



EUROPEAN  
COURT  
OF AUDITORS

# Performance Audit Manual

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**Directorate of Audit Quality Control**  
**September 2017**



# 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 Directorate of Audit Quality Control Committee (DQC) of the European Court of Auditors (ECA).

Please consult the DQC intranet site or send us an e-mail:  
ECA-DQC-CONTACT or [eca-dqc-contact@eca.europa.eu](mailto:eca-dqc-contact@eca.europa.eu)

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# PERFORMANCE AUDIT MANUAL

## GENERAL INTRODUCTION

### Chapters in the Performance Audit Manual

**General introduction**

**Chapter 1: Framework for  
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## PURPOSE & CONTENT OF THE PERFORMANCE AUDIT MANUAL

<b>Purpose - Quality</b>	<p>The Performance Audit Manual is one part of the suite of procedures and guidance provided by the ECA. Its purpose is to:</p> <ul style="list-style-type: none"><li>• help to achieve high quality in performance audits, and</li><li>• promote professional competence amongst auditors in this domain.</li></ul>
<b>Content</b>	<p>The manual has been written to meet the needs of auditors and audit management. It explains in broad terms how performance audits <b>should</b> be planned, conducted and reported.</p>
<b>Audit Policy</b>	<p>In carrying out its duties and responsibilities within its mandate as laid down in the Treaty and the Financial Regulation, the European Court of Auditors conducts its audits in accordance with the INTOSAI International Auditing Standards and Code of Ethics, in so far as these are applicable in the European Union context. Auditors are required to respect the ECA Performance Audit Manual as well as all the audit procedures adopted by the ECA.</p>
<b>Professional judgement essential, and 'should' statements mandatory.</b>	<p>The manual 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.</p> <p>Performance auditing procedures are written as 'should' statements, which must be complied with</p>

## 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 ECA'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 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.

## 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.

<b>DIRECT ADDRESSEE</b>	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).
<b>EXOGENOUS FACTOR</b>	<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).
<b>IMPACT</b>	<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.
<b>INDIRECT ADDRESSEE</b>	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).
<b>INPUT</b>	Financial, human, and material <i>resources</i> that are mobilised for the implementation of an intervention.
<b>INTERVENTION</b>	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.
<b>MEASURE</b>	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 generally has a particular management apparatus.
<b>NEED</b>	<i>Problem or difficulty affecting concerned groups</i> , which the public intervention aims to solve or overcome.

<b>OBJECTIVE</b>	<p><i>Initial statement of the outcomes intended to be achieved by an intervention. A distinction should be made between global, intermediate, immediate and operational objectives:</i></p> <ul style="list-style-type: none"> <li>• a <i>global objective</i> corresponds to the <i>global impact</i> of an intervention and is generally defined by EU legislation in very broad terms (e.g. catching up on a 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. making businesses more competitive);</li> <li>• <i>immediate objectives</i> concern the <i>results</i> of an intervention on direct addressees and are normally defined by Members States within the implementation of programmes financed (e.g. increasing by 20% the turnover of businesses receiving technological support);</li> <li>• <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).</li> </ul>
<b>OUTCOME</b>	<p><i>Change that arises 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).</i></p>
<b>OUTPUT</b>	<p>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, a road built in a developing country).</p>
<b>POLICY</b>	<p><i>A set of different actions and operations</i> (programmes, procedures, legislation, and 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.</p>
<b>PROCESSES</b>	<p>Procedures and activities employed <i>to convert inputs into outputs</i> (e.g. procedures for delivering subsidies or selecting projects for financing). The concept also covers the generation of management information and its use by managers.</p>
<b>PROGRAMME</b>	<p>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.</p>
<b>PROJECT</b>	<p>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>.</p>
<b>RESULT</b>	<p><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).</p>



# PERFORMANCE AUDIT MANUAL

## CHAPTER 1 FRAMEWORK FOR PERFORMANCE AUDITS BY 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 ECA's performance audits by setting out the context of such audits in the European Union, and the ECA'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 ECA. However, this framework applies to all performance audits carried out by the ECA, 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 independent, objective and reliable examination of whether undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement.<sup>1</sup>

### 1.2.2 Sound financial management: Treaty & Financial Regulation

#### Treaty

Article 317 of the consolidated text of the Treaty on the Functioning of the EU (TFEU) 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 30 of the Financial Regulation applicable to the general budget of the Union<sup>2</sup> (the "Financial Regulation"), the concept of sound financial management comprises the principles of economy, efficiency and effectiveness, which are defined as follows:

- ✓ the principle of **ECONOMY** requires that the resources used by the audited entity in 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** concerns the best relationship between resources employed and results<sup>3</sup> achieved;
- ✓ the principle of **EFFECTIVENESS** concerns the attainment of the specific objectives set and the achievement of the intended results.

