



PERFORMANCE AUDIT MANUAL

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Who to contact

Guidelines, best practices, examples, support and guidance for implementing this Performance Audit Manual are provided by the Audit Development And Reports (ADAR) Division of the European Court of Auditors (ECA).

Please consult the ADAR intranet site or send us an e-mail:
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PERFORMANCE AUDIT MANUAL

GENERAL INTRODUCTION

Chapters in the Performance Audit Manual

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Who to contact

For any further information, please contact:
European Court of Auditors - CEAD Group
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PURPOSE & CONTENT OF THE PERFORMANCE AUDIT MANUAL

The Performance Audit Manual is one part of the suite of procedures and guidance provided by the Court. Its purpose is to:

Purpose - Quality

- help to achieve high quality in performance audits, and
- promote professional competence amongst auditors in this domain.

Content

The manual has been written to meet the needs of auditors and audit management. It explains in broad terms how performance audits should be planned, conducted and reported.

Professional judgement essential,

The manual is based on generally accepted principles of performance auditing, as evidenced in the INTOSAI implementation guidelines for performance auditing¹ and current good practice in this area. It encourages the exercise of professional judgement at all stages throughout the audit, which is essential given the variety of potential audit topics, objectives and data collection and analysis methods available in performance audit.

and 'should' statements mandatory.

Performance auditing procedures are written as **should** statements, which must be complied with, and which derive from the Court's Audit Policies.

STRUCTURE

The manual comprises five chapters. The first two chapters provide the necessary background material, whilst chapters 3 to 5 provide more detailed guidance on each phase of a performance audit - planning, examination and reporting. The manual is structured as follows:

CHAPTER 1 sets out the context of performance audit in the EU institutions, and the Court's mandate and objectives for such audits.

CHAPTER 2 describes the performance audit approach, the application of the concepts of economy, efficiency and effectiveness in the EU domain, and the essential qualities of good performance audits.

CHAPTER 3 sets out the audit planning process, including the preliminary study and the Audit Planning Memorandum.

CHAPTER 4 describes the audit examination phase, including the conduct of the audit, the communication of audit findings and audit management and quality control arrangements.

CHAPTER 5 deals with the reporting process, including such activities as planning, drafting, reviewing, clearing, distributing, and following-up on the report.

¹ Implementation Guidelines for Performance Auditing: Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience

GLOSSARY OF CONCEPTS AND TECHNICAL TERMS

Some of the following definitions are based on those which are to be found in volume 6 of the MEANS Collection of the European Commission, which sets out the methodological framework for evaluations in the area of structural policies. These concepts are also applicable to other areas, in which different terminologies may be employed.

DIRECT ADDRESSEE	Person or organisation <i>directly affected</i> by the intervention. The term "beneficiary" is also often used. Direct addressees receive support, services and information, and use the facilities created with the support of the intervention (e.g. farmers using an irrigation network created by a development project).
EXOGENOUS FACTOR	<i>Factor independent of a public intervention</i> which is partly or entirely the <i>cause of changes</i> (results and impacts) observed among addressees (e.g. climatic conditions, evolution in economic situation, performance of contractors, beneficiaries' behaviour).
IMPACT	<i>Longer term socio-economic consequences</i> that can be observed after a certain period after the completion of an intervention, which may affect either direct addressees of the intervention or indirect addressees falling outside the boundary of the intervention, who may be winners or losers.
INDIRECT ADDRESSEE	Person or organisation which has <i>no direct contact</i> with an intervention, but which is <i>affected by it</i> via direct addressees, either positively (e.g. a person obtaining a job because someone else was granted early retirement under an intervention) or negatively (e.g. firms losing business to other firms which have used technology transfer networks set up by an intervention to innovate).
INPUT	Financial, human, and material <i>resources</i> that are mobilised for the implementation of an intervention.
INTERVENTION	Any action or operation, carried out by public authorities or other organisations, regardless of its nature (<i>policy, programme, measure or project</i>). Means of intervention employed are grants, loans, subsidised interest rates, guarantees, participation in equity and risk capital schemes or other forms of financing.

MEASURE	Within the framework of a policy, <i>the basic unit of programme management</i> , consisting of a set of similar projects and having a precisely defined budget. Each measure has generally a particular management apparatus.
NEED	<i>Problem or difficulty affecting concerned groups</i> , which the public intervention aims to solve or overcome.
OBJECTIVE	<p><i>Initial statement of the outcomes intended to be achieved by an intervention.</i> A distinction should be made between global, intermediate, immediate and operational objectives:</p> <ul style="list-style-type: none"> • a <i>global objective</i> corresponds to the <i>global impact</i> of an intervention and is generally defined by Community legislation in very broad terms (e.g. the catching up of the level of development); it is usually translated by the Commission and Member States into <i>intermediate objectives</i> which correspond to the expected intermediate impacts of programmes financed (e.g. enhancing competitiveness of enterprises); • <i>immediate objectives</i> concern the <i>results</i> of an intervention on direct addressees and are normally defined by Member States within the implementation of programmes financed (e.g. increasing by 20% the turnover of businesses receiving technological support); • <i>operational objectives</i> specify the <i>outputs to be produced</i> (e.g. providing 500 hours of consultancy services to small and medium enterprises).
OUTCOME	<i>Change that arises</i> from the implementation of an intervention and which normally relates to the objectives of this intervention. Outcomes include results and impacts. Outcomes may be expected or unexpected, positive or negative (e.g. a new motorway attracting investors to a region but causing unacceptable levels of pollution in the areas through which it passes).
OUTPUT	That which is <i>produced or accomplished</i> with the resources allocated to an intervention (e.g. grants distributed to farmers, training courses delivered to unemployed people, road built in a developing country).
POLICY	<i>A set of different actions and operations</i> (programmes, procedures, legislation, rules) directed towards a <i>single goal</i> or general objective (e.g. European economic and social cohesion policy). These activities are often accumulated incrementally through the years.

PROCESSES	Procedures and activities employed <i>to convert inputs into outputs</i> (e.g. procedures for delivering subventions or selecting projects for financing). The concept also covers the generation of management information and its use by managers.
PROGRAMME	An organised set of financial, organisational and human <i>resources mobilised to achieve an objective</i> or set of objectives in a given timeframe. A programme is delimited in terms of a schedule and a budget and its objectives are defined beforehand. It is always under the responsibility of an authority or several authorities who share the decision-making. Programmes are generally broken down into measures and projects.
PROJECT	Non-divisible operation, delimited in terms of schedule and budget, and placed under the responsibility of an organisation which <i>implements</i> , closest to the field, the <i>resources allocated to the intervention</i> .
RESULT	<i>Immediate changes</i> that arise for <i>direct addressees</i> at the end of their participation in an intervention (e.g. improved accessibility to an area due to the construction of a road, trainees who have found a job).



PERFORMANCE AUDIT MANUAL

CHAPTER 1 FRAMEWORK FOR PERFORMANCE AUDITS OF THE EUROPEAN COURT OF AUDITORS

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Who to contact

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1.1 INTRODUCTION

This chapter provides a framework of reference for the Court's performance audits by setting out the context of such audits in the European Communities, and the Court's mandate and objectives in this regard.

The text mostly refers to the General Budget of the European Union ("the Budget") and to the Commission, as these constitute the main audit area of the Court. However, this framework applies to all performance audits carried out by the Court, including those in the areas of the European Development Funds, the Agencies and the European Central Bank.

1.2 PERFORMANCE AUDIT AND SOUND FINANCIAL MANAGEMENT IN THE EUROPEAN UNION

1.2.1 Performance Audit

Definition

A performance audit is an audit of sound financial management, namely of the economy, efficiency and effectiveness with which the Commission and/or other audited entities have used Community funds in carrying out their responsibilities.

1.2.2 Sound financial management : Treaty & Financial Regulation

Treaty

Article 274 of the consolidated text of the Treaty establishing the European Community² (the Treaty) states that "*The Commission shall implement the budget...on its own responsibility...having regard to the principles of sound financial management*" and that "*Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management*".

Financial Regulation

According to article 27 of the Financial Regulation applicable to the general budget of the European Communities³ (the "Financial Regulation"), the concept of sound financial management comprises the principles of economy, efficiency and effectiveness, which are defined as follows:

² OJ C 325 of 24 December 2002.

³ OJ L 248 of 16 September 2002.

- ✓ the principle of **ECONOMY** requires that the resources used by the audited entity for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price;
- ✓ the principle of **EFFICIENCY** is concerned with the best relationship between resources employed and results⁴ achieved;
- ✓ the principle of **EFFECTIVENESS** is concerned with attaining the specific objectives set and achieving the intended results⁴.

1.2.3 Management methods to implement the budget

Whilst the Commission is responsible for the overall implementation of the budget, the Financial Regulation provides for three different management methods:

- | | |
|---|---|
| Centralised management | <ul style="list-style-type: none"> • on a centralised basis; this method is used mainly in the area of external actions and administrative expenditure and involves direct management which is the responsibility of the Commission's Directorates-General⁵, or indirect management when the Commission entrusts budget implementation to Community agencies and public or private sector bodies, notably in the area of internal policies; |
| Shared or decentralised management | <ul style="list-style-type: none"> • by shared or decentralised management; shared management involves the delegation of implementation tasks to Member States and mainly concerns expenditure on agricultural and structural operations. Decentralised management involves the delegation of implementation tasks to beneficiary countries, as in the case of external aid; |
| Joint management | <ul style="list-style-type: none"> • by joint management with international organisations; this method involves the delegation of implementation tasks to international organisations, generally in the area of external actions. |

Method has significant implications for the audit

Each method involves a different allocation of roles and responsibilities for the implementation of the budget, which should be carefully taken into account when planning, undertaking and reporting a performance audit.

⁴ The term results used in this context is to be interpreted in a wide sense as covering *outputs, results* and *impacts* (see Glossary on pages 4-6).

⁵ The Commission's Headquarters may devolve responsibilities for preparing and implementing activities to Delegations in third countries.

1.2.4 Internal control system to achieve sound financial management

In order to have reasonable assurance that the objective of sound financial management is achieved, the Commission, and other audited entities, must establish an appropriate internal control system⁶.

Information Technology (IT) systems are part of the internal control system at the Commission, which follows the model proposed by COBIT⁷ regarding IT governance in managing information and IT resources.

COSO and ABB/ABM

The Commission has in place an internal control system that is founded on the five interrelated control components identified by COSO and the concepts of Activity Based Management (ABM) and Activity Based Budgeting (ABB), as follows:

Five control components

CONTROL COMPONENT	PURPOSES
Control environment	To provide for the fundamental organisational structure, discipline and values of the Commission, in the context of the three different methods of budget implementation already described, thereby creating the appropriate framework to assure good governance of the resources entrusted.
Risk assessment	To identify and analyse internal and external risks to the achievement of the Commission's objectives. Within the Commission's internal control system, 'Performance and Risk Management' includes objective setting at a strategic, operational and tactical level under the ABM approach. All activities must have <i>objectives</i> that are intended to be <i>specific, measurable, achievable, relevant and timely (SMART)</i> , and risk analysis and risk management of the main activities.
Control activities	To define the policies and specific procedures implemented by the Commission to ensure that the identified risks are appropriately managed; they include a range of activities as diverse as approvals, authorisations, verifications, reviews of operating performance, reporting of exceptions and supervision.
Information & Communication	To ensure an appropriate framework for setting, monitoring and reporting on the achievement of objectives. This component includes the management information system necessary to establish performance indicators, both financial and non-financial, and to measure the achievement of objectives, and also to provide the basis for the <i>Annual Activity Report</i> .
Monitoring	To ensure ongoing assessment of performance; this includes internal audit and evaluation, as well as the annual review of internal control.

⁶ The Committee of Sponsoring Organisations of the Treadway Commission (COSO) defines internal control as "a process effected by an entity's board of directors, management and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations".

⁷ COBIT (Control Objectives for Information and related Technology)

1.2.5 Relationship of performance audit & financial audit

Performance audit differs in many ways from financial audit; the main differences may be summarised as in the table below:

ASPECTS	Performance audit	Financial audit
Purpose	Assess whether Community funds have been used with economy, efficiency, effectiveness.	Assess whether financial operations have been legally and regularly executed and accounts are reliable.
Focus	Policy, programme, organisation, activities and management systems.	Financial transactions, accounting and key control procedures.
Academic base	Economics, political science, sociology etc...	Accountancy and law.
Methods	Vary from audit to audit.	Standardised format.
Audit criteria	More open to the auditors' judgement. Unique criteria for the individual audit.	Less open to the auditors' judgement. Standardised criteria set by legislation and regulation for all audits.
Reports	Special report published on ad hoc basis. Varying structure and content. depending on objectives	Annual report. More or less standardised.

Comprehensive audit

An audit combining both performance and financial audit objectives is called a comprehensive audit. Whether to carry out a performance audit or a comprehensive audit is a matter of professional judgement and is a decision to be taken on a case-by-case basis. Auditors need to be aware that carrying out a "pure" performance audit is already a challenging task and that carrying out a comprehensive audit would be even more demanding.

must be carefully considered.

A comprehensive audit **should** therefore always be considered with great care and undertaken only in cases where it is clear that it will be possible to obtain sufficient, relevant and reliable audit evidence and deliver clear, useful and timely messages at the reporting stage to satisfy both performance and financial audit objectives. The two elements should be clearly distinguished in the Audit Planning Memorandum and the Audit Programme, so that the audit team is clear about and gives due consideration to the differing audit objectives within the audit task.

1.2.6 Relationship of performance audit & evaluation

Evaluation is an important element of the Commission's internal control system. According to the Commission⁸, evaluation is the "*judgement of interventions according to their results, impacts and the needs they aim to satisfy*".

The main purposes of evaluations are:

- to contribute to the design of interventions, including providing input for setting political priorities,
- to assist in an efficient allocation of resources,
- to improve the quality of the intervention,
- to report on the achievements of the intervention (i.e. accountability).

Similarities

There are similarities and differences between performance audit and evaluation. Both activities involve the examination of policy design, implementation processes and their consequences to provide an assessment of economy, efficiency and effectiveness of an entity or activity. They require similar knowledge, skills and experience and involve similar methods for collecting and analysing data. The main difference is the context in which they take place and the purpose of each.

Differences

Performance audit is superimposed on an accountability framework, which implies that the Commission and other institutions and organisations concerned are held responsible for the management of Community funds and should provide meaningful and reliable information to demonstrate and take responsibility for performance in light of agreed expectations. Performance audits are carried out by auditors who maintain their independence to select and determine the manner in which to conduct their work, and report the results to the discharge authority (European Parliament acting on the recommendation of the Council).

It is therefore not the purpose of the Court's performance audits to deliver comprehensive evaluations of Community activities. This is the responsibility of the Commission, Member States and other managers of Community activities. However, performance audits will usually include evaluative elements of selected subjects and consider evaluation systems and information with a view to assessing their quality and, when they are considered to be satisfactory and relevant, use evaluation information as audit evidence.

1.3 THE COURT'S MANDATE & OBJECTIVES FOR PERFORMANCE AUDITS

1.3.1 The Court's legal obligations

Treaty

The legal framework for the Court's performance audits of Community activities is laid down by the Treaty. Article 248 (2) of the consolidated text of the Treaty states that "*The Court of Auditors shall examine...whether the financial management has been sound*".

1.3.2 The Court's objectives

The Court's Mission Statement provides that:

Mission

"The mission of the European Court of Auditors is to audit independently the collection and spending of European Union funds and, through this, to assess the way that the European institutions discharge these functions.

The Court examines whether financial operations have been properly recorded, legally and regularly executed and managed so as to ensure economy, efficiency and effectiveness.

In undertaking its work, the Court aims to contribute to improving the financial management of European funds at all levels, so as to ensure maximum value for money for the citizens of the Union.

The Court makes the results of its work known through the publication of relevant, reliable and timely reports."

is to provide independent information

As indicated earlier, the Court's performance audits are superimposed on a public accountability framework. The objective of the Court is therefore to provide independent information to the discharge authority and to the European public as a whole:

on the 3Es

- on the economy, efficiency and effectiveness with which the Commission and other audited entities have used Community resources; and
- on the effectiveness of performance management systems of the Commission and other audited bodies, including the reliability of statements about performance produced.

and make recommendations.

The Court aims to contribute to improving the financial management of Community funds by making recommendations to the discharge authority and the Commission where the performance audits demonstrate the potential for significant improvement. Such improvement might involve:

- financial savings;
- better working methods;
- avoidance of waste;
- more cost-efficient achievement of stated objectives.



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CHAPTER 2

THE PERFORMANCE AUDIT APPROACH AND THE 3 Es

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Who to contact

For any further information, please contact:

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2.1 INTRODUCTION

The audit approach to be employed must be one that produces the most meaningful audit result, in the most cost-effective manner. For any specified audit, a combination of approaches may be used.

2.2 AN AUDIT APPROACH FOCUSING ON PERFORMANCE ACHIEVED

Performance audits should provide information that is orientated towards the performance achieved and is of primary interest to the European Parliament, the Council, the Commission and other audited bodies. This means that, rather than being driven by control and process concerns, the Court's performance audits should focus on performance achieved and assess the effect of audit findings in terms of economy, efficiency or effectiveness. Performance audits will combine the following approaches, with a different emphasis to be put on one or the other depending on the specific circumstances of the audit:

Approach	Focus
Auditing performance directly	Inputs, outputs, results and impacts.
Auditing control systems	Adequacy of policies and procedures implemented by managers for promoting, monitoring and evaluating performance.

2.2.1 Auditing performance directly

This approach focuses directly on the performance achieved and concentrates on *inputs, outputs, results and impacts*, the assumption being that, if the performance achieved is satisfactory, there is little risk of serious problems being present in the design or implementation of the activity or control systems. Such audits may, for example, assess whether the adopted policies have been suitably implemented and whether they have achieved the intended objectives or whether there are undesirable financial and economic consequences of policy decisions taken.

Suitable criteria essential

Examining performance directly is appropriate where there are *suitable criteria* to measure quantity, quality and cost of inputs, outputs, results and impacts. Where performance achieved is found to be unsatisfactory, the activity and control systems are then examined to the extent necessary to identify the related causes.

2.2.2 Auditing control systems

Verify design and implementation of systems,

This approach is designed to determine whether the Commission and other audited entities have designed and implemented management and monitoring systems so as to optimise economy, efficiency and effectiveness within the given constraints. The audit work will involve analysing, reviewing and testing the key components of such systems. The examination will often consider whether measures chosen are consistent with the policy objectives, and whether the latter have been translated into operational plans containing operational objectives, the achievement of which is subsequently measured.

including information systems.

It will also consider whether systems in place produce relevant, reliable and timely *information* on the development of financial, human and other resources (inputs), the carrying out of activities (processes) and the delivery of the outputs, which should be compared with the operational objectives by way of performance indicators. It will examine whether, when discrepancies arise, timely and appropriate *remedial action* is taken to adjust the operational plan, the deployment of resources and/or the carrying out of activities. This approach will often involve an examination of the *evaluation system* and information in order to assess their quality and, when considered to be satisfactory and relevant to the audit objectives, to use evaluation findings, conclusions and recommendations as audit evidence.

