure that the report does not contain errors or misunderstandings.
- 7.13.8 The final meeting, which is attended by the auditor, the audit and the report managers and the Assistant Auditor General. From the viewpoint of quality assurance the purpose is to ensure that the audit has sufficiently answered the audit questions and that the audit has been conducted in such a way that the National Audit Office can submit an audit report.

The purpose of the final meeting is also to evaluate and discuss whether the content and timetable objectives that were set in the preliminary study have been achieved and how well the audit process has been conducted.

#### Quality assurance in follow-up

- 7.14 Quality assurance in follow-up, including the follow-up plan and the follow-up report, is important because follow-up information goes into the annual report to Parliament. Quality assurance procedures in follow-up include the following:
  - 7.14.1 Preparing a follow-up plan in connection with the issuing of an audit report or as soon as possible. Follow-up should focus on the positions taken by the National Audit Office.
  - 7.14.2 Describing follow-up procedures in the follow-up plan: support and supervision provided by the report manager in preparing the follow-up plan and the Assistant Auditor General's approval for the follow-up plan. From the viewpoint of quality assurance the purpose is to ensure that the methods used to answer follow-up questions are adequate and appropriate.
  - 7.14.3 Asking the auditee for a report of changes that have been made on the basis of the conclusions and recommendations in the audit and corroborating information from other sources. From the viewpoint of quality assurance the purpose is to determine key

changes reported by the auditee and to corroborate the information obtained from this source in an adequate manner.

- 7.14.4 The support and supervision provided by the report manager in preparing the follow-up report, the checking of the information that goes into the annual report to Parliament by the information officer and the approval of the follow-up report by the Assistant Auditor General. From the viewpoint of quality assurance the purpose is to ensure the organization's commitment to the conclusions that have been drawn.

## Post evaluation of audit quality

- 7.15 The post evaluation of audit quality refers to measures that are taken after the completion of an audit and the issuing of an audit report that are aimed at ensuring audit quality and the unit's quality assurance procedures as well as measures that are taken as a result of deviations in quality. The purpose of these measures is to collect information on the quality of work, possibilities to improve quality and the functioning of the quality assurance system. Information is collected in-house and external evaluations of audit quality are also conducted. Procedures include the following:
- 7.15.1 Discussions by the management group concerning each audit that has been completed to evaluate the unit's performance in the audit as well as audit quality and ways to develop the audit process. The management group meets 3–4 times a year for this purpose.
  - 7.15.2 Development groups 1–3, which monitor the unit's activities in their own area and look for ways to develop the audit process. Each group also considers development ideas that are suggested by staff and makes prioritized development proposals in its own area to the management group.
  - 7.15.3 An external or in-house evaluation of performance audit that is conducted regularly, for example every 4–5 years. The evaluation can concern different aspects of performance audit, such as the selection of topics, the way audits are conducted or audit reports.
  - 7.15.4 A peer evaluation of audit quality that is conducted regularly, every 5–10 years. The evaluator is another SAI.

# References

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## 1. Acts and Decrees

State Budget Decree (1243/1992)

Act on Parliamentary Officials (1197/2003)

Consolidated versions of the Treaty on European Union and of the Treaty establishing the European Community. Official Journal C 321E of 29 December 2006.

Administrative Procedure Act (434/2003)  
Aviation Act (1242/2005)

Language Act (423/2003)

State Enterprise Act (1185/2002)

State Budget Act (423/1988)

Act on the Right of the National Audit Office to Audit Certain Credit Transfers between Finland and the European Communities (353/1995)

Act on the National Audit Office (676/2000)

Act on the Openness of Government Activities (621/1999)

Act on the Oil Pollution Protection Fund (1406/2004)

Act on the Fire Protection Fund (306/2003)

Act on Political Parties (10/1969)

Constitution of Finland (731/1999)

## 2. National Audit Office's guidelines, manuals and other documents

Order on the handling of confidential information in electronic form at the National Audit Office (01/348/2001)

Guidelines on performance audit risk analysis (115/02/2007)

The National Audit Office's Strategy for 2007–2012 (045/02/2006)

## 3. Other materials

INTOSAI (2001): Code of Ethics and Auditing Standards.  
<http://www.issai.org/>

INTOSAI (2004): Implementation Guidelines for Performance Auditing. Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience. <http://www.issai.org/>

Ministry of Finance and Government Financial Controller's Function (2005): Internal Control and Risk Management of Central Government Agencies and Funds. Good practice in state administration and evaluation of its implementation (in Finnish). [www.vm.fi](http://www.vm.fi)