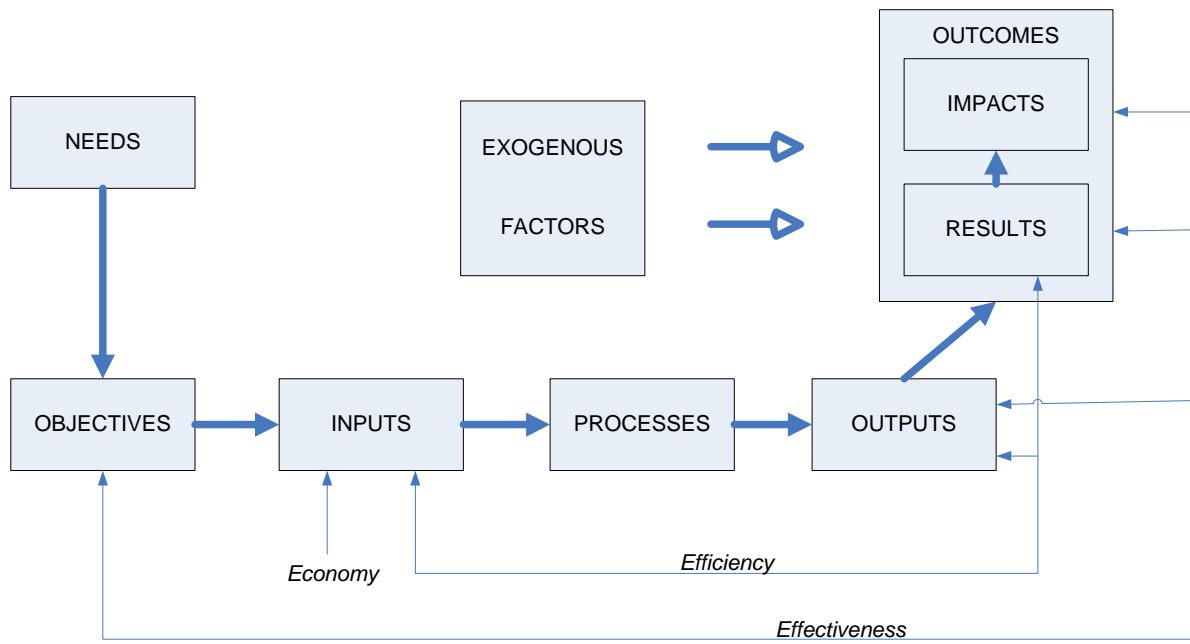
2.3 HOW TO APPLY THE 3 "Es"

2.3.1 The use of logic models in performance audits

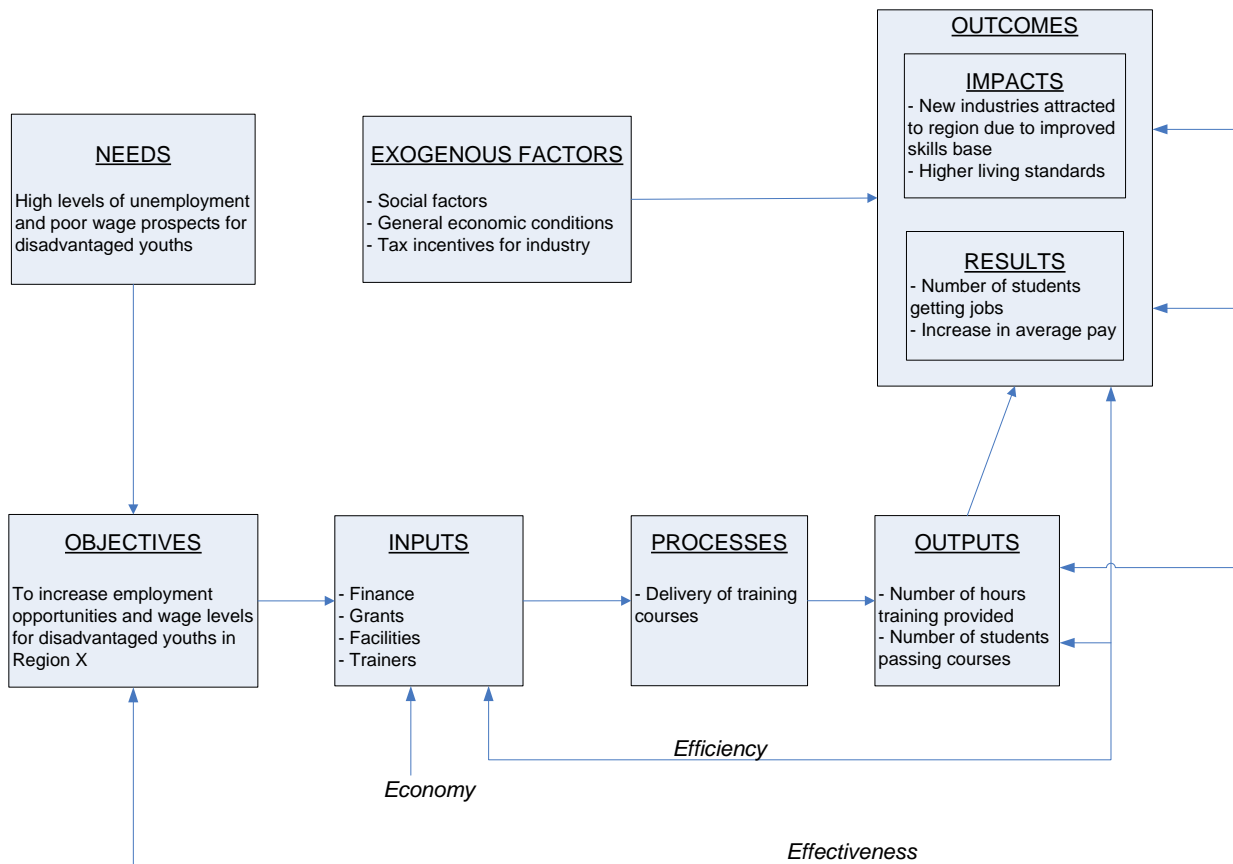
Set out the logic of the intervention

Regardless of its nature (policy, programme, measure, project), a public *intervention* can be analysed as a set of financial, organisational and human resources mobilised to achieve, in a given period of time, an objective or set of objectives, with the aim of solving or overcoming a problem or difficulty affecting targeted groups. The use of logic models can help the audit team to identify and set out the relationship between the socio-economic needs to be addressed by the intervention and its *objectives, inputs, processes, outputs, and outcomes*, which include *results* (immediate changes that arise for direct addressees at the end of their participation in a public intervention) and *impacts* (longer term effects of the intervention). The following diagram shows the example of the Programme Logic Model.

THE PROGRAMME LOGIC MODEL



Example of a Programme Logic Model:



Theoretically, it should be possible for performance audits to scrutinise all components and relationships in such models by focusing on the 3 Es - economy, efficiency and effectiveness.

2.3.2 Application of the concepts

Use potential risks to achieving the 3Es to develop audit questions.

Auditors should identify potential risks to achieving economy, efficiency and effectiveness and thereby develop audit questions. Each concept is basically of equal importance and where the specific priority lies will be decided on a case-by-case basis; however, auditors are encouraged to consider effectiveness as an element of the analysis whenever possible. A performance audit is not supposed, and should not aim, to cover a simultaneous and comprehensive examination of all aspects of economy, efficiency and effectiveness. It will rather examine certain issues related to economy, efficiency or effectiveness, or to a combination thereof, based on the significant potential risks identified. By being selective in this manner, the audit is less likely to run the risk of being overly-ambitious.

The following pages identify, for each of the concepts of economy, efficiency and effectiveness:

- the general risks to sound financial management
- issues to be addressed in an audit
- examples of risks in the EU context
- examples of audit questions related to the concept
- the focus of an audit in the area

① ECONOMY

Issues of economy arise when an entity or activity could reduce the costs of inputs significantly for a given level of outputs or results. General risks in this area can include:

Keeping the costs low

- waste, i.e. using resources which are not necessary for the achievement of the desired outputs or results;
- overpaying, i.e. obtaining resources which are used, but could have been obtained at a lower cost; and
- gold-plating, i.e. paying for a higher quality of input than that required to achieve the desired outputs or results.

to achieve given objectives

An audit of economy is therefore concerned with determining whether the most appropriate and lower cost inputs are chosen to achieve the given objectives. It will deal with issues such as whether:

- the audited entity acquires the appropriate type, quality and amount of resources at the minimum cost;
- the audited entity manages its resources with a view to minimising overall outlay;
- the intervention could have been designed or implemented in another way which would have resulted in lower costs.

Example of risk - Invalidity pension scheme of the European institutions

With some rare exceptions, the files examined did not contain any indication that serious action had been taken beforehand with the aim of finding an alternative solution and suggestions from the medical officer, mainly regarding a change of post, were practically never followed up. An alternative to an invalidity pension was seldom offered, or was offered too late. One quarter of the sample of former members of staff receiving invalidity pensions would probably have been able to continue working if the institution had detected and treated their cases at an early stage. This is confirmed by the replies received in response to the questionnaire: 20 % of the former members of staff thought that they would have been able to continue working had an alternative solution been offered. On that basis, it can be estimated that, in principle, savings of about 10 million euro could be made every year on the net cost of the invalidity pensions granted in the year, by implementing a policy of early detection and treatment of repeated or prolonged periods of absence due to illness.

Examples of audit questions related to economy

Auditing performance directly

- Have best prices been obtained for consultancy services for support programme for SMEs?
- Is there potential for equitably reducing the cost of sickness absences?

Auditing control systems

- Does the Commission management of the cotton production aid scheme include consideration and monitoring of the costs, including those of the consumers?
- Are there procedures in place to ensure that the transport costs of food aid are the lowest available and compare favourably with costs incurred by other donors? Are these procedures adequate and being properly applied?

and often focusing on procurement.

Considerations of economy often lead the auditor to examine processes and management decisions internal to audited entities regarding the *procurement* of goods, works and services. The auditor will determine in particular whether the procurement process has resulted in the best value being obtained. Areas to be audited will include, for example, the establishment of detailed user requirements to determine what is expected to be achieved through the purchase of goods, works and services, the identification of the quality required in relation to the required outputs and the determination of the desired timing for the delivery of the goods, works and services. The auditor will also often examine the drawing up and implementation of selection and award criteria.

② EFFICIENCY

Issues of efficiency arise when an entity or intervention could increase the amount or quality of outputs or results without increasing the use of resources.

General risks in this area can include:

- leakages, i.e. resources used do not lead to the desired outputs;
- non-optimal input/output ratios (e.g. low labour efficiency ratios);
- slow implementation of the intervention; and
- failure to identify and control externalities, i.e. costs imposed on individuals or entities falling outside the boundary of the intervention or organisation.

Making the most of available resources

An audit of efficiency is therefore concerned with assessing whether the best relationship exists between the resources employed and the outputs or results produced. Efficiency is closely related to the concept of "productivity" and the key question is whether outputs or results have been maximised in terms of quantity, quality and timing for the level of resources available. The audit will deal with issues such as whether:

to maximise "productivity",

- outputs or results have been produced cost-effectively;
- there are any avoidable bottlenecks or unnecessary overlapping.

Example of risk - Forestry measures within rural development policy

Regarding the objective of increasing woodland areas, there are different kinds of land which might be afforested. The Regulation stipulates that where support is granted for afforestation of agricultural land owned by public authorities, it shall cover only the cost of establishment, i.e. no loss of income compensation or maintenance are to be paid which is indeed the case for afforestation of private land. Thus, theoretically, focusing this action on public land would be much more efficient as it would, with the same funding, allow for a considerably bigger area to be afforested.

Examples of audit questions related to efficiency

Auditing performance directly

- How does the cost per job created by the Community training programme for the long-term unemployed compare with similar costs per job elsewhere?
- Could the projects have been implemented in a different manner which would have resulted in improved timeliness and quality?

Auditing control systems

- Are there adequate procedures to prioritise and select transport infrastructure projects to ensure the maximum impact from Community funds? Are the criteria used appropriate and are they being implemented as intended?
- Do the Community institutions have and consistently use adequate key management information about the size, condition, utilisation and cost of their office space for decision making?

and may consider outputs

When the audit objective of efficiency considers outputs, it often leads the auditor to examine the processes by which an organisation transforms inputs into outputs. The assessment can involve the calculation of unit cost of outputs produced (e.g. average cost per hour of training) or labour efficiency ratios (e.g. number of subsidy applications processed per day) and their comparison with accepted criteria, which can be derived from similar organisations, previous periods or standards which the audited entity has explicitly adopted.

and/or results.

When the audit objective of efficiency encompasses results, *economic tools* are generally necessary to assess the ability or potential of an audited entity, operation or programme to achieve certain results at a given cost. As an example, cost-effectiveness analysis can be used to relate the net effects of an intervention to the financial inputs needed to produce those effects; the judgement criteria might, for example, be the cost per unit of result produced (e.g. cost per job created) which is then compared to that of other interventions chosen as benchmarks. Depending on the audit approach, the auditors will either examine the reliability of the analysis performed by the audited body or carry out such analysis themselves.

③ EFFECTIVENESS

Issues of effectiveness arise when an entity or intervention does not produce the expected outputs, results or impacts. General risks in this area can include:

Achieving the stipulated aims or objectives,

- faulty policy design, e.g. inadequate assessment of needs, unclear or incoherent objectives, inadequate means of intervention or impracticability of implementation; and
- management failures, e.g. objectives not being met, management not prioritising the achievement of objectives.

An audit of effectiveness is therefore concerned with measuring the extent to which the different types of objectives have been achieved:

whether operational (outputs),

- operational objectives: the audit assesses the extent to which the intended *outputs* have been produced and normally involves the examination of the operations internal to the organisations which are responsible for the implementation of the intervention;

immediate (results),

- immediate objectives: the audit assesses whether the intervention had clear and positive results for direct addressees at the end of their participation and normally involves examining monitoring information produced by the implementing organisations as well as obtaining information from direct addressees;

intermediate or global (impacts).

- intermediate and global objectives: the examination extends beyond the boundaries of the audited entity and seeks to measure the impacts of the public intervention. This requires the audit to take account of exogenous factors and to produce evidence that the impacts observed are actually produced by the public intervention concerned and are not the consequences of such factors.

Example of risk - Support regime to the production of dried fodder

The scheme provides for two rates of aid: a low rate for fodder dried naturally by the sun and a high rate for machine-dried fodder, to compensate for the extra fuel costs.

The differentiation in aid rates has had a big impact on how fodder is dried. At the time of Spain's accession to the Community in 1986, only 61 000 tonnes of fodder was dried artificially each year; in 1996/1997, 1 414 000 tonnes was dried in this way as producers found the higher rate of aid more profitable. The annual energy consumption of this regime in Spain alone is sufficient to meet the annual electricity needs of a town the size of Alicante (285 000 citizens). More than 200 000 hectares of forest are needed to absorb the additional carbon dioxide produced by the drying process.

Examples of audit questions related to effectiveness

Auditing performance directly

- Have the support schemes for the early retirement of elderly farmers and the setting-up of young farmers had a clear and positive impact on the modernisation and economic viability of holdings in less-favoured areas?
- Have infrastructure projects contributed to increasing traffic flow while reducing journey times and improving safety?

Auditing control systems

- Have Member States set up and properly implemented suitable measures to monitor and mitigate environmental impact in the sugar sector?
- Have the Commission and the Member States carried out an adequate assessment of needs and possible benefits arising from the Early School Leavers programme to support the funding decision?

The audit of effectiveness will therefore concentrate on outputs, results or impacts:

- There can be considerable difficulty involved in assessing the impact of an intervention, i.e. the extent to which the global and even intermediate objectives of this intervention have been achieved. The difficulty arises because the objectives are usually expressed in such *broad terms* that they cannot be associated with measurable indicators and the extent of their achievement is therefore difficult to verify. Likewise, when the objectives are more clearly identified, the collection and analysis of the required audit evidence would involve *disproportionate audit resources* if this information is not readily available within the audited entity. Furthermore, it is difficult to assess whether the impacts observed are really the effects of the intervention rather than *exogenous factors*. In such instances, the audit approach should therefore first consider whether relevant and reliable evaluation information is available and can be used as audit evidence.
- A more feasible audit objective will often be to assess the outputs or results of an intervention, i.e. the extent to which operational or immediate objectives have been achieved. Provided that the objectives are "SMART" - specific, measurable, achievable, relevant and timely - in accordance with the Commission's performance and risk management approach, and that their achievement is monitored by performance indicators, this is likely to provide a clear and suitable reference basis for assessing effectiveness.

Assessing impact is difficult,

but easier to assess outputs or results.

2.4 ESSENTIAL QUALITIES OF GOOD PERFORMANCE AUDITS

The performance audit process comprises three phases - planning, examination and reporting. To ensure as far as possible the successful delivery of the performance audit, certain qualities need to be present during these phases.

In order to establish a framework for timely delivery of high-quality audit reports and to avoid unnecessary activities, performance audits must be undertaken using the **SMARTEST** approach:

Important from start to end of audit

The auditor should ensure that:

- S**ound judgement is exercised throughout the audit process.
- M**ethodologies are appropriate and combined to capture a range of data.
- A**udit question(s) are set which can be concluded against.
- R**isks to delivering the audit report are analysed and managed.
- T**ools are employed to help achieve successful delivery of the audit.
- E**vidence is sufficient, relevant and reliable to support the audit findings.
- S**tructure of the final report is considered from the planning phase onwards.
- T**ransparency - a 'no surprises approach' - is adopted with the auditee.

The essential elements of these qualities can be described as follows:

2.4.1 Sound judgement is exercised throughout the audit process

Determines quality of audit work and report

By nature, performance auditing is wide-ranging and open to judgement and interpretation; indeed, every facet of a performance audit requires professional judgement and individual initiative. The Court's reputation and credibility, the cost-effectiveness of the audit, and the quality of the report depend on sound judgement being exercised throughout the entire audit process.

In particular, sound judgement should be exercised in setting the audit objectives (also known as the audit questions), defining relevant audit criteria, establishing an appropriate quantity and quality of audit evidence, deriving audit findings, drawing conclusions and reporting.

2.4.2 Methodologies are appropriate and combined to capture a range of data

Combination increases quality of evidence

A methodology is a technique for collecting or analysing data that helps to provide evidence that enables conclusions to be drawn from the audit work. Ideally, several different methodologies will be employed in order to capture a range of data and corroborate findings from various sources, thus increasing the quality and reliability of the audit evidence in support of the audit findings, conclusions and recommendations.

and depends on the audit question

Examples of methodologies include reviewing files or literature, conducting interviews, or carrying out surveys. A performance audit will also normally combine methodologies to obtain quantitative and qualitative data; quantitative data is numerical in nature, whilst qualitative data is non-numerical. The most appropriate combination of methodologies should be determined by the subject matter and the audit questions being addressed.

2.4.3 Audit questions are set which can be concluded against

For performance audits, it is appropriate to set out the audit objectives in the form of questions that the audit is to answer. In order to provide a proper focus to the audit and to prevent the audit team from undertaking an overly-ambitious scope of work, there should be a limited number of audit questions (ideally one, and no more than three) to be concluded against. It is essential that, where more than one question is employed, such questions are thematically related, complementary, and mutually exclusive (they do not overlap). The wording of these questions is decisive for the results of the audit - they are the fundamental research questions to which the auditors are seeking answers; thus, ambiguous or vague questions are to be avoided.

The audit questions should then be converted into lower-level questions, the lowest level of which can be answered by carrying out specific audit procedures. All sub-questions in the hierarchy should be both mutually exclusive and collectively exhaustive (together they are sufficient to answer the immediately preceding higher-level question).

It is preferable that all questions in the hierarchy are capable of yes/no answers, so as to enable the audit work to be focused on a specific end-product. However, this does not mean that the only possible answer to such a question is yes or no; the answer would obviously be much more developed. Furthermore, the terms 'yes' or 'no' are not intended to be included in the audit report; this approach is purely a tool to help enhance a disciplined approach to audit questions and to focus audit work. The corollary is that it is preferable not to formulate audit questions in an inconclusive manner, such as "Assess the extent to which...", as this may result in audit work that does not have a clearly defined scope and becomes too extensive and time-consuming.

2.4.4 Risks to delivering the audit report are analysed and managed

Risks to the timely and quality delivery of the audit report include difficulties in obtaining data, unavailability of staff, and lack of co-operation by the auditee. By preparing a risk management strategy, disseminating it to the audit team, and referring to it as the audit progresses, the audit team is in a much better position to manage the risks and to respond effectively if problems arise.

At all stages of the audit, the audit team is to identify:

- what could go wrong;
- how likely is it to go wrong;
- what would be the impact of it going wrong;
- what can be done to minimise the chances of it going wrong; and
- how can the risk be managed, should it materialise.

2.4.5 Tools are employed to help achieve successful delivery of the audit

The use of appropriate tools will help to ensure the development of a realistic plan, and facilitate ongoing monitoring and review of actual achievement against plan.

The preliminary study is the tool for gathering information and making assessments regarding the potential audit, particularly regarding the risks to sound financial management, potential audit questions, audit criteria, evidence to be collected or generated, and the methodology to be employed.

The basic planning instrument - the Audit Planning Memorandum (APM) - is a "contract" agreed between the responsible Member and the Audit Group. The APM defines the audit, the product to be delivered, the resources to be employed, and the delivery date.

Tools and activities to help achieve successful delivery include:

- clear definition and communication of responsibilities;
- a work plan showing audit team members and the timing of key milestones;
- monitoring tools which assist in keeping the work on track;
- progress reviews, and corrective action where necessary;
- document management established for paper records and ASSYST;
- quality control procedures that are built into all aspects of the audit process.

2.4.6 Evidence is sufficient, relevant and reliable to support the audit findings

Evidence collected during the audit provides a factual basis for developing observations and concluding against the audit questions. It provides persuasive support for a fact or point in question. As such, it is evidence that must support the contents of an audit report, particularly all observations and conclusions leading to recommendations. The audit evidence gathered should thus be sufficient (in quantity), relevant (to the audit questions) and reliable (objective and trustworthy).

The quantity and quality of evidence needed depends on the subject matter and the audit questions. Evidence is stronger when provided by the auditor or obtained from multiple sources and corroborated.

2.4.7 Structure of the final report is considered from the planning phase onwards

Early consideration of the audit report structure will help to provide focus and increase the likelihood of achieving positive change. The audit team needs to assess early on whether clear conclusions and recommendations are likely to emerge from their work. This will encourage them to think from the outset about the likely messages to be delivered to the target audiences and how to maximise the utility and impact of the report.

During the planning phase, the auditor can make an outline of the report around the audit questions, and update it as necessary throughout the audit.

2.4.8 Transparency - a 'no surprises' approach - is adopted with the auditee

Discussion of the audit with the auditee at the earliest possible opportunity during the planning phase lessens the possibility of disagreement at a later stage of the audit. It enables the auditee to understand the purpose of the audit, the audit questions being tested, the criteria to be used and the methodology to be employed. Such discussion will also help to determine at the outset if the topic is in fact relevant and auditable. Furthermore, early contact also helps to establish a sense of constructive dialogue, which should be maintained throughout all phases of the audit process.

This approach is in keeping with good audit practice and the Court's 'no surprises' approach. In particular, the audit questions and audit criteria should be communicated, and insofar as possible agreed, ideally between the responsible Member and the relevant Commission Director-General, prior to the APM being presented to the Audit Group.



PERFORMANCE AUDIT MANUAL

CHAPTER 3 PLANNING THE AUDIT

Chapters in the Performance Audit Manual

General introduction

Chapter 1: Framework for
Performance Audits of the
European Court of Auditors

Chapter 2: The Performance Audit
Approach and the 3 Es

Chapter 3: Planning the audit

Chapter 4: Examination Phase

Chapter 5: Reporting Phase

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② Determine the resources made available for the intervention

③ Determine the respective responsibilities of the various actors

④ Identify the key management and control processes, including IT systems

⑤ Define the information needs for management and control purposes

⑥ Identify the risks to sound financial management

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② Consider the potential audit questions, criteria, evidence, methodology, scope and impact

③ Consider the timing and resourcing of the proposed audit

3.2.5 Assess if the audit is realistic, realisable and likely to be useful

3.3 THE AUDIT PLANNING MEMORANDUM

3.3.1 Purposes and contents of the APM

① Define the audit questions

② Set the audit scope

③ Establish the audit criteria to be used

④ Identify the audit evidence required and its sources

⑤ Define the audit methodology to be employed

⑥ Consider the potential audit observations, recommendations and impact

⑦ Determine the timetable, resources and quality control arrangements

⑧ Communicate with the auditee

3.3.2 Drawing up the APM

Who to contact

For any further information, please contact:
European Court of Auditors - CEAD Group
Audit Development And Reports (ADAR) Division - Methodology team
Email: ADAR CONTACT/ECA or adar.contact@eca.europa.eu

3.1 INTRODUCTION

Good planning is essential,

The varied nature of performance audits places particular emphasis on the need for good planning. This helps to determine whether the audit is worthwhile and feasible, set clear and reasonable objectives, define a realistic and robust audit approach, and establish the resources needed. If the audit is not well planned, there is a risk that the audit work will not be efficient or effective.

to be conducted during the Preliminary Study

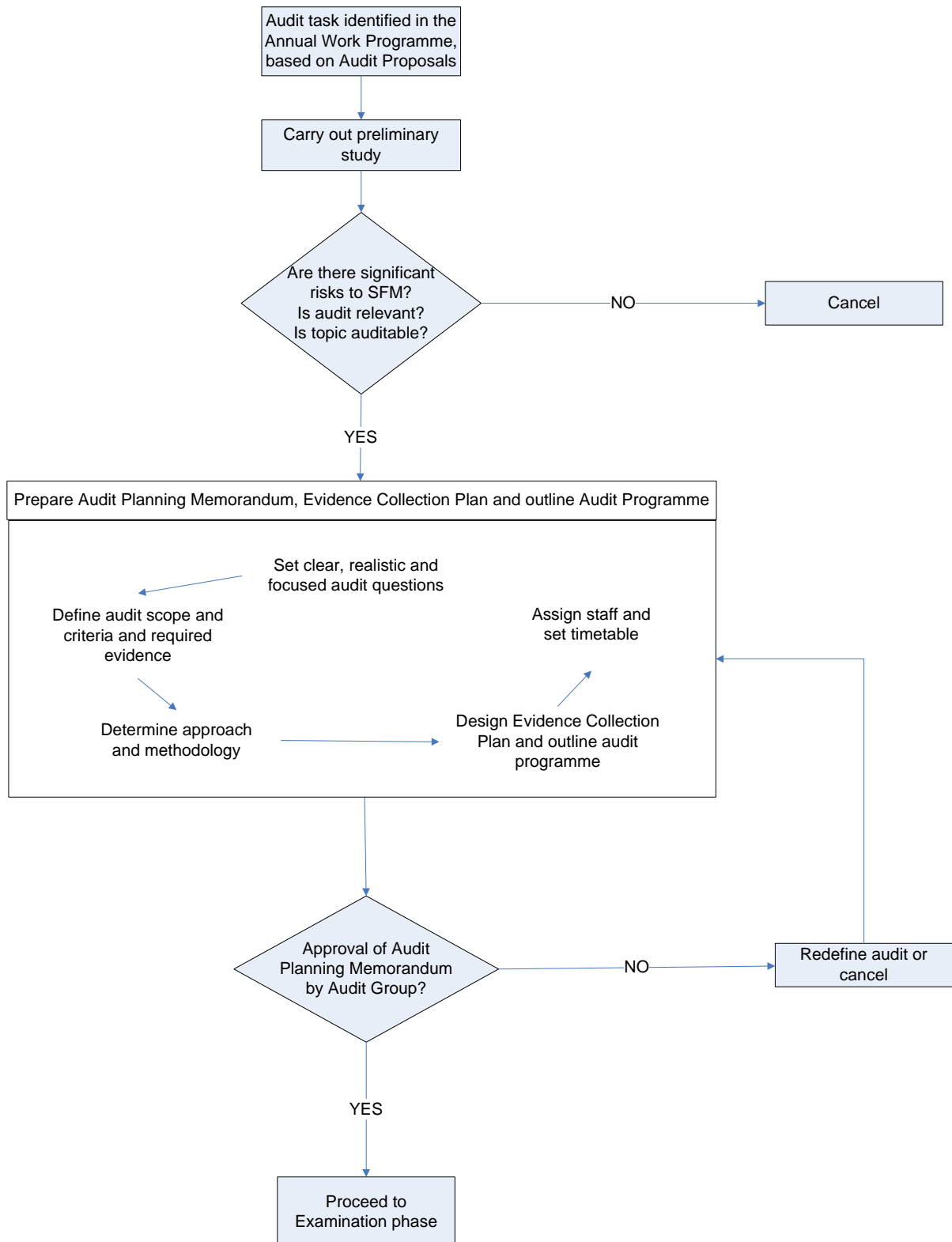
Planning involves two main steps:

- **The Preliminary Study**, which enables the auditor to consider the significant risks to sound financial management and the potential audit objectives, approaches and methodologies, and which is used to determine whether the audit is realistic, realisable and likely to be useful.
- **The Audit Planning Memorandum (APM)**, which defines the audit work to be carried out – the audit scope, objective and methodology, the resources to be employed, and key milestones to be achieved. The APM is approved by the Audit Group.

and detailed in the APM.

The following chart covers the audit planning phase, from the launch of the preliminary study until approval of the APM. Both the preliminary study and the APM are described in more detail in this chapter.

AUDIT PLANNING PHASE



3.2 THE PRELIMINARY STUDY

3.2.1 Purpose of the preliminary study

**The Preliminary Study
develops the Audit Proposal**

The Court requires Audit Groups to develop audit proposals for each topic ranked as a priority⁹. These proposals contain the relevant information necessary to decide whether or not the audit is to be considered for inclusion in the Annual Work Programme (AWP). The preliminary study, which **should** be carried out in advance of every performance audit, develops and expands upon this information, which may lead to a reassessment of whether to carry out the audit as already planned for in the AWP. In this regard, it must be stressed that there **should** be no presumption that a preliminary study will lead to an audit.

and is essential

The greater degree of freedom in the selection of audit subjects for performance audits, and their wide-ranging nature and greater opportunity for judgement and interpretation make the preliminary study particularly important.

to determine if the audit is justified

and to plan the audit in detail.

The purpose of the preliminary study is:

- to enable the responsible Member and the Audit Group to assess whether the audit is realistic, realisable and likely to be useful; and, if so,
- to provide a basis for the detailed planning of the audit, to be set out in the APM.

3.2.2 Extent of the preliminary study

⁹ Programming of the Court's work: DEC 165/05 and GA 226/05

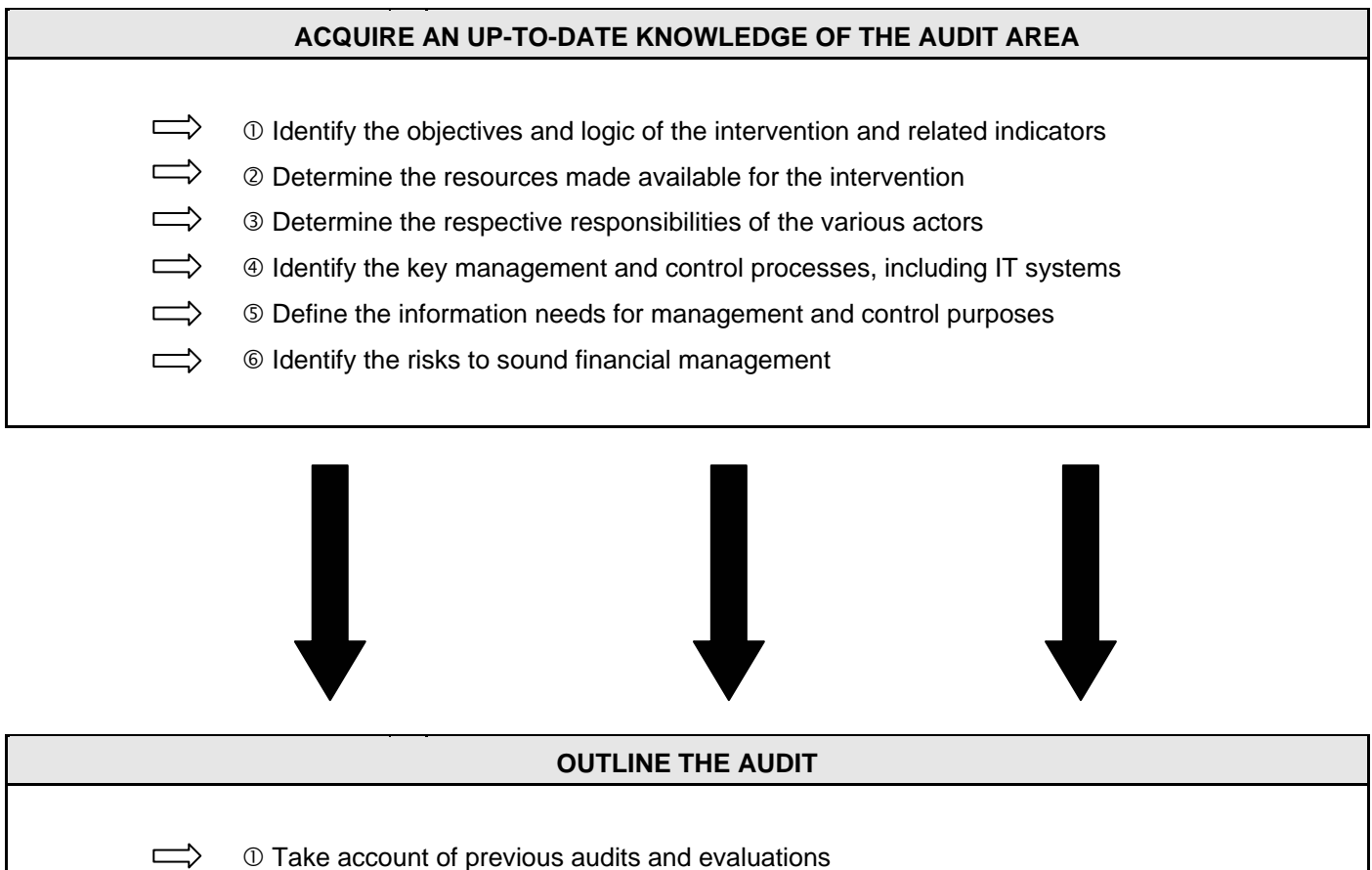
Extent of Preliminary Study varies considerably.

The extent of the preliminary study required will vary considerably, depending on the audit team's existing knowledge of the audit area, but must be such as to enable the auditor to outline the audit. If the audit area and possible audit questions are not well known to the Court, a larger preliminary study is needed; indeed, in certain instances, some missions to Member States or third parties may be necessary to confirm the availability of the necessary audit evidence on-the-spot and the feasibility of the methods selected to collect and analyse this evidence. On the other hand, if the audit area and possible audit questions are well-known, the extent of the preliminary study will be much less. The preliminary study is best carried out using a small number of experienced auditors. Detailed audit testing work **should** not be carried out at this stage; rather, the emphasis is on testing the availability of information and the feasibility of methods.

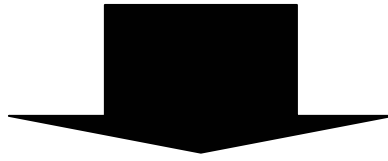
Acquire knowledge & outline audit.

In order to determine whether the audit is realistic, realisable and likely to be useful, auditors need to acquire an up-to-date knowledge of the audit area and outline the audit. The steps involved are set out in the following figure.

Carrying out the Preliminary Study



- ⇒ ② Consider the potential audit questions, criteria, evidence, methodology, scope and impact
- ⇒ ③ Consider the timing and resourcing of the proposed audit



ASSESS IF THE AUDIT IS REALISTIC, REALISABLE AND LIKELY TO BE USEFUL

Each of these steps is described in detail in the following paragraphs:

3.2.3 Acquire an up-to-date knowledge of the audit area

The emphasis is on building a good understanding of the topic under examination. The approach to gaining this knowledge will vary, depending on the nature of the subject and the amount of knowledge that the team possesses at the outset, including information available in the permanent files and that already obtained by the Court's financial auditors. It might involve simple documentary review and a single brainstorming session when a great deal is already known, or a much larger data-gathering exercise when the topic is new or complex.

Extent and sources of information are varied.

Sources of information may be third parties (legislation; viewpoints from experts in the field; scientific studies and research; official statistics) or the auditee (mission statements; strategic and corporate plans; Annual Activity Reports and Activity Statements of the Commission's Directorates General (DGs); organisation charts; internal guidelines and operating manuals; and discussions with auditee management).

Auditors are advised to weigh the time needed to obtain information, and the related costs, against its added value to the audit.

① Identify the objectives and logic of the intervention and related indicators

Objectives and indicators regarding the intervention are the starting point of the audit.

The Commission manages its administrative and operational resources through Activity Based Management (ABM), with management undertaken around 'activities' which implement 'policy areas'. The ABM activities form the principal lines of accountability for the Commission's management of its activities and budget. The use of ABM as the basis for the Commission's approach to sound financial management requires that expenditure is based on SMART¹⁰ objectives. In addition, the implementation of these objectives must be monitored by the relevant DG through RACER¹¹ indicators on output and impact for each policy area and activity, with management required to take action to address any identified shortfall against objectives.

An understanding of the objectives and logic of the intervention is the starting point in planning a performance audit. The Preliminary Study **should** identify such objectives and indicators, e.g. from the Activity Statements of the relevant DG(s). In addition, diagrammatic representations of the logic of the intervention (inputs, processes and outputs/objectives) may be made available by the auditee, or constructed by the auditor.

② Determine the resources made available for the intervention

The human, administrative and financial resources allocated to the audit area **should** be determined to confirm its materiality. This involves analysing budgetary appropriations allocated, and amounts committed and paid.

③ Determine the respective responsibilities of the various actors

¹⁰ Objectives must be Specific, Measurable, Achievable, Relevant, Timely

¹¹ Performance indicators must be Relevant, Accepted, Credible, Easy and Robust.

Define who is responsible for managing the intervention,

A cornerstone of performance audit is holding auditee management accountable only for that over which they have control; it is therefore fundamental to define the auditee. This is particularly pertinent in instances of decentralised, shared or joint management between the Commission on the one hand and Member States, beneficiary states or international organisations on the other. In such cases, the Commission may have little real direct involvement in the on-going management and implementation of co-financed interventions, although it always has overall responsibility for managing the Budget¹². In this context, the Court requires its performance audits to take as their starting point the Commission's management, including the methods implemented to ensure that management by Member States is appropriate.

as this influences how and where the audit is conducted.

The Preliminary Study **should** identify management responsibility for the intervention on the part of the Commission, Member States, beneficiary states and international organisations, by way of interview and review of organisation charts and regulations.