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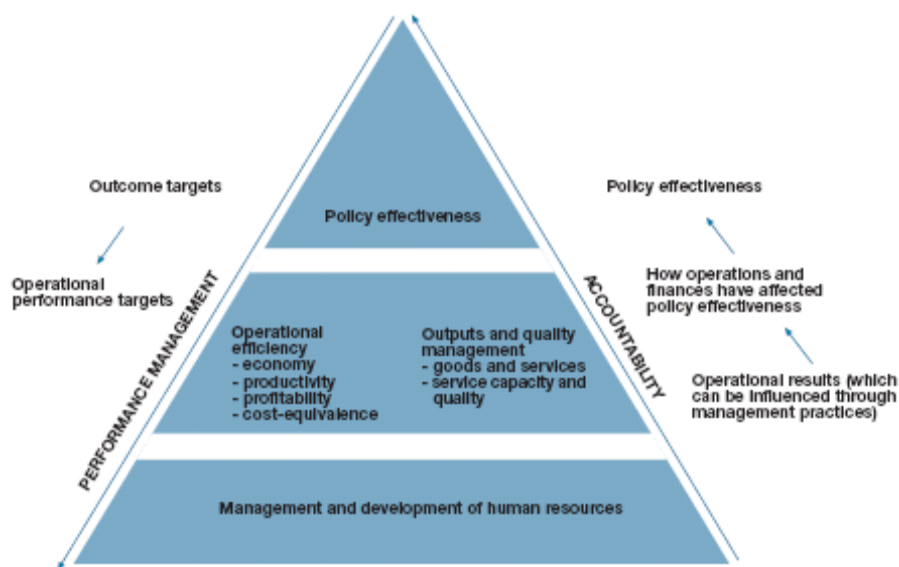
# Appendices

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## Appendix 1: The basic performance criteria and risks to performance

The basic performance criteria (Figure 5) are used to evaluate financial management and activities in accordance with the State Budget Act (423/1988) and the State Budget Decree (1243/1992).

The basic criteria are policy effectiveness, which describes the achievement of outcome targets, and operational performance. Operational performance includes (1) outputs, service capacity and process quality, (2) operational efficiency or economy, productivity and the cost-equivalence and profitability of chargeable and jointly financed activities, and (3) the management and development of human resources (source: Ministry of Finance (2006): Handbook on Performance Management).



**FIGURE 5.** The basic performance criteria (source: Ministry of Finance [2006]: Handbook on Performance Management.)

Figure 6 describes risk management and possible risks to performance in state administration. The figure is presented in the recommendation of the Government Council for Internal Control and Risk Management concerning basic approaches to internal control and risk management in state administration.



### Risks and objectives of internal control and risk management according to the basic performance criteria



**FIGURE 6. Possible risks to performance in state administration. (source: Internal Control and Risk Management of Central Government Agencies and Funds. Good practice in state administration and evaluation of its implementation. Ministry of Finance and Government Financial Controller's Function 2005. In Finnish.)**

## Appendix 2: Questions that can be used in writing a preliminary study report

A preliminary study report is written on a Word template. The report should discuss at least the following matters. The order in which matters are discussed can vary.

1. Preliminary study process
  - How was the preliminary study conducted: written and oral data and analyses?
2. Description of the topic and its financial significance
  - What laws and other norms regulate activities?
  - What are the objectives of activities? (Act and Decree with commentary, operational plan, budget)
  - With what means and tools are objectives supposed to be achieved? (regulation, service production, aids etc)
  - What ministries or agencies are responsible for activities and for supervision, finance and monitoring?
  - Do actors include organizations outside the state administration, such as local authorities?
  - What is the direct financial significance of activities? (income/expenses, revenues/expenditure, costs, balance sheet items)
  - What is the indirect financial significance of activities and how is this visible?
3. Risks and problems
  - Where are the main risks?
  - What kinds of undesirable events, factors or problems could threaten the achievement of objectives?
  - How likely are these and what consequences could they have?
4. Possibility to produce useful information
  - Are activities included in reform or development projects? Should an audit be timed and focused so that it supports ongoing development work? Or does it make more sense to wait until tentative experience has been gained and then strive to influence how things are done?
  - Has the topic already been studied or are studies under way that have significance for an audit?



- Is an audit justified from the viewpoint of accountability and transparency if there is no connection to development projects?
5. Alternative perspectives
- From the perspective of the effectiveness model, what parts of the function are key for performance?
  - From the perspective of the effectiveness model, what parts include the most essential risks and problems?
  - What other perspective or perspectives should be used to shed light on the topic?
  - What actors outside state administration have an effect on performance and how have these been taken into account in the effectiveness model?
6. Audit questions and boundaries
- What main question should the audit try to answer?
  - What are the concrete questions that the audit is intended to answer?
  - What matters will be left outside the audit after perspectives have been chosen and audit questions asked?
  - What temporal, regional or administrative boundaries are possible?
  - How have boundaries been justified?
7. Audit criteria
- What are the audit criteria and how have they been derived (for example legislation, budget, positions taken by Parliament, performance agreements)?
  - Will criteria from secondary sources be used in specifying criteria?
  - What does economy mean with regard to this particular topic?
  - Are criteria unambiguous?
8. Collecting and analysing audit data
- What data will be needed to answer audit questions?
  - How will data be collected and analysed?
  - Is outside expertise needed to collect and analyse data?
  - From what different sources will data be collected?
  - What methods will be used to analyse data (quantitative, qualitative or a combination of the two)?
9. Risks in conducting the audit
- Are there any evaluations, development projects or significant legislative reforms under way in the administrative sector that are relevant to the topic?