④ Identify the key management and control processes, including IT systems

The Preliminary Study **should** determine the key management and control processes for the activity/activities which concern the potential audit topic. This can be done by reviewing regulations and internal procedure manuals and by way of interview. An important consideration in this regard is the IT systems used by the auditee, and the level of IT internal control.

⑤ Define the information needs for management and control purposes

Review monitoring and project selection criteria.

The Preliminary Study **should** identify the types of information and reports currently used by the auditee for management and control of its activities, through interviews with management and review. This includes the reports used for overall monitoring of the activity, and, where relevant, the project selection criteria adopted to determine the basis on which projects are selected for funding. Particular attention needs to be paid to identify data held in IT systems and its impact on the audit approach; it is advisable to contact ADAR at an early stage to get support in this regard.

Consider IT data and its impact on the audit approach.

⑥ Identify the risks to sound financial management

¹²see Article 274 of the Treaty.

Inherent risks ?

Control risks ?

Risk is the probability that an event or action may adversely affect the organisation, such as exposure to financial loss, loss of reputation, or failure to deliver the policy or programme economically, efficiently or effectively. The information obtained, as described above, provides auditors with a basis for analysing the most significant risks to the achievement of sound financial management. The main risks may be *inherent risks* (the factors that make sound financial management hard to achieve, no matter how well the entity is managed) or *control risks* (how well the entity manages performance).

In addition, the auditor needs to become familiar with the risk analysis and risk management of the main activities developed by the relevant DG, as is required by the 'Performance and Risk Management' standard of the Commission's internal control system. Elements of the ABM cycle - particularly the Activity Statements and Annual Activity Reports - will provide an additional useful source of information on risk. Each DG is required to systematically analyse risks in relation to its main activities at least once a year, develop appropriate action plans to address them and assign staff responsible for implementing those plans.

Information on risks is available from many sources.

The auditor asks:

- what can go wrong?
- what is the probability of it going wrong?
- what would be the consequences of it going wrong?
- what is the auditee's strategy to minimise or control the risk?

Risk factors will include the:

- nature and complexity of the policy, programme and operations;
- diversity, consistency and clarity of the entity's objectives and goals;
- existence and use of appropriate performance measures;
- availability of resources;
- complexity of the organisation structure and clarity of responsibilities;
- existence and quality of control systems;
- complexity and quality of management information.

Focus on major risk exposures.

The Preliminary Study **should** analyse the relative significance of these risks, mapping the likelihood of occurrence against the likely impact, both quantitative and qualitative. The auditor will usually focus on those risks having both a higher likelihood of occurrence and a higher impact if they do materialise, whilst also considering the action taken by the auditee to mitigate such risks ('risk response').

3.2.4 Outline the audit

① Take account of previous audits and evaluations

Consider audit and evaluation reports.

The Preliminary Study **should** consider previous audits and evaluations undertaken in the subject area, both in order to avoid duplication of work and to follow up on significant findings and recommendations that relate to the potential audit question. Such audits may include those performed by the Court, the Commission's Internal Audit Service (IAS) or the DGs' Internal Audit Capabilities (IAC). Any evaluation reports will also need to be considered.

② Consider the potential audit questions, criteria, evidence, methodology, scope and impact

Generating ideas for potential audit question is crucial.

For performance audits, it is appropriate to set out the audit objectives in the form of questions that the audit is to answer; henceforth, only the term audit questions will be used. The aforementioned risk analysis will help to provide focus for both the potential audit questions and audit scope. At the preliminary study stage, it is possible to consider different potential audit questions. The auditor may interview people with special knowledge of the audit subject, as well as studying basic documents and other literature. It is important to generate as many ideas as possible regarding potential audit questions. This is probably the most difficult part of the preliminary study, and the most important, as it will impact on both the audit work and the report.

The auditor **should** then define which of these audit questions can be answered and are thus worth asking. This is done by considering whether the questions identified are auditable, i.e. whether audit criteria are available or can be developed, whether audit evidence exists or can be generated and is accessible by the auditor, and whether audit methodologies can be successfully employed to collect and analyse such evidence.

The Preliminary Study also needs to consider, from a broad perspective, the likely scope of the audit, as regards the activities, time period(s) and geographical locations to be audited, as well as its potential impact for the various stakeholders.

③ Consider the timing and resourcing of the proposed audit

Keep within the maximum standard timeframe of 18 months.

The Preliminary Study needs to consider the feasibility of the audit start date and calendar timeframe included in the Annual Work Programme, particularly in light of any changes in the audit area. On occasion, even though it is likely that the audit will be performed, it may be necessary to defer the start date or change the original calendar timeframe as a result of developments in this area. In this context, it **should** be borne in mind that the maximum standard timeframe for an audit, from APM launch to Official Journal publication, is 18 months.

Consideration also needs to be given to the possible impact of the report on upcoming changes in legislation. Where possible, reports must be timed to contribute to such changes.

The Preliminary Study **should** also reflect on the availability of suitably qualified and experienced auditors to carry out the proposed audit.

3.2.5 Assess if the audit is realistic, realisable and likely to be useful

Short report, slideshows, oral presentations.

It is recommended that preliminary study reports are not unduly lengthy, so as to speed up the planning process and avoid duplication with the APM. Furthermore, other communication methods such as slideshows or oral presentations may also be considered.

Member or Audit Group decides if the audit is justified.

The information **should** be presented to the Member responsible. This is in order to enable the latter to take a decision as to whether there is sufficient justification for the audit to be undertaken and if it represents a good use of the Court's resources. It may be beneficial for this presentation to be made to the Audit Group, thus enabling different perspectives to be considered from an early stage and saving time later on.

Each Audit Group may develop specific procedures as to how the information gathered during the preliminary study is to be presented to the Member(s).

When the responsible Member, or Audit Group where appropriate, is satisfied that the audit is realistic, realisable and likely to be useful, (s)he/it determines the audit topic, on which basis the audit team undertakes the detailed audit planning. In the event that the Member responsible considers that it is not justified to propose that the audit be undertaken, and the Audit Group has not previously been involved, (s)he presents the information gathered to the Audit Group and informs the latter of the underlying reasons for not proceeding with the audit. In that event, the Annual Work Programme must be modified, if necessary.

3.3 THE AUDIT PLANNING MEMORANDUM

3.3.1 Purposes and contents of the APM

Standard format of APM,

Once the responsible Member or Audit Group has determined that the audit is realistic, realisable and likely to be useful, detailed planning of the audit is carried out, and set forth in the Audit Planning Memorandum (APM). The APM is the "contract" between the responsible Member and the Audit Group, by which the Member responsible is committed to deliver a product (the audit results) in accordance with quality standards, within the established deadlines, and in exchange for the resources made available by the Audit Group. The APM **should** identify in a clear and concise manner the audit work to be performed, the resources and timeframes required, and the anticipated impact of the audit. It **should** be submitted by the Member responsible to the Audit Group for decision, in the format set out in **Annex II**.

**to include
Evidence Collection Plan and
outline Audit Programme.**

It **should** include, by way of annex, an Evidence Collection Plan (see **Annex III**), to show how evidence will be obtained to answer the audit questions, and an outline Audit Programme (see **Annex IV**), which lays down the audit procedures required for collecting and analysing the necessary information to allow the auditors to reach valid conclusions¹³. The latter does not need to be developed to a very detailed level, as certain tests may only be properly determined once audit work gets underway, and the detailed tests required may change during the course of the audit.

No audit work until APM approved.

The Head of Division/Unit **should** ensure that audit work does not start until the APM has been approved by the Audit Group. It is only once the APM is approved that the resources are formally committed to the audit task. The audit must be designed so that it can be delivered within the timetable and with the resources agreed.

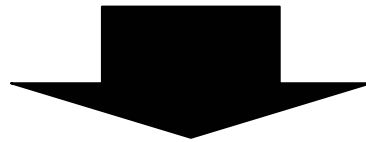
The issues to be addressed during the detailed planning of the audit, the results of which will appear in the APM, are set out in the following figure.

¹³ See ADAR Intranet for practical examples of Evidence Collection Plans and Audit Programmes for performance audits.

Setting up the APM:

DETAILED PLANNING OF THE AUDIT - ISSUES TO BE ADDRESSED

- ⇒ ① Define the audit questions
- ⇒ ② Set the audit scope
- ⇒ ③ Establish the audit criteria to be used
- ⇒ ④ Identify the audit evidence required and its sources
- ⇒ ⑤ Define the audit methodology to be employed
- ⇒ ⑥ Consider the potential audit observations, recommendations and impact
- ⇒ ⑧ Determine the timetable, resources and quality control arrangements
- ⇒ ⑨ Communicate with the auditee



ASSESS IF A SUFFICIENT BASIS BEEN DEVELOPED FOR THE AUDIT



DRAFT APM

The key considerations regarding each of these aspects are detailed hereunder:

① Define the audit questions

Ensure that the audit questions can be answered,

The auditor now needs to define the audit questions¹⁴, based on the results of the Preliminary Study. The wording of the audit questions is of great importance for the audit, and is to be based on rational and objective considerations. Unless care is taken in this area, it may prove difficult to gather sufficient, relevant and reliable audit evidence to answer the questions.

that they concentrates on one topic,

The audit questions **should** be limited in number (preferably one, but possibly two or three questions which are thematically related, complementary and mutually exclusive), concentrate on one topic, and clearly identify the audit subject (e.g. programme, policy or DG) and the performance aspects to be audited. Ideally, the subject of the audit will, as far as possible, comprise individual policy areas or components thereof, such as one or more activities or actions as defined under Activity Based Budgeting (ABB) and Activity Based Management (ABM), or individual operations such as a Community Agency. This will facilitate the audit and help to ensure that the report is practical and focused.

In defining the audit questions, the following are to be considered:

are relevant and auditable,

Relevance of the questions	Is the topic material? Is it important for stakeholders (including the discharge authority and the general public)? Are there risks to sound financial management?
Auditability	Can the questions be answered? Can an audit be carried out and a conclusion reached in light of the availability of the necessary information, audit methodologies, resources and audit skills? Are conditions appropriate in terms of timing?

with an appropriate focus on control systems and / or performance.

The focus of the audit questions may be either the examination of control systems or the direct examination of performance, or a combination thereof:

- the **audit of control systems**: most performance audits will include an examination of:
 - the formulation of the objectives of the intervention, so as to conclude on whether they are realistic, relevant and meaningful;
 - the indicators used, in order to determine if they properly measure progress towards achieving those objectives;
 - the IT systems which support the management of programmes, projects, etc, in order to determine if these systems deliver actual, accurate and essential data and information, and to assess whether such data and information are properly used.
 - the underlying data, to determine the reliability; and,
 - the project selection criteria used to allocate resources.
- the **direct examination of performance** focuses on the achievement of the auditee's objectives. Objectives, if found to be properly conceived, are the basis against which to judge the performance of the auditee. Similarly, the indicators, if properly conceived, can be used to assess progress.

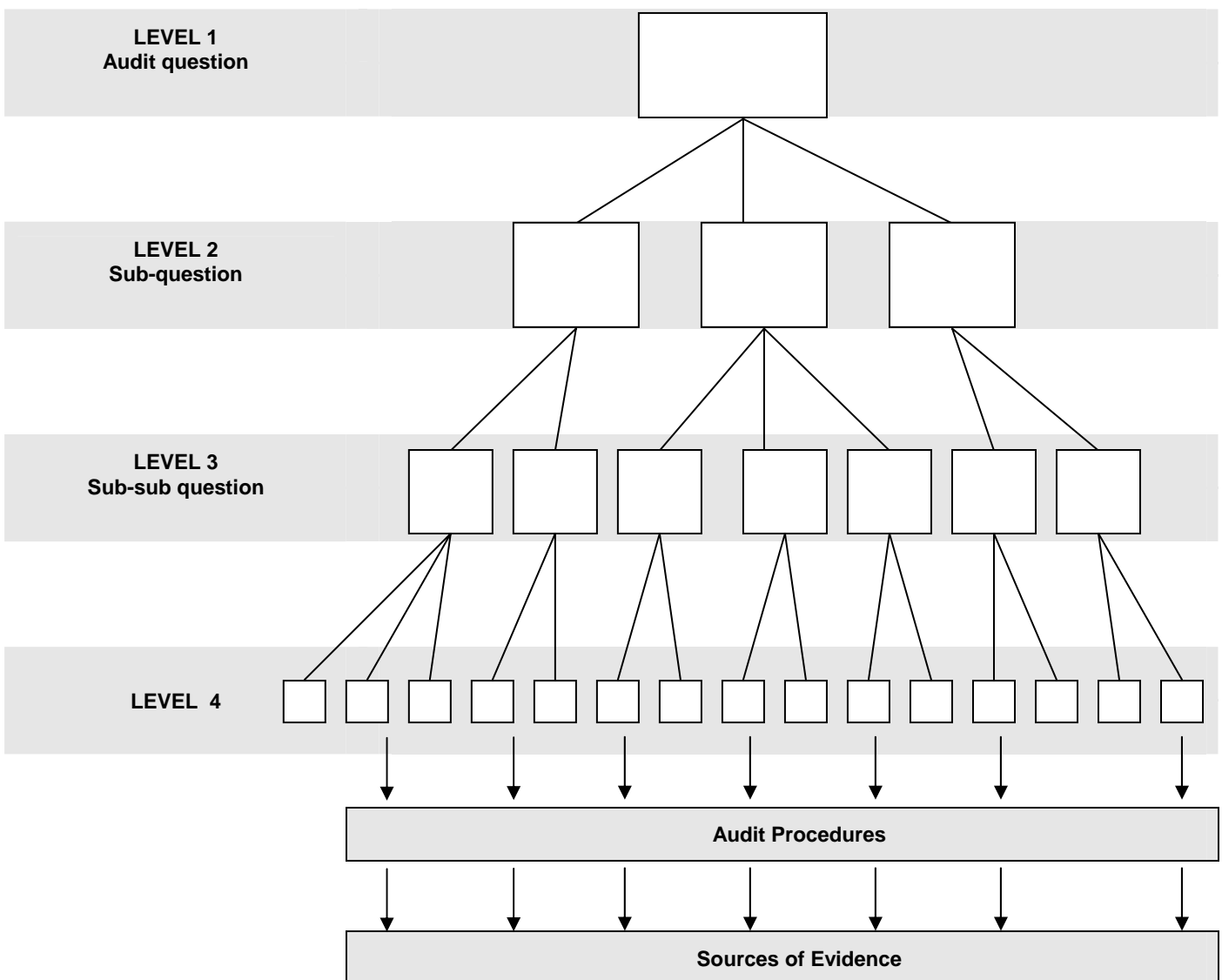
¹⁴ ADAR has available Guidelines for developing audit questions.

From audit questions to sub-questions.

The *audit questions* can then be broken down into sub-questions, which are in turn broken down into sub-sub-questions. Usually, there are four such levels, from the audit question (Level 1) down to the detailed questions which are answered by carrying out *specific audit procedures* (Level 4); the latter form the basis for the *sources of evidence*. The sub-questions at each level must be different to one another (mutually exclusive), but together cover the main aspects of the question (collectively exhaustive) at the immediately higher level¹⁵.

Breaking down each audit question will form a pyramid¹⁶. This helps to impose a logical disciplined pattern on one's thinking and to ensure that all aspects of a question or sub-question are considered.

How to break down the main audit-questions:



¹⁵ More detailed guidance on the development of audit questions and sub-questions can be found in the Guidelines on Developing Audit Questions.

¹⁶ MINTO B., The Minto Pyramid Principle, Ed. Minto International, Inc., 2003.

Example of a developed pyramid of questions, adapted from the Audit Planning Memorandum on Devolution¹⁷

Level 1: Audit question	Is the Commission managing the devolution process successfully?		
Level 2	Level 3	Level 4	
1. Have delegations been well prepared for devolved management?	1.1 Were needs in delegations properly assessed in preparing for devolution?	1.1.1	Clear definition of the functions to be carried out by devolved delegations?
		1.1.2	Definition of the functions consistent with the underlying principle?
		1.1.3	Definition clearly communicated to, and understood by, staff?
		1.1.4	Analysis of existing resources in delegations prior to devolution?
		1.1.5	Clear assessment of the resources needed to meet the future activities and aims of delegations after the devolution?
	1.2 Were needs in delegations properly addressed in implementing devolution?	1.2.1	Needs of delegations addressed successfully, on time and within budget?
		1.2.2	Did the Commission clearly address the question of whether needs (in staffing, training, guidance, premises, IT) had been addressed?
		1.2.3	Were difficulties encountered in addressing needs, and were the problems overcome?
2. Have central services been well prepared for devolved management?	2.1 Were Head Quarter (HQ) needs properly assessed in preparing for devolution?	2.1.1	Was there a clear definition of the key monitoring and support functions of HQ?
		2.1.2	Was the definition consistent with the underlying principle?
		2.1.3	Was this clearly communicated to, and understood by, staff in HQ and delegations?
		2.1.4	Was there a clear analysis of existing resources at HQ?
		2.1.5	Was there a clear assessment of the resources needed to meet the future activities and aims of HQ after the devolutions?
	2.2 Were HQ needs properly addressed in implementing devolution?	2.2.1	Were the needs of HQ addressed successfully, on time and within budget?
		2.2.2	Did the Commission clearly address the question of whether needs had been addressed prior to devolution?
		2.2.3	Were difficulties encountered in addressing needs, and were problems overcome?
3. Does the Commission have effective procedures for monitoring performance of devolved management?	3.1 Was devolution after sub-delegation in delegations properly monitored?	3.1.1	Does the Commission ensure that needs continue to be addressed after sub-delegation and that delegations are operating effectively under devolution?
		3.1.2	Does the Commission ensure that the underlying principle is respected?
		3.2 Was devolution after sub-delegation in HQ properly monitored?	3.2.1
		3.2.2	Does the Commission ensure that the underlying principle is respected?
	3.3. Was the project management efficient?	3.3.1	Were project management tools used to manage the overall devolution process and were they used appropriately and effectively?
		3.3.2	Were the lessons learnt from the first and second waves of devolution applied to the second and third waves?
		3.3.3	Was there a clear and accurate estimate of the costs of devolution?
		3.3.4	Do estimates compare with actual costs?
		3.3.5	Were costs properly monitored and reported?

② Set the audit scope

¹⁷ GA 246/03

The scope defines the boundary of the audit, and is directly tied to the audit questions. In particular, the auditors need to define:

✓ WHAT	the programme(s), ABM activity and action(s) & budget lines to be audited
✓ WHO	the Commission services and/or other entities to be covered by the audit
✓ WHERE	the geographical scope of the audit
✓ WHEN	the time period to be covered

Limit scope to ensure audit can be delivered

The auditor will need to consider the rationale for the scoping decisions. As it is neither practical nor efficient to cover all possible aspects in a single audit, the nature, extent and timing of audit procedures **should** be restricted to a limited number of matters of significance. These are matters that pertain to the audit questions, can be carried out with the resources and expertise available, and are critical to the achievement of the intended results of the audit subject.

③ Establish the audit criteria to be used

Audit-appropriate criteria are essential to assess performance

Audit criteria are standards against which actual performance (adequacy of systems and practices and the economy, efficiency and effectiveness of activities) is compared or evaluated. They are required to assess existing conditions and produce audit findings (*what is compared to what should be*). It is important that audit criteria are as objective as possible, so that room for subjective interpretation is minimised.

As the general concepts of economy, efficiency and effectiveness need to be interpreted in relation to the subject matter, audit criteria will vary from one performance audit to another, and the choice is normally relatively open and formulated by the auditor. However, audit criteria **should** be devised from recognised sources, and be objective, relevant, reasonable and attainable.

Criteria : objective, relevant, reasonable and attainable, from recognised sources

Sources of audit criteria determine the effort needed to assure their suitability:

- criteria based on legislation, regulations, or recognised professional standards are among the most uncontroversial. Generally accepted criteria can also be obtained from sources such as professional associations, recognised bodies of experts and academic literature;
- the other main sources of criteria for performance audits are the standards, measures and results commitments adopted by auditee management, including specific targets or requirements set by the Commission in the context of ABB/ABM;
- if criteria are not available from the above sources, the auditor can focus on performance achieved in comparable organisations, best practices determined through benchmarking or consultation, or standards developed by the auditor through an analysis of activities.

Where the entity has adopted meaningful and specific measures for assessing

its own performance, those relevant to the audit **should** be reviewed to ensure that they are reasonable and complete.

and should be agreed with the auditee insofar as possible.

Where criteria are not self-evident and are capable of dispute by auditee management, they **should** be agreed insofar as possible in terms of their relevance and acceptability. This approach recognises that the audit is not simply searching for deficiencies to report. If suitable criteria cannot be determined and agreed, the detailed audit question may need to be reconsidered. In the event that disagreement persists, the audit report needs to explain the criteria used. Under no circumstances can an audit be carried out using criteria that could lead to biased or misleading audit results.

④ Identify the audit evidence required and its sources

The audit evidence needed to answer the audit questions **should** be identified, as well as the sources from which such evidence is to be obtained and whether it is in a form which can be easily collected and analysed.

Identify sufficient, relevant and reliable evidence.

This evidence needs to be:

- ✓ **SUFFICIENT** to enable the main audit question to be fully answered
- ✓ **RELEVANT** to address the audit question being asked
- ✓ **RELIABLE** in terms of its impartiality and persuasiveness

Sources of evidence.

If in doubt, consideration will need to be given to the potential impact on the audit if the evidence cannot be obtained at reasonable cost and whether alternative sources of evidence need to be considered. If there is a high risk that it will not be possible to obtain the necessary evidence, the audit question will need to be revised.

⑤ Define the audit methodology to be employed

Performance audits can draw upon a large variety of methods, commonly used in the social sciences, to gather and analyse evidence, such as surveys, interviews, observations and written documents. In choosing such methods, auditors are to be guided by the purpose of the audit and the specific questions to be answered. Clear, robust and practical methodologies **should** be identified in order to obtain sufficient, relevant and reliable audit evidence so as to be able to draw conclusions with reasonable certainty.

Qualitative and quantitative techniques

Different methodological approaches may be employed at different audit phases and for different purposes (see ADAR guidelines). Qualitative techniques are particularly useful at the early stages of an audit to identify the significant issues, develop preliminary ideas and build hypotheses. These techniques are also particularly well suited to complex problems. Quantitative analysis, involving an examination of numerical data, is one of the most powerful audit tools for developing evidence-based conclusions. Such analysis adds considerable value to the audit work, as it can provide clear measures of costs, benefits and performance.

The combination of methods depends on audit questions

A good performance audit will normally combine different methodologies to capture a range of data and corroborate findings from different sources, and combine qualitative and quantitative data. This combination of methodologies is necessary to provide solid evidence to support the conclusions and recommendations, with the quantitative data giving the Court the means to demonstrate the significance of its observations and recommendations. It may be necessary to pilot test certain methods to ensure that they can provide the evidence required to answer the audit questions.

⑥ Consider the potential audit observations, recommendations and impact

Anticipate results.

The likely audit observations and recommendations **should** be considered. This will not only help in providing an outline report structure, but also in determining if the audit questions as defined are likely to result in constructive recommendations. The audit team needs to be clear from the outset that the audit has the potential to produce practical recommendations, and is encouraged to look forward constantly and consider at what stage in the Commission's programme planning cycle the audit report will be published. This will help to determine the likely impact and usefulness of the final report.

⑦ Determine the timetable, resources and quality control arrangements

A realistic plan is needed

Auditors need to make a realistic assessment of the human and financial resources that the audit will require, ensure that the required knowledge and experience is available within the audit team and, where necessary, anticipate the need for external expertise. A realistic plan **should** be established, indicating resources and responsibilities involved for each main task throughout the audit lifecycle and detailed timetables for each phase of the audit process (including report publication), with reporting milestones established for each phase, and with a focus on external deadlines where relevant (e.g. the issue of new regulations in the audited area).

scheduling 18 months from APM approval to publication in O.J.

The standard maximum timeframe for the Court's audits is 18 months from approval of the APM to Official Journal publication. In exceptional cases, where a longer timeframe is required, this **should** be justified and approved by the Audit Group.

that considers the risks to delivery,

Significant risks to successful implementation of the audit and how these risks can best be managed are to be identified. In planning the critical path of the audit, it can be helpful to identify possible high-risk points where difficulties are more likely to arise, resulting in delays or putting quality at risk. Foreseeable constraints on the availability of auditors (who may be required for other audit tasks) and the consequences of late availability of audit results and the audit report always need to be considered.

There may be value in accelerating audit fieldwork by employing a large team to collect data quickly, whereas drafting and clearance of facts (especially the contradictory procedure) might be undertaken by a much smaller team. By reviewing the planned weeks for each auditor for reasonableness, there is greater assurance that the number of weeks allocated is feasible in light of the proposed timetable.

and builds in quality control,

Quality control arrangements **should** be established for the assignment and understanding of responsibilities concerning the direction, supervision and review of audit work, provision of timely feedback, and regular monitoring.

including a progress report.

In order to allow for appropriate reflection by the Audit Group concerned, and to add value by considering their different perspectives, a progress report **should** be foreseen, to be made orally or in writing by the Member responsible to the Audit Group. The timing of this report may vary somewhat from one audit to another, but ideally is planned to take place upon completion of a key milestone (e.g. the end of the first 'block' of missions). This report is to include, whenever possible, an indication of the main observations and conclusions already evident from the audit and a draft outline of the final report.

Clear instructions **should** be issued regarding document management, both for paper and ASSYST formats, with the Head of Division/Unit ensuring quality control.

® Communicate with the auditee

Continuous dialogue and mutual understanding between auditors and auditee personnel, emphasised in the Court's 'no surprises approach', is essential in order to gain acceptance for the conclusions and recommendations in the audit report.

Regular contact with auditee is essential

Contacts with auditee personnel **should** be planned to take place throughout the audit, in order to keep them continuously informed of audit progress. Standard points at which contact might be made with the auditee, and matters about which the auditee is to be informed, include:

CONTACT POINT	Purpose
Start-up	Auditors explain to management staff of the audited entity the reasons for carrying out the audit; the proposed questions, scope, criteria and methodologies; the timetable; and work procedures. It may also be useful to explicitly clarify what will not be audited to help reduce misconceptions or false expectations by the auditee.
Prior to missions	Auditors explain to auditee staff the purpose of the mission, information that may be required, meetings to be arranged, and the timing of the mission.
From start to end of mission	Auditors discuss the audit procedures with auditee staff, keep them updated on progress and conduct a wrap-up meeting to inform them of facts arising.
Statement of Preliminary Findings	Findings arising from the audit are documented and sent to the auditee, with the latter providing a written response thereto (see chapter 4).
Pre-contradictory & contradictory procedure	To ensure agreement of facts (see chapter 5).

3.3.2 Drawing up the APM

The responsible Member **should** assure him/herself that a sufficient basis has been developed for proposing that a realistic, realisable and added-value audit be undertaken. (S)he could pose the questions identified in **Annex I**, with satisfactory answers thereto helping to ensure that the audit can be properly carried out.

The audit questions and audit criteria **should** be communicated and, insofar as possible, agreed, ideally between the Member responsible and the relevant Commission Director-General, prior to the APM being presented to the Audit Group.

The APM is then drafted (see **Annex II** for contents) and submitted by the Member responsible to the Audit Group for examination and approval.

ANNEX I: QUESTIONS TO ASK BEFORE APPROVING AN APM

1. Is it feasible to audit this topic now?
Is there interest in this topic on the part of the stakeholders, are there clear risks to sound financial management, and do the timing and timeliness of the audit contribute to change?
2. Will the audit have an impact?
Does the audit have the potential to produce practical recommendations, and thereby contribute to improving financial management?
3. Is there a coherent and relevant set of questions?
Are the audit questions relevant and are the sub-questions logically derived from them?
4. Is there a robust and practical methodology?
Has a clear methodology been established for addressing each sub-question, which is appropriate for the question being asked, enables sufficient, relevant and reliable evidence to be obtained, and ideally combines quantitative and qualitative techniques?
5. Are the necessary skills available?
Is there sufficient experience and technical knowledge amongst the audit team members, and has the use of consultants been foreseen, where necessary?
6. Is the timetable for delivery clear?
Have realistic key milestones been established, such as: the start and finish of audit work, including missions; delivery of Statements of Preliminary Findings; production of the Preliminary Observations; contradictory procedure period; adoption of the report by the Court; and report publication in the Official Journal?
7. Has the auditee been informed of the audit?
Have the audit questions, criteria and proposed methodology been discussed with the auditee?
8. Can the risks associated with delivering the audit report be managed?
Has a risk analysis been performed and a risk management approach established, particularly where new methods are being tried out, there are many DGs or other bodies as auditees, the timetable is very tight, or the subject matter is inherently controversial. Has the specific level of risk that late publication might present been considered?
9. In light of the above, is it appropriate that the audit team propose that the audit be undertaken?
The audit team and Member responsible need to arrive at an objective judgement as to the merits of proposing that the audit proceed, having regard to their replies to the above questions.

ANNEX II: CONTENTS OF AN AUDIT PLANNING MEMORANDUM (APM)¹⁸

Executive Summary

The one-page Executive Summary updates and expands upon the Audit Proposal, prepared for the Annual Work Programme, with new information or insights gleaned during the preliminary study. It summarises the reasons for carrying out the audit, including the background of the audit, the audit question, approach and scope, the expected impact, the resources foreseen, and the reporting calendar.

What is the area we want to examine, and why?

Description of the audit area	The reasons for selecting the audit subject are clearly stated. Relevant background information is briefly presented on the audit subject (e.g. policy, programme, DG), which may include the main activities, financial information, laws and regulations, the objectives of the audit subject (which may be set out in a Programme Logic Model), and the roles and responsibilities of the major actors.
Materiality and risks to sound financial management	The monetary amounts involved are stated, and the main risks to sound financial management identified during the preliminary study are described.
Relevance	Interest in the subject matter on the part of the Parliament, Council, Commission, citizens, media or other interested parties is identified, as positive change is more likely to result from the audit if stakeholders are engaged with the topic.
Potential impact	Potential impacts to be identified may include the influencing of future policies and programmes, potential cost saving opportunities, and highlighting of good practice.

¹⁸ The APM template is available on the ADAR Intranet.

What are the audit questions and audit scope?

Audit questions	<p>The audit questions are defined as precisely as possible so as to provide the focus for the audit, avoid unnecessary and expensive work, and allow the audit team to conclude thereon.</p> <p>The audit questions are identified and, if there is only one audit question, translated into immediate sub-questions. Reasons for selecting the audit questions, and for excluding other potential audit questions, are briefly described.</p>
Audit scope	<p>The scope statement defines and explains the parts of the organisation/programme/policy that are the subject of the audit, and identifies the time period and geographical areas to be covered by the audit.</p> <p>Potential areas considered for inclusion in the audit scope, but rejected (e.g. due to being too time-consuming, not offering sufficient focus) are also noted.</p>

How will we get the answers?

Audit approach	<p>The audit approach is clearly stated, i.e. the degree of emphasis to be placed on auditing performance directly, with an initial focus on outputs and outcomes, versus auditing the control systems, with an initial focus on systems and controls.</p>
Audit criteria	<p>The audit criteria, against which the actual situation is to be judged, are clearly stated, indicating the relevant legislation or other sources from which such criteria are sourced.</p>
Audit methodology	<p>A short paragraph is devoted to describing how each data collection and analysis method is to be used in the context of the audit. Detailed information regarding the methodology may be set out in an annex to the APM.</p>
Likely outcome of the audit	<p>The likely outcome identifies areas in which findings may be identified, conclusions drawn and recommendations made. It addresses the audit questions, and is not to be too detailed or give false hopes of far-reaching effects of the audit.</p>

How will the audit be resourced, supervised and monitored?

Resources, costs and timetable

The audit team is identified by name, audit grade and time allocated, and the budget, including consultant and mission costs, is given. The timetable sets out the dates for starting and ending the audit, including the dates and location of missions; completion dates for all key milestones (with realistic timeframes being set for each, and taking account of holidays, training courses, etc.); the date of the progress report; and the date of final report publication in the Official Journal.

Tools may be used to show the timeframe and sequence of tasks for each part of the audit process. Such tools include:

- Gantt charts: A graphical representation of the duration of tasks against the progression of time, which identifies relationships between different parts of the process.
- Critical Path Analysis: The logical sequencing of activities to calculate the minimum length of time in which the audit can be completed, and to identify those activities that must be prioritised in order to enable the audit to be completed on time.

Risks to delivery within time and budget

The major risks to delivering the audit report at the time required and within the forecast resources and cost are identified, together with the likelihood of each major identified risk occurring, the potential impact if the risk were to materialise, and proposals for managing each risk.

Quality Control arrangements

A progress report from the responsible Member to the Audit Group upon completion of a key milestone is provided for in the APM. In addition, reference is made to the reporting of the progress of the audit task through the Audit Group's reporting system, and the documentation of the audit findings and workpapers in ASSYST.

Has the auditee been informed?

Reference to discussion

Reference is made as to whether the audit questions and criteria have been discussed with auditee management during the preliminary study. In addition, planned contacts with the auditee throughout the course of the audit are identified.

Conclusion

Based on the outcome of the preliminary study, summarised herein, we propose that the audit be undertaken. We hereby ask the Audit Group for permission to proceed with the audit in the manner outlined above, and with the resources and timeframes indicated.

ANNEX III: EVIDENCE COLLECTION PLAN

Audit Questions	Level 2 questions	Level 3 questions	Level 4 questions	Criteria	Evidence	Evidence Sources	Data collection Methods	Data analysis Methods		
WHAT DO WE WANT TO KNOW ?				WHAT STANDARD DO WE MEASURE AGAINST ?	WHAT EVIDENCE WILL ANSWER THE QUESTION ?	WHERE ARE WE GOING TO GET THE EVIDENCE ?	HOW ARE WE GOING TO GET THE EVIDENCE ?	WHAT WILL WE DO WITH IT ONCE WE GET IT ?		
<ul style="list-style-type: none"> - Answers can be yes, no, yes but or no but. - Answerable - Logical 				<ul style="list-style-type: none"> - Legislation, regulations, professional standards Standards, measures or results commitments of auditee - Performance of comparable organisations, best practice, or standards developed by auditor 	<ul style="list-style-type: none"> - Facts (numerical evidence; descriptive evidence, qualitative information) - Experiences / Perceptions / Opinions 	<ul style="list-style-type: none"> - The entity, other public entities, published research, beneficiaries, suppliers, interest groups 	<ul style="list-style-type: none"> - <i>In person</i> (observation, examine documents, interviews, focus groups) - <i>By post, telephone, e-mail</i> (request documents, questionnaires) - <i>Sample surveys</i> (which could be either in person or by post, e-mail) - <i>Benchmark</i> against comparable entities 	<ul style="list-style-type: none"> - Quantitative evidence (e.g trends, comparisons, ratios) - Qualitative evidence (coding, matrices) - Systems analysis (e.g. flowcharts) - Case studies 		

ANNEX IV: OUTLINE AUDIT PROGRAMME

Audit task:		
Prepared by:	Reviewed by:	Approved by:
Date:	Date:	Date:
Audit questions		
Audit procedures	Remarks	WP Reference



PERFORMANCE AUDIT MANUAL

CHAPTER 4 EXAMINATION PHASE

Chapters in the Performance Audit Manual

General introduction

Chapter 1: Framework for
Performance Audits of the
European Court of Auditors

Chapter 2: The Performance Audit
Approach and the 3 Es

Chapter 3: Planning the audit

Chapter 4: Examination Phase

Chapter 5: Reporting Phase

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Who to contact

For any further information, please contact:
European Court of Auditors - CEAD Group
Audit Development And Reports (ADAR) Division - Methodology team
Email: ADAR CONTACT/ECA or adar.contact@eca.europa.eu

4.1 INTRODUCTION

From APM approval to SPF issue,

The audit examination phase commences at the start of audit work, following approval of the Audit Planning Memorandum (APM), and continues until the drafting of the final report commences. It thus includes carrying out audit procedures to collect and analyse data, evaluating facts against pre-determined criteria, drafting audit findings, and preparing and issuing Statements of Preliminary Findings, a process which is graphically represented below.

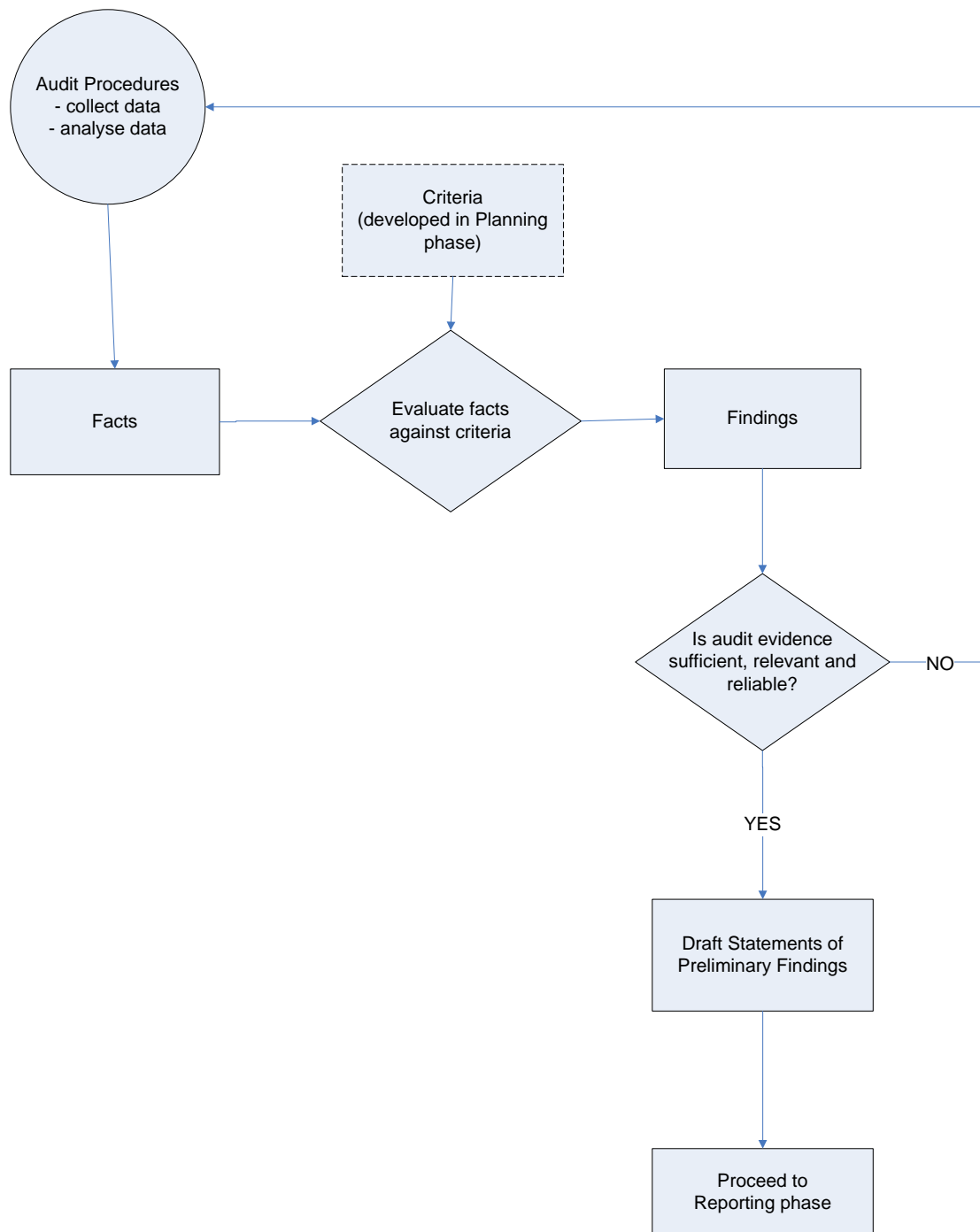
Audit examination work takes place on the basis of the audit planning already undertaken and the planning documents thereby developed (APM, Evidence Collection Plan and outline Audit Programme). The plan **should** be followed insofar as possible, in terms of the work to be performed, resources, timeframes and quality. However, some parts of the audit may need to be reconsidered during the examination stage if the auditor encounters difficulties in gathering evidence.

with objectivity and judgement
essential.