- Are there any factors that might affect the validity of the audit framework (such as access to data)?
- Has the preliminary study made sure that different sources are available to answer audit questions?
- In planning the audit has attention been paid to adequate methodological expertise to handle data (including outside expertise if necessary)?

10. Project plan

- What are the key stages of the audit?
- What is the planned length of each stage in person-days?
- When is each stage planned to start and finish?
- What other major costs (besides those resulting from work days) will the audit involve?
- How will tasks be divided among auditors?
- How will the unit's management participate in the audit?

## Appendix 3: Questions that can be used in writing an audit report

### 1. Introduction

Background of the audit:

- How clearly and logically has the reason for the topic been explained?
- How well has the topic been explained in terms of financial significance and risk, for example?

Audit objective:

- Has the audit objective been clearly explained?
- Have previous or concurrent audits been taken into account in the audit's objectives and questions?
- Has other information on the topic been taken into account in the audit's objectives and questions?
- Does the report make it clear what organizations can possibly utilize the results of the audit?

### 2. Audit framework

Description of the topic:

- Have the activity in question, the responsible authorities and the legislative basis of the activity been presented clearly in the report?
- Has the activity been placed in proper perspective?

Main question and audit questions:

- Does the report present the main question that the audit is intended to answer?
- Does the report present the concrete audit questions that the audit is intended to answer?
- Do the main question and the audit questions form a logical whole?
- Is question setting clear, precise and in line with objectives?

Boundaries:

- Have the audited activity and responsible authorities been clearly delimited in the audit report?
- Has the selection of the audited activity been well-founded and linked to question setting?
- Are the boundaries logical, well-founded and understandable from the viewpoint of objectives and audit questions?

- Has the significance of the boundaries been explained with regard to generalizing conclusions?

Data and methods:

- Are the audit's main data and how they were acquired (for example questionnaire, interview) mentioned?
- Has the relevance of data been explained in relation to the topic and objective?
- Has the use of data been within the boundaries set in the audit?
- Does the report tell how data have been analysed?
- Have the possible limitations of the selected data and methods been explained?

### 3. Audit findings

- Does the report provide adequate and clear information on audit findings?
- Have audit findings and different parties' views been written in the report so that their source is clear?
- Has the financial significance of audit findings been explained?
- Has the audit report distinguished between findings that differ in terms of significance and value?
- Are the audit findings distinguishable from general descriptions and others' views?
- How deep does the report go? Does it contain only descriptions and unconnected findings and problems or does it also evaluate the reasons for these and look for common explanatory factors?
- Have the calculations on which findings are based been performed correctly?
- Have findings been presented so that the reader does not have to flip back and forth to get an overall picture of matters?
- How has feedback provided by the auditee and other parties been presented? Has the presentation been to the point and objective in relation to audit objectives and audit questions?
- Has feedback been taken into account?

### 4. Conclusions and recommendations

Conclusions

- Have conclusions been stated clearly and specifically?
- Are conclusions a clear and logical consequence of audit findings or are they surprising in relation to findings?
- Have different findings received the proper emphasis in conclusions?

- Have conclusions been written in a neutral and constructive way?
- Do conclusions answer the main question?
- How well does the audit produce information that can be used by administration in directing activities?

Possible recommendations:

- Are findings and conclusions clearly distinguished from any recommendations made by the National Audit Office?
- Does the report make clear what organizations should take measures as a result of the findings in the audit?
- Will the report be distributed to those organizations that can do something to correct shortcomings and resolve problems?
- Do recommendations avoid unnecessary detail?

#### 5. Structure and layout of the audit report

- Is the title of the report informative and precise?
- Does the report follow the agreed structure (Introduction, Audit framework, Audit findings, Positions taken by the National Audit Office)?
- Do section headings correspond to the content of sections?
- Is the text clear and understandable and have any professional terms been explained in the report or appendices?
- Does the text avoid repeating matters that are clearly shown in a table or figure? Do these support the text?
- Does the report contain data that are unnecessary or unessential for conclusions?
- Is the abstract concise? Does it contain essential information about the topic and its financial significance as well as essential findings and the positions taken by the National Audit Office?
- If the report contains figures or tables, do they support findings and conclusions?
- Do appendices support the text in the report and do they form a balanced whole?



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