It is critical that auditors consider from different perspectives the activity being audited and keep an unbiased attitude to information presented while being open-minded to different views and arguments.

The exercise of sound professional judgement is particularly required in assessing whether the quantity and quality of evidence will enable sound conclusions to be drawn regarding the audit questions, and in determining the significance of audit findings.

AUDIT EXAMINATION PHASE



4.2 DELIVERING SUFFICIENT, RELEVANT & RELIABLE AUDIT EVIDENCE

4.2.1 Purpose of and approach to the examination phase

A search for evidence

The purpose of the examination stage is to gather sufficient, relevant and reliable audit evidence to allow the auditor to conclude on the audit questions and to support all the statements made in the audit report.

During the audit examination phase, audit procedures are carried out to collect and analyse data; the resultant evidence (*'what is'*) is evaluated against the pre-determined audit criteria (*'what should be'*) in order to derive audit findings; and the causes and effects of these findings are determined.

that is communicated in the SPF

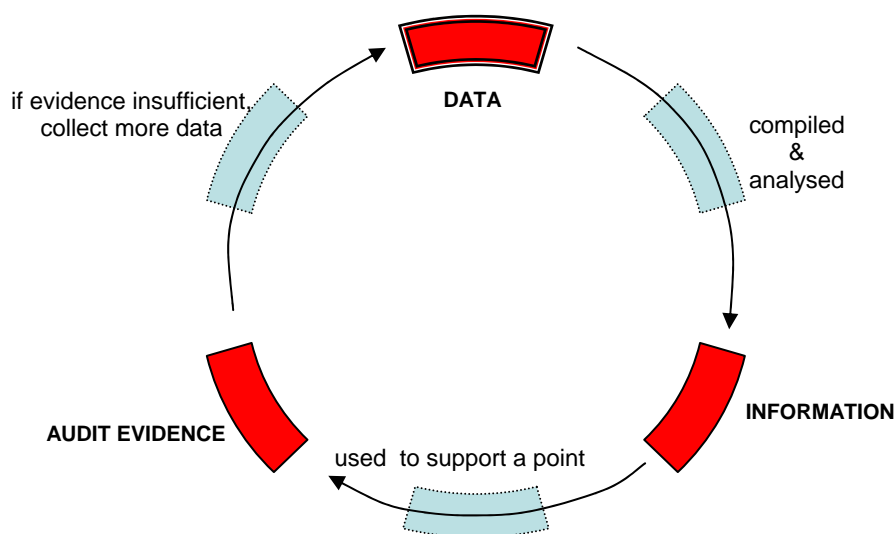
The findings are then set out in a Statement of Preliminary Findings (SPF), sent to the auditee, whose written response is required, whether indicating agreement or reasons for disagreement. The SPFs and analyses of auditee replies provide the raw material used in drafting the preliminary observations for the final report.

The conduct of audit work comprises both an analytical and a communicative aspect. The analytical process concerns the collection, analysis and evaluation of data whereas the communicative process, initiated at the time when the audit is first presented to the auditee, continues as different findings, arguments and perspectives arising during the course of the audit are assessed.

4.2.2 The nature of evidence in performance audits

Data, information and audit evidence are interrelated, as follows:

CHART: From Data to Audit Evidence



Nature of evidence varies and tends to be persuasive

The nature of the audit evidence required is exclusively dictated by the subject matter and the audit questions, which tend to vary significantly in performance audits. In addition, such audits are more judgement based, with the result that audit evidence tends to be more persuasive ("points towards the conclusion that...") than conclusive ("right/wrong") in nature. The combination of these factors requires that auditors be creative and flexible in their search for the right type of evidence.

Detailed assessments of information needs **should** be carried out at both the audit planning and examination phases in order that the auditors avoid being swamped by excessive data. As well as facilitating the elimination of incidental details and irrelevant approaches, this will also contribute to the sorting and structuring of data collected. It might be useful to hold discussions in advance with experts regarding the nature of the data to be obtained and the way in which it will be analysed and interpreted by the auditor, in order to reduce the risk of misunderstanding and potentially speed up the process.

4.2.3 Sufficiency, relevance and reliability of evidence

Evidence must support the audit report's contents

Sufficient, relevant and reliable evidence **should** be obtained in order to conclude against the audit questions and to support the audit findings and conclusions, thereby ensuring that the contents of the audit report stand up to critical review. The concepts of quantity (sufficiency) and quality (relevance and reliability) in relation to audit evidence must be considered together, as an inverse relationship exists between them. Thus, high quality evidence can lead to a reduction in the need for a large quantity of evidence; a large quantity of evidence can sometimes, but not always, be persuasive, even though individual pieces of evidence are not of high quality. The exercise of professional judgement is essential here as there are no precise guidelines to measure the degree of proof required.

and be of the required quantity and quality

Audit evidence is *sufficient* if there is enough of it to persuade a reasonable person that the audit findings and conclusions are valid, and that the recommendations are appropriate. Audit evidence is *relevant* if it is clearly and logically related to the audit questions, audit criteria and audit findings. Audit evidence is *reliable* if the same findings arise when tests are carried out repeatedly or when information is obtained from different sources.

Whilst the following concepts are often useful in assessing the quality of audit evidence, certain constraints may exist in their practical application:

- original evidence is superior to photocopies, facsimiles, etc.;
- documentary evidence is preferable to oral evidence. However, correspondence, memos and reports may be incomplete, ambiguous or even incorrect, whilst interviews can provide an in-depth understanding of not only facts, but also constraints and the environment. Nevertheless, evidence collected from interviews needs to be corroborated from other sources;
- third-party evidence is better than that generated within the auditee organisation. However, in performance audits, limited use may be made of third-party confirmations, as information may only be available within the entity being audited. Furthermore, strong internal controls within the auditee organisation can improve the quality of information obtained;
- evidence generated through the auditor's direct observation, inspection and computation is superior to evidence obtained indirectly.

Practical constraints on evidence

In assessing the quantity and quality of audit evidence, the auditor needs to consider the following:

Criteria to help determine if evidence is sufficient, relevant and reliable

the purpose for which the evidence will be used	a higher standard is required for evidence supporting audit findings than for background information provided in the audit report
the level of materiality in monetary terms or the significance of the audit finding	in general, the higher the level of materiality or significance, the higher the standard of evidence that is required
the degree of independence of the source of the evidence	greater reliance can be placed on evidence which emanates from independent sources
the cost of obtaining additional evidence relative to likely benefits in terms of supporting findings and conclusions	at some point, the cost of obtaining more evidence will outweigh the improved persuasiveness of the total body of evidence
the risk involved in making incorrect findings or reaching invalid conclusions	the greater the risk of legal action, controversy or surprise from reporting an audit finding, the higher the standard of evidence needed
the care taken in collecting and analysing the data	including the extent of the auditors' skills in these areas

In performance audits, important facts are often not of an individual nature, but rather comprise several interrelated facts. In assessing the quantity and quality of evidence, the auditor must take into account that the strength of the combined facts may be as important, or even more so, than the strength of the individual facts.

Furthermore, the auditor must satisfy him/herself that the quantity and quality of evidence minimises the risk of arriving at invalid or inappropriate findings, conclusions or recommendations. If the evidence-collection process does not produce sufficient, relevant and reliable evidence, then audit findings and conclusions must not be drawn.

4.2.4 Sources of evidence

Multiple sources provide better evidence

Different sources **should** be employed in collecting evidence, in order to corroborate such evidence, thereby making the related audit findings more reliable, and to ensure that different perspectives are taken into account. There are three broad sources of information for performance audits:

Sources	
<p>generated directly by the auditors</p>	<p>through interviews, questionnaire surveys, focus groups, direct inspection and observation.</p> <p>The auditors can determine the methods that will provide the best quality of evidence for the particular audit. However, their skills in designing and applying the methods will determine the quality of the evidence.</p>
<p>provided by the auditee</p>	<p>such as information from databases, documents, activity statements and files (e.g. reports of the Internal Audit Capabilities, impact assessments and ex-post evaluations).</p> <p>Auditors must determine the reliability of data that is significant to the audit questions by review and corroboration, and by testing the auditee's internal controls over information, including general and application controls over computer-processed data.</p>
<p>provided by third parties</p>	<p>which may have been verified by others or whose quality is well known, e.g. national statistical data.</p> <p>The degree to which such information can be used as audit evidence depends on the extent to which its quality can be established and its significance in relation to the audit findings.</p>

4.2.5 Types of evidence

Audit evidence derived from the above sources can be of four types - physical, documentary, oral or analytical - which can be obtained and documented as follows:

	CONSIDERATIONS	AUDIT PROCEDURES TO OBTAIN EVIDENCE	DOCUMENTATION
P H Y S I C A L	Whilst usually the most persuasive evidence, the auditor must be aware that his/her presence may distort what would normally occur, thus reducing the quality of the evidence.	Direct inspection or observation of people, property or events	Notes, photographs, charts, maps, drawings, samples, or audiovisual material.
D O C U M E N T A R Y	This evidence may be in electronic or hard-copy format. However, useful information may not always be documented, thus necessitating the use of other approaches also.	Review of documents, reports, manuals, literature, internet, postal or web-based surveys.	Performance management reports, policies & procedures, system descriptions, letters, contracts, survey results.
O R A L	Oral evidence is generally important in performance audits, as information obtained in this manner is up-to-date and may not be available elsewhere. However, information should be corroborated and statements confirmed if they are being used as evidence.	Enquiry or interviews of auditee staff or third parties, focus groups, expert panels.	Summary of information obtained through these methods.
A N A L Y T I C A L	Such evidence is obtained by using professional judgement to evaluate physical, documentary and oral evidence.	Analysis through reasoning, reclassification, computation and comparison.	Summary of analytical data, including ratio analysis, regression analysis, benchmarking and coding.

Combine different types of evidence for more persuasive argument

By collecting evidence through a number of these methods, the quality of audit evidence is strengthened considerably. A broad range of such methods **should** be used, insofar as is consistent with the audit questions and the subject matter, whilst bearing in mind cost and time considerations.

4.3 COLLECTING & ANALYSING DATA

4.3.1 Purpose of, and approach to data collection and analysis¹⁹

Although data analysis follows data collection in chronological terms in this process, auditors need to know what analytical techniques they will use before designing their strategy for data collection, e.g. when using surveys. Otherwise, they may find that the data collected cannot be analysed. Analytical techniques to be employed may be quantitative (e.g. trend analysis, regression analysis) or qualitative (e.g. analysis and interpretation of interviews or documents).

Understand, assess, document.

Both quantitative and qualitative data may be collected for different purposes, whether as part of the learning process to understand the audit subject, to assess and measure performance, or to document errors or problems already known (e.g. from the preliminary study phase).

The character of data collection usually changes as the audit proceeds. Initially, e.g. during the preliminary study, the auditor is interested in more general information; as the audit proceeds, data needed will be more specific.

Assess internal control system.

Prior to data collection, a general assessment of the internal control system, including IT, **should** be performed in order to identify risks that could compromise the integrity of the data.

4.3.2 Data collection process

Iterative process,

Evidence collection follows an iterative decision-making process, whereby auditors obtain data, examine it for completeness and appropriateness, analyse it, and make decisions on whether additional evidence is required.

with methods determined by audit subject & questions,

Data collection methods (see Annex II) range along a continuum from, at one extreme, those giving an overall picture of a situation or population (e.g. surveys) to, at the other extreme, the in-depth exploration of a small number of items (e.g. case studies), with other methods such as interviews, documentary reviews and focus groups in between. The particular methods to be used in any given performance audit will depend on the audit subject, the audit questions being addressed, and the resources and time available.

using CAATs when possible.

Auditors are encouraged to use computer-assisted audit techniques (CAATs) for collecting and analysing audit evidence whenever their use will increase the efficiency of the audit.

¹⁹ See ADAR Intranet for guidelines on individual data collection and analysis methods

4.3.3 Using the work of others

Use only if relevant,

Performance auditors may rely on the work of others whenever possible, when relevant to the audit questions. The Court's auditors may use the data and findings generated by the Commission's Internal Audit Service (IAS) and Internal Audit Capabilities (IACs), and by the Commission's evaluation reports.

evaluated and corroborated.

When the work of internal audit or evaluators is used to support particular audit findings, the work on which the auditors intend to rely **should** be assessed and corroborated, to determine if it meets the standards for sufficient, relevant and reliable audit evidence. This may be done by assessing the reputation, qualifications and independence of those performing such work, as well as by reviewing their reports and workpapers. The nature and extent of the review depends on the significance of the work in relation to the audit questions and the extent to which the auditors will rely on it²⁰. When such matters are included in the audit report, the source of findings **should** be indicated.

In addition, external experts may be engaged to perform technical work which is outside the auditor's area of expertise or which the experts can perform more economically. The appropriate procedures in engaging such experts **should** be followed, such as: assess their independence, objectivity and professional competence prior to their engagement; ensure the terms of reference and scope of work are appropriate; and evaluate and corroborate the specific work on which the auditors intend to rely as audit evidence. An ongoing dialogue with the expert during the course of his/her work makes it easier for the auditor to continually keep up to date with issues arising.

4.3.4 Data collection and ethics

During the course of audit work, the auditor may obtain or come across sensitive information. Such information **should** be treated in a confidential manner, and data protection regulations respected.

4.3.5 Potential fraud & irregularities

Auditors **should** be alert for situations, control weaknesses, errors and unusual transactions or results that could indicate illegal acts or abuse, such as fraud, impropriety, corruption or irregularities. They may need to determine the extent to which such acts affect the audit result. In the occurrence of such an event, the standard Court procedures **should** be followed.

²⁰ See Guidelines on Evaluation (ADAR Intranet) for further information

4.3.6 Data analysis

Allow time for analysis,

using many techniques available.

Data requires analysis to explain what has been observed, and to make the connection between cause and effect. Auditors need to be aware that collecting data serves no useful purpose if it cannot be properly analysed. Attention must therefore be given to setting aside the time and resources necessary to carry out analysis and to assess the results. Computer assisted audit techniques (CAATs) are often an essential part of such analysis.

The term data analysis is generally used to include both the compilation (coding and tabulation) and analysis of data. Data analysis, either quantitative or qualitative, involves considering the results from different perspectives or together with other data. Quantitative analysis may employ simple techniques (e.g. frequency counts) or more sophisticated techniques (e.g. trend analysis, regression analysis or variance analysis) - see Annex II. Qualitative analysis may be used to analyse and interpret interviews or documents, or to identify descriptive material that may be used in the audit report.

The final stage in data analysis involves combining the results from different types of sources, e.g. combining results from surveys with those from case studies, etc. There is no general method for doing this, but it usually involves weighing up arguments and consulting experts where necessary.

4.4 DERIVING VALID AUDIT FINDINGS

4.4.1 Need for a sound basis

Evaluate evidence against criteria,

and understand deficiencies.

The auditor uses the information gathered to make an objective assessment of actual performance against the audit criteria. Where performance does not meet the criteria, further investigation is needed to gain assurance that any resultant audit findings and conclusions are significant, fair and well-founded.

Gathering additional evidence or discussing the matter with auditee management may be necessary so as to: determine whether the deficiency is an isolated instance or represents a systematic problem; identify the cause of the deficiency; determine whether the problem can be addressed by the auditee or is outside its control; and assess its potential effect. In many cases, the effect of a finding may be quantifiable, e.g. expensive inputs or processes, unproductive facilities, time delays, etc. However, qualitative effects, as evidenced in a lack of control, poor decisions or a lack of concern for service, will also be significant and need to be considered.

An active dialogue **should** be maintained with the auditee and potential audit findings discussed as they arise. Constructive discussion of initial findings with the auditee helps to establish the quantity and quality of evidence.

4.4.3 Drafting audit findings

Clear logical framework

Audit findings **should** be set out in a clear and logical framework so as to allow for an easy understanding of audit criteria applied, facts identified, and the analysis by the auditor of the nature, significance, and causes of the problem or the better-than-expected performance. The impact in terms of economy, efficiency and/or effectiveness must also be considered, as this provides the basis to demonstrate the need for corrective action.

In stating the audit finding, the auditor must assess the degree of confidence in the audit finding, based upon the strength of the evidence. The assessment must be clearly reflected in the wording of the finding, with qualifying words (e.g. generally, frequently) used.

Performance audits **should** focus on providing a balanced view of the topic, presenting not only deficiencies but also, when appropriate, positive findings and indications of good practice. The overall emphasis is to formulate audit findings in a constructive and balanced way.

with constructive, balanced findings.

Furthermore, the auditor will need to determine auditee management's awareness of the issue; if management is aware of the problem and already taking corrective action, this needs to be recorded and taken into consideration for reporting purposes.

4.5 COMMUNICATING AUDIT FINDINGS VIA A STATEMENT OF PRELIMINARY FINDINGS

A Statement of Preliminary Findings (SPF) **should** be issued for each audit mission or series of missions within the timeframes required by the Court's procedures.

The purpose of sending the SPF to the auditee is to obtain confirmation that the facts and findings are accurate. Such confirmation (e.g. by the Member State authorities) may well provide additional audit evidence or information that was not available or understood during the on-site audit. Preliminary audit findings need to be assessed in light of the auditee's replies.

In principle, there **should** remain no disagreement on the factual content following the SPF process. Furthermore, issues which may lead to controversial discussion during the subsequent contradictory procedure with the Commission must be duly identified and carefully analysed. Differences of views expressed regarding the audit criteria applied or the analysis carried out have to be considered carefully, and final audit findings must always state the reasons why the auditee's arguments have not been accepted. Only those findings which have been communicated to the auditee in an SPF **should** be included in the final report.

4.6 DOCUMENTING THE AUDIT

4.6.1 Purpose and approach

Provide understanding of evidence,

A guiding principle in documenting audit evidence is that audit documentation **should** enable an experienced auditor, who has had no previous connection with the audit, to establish and understand the evidence that supports the auditors' significant judgements and conclusions. All audit work **should** be documented in ASSYST.

Proper documentation of evidence is vital and **should** be completed before the draft SPF is submitted for review, thus helping to ensure that the audit findings are evidence-based. Audit files and workpapers need to contain information about the approach and work undertaken to answer the audit questions, and to be structured logically so as to provide ready access to the audit evidence. Irrelevant or unnecessary documentation **should** not be included in audit files.

Good documentation of audit evidence helps to ensure that:

is the basis for report contents,

- a defensible basis exists for the SPF and draft final report contents (which is particularly important during the contradictory procedure);
- the audit findings, conclusions and recommendations can be explained;
- an appropriate basis exists for quality control both during the audit and for subsequent reviews (Quality Assurance, peer reviews).

and includes minutes where relevant

The auditor must prepare minutes for all meetings involving auditee staff that the auditor intends to rely on for evidence purposes. It is a matter of judgement as to whether a particular meeting will require minutes to be signed off by the auditee in order to improve its quality as evidence, as well as the extent of detail to be recorded. However, it is recommended that the auditor, at the beginning of the audit, informs the auditee that the record of certain meetings might be used as audit evidence and that the approval of minutes by the auditee will be necessary in such cases.

4.6.2 Audit documentation referencing

Links work to findings

As most performance audits produce a mass of evidence on paper, it is important to have a documentation referencing system in place that links the work done to the resultant findings. A simple trail of evidence **should** exist. The key item of this trail is a draft SPF cross-referenced to the evidence, prior to its submission to the Head of Division/Unit. This could be supplemented, if desired, by a short summary explaining how the audit methodology was employed, the nature and extent of evidence collected, and the analyses to which it was subjected. This summary could be in matrix form, grouped around each of the main findings.

Key documents **should** be recorded and cross-referenced, including major decisions influencing the audit work and its management; key correspondence and other contact with the auditee; the main items of evidence, their sources and the analysis undertaken; and evidence of supervisory reviews.

4.7 - AUDIT MANAGEMENT AND QUALITY CONTROL ARRANGEMENTS

4.7.1 Audit management, including supervision and review

Audit management and the Team Leader **should** ensure that:

- audit work is appropriately supervised;
- audit work is carried out to the required quality and properly documented;
- progress is monitored against the timetable and resources allocated; and
- timely corrective action is taken where necessary.

It is also crucial that they be aware of changed circumstances (e.g. new legislation, major reform proposed) in order to critically re-assess the relevance of the audit, the validity of the audit approach and, in certain circumstances, the merits of pursuing the audit.

Staff to be properly supervised.

Supervision involves overseeing the efforts of staff assigned to the audit, in order to ensure that the audit questions are answered. Elements of supervision include providing sufficient guidance to staff members, staying informed about significant problems encountered, and reviewing the work performed. With experienced staff, supervisors may outline the scope of work and leave details to the staff. With less experienced staff, supervisors will specify audit procedures to be performed, and techniques for collecting and analysing data.

Monitoring at various levels.

Monitoring of audit progress is necessary on an ongoing basis to ensure as far as possible that audit work is completed within the scheduled time and with the resources allocated. The Team Leader, Head of Division/Unit and responsible Member perform such monitoring at a detailed level. The responsible Member and the Audit Group Director can use the monitoring tools established within that Group to track the progress of the audit. And finally, the Audit Group has a role to play in monitoring performance during the progress report process.

Taking corrective actions.

Corrective action is taken when monitoring reveals that the audit work is not of the required quality, or risks not being completed within the timetable set and with the resources allocated.

4.7.2 Quality Control

Quality is a concern for everybody, from Members to staff at all levels. For performance audits to be carried out efficiently and effectively, the quality control arrangements established by the Court **should** be adhered to.

Before drafting the Preliminary Observations and in order to ensure that audit results are of adequate quality, the questions set out in Annex I **should** be considered.

ANNEX I - QUESTIONS TO ASK BEFORE DRAFTING THE PRELIMINARY OBSERVATIONS

1. Is there sufficient, relevant and reliable evidence to provide sound answers to the audit questions?

This could be answered by compiling a list of sources and types of evidence, matched against the audit questions, to ensure all evidence is corroborated; and conducting a formal review of the evidence, to determine how convincing the evidence is for each question.

2. Has the evidence been fully analysed and interpreted?

The audit team can formally assess the results from quantitative and qualitative data analysis, and discuss and evaluate evidence - a whole-team approach can often be more effective.

3. Have the key messages been identified, and are they supported by the evidence?

It is crucial that the Team Leader considers what has been found. Useful techniques include producing a logic map, setting out each audit question and sub-question, and the findings for each. This way, (s)he can quickly see where the strength of the argument lies, and where further analysis might be necessary.

4. Do the findings corroborate those of other parties?

The Team Leader could review the extent to which the audit findings are consistent with those of other relevant groups (for example, internal audit or evaluations) or, where the Court's findings diverge, ensure that they are supported by the audit work performed and the corroborative evidence gathered.

5. Are the findings cleared with the auditee?

The Team Leader will need to ensure that there has been formal agreement regarding the factual content of the report through the issue of the Statements of Preliminary Findings, and the auditees' responses thereto. By discussing emerging audit findings with the auditee throughout the course of audit, the later formal procedures should be more straightforward.

6. Is there an agreed structure for the draft report?

The drafting process is much more likely to be efficient if the preferred structure of the final report, as well as its content and tone, is considered. This might be achieved by discussing these matters during the progress review meeting of the Audit Group, as planned for in the Audit Planning Memorandum. Alternatively, a presentation or written submission could be made to the responsible Head of Division/Unit, Director and Member, setting out a suggested report structure based on the audit questions concluded upon.

ANNEX II - DATA COLLECTION AND ANALYSIS METHODS

Data collection methods	Data analysis methods
Interviews	Ratio analysis
Case studies	Frequency counts
Surveys	Regression analysis
Documentary review	Comparative analysis
Focus groups	Coding and abstraction
Benchmarking	Variance analysis
Inspection	Trend analysis
Observation	
Enquiry	



PERFORMANCE AUDIT MANUAL

CHAPTER 5 REPORTING PHASE

Chapters in the Performance Audit Manual

General introduction

Chapter 1: Framework for
Performance Audits of the
European Court of Auditors

Chapter 2: The Performance Audit
Approach and the 3 Es

Chapter 3: Planning the audit

Chapter 4: Examination Phase

Chapter 5: Reporting Phase

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Who to contact

For any further information, please contact:

European Court of Auditors - CEAD Group

Audit Development And Reports (ADAR) Division - Methodology team

Email: ADAR CONTACT/ECA or adar.contact@eca.europa.eu

5.1 INTRODUCTION

The reporting phase of a performance audit begins with drafting of the preliminary observations and ends, typically, with the publication of a Special Report²¹ or, on occasion, the issuance of a President's Letter²². It thus includes drafting, approval of the preliminary observations by the Audit Group and the Court, the contradictory procedure with the Commission, adoption of the final report by the Court, its translation, presentation to the discharge authority²³ and publication in the Official Journal. A graphical representation of the reporting phase is included below.

Effective communication

The purpose of a special report is to report the results of the audit to the discharge authority, the auditee and the outside world. The key to a good report is effective communication, with the report clearly and objectively setting out the main findings and conclusions on the audit questions, allowing the reader to understand what was done, why and how, and providing practical recommendations.

which effects change

Publication helps to ensure that the Court's work results in real change and provides transparency in terms of the management of EU funds. The reputation and credibility of the Court in the area of performance audit is earned largely through the publication of clear, useful and timely special reports, which contribute to improving the economy, efficiency and effectiveness of Community spending. As the Court's reports are read within the European institutions and by the outside world, through the press, they are the basis on which the legislative and budgetary authorities, as well as the general public, judge the Court's output.

based on a good audit.

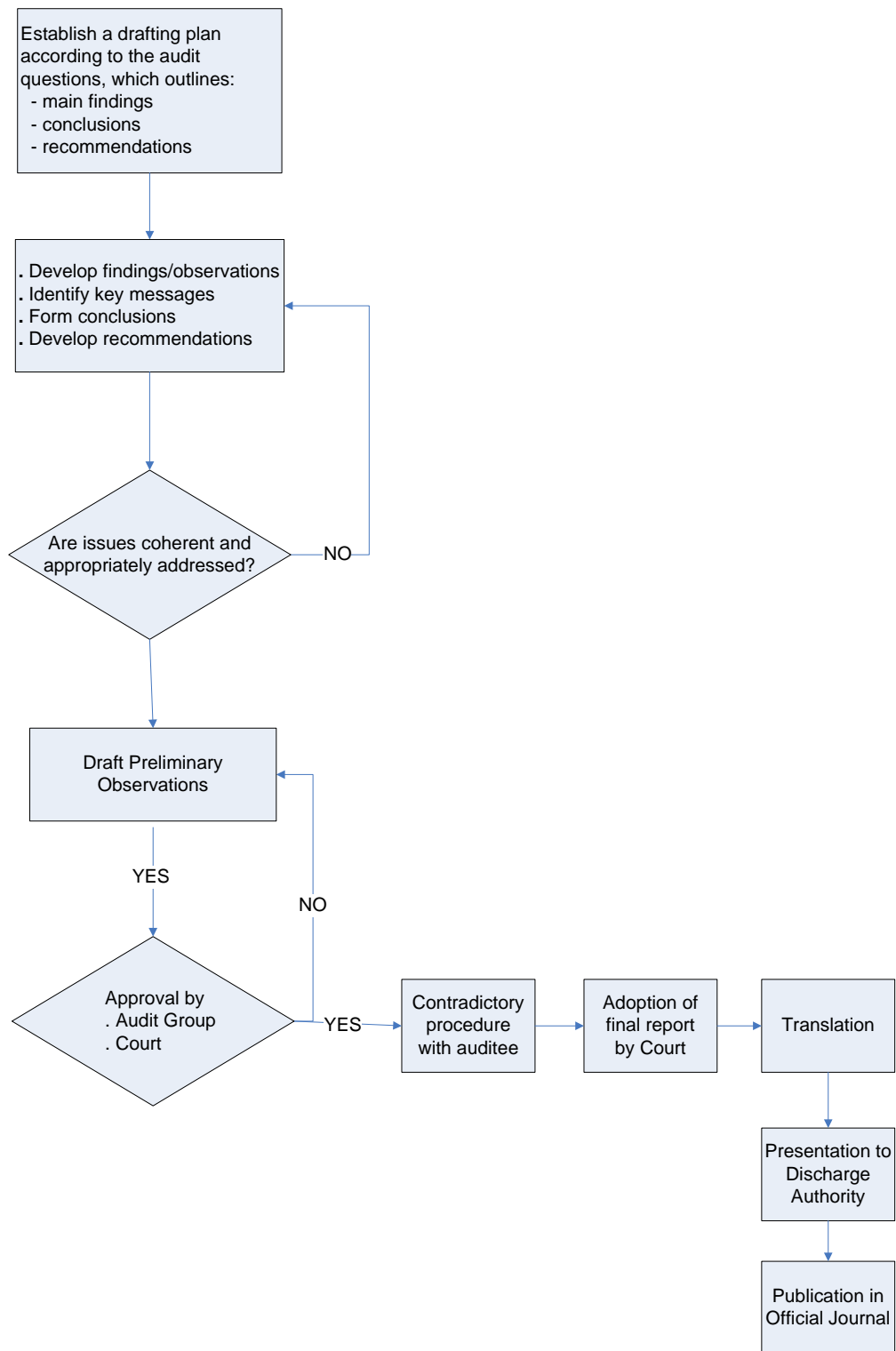
It must be remembered that the audit report is the end-product of the entire audit process. A properly conceived and implemented audit provides the basis for a good report, whilst conversely, a poor audit is unlikely to result in a good report.

²¹ A special report is the reporting vehicle generally used for communicating the results of performance audits.

²² A President's Letter comprises the report, with a covering letter from the President of the Court, which is sent to the auditee. It is not necessarily translated or published. The decision to publish a President's Letter is taken on a case-by-case basis by the Court.

²³ The European Parliament, through its budgetary control committee - the COCOBU. Special reports are also presented to the Budget Committee, and may be presented to other specialised committees of the Council and European Parliament.

AUDIT REPORTING PHASE



5.2 REPORT QUALITY

Based on the INTOSAI Auditing Standards and implementation guidelines for performance auditing and the Court's Audit Policies and Standards, the Court's reports **should** be objective, complete, clear, convincing, relevant, accurate, constructive, and concise. An effective quality control system is required to help ensure that the reports exhibit these qualities, as set out below:

① OBJECTIVE

Balanced, neutral, fair

Audit reports need to be written from an independent unbiased viewpoint, with actual performance judged against objective (and preferably agreed) criteria. The report **should** be balanced in content and neutral in tone, be fair and not misleading, with the audit results put into context.

Objective reports give due recognition to positive aspects of performance, and are representative of what was actually found, rather than over-emphasising or exaggerating deficient performance. Interpretations need to be based on insight and understanding of the facts and conditions. This can help ensure improved acceptance of the report by the auditee.

② COMPLETE

All relevant information

This requires that the report contain all information and arguments needed to answer the stated audit questions and to promote an adequate and correct understanding of matters and conditions reported. The relationship between the audit questions, criteria, observations and conclusions **should** follow a logic which aids understanding, with a clear link between the findings, conclusions and recommendations.

③ CLEAR

Clarity of message

Clarity requires that the report be easy to read and understand, employing straightforward and non-technical language as far as possible, explaining acronyms and any technical language deemed necessary, and avoiding ambiguity. The main messages **should** be clear, relevant and easily identifiable ('clarity of message'), and not be susceptible to misunderstanding.

Easy to understand

The logical organisation of material, and accuracy in stating facts and drawing conclusions, are essential to clarity and understanding. Effective use of titles and headings makes the report easier to read and understand. Visual aids (such as pictures, graphs, charts and maps) can be used to illustrate and summarise complex material. Well-selected examples also help to clarify the text.

④ CONVINCING

Convince reader of content

It is imperative that the audit results conclude against the audit questions; the observations are presented persuasively and are supported by sufficient information and explanations for the reader to understand the extent and significance of these observations; and the conclusions and recommendations follow logically from the facts and arguments presented. The information given **should** convince the reader of the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations.

To develop a logical, convincing argument, one approach is to use inductive logic. This connects the findings to the recommendations, by asking why the recommendation is being made, as follows:

Recommendation		Related findings
We need reinforced and properly sealed glass windows	WHY ?	<ul style="list-style-type: none">- Noise enters office when windows are closed- Draughts enter office when windows are closed- Fumes enter office when windows are closed

⑤ RELEVANT

Timely and value-added.

The report's contents must pertain to the audit questions, be of importance and interest to the report's users, and add value, e.g. by saying something new about the topic. An important aspect of relevance is timeliness; to be of maximum use and to help contribute to change, the audit report **should** provide relevant up-to-date information in time to respond to users' needs. Auditors must plan for the timely issuance of the report and conduct the audit with this in mind.

⑥ ACCURATE

Evidence must be accurate.

The evidence presented **should** be true and all findings correctly portrayed. This is based on the need to assure readers that what is reported is credible and reliable, as one inaccuracy in a report can cast doubt on the validity and credibility of the entire report and divert attention from its substance. In addition, inaccuracies can damage the Court's credibility and reduce the impact of its reports.

⑦ CONSTRUCTIVE

Assist and encourage.

The report **should** assist management in overcoming or avoiding problems in the future, by clearly identifying who is responsible for the weaknesses identified and making practical recommendations for improvement. It is not appropriate to criticise management for issues that are beyond their control. Balanced reports, which give due recognition to positive aspects of performance, can help ensure improved acceptance of the report by the auditee.

⑧ CONCISE

No longer than necessary.

The report **should** be no longer than is necessary to convey and support the message. Extraneous details or immaterial findings may detract from a report, conceal the real message, and confuse or distract the users. Special reports that are as concise as the subject matter allows are likely to achieve greater impact.

5.3 PLANNING THE REPORT

5.3.1 Consider the addressees

The Court's reports have a wide range of addressees, such as the discharge authority, the auditee²⁴ and the general public.

- Discharge authority.** *The discharge authority* - the European Parliament acting on the recommendation of the Council - is a critical target group, which uses the Court's reports in a direct and practical way to assess financial management, support its discharge decisions and make recommendations
- Auditees.** *Auditees* are managers of the budget, and experts in the area. As detailed findings will have been communicated to the auditee by way of statements of preliminary findings, the report can focus on communicating the overall findings and main messages.
- European citizens.** *The citizens of the Union* are reached in large part through coverage of the Court's reports by the media. This target group is rarely expert in the audit subject.

In order to meet the addressees' requirements, reports **should** be drafted for the attention of an interested but non-expert reader who is not necessarily familiar with the detailed Community or audit context. This avoids the need for sensationalism to catch attention and overly detailed explanations of basic facts, but requires the text to be presented in an interesting way and the context and impact of findings to be clearly described.

5.3.2 Approach to planning the report

Planning for the report **should** start at the time of overall audit planning. The audit questions must be set in a manner that will facilitate a relevant and interesting report. At the planning stage, the auditor will generally already have in mind an idea of the report structure and content.

Sketch report outline early in audit

In performance auditing, it is a good discipline to put together, at an early stage of the audit, a *report outline* based around the audit questions, which identifies the main findings and provisional conclusions. This report outline, typically drafted by the Team Leader, needs to be reviewed periodically throughout the audit.

²⁴ Generally a European institution, agency or body, rather than individual beneficiaries or Member States.

and present in progress report.

As part of the Audit Group's monitoring of audits, a progress report, as foreseen in the APM, **should** be prepared, generally by the Team Leader, and presented to the Audit Group. This progress report **should** include, when possible, an indication of the main observations and conclusions already evident from the audit and a draft outline of the final report. This may involve critical examination of the audit questions concluded upon, the work done, findings, conclusions and how to communicate the main messages.

5.3.3 Prepare a drafting plan

When audited completed,
develop drafting plan

Once the audit work is complete, the report outline **should** be developed into a more detailed *drafting plan*. The drafting plan is generally established by the Team Leader, based around the main audit findings and conclusions. The plan sets out the report's structure, tone and key messages, concentrating on a limited number of material items. It needs to be brief and specific.

that focuses on key messages

The drafting plan is based on the audit work undertaken with regard to the audit questions answered, the evidence obtained, the key conclusions and the need to present material observations in the most useful and relevant way to the non-expert reader. The report planning process thus helps to identify and eliminate unsupported conclusions. Key messages must be clearly apparent, useful, and supported by evidence. Consideration also needs to be given at this stage to identifying practical, useful recommendations.

and is properly approved.

The Head of Division/Unit, Director and Member **should** review the drafting plan and approve it, checking if the observations and conclusions are material, and if the evidence supporting the observations, conclusions and recommendations is sufficient, relevant and reliable. Detailed drafting **should** begin only following approval of the drafting plan.

5.4 DRAFTING THE REPORT

5.4.1 Approach to writing the report

Focus on material,
relevant issues,

An audit report is not a record of all the audit findings; that is the purpose of the audit files, both electronic and hard-copy. The report must set out the material and relevant observations and conclusions, with a clear link between the two. This will help with writing the report in a clear way, focused on the main messages and articulated around the audit questions.

based on drafting plan,

The full report **should** follow the structure of the drafting plan, although experience with the actual drafting may require the plan to be changed. It needs to be remembered that writing is an iterative process, which means that the draft must be reviewed and changes and improvements made.

It is the role of the Team Leader to ensure that the preliminary observations are drafted and the necessary revisions made following input from the Head of Division/Unit, Director, Reporting Member, Group Members and the Court.

and referenced to SPF.

The draft preliminary observations **should** be accompanied by a document which tracks or cross-references each observation (per auditee) to the corresponding paragraphs of each related SPF. Such a document helps the audit team to ensure that all findings are directly sourced from SPFs and is necessary in order to prepare the pre-contradictory meetings.

5.4.2 Structure and layout

Reports **should** follow a standard layout, in five main sections as shown below, but within this be structured to help the reader follow and understand the arguments being presented. In general, this will mean structuring the report around the audit questions, (or sub-questions, if one main audit question was identified) so as to provide a logical thread between the audit purpose, observations and conclusions. There must be a logical progression of the argument, which is clearly signposted by means of the appropriate use of headings and sub-headings.

The five main sections for the Court's audit reports are as follows:

1. Executive summary
2. Introduction
3. Audit scope and approach
4. Observations
5. Conclusions and recommendations

① Executive Summary

Reflect report contents,

The executive summary is one of the most critical elements of any report as it is the most read; in addition, it often forms the basis for the information note (press release). It is therefore imperative that it make the right impact. The executive summary **should** reflect accurately and comprehensively what is in the report, and guide the reader to the significance of the audit questions and the answers thereto.

with emphasis on main conclusions and recommendations,

The descriptive parts of the report **should** be kept to the minimum necessary to understand the text. The audit scope and approach need only be described briefly, together with the main observations. The emphasis must be on the main conclusions of the audit and an outline of the recommendations. It is preferable that the text is not too long (around 2 pages). A fluent and readable style will entice the reader, avoiding lengthy paragraphs, and using bullet points where appropriate to present the points being made.

and be balanced

In order to avoid unnecessary changes and to reduce the risk of deviation, it is best to draft the executive summary only when the findings and conclusions have been drafted and reviewed. Particular attention needs to be paid to ensure that the executive summary is balanced and does not overemphasise negative findings.

② Introduction

The introduction to the report sets out the context of the audit, helping the reader to understand both the audit and the observations. It comprises a description of the audit area, setting out the:

Describe the audit area

- ✓ objectives of the intervention and its main characteristics;
- ✓ principal regulations;
- ✓ budgetary arrangements and impact;
- ✓ main systems and processes; and
- ✓ description of the types of projects and/or programmes financed.

succinctly.

The introduction **should** not be overly long and detailed. Where further detail is considered useful for the reader, it can be provided in an annex, and indications can be given of how the reader could obtain further information (e.g. internet references).

③ Audit Scope & approach

Key to understanding

The audit scope and approach is key to the reader understanding what to expect from the report, and thereby what use can be made of the results and conclusions and the degree of reliance to be placed thereon. This section **should** set out the following, in concise form, with unnecessary descriptions avoided: the audit subject; reasons for the audit; the audit questions to be answered; audit scope; audit criteria; and audit methodology and approach. More detailed information in this respect can be included by way of annex.

what the audit sought to achieve.

When providing details, the text needs to focus on what the audit was seeking to achieve rather than simply what was done. Setting out the audit scope and approach is particularly important in respect of performance audits, as they vary much more than financial audits.

④ Observations

Structure around audit objectives

The observations section represents the main body of the report, containing the audit findings and audit evidence. The observations **should** be structured - as far as possible - around the audit questions, as this provides the focus for the audit and its conclusions. This reminds readers of the purpose of the audit, and enables them to have realistic expectations of the report and to be able to place the observations, conclusions and recommendations in their proper context.

and flow of argument,

However, within this framework, it is more important that the presentation of the results is designed to help the reader follow the argument flow. For example, it may be clearer for the reader if the observations are presented by element of management (e.g. selection and approval of projects), rather than by administrative level (e.g. Commission, Member State central, Member State local).

In general, this will allow linked observations to be presented together (e.g. implementation of the requirements of the regulation), and negates the need to repeat the regulatory background at each level, thus helping clarity and the flow of arguments.

When presenting audit observations, the following elements **should** be apparent to the reader:

whilst identifying these elements.

✓ standard	the basis against which the actual situation was judged - regulatory or normal practice requirements, or standards set by management or by the auditor;
✓ work done	what was examined and why - the extent and scope of testing
✓ facts	the situation found - including its cause and materiality - making apparent the source and extent of evidence
✓ impact and consequences	what the finding means - including the effect on the EU budget - and why it is important.

⑤ Conclusions and Recommendations

Give clear answers to audit questions

The primary purpose of this section is to provide clear answers - conclusions - to the audit questions, and to make related recommendations on how to improve. As such, the conclusions, based on the material observations, must be presented on the audit questions. The conclusions **should** provide answers to the questions set, rather than simply summarising the observations.

Make recommendations for the main problems

The report **should** include recommendations regarding changes that can be made to address serious deficiencies reported, where the audit observations have demonstrated the potential for significant improvement in operations and performance. Where corrective action is already under way, it is good practice to point out this fact.

that are practical

Recommendations are only to be made when the audit has identified practical remedies for weaknesses identified. They need to flow from the related conclusion, and make clear which organisation has the responsibility to act on them. Whilst stating what needs to be done, they do not comprise detailed implementation plans, which are a matter for management. To be constructive, recommendations must indicate the main components of any changes required.

and positive

The recommendations are likely to achieve greater impact where they are positive in tone and content, are results-oriented (giving some indication of the intended outcome), bear cost considerations in mind and have been discussed and agreed with the auditee.

5.4.3 Logic and Reasoning

① A focus on the audit questions

Report on questions answered

The audit questions are the key element of the report, as they set out the purpose of the audit, and provide the focus for both the structure of the observations section and the questions to be answered by the conclusions. They help the reader to understand the audit and its findings. The report **should** set out the questions actually answered, i.e. those on which conclusions were reached, rather than those originally approved in the APM but that were not answered.

② Use of examples

Examples: sound and to the point

Examples are an effective way of illustrating and giving life to technical or theoretical findings – both positive and negative - thereby helping the non-expert reader to understand the points being made. However, it is essential that they be used sparingly and with care, as they can easily be taken out of context by selective readers. As they will be closely scrutinised, the examples **should** be sound, with findings fully supported by evidence. They also need to be clearly written, be limited to the point in question, and not be overly detailed.

③ Naming of third parties in the Court's reports

Exercise great care

Regarding the naming of third parties in the Court's reports, the judgment in the Ismeri case²⁵ was that "*the Court might in certain cases be required to give the names of third parties directly involved in serious malfunctions of the Community institutions. The assessments made in such cases of the persons concerned might constitute a fault giving rise to liability on the part of the Community if the facts on which those assessments were based were not accurately reported or were incorrectly interpreted*". Thus, it is imperative that a heightened duty of care **should** be exercised in verifying the facts and interpreting them, in those instances where third parties are either directly named in the Court's report or can be easily identified by the reader.

and allow the third party to make observations

It is important to note that the third party cited also has a right of reply. The judgment stated that "*publication of reports of the Court of Auditors...are capable of having consequences for those persons such that those concerned must be enabled to make observations on those points in such reports which refer to them by name, before those reports are definitively drawn up*". Auditors **should** ensure that the third party is given the opportunity to make such observations prior to adoption of the report.

²⁵ Judgement by the Court of First Instance on 15 June 1999 in Case T-277/97 *Ismeri Europa v Court of Auditors* concerning criticisms made against Ismeri by the Court in Special Report No 1/96 on the MED programmes

5.4.4 Types of information and data to be included

Only include if essential to understanding,

An audit report **should** only present data and information that is important for the reader to understand the context of the audit or its results. Data is not to be given as a matter of completeness, but to illustrate a specific issue highlighted. If data is given, then it needs to be described and analysed in the text so the reader knows its purpose. Modern technology and better and more transparent accounting by the Commission has greatly increased readers' access to data. As such, it will often be sufficient to provide references (e.g. internet links) to detailed data, rather than providing the data in the report itself.

including budgetary expenditure.

It is important that the audit is put into context with information on budgetary expenditure (commitments and payments) and the scope and coverage of the audit. The data must not be overly detailed, must be presented in such a way that it can be linked back to its source (e.g. budgetary nomenclature) and be as up-to-date as possible.

5.4.5 Style

Be accessible,

A well drafted report helps to ensure that the findings are taken seriously, whereas a poorly presented report will distract the reader, and may cause them to question the quality of the findings. Court reports **should** be interesting, easy to read and provide a positive image of the Court's work. Whilst their technical nature is inevitable, it is more likely that the casual reader will be encouraged to read further if the reports are accessible.

consistent,

Consistency is important: a report written in different styles in terms of approach and expression is difficult to read. It is recommended that one person be designated as responsible for ensuring consistent text throughout the report, even if different individuals are involved in drafting different parts of the report.

unambiguous,

The style must be clear and unambiguous. The meaning needs to be immediately apparent from the text, and not require the reader to interpret what is being said. In particular:

- long paragraphs are intimidating, and must be avoided;
- long complicated sentences, with many clauses and sub-clauses, are difficult to read and understand, and to translate. Write in short sentences where possible;
- the use of active verbs and real subjects helps to avoid ambiguity as regards who is doing what;
- bullet points – rather than continuous text - can be used (but not overused) to present lists of items;
- proper use of punctuation can help the reader and avoid misunderstanding;
- the language used needs to be professional, whilst avoiding jargon. However, the text has to remain sufficiently precise to be understood and actioned at the working level.

and conclusive.

The reader expects Court reports to be conclusive. Assertions must be affirmative, and not raise questions, supposition or uncertainty. It is important that statements are supported by evidence, and that phrases such as 'it may be' or 'it appears that' are not used, unless completed by an explanation of why the Court cannot arrive at a definitive conclusion. When an assertion represents the Court's opinion, this must be disclosed, together with the basis for that opinion. When the assertion comes from another source, such as an evaluation report, then this needs to be explicitly recognised.

5.4.6 Use of non-textual information

Improve appearance of report.

Carefully chosen diagrams, graphs, data and pictures can improve the appearance of a report and help the reader to understand the background and findings. Technical assistance in the use of graphics is available through ADAR, whilst recent reports, both from the Court and national Supreme Audit Institutions, can be used to stimulate ideas.

① Tables, charts and graphics

Present complex information.

Tables and charts are used to reinforce important messages or to present complex information, such as organisational or financial relationships, in a simple manner.

When a report requires the relationship between two or more variables to be explained, this is typically best done with graphs, allowing the relationship to be illustrated visually. Graphs must be clearly labelled and not overloaded with data and variables. It is important that graphs within the same report be presented in a consistent and comparable manner.

② Maps and pictures

More attractive and appealing.

Reports can be made more user-friendly through the use of pictures and maps where appropriate. Whilst some reports may lend themselves to attractive illustration or interesting cartography more readily than others, all reports can be made more attractive and appealing to the reader by the inclusion of such devices. Indeed, photographs can provide a visual theme running through a report, as well as being used to illustrate specific points.

③ Numbers and percentages

Numbers and percentages must be presented with an appropriate level of precision, and be consistent within the same sentence or paragraph. In general, rounded numbers are easier to read. Specific guidelines are issued by ADAR on such matters.

5.5 REVIEWING THE REPORT

**Review by Head of Division/Unit,
Director and Member,**

The Head of Division/Unit, Director, and Reporting Member **should** all review the draft preliminary observations. They assess if the report is clearly drafted, fair, balanced, and supported by evidence; decide whether the report faithfully presents the results of the audit; and determine whether the draft places the performance of the auditee in its proper context.

Audit Group and Court.

They conclude on whether the draft document is of sufficient quality to be presented to the Audit Group. Comments made need to be objective and suggestions constructive, so as to remedy weaknesses identified. The Audit Group **should** then review the draft preliminary observations. When approved by the Audit Group, the draft is thereupon submitted to the Court.

Annex I contains questions typically to be asked in reviewing draft preliminary observations. To ensure the quality of the final report, the audit team must have responded in a positive manner to such questions, before the draft report is issued.

5.6 CLEARING THE REPORT

**From Audit Group reading to Court
final adoption,**

The 'clearance' process covers the period from the time the draft preliminary observations are first submitted to the Audit Group, through Court readings and the contradictory procedure with the Commission, until final adoption by the Court.

Once the Court has approved the draft preliminary observations, this document is then forwarded to and discussed with the auditee. To ensure as far as possible that the process of clearing the draft report with the auditee is efficient and effective, it is essential to have:

- good communication throughout the audit, based on the Court's 'no surprises' approach; and
- timely issuance of fact-based statements of preliminary findings and their revision, where appropriate, based on auditee responses.

The Financial Regulation (FR), article 144, requires that *"The Court shall notify the institution concerned of all observations which are, in its opinion, such that they should appear in a special report. These observations must remain confidential. The institution concerned shall have two-and-a-half months within which to inform the Court of any comments it wishes to make on the observations in question"*.

including the Contradictory Procedure

Although not defined in the FR, this period includes what is generally known as the contradictory procedure, during which a meeting is arranged between the institution concerned and the Court. The primary purposes of this meeting are to resolve, firstly, any disagreements over the facts that remain after the statements of preliminary findings procedure, and, secondly, any differences in opinion between the Court and the Commission (or other institution) over interpretation of the evidence. The meeting is also used to finalise the institution's replies to the observations. ADAR acts as an intermediary in arranging and chairing such meetings.

and pre-contradictory meeting,

In order to ensure a smooth contradictory procedure meeting, it is good practice to hold a pre-contradictory meeting between the audit team and the auditee.

The changes made to the text of the draft special report as a result of the contradictory procedure must be apparent in the final draft report to be submitted for Court reading, and the reasons given for the main changes.

with procedures outlined in the Financial Regulation.

The same FR article also states that *"The Court of Auditors shall adopt the definitive version of the special report in question the following month. The special reports, together with the replies of the institutions concerned, shall be transmitted without delay to the European Parliament and the Council, each of which shall decide, where appropriate in conjunction with the Commission, what action is to be taken in response. Should the Court of Auditors decide to have any such special reports published in the Official Journal of the European Communities, they shall be accompanied by the replies of the institutions concerned."*

Once the definitive version of the special report has been adopted by the Court, it is submitted to the Translation department of the Court for translation into the official languages.

5.7 DISTRIBUTING THE REPORT

Special Reports are published in the Official Journal and distributed in accordance with the Court's procedures. The latter include making the report available on the Court's website, in addition to issuing an 'information note' for the press. The Reporting Member normally presents the report to a subsequent meeting of the COCOBU (the European Parliament's Budgetary Control Committee), and holds a press conference if (s)he deems it appropriate.

5.8 REPORT FOLLOW-UP

5.8.1 Follow-up of report recommendations

Assessing and measuring the impact of the Court's performance audit reports is a necessary element in the cycle of accountability. The recommendations made in special reports, as well as those made by the discharge authority, **should** be followed up in order to establish and assess the measures taken. Indeed, the very existence of the follow-up process can encourage the effective implementation of report recommendations by auditees.

Following up on report recommendations serves four main purposes:

- ✓ increasing the effectiveness of audit reports - the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;
- ✓ assisting the legislative and budgetary (including discharge) authorities - following up recommendations may be valuable in guiding their actions;
- ✓ evaluating the Court's performance - following up provides a basis for assessing and evaluating the Court's performance; and
- ✓ creating incentives for learning and development - following up activities may contribute to better knowledge and improved practice.

Follow-up of recommendations serves several purposes.

Follow-up will normally take place two or three years after publication of the special report. The starting point could be the regular reports of follow-up made by the Commission and other institutions to Parliament, when these are available. The follow-up work is not a full audit, but must determine what steps the auditee has taken to improve its performance and which recommendations have been implemented, and assess whether they are sufficient and appropriate to resolve the weaknesses identified.

Results from the follow-up of audit recommendations must be recorded, with the electronic tool available²⁶ being used as the sole repository for recommendations and their follow-up. Reporting of follow-up exercises is included in the Annual Report.

5.8.2 Follow-up of how the audit report has been perceived

When a performance audit has been completed, there are various opportunities for obtaining information on how it has been received, for instance by observing reactions from auditees and Parliament and in the media. In addition, external experts could be asked to scrutinise performance audit reports or to give their opinions on the quality of the work.

As most performance audits produce genuine learning points, both for the teams involved and the whole Court, it can be a valuable exercise for the audit team to carry out a review after the report has been published, in order to identify:

Acts as a learning tool.

- ✓ *what* worked well and *why*
- ✓ what was *less successful* and the *reasons*
- ✓ *lessons* for the future & possible wider applications for all performance audits

²⁶ For example, Issue Track in ASSYST

ANNEX I - QUESTIONS TO ASK IN REVIEWING PRELIMINARY OBSERVATIONS

1. Is the draft report clear and concise, and are the main messages apparent and understandable?

The review of the draft preliminary observations is intended to identify if it contains weaknesses in arguments, inappropriate language (such as the use of jargon), or inconsistent style.

There should be a logical argument flow linking the audit questions, observations and conclusions, which clearly stresses the main messages.

2. Does the executive summary reflect the tone and findings of the main body of the draft report?

The executive summary should not be a simple repetition of sections from the main body of the report. Without being too detailed, it should summarise the contents of the report in a clear manner, be accessible, and set out the main conclusions and recommendations.

To ensure consistency, the reviewer should compare the executive summary to the main body of the text. It is especially important that last-minute changes made to the text have been properly reflected in the executive summary.

3. Does the introduction help the reader to understand the audit?

The introduction must clearly set out the context of the audit. Whilst it should not be overly long and detailed, there must be sufficient information provided so that the reader can fully appreciate the meaning of the findings and conclusions, and provide references or links to additional information where appropriate.

4. Are the audit scope and approach clearly set out?

The reviewer should check whether the report section on audit scope and approach describes the audit questions and the depth and coverage of the work done, as well as any significant assumptions made or constraints imposed.

5. Are the observations supported by evidence?

The review must check that a trail exists, linking the report's findings to both the evidence collected and the statements of preliminary findings. Observations should be balanced rather than simply concentrating on negative findings.

6. Do the conclusions answer the questions set and flow logically from the observations?

Conclusions should set out clear answers to the audit questions, rather than simply representing a summary of the findings. They should be clearly and explicitly stated.

In particular, the reviewer should ensure that the conclusions are supported by the observations.

7. Are the recommendations evidence-based and clear, and will they add value?

The recommendations must flow from the conclusions, address the serious deficiencies identified in the report, and be capable of being implemented in a cost-effective manner.

In the context of the 'no surprises' approach, and to help encourage beneficial change, it may often be helpful to establish whether proposed recommendations will be welcomed by the auditee. In addition, the reviewer should be able to trace the recommendations back to the related conclusions.

8. Will the report make sense to the general reader?

ADAR or the Translation Department can provide an independent perspective on the draft report. Alternatively, if user groups have been consulted during the audit examination phase (e.g. focus groups), these might be used to provide feedback on the report; however, confidentiality needs to be assured.

9. Does the draft report make effective use of graphics and annexes?

The reviewer should reflect on whether the graphs and charts used are appropriate. Similarly, the reviewer should ensure that annexes have been used to provide any detailed information that is necessary, rather than encumbering the main body of the report with too much detail.

10. Has supporting material been produced?

The reviewer needs to ensure that all material supporting the main narrative is complete and of appropriate quality. Such material may include a glossary of terms, a bibliography and case studies.



PERFORMANCE AUDIT MANUAL

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