<sup>1</sup> ISSAI 300.

<sup>2</sup> OJ L 298, 26 October 2012 (last modified OJ L 286, 30 October 2015).

<sup>3</sup> The term 'results' used in the context of efficiency and effectiveness is to be interpreted in a wide sense as covering outputs, results and impacts (see [Glossary](#) on pages 4-5).



### 1.2.3 Management methods to implement the budget

Whilst the Commission is responsible for the overall implementation of the budget, the Financial Regulation (Art. 58, 2012) provides for three different management methods:

#### Direct management

- directly by its departments; 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-General<sup>4</sup>;

#### Shared management (Art. 59 FR)

- by shared management; shared management involves the delegation of implementation tasks to Member States and mainly concerns expenditure on agricultural and structural operations;

#### Indirect management (Art. 60 FR)

- by indirect management with third countries and designated bodies, international organisations, European Investment Bank, European Investment Fund, and other bodies pursuant to Art. 58.1.c (FR, 2012); this method involves the delegation of implementation tasks to beneficiary countries and international organisations, generally in the area of external actions, or to EU agencies and public- or private-sector bodies, notably in the area of internal policies.

#### 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.

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<sup>4</sup> The Commission 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 system<sup>5</sup>.

Information Technology (IT) systems are part of the internal control system at the Commission, which follows the model proposed by COBIT<sup>6</sup> regarding IT governance in managing information and IT resources.

### COSO

In 2017 the Commission moved to a principle-based system with the aim of ensuring robust internal control through consistent assessment by the Commission, while providing the necessary flexibility to allow departments to adapt to their specific characteristics and circumstances. The new Internal Control Framework consists of five internal control components and 17 principles based on the COSO 2013 Internal Control-Integrated Framework, as follows:

### Design of the Commission's Internal Control Framework<sup>7</sup>

#### Internal control components and principles in the Commission

	Internal Control Principles
Control environment	1. Demonstrates commitment to integrity and ethical values
	2. Exercises oversight responsibility
	3. Establishes structure, authority and responsibility
	4. Demonstrates commitment to competence
	5. Enforces accountability
Risk assessment	6. Specifies suitable objectives
	7. Identifies and analyses risk
	8. Assesses fraud risk
	9. Identifies and analyses significant change
Control Activities	10. Selects and develops control activities
	11. Selects and develops general control over technology
	12. Deploys through policies and procedures
Information and communication	13. Uses relevant information
	14. Communicates internally
	15. Communicates externally
Monitoring	16. Conducts ongoing and/or separate assessments
	17. Assesses and communicates deficiencies

<sup>5</sup> 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".

<sup>6</sup> COBIT (Control Objectives for Information and Related Technology).

<sup>7</sup> Communication to the Commission from Commissioner Oettinger C(2017) 2373 final from 19.04.2017 on Revision of the Internal Control Framework

## 1.2.5 Relationship of performance audit & financial and compliance audit

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

ASPECTS	Performance audit	Financial and compliance audit
<b>Purpose</b>	Assess whether EU funds have been used with economy, efficiency, effectiveness.	Assess whether financial operations have been legally and regularly executed and accounts are reliable.
<b>Focus</b>	Policy, programme, organisation, activities and management systems.	Financial transactions, accounting and key control procedures.
<b>Academic basis</b>	Economics, political science, sociology etc.	Accountancy and law.
<b>Methods</b>	Vary from audit to audit.	Standardised format.
<b>Audit criteria</b>	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.
<b>Reports</b>	Special report published on an ad hoc basis. Varying structure and content, depending on objectives. A macro view on performance of the EU budget is included in a dedicated chapter of the AR.	Annual report. More or less standardised.

### Comprehensive audit

Financial and compliance audit aspects<sup>8</sup>, including environmental considerations in the context of sustainable development, can also be included in a performance audit<sup>9</sup>. An audit combining these aspects 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 performance, compliance and/or financial audit objectives. The various 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.

Where there is an overlap between other types of audit and performance auditing, classification of the audit engagement **should** be determined by the primary purpose of that audit<sup>10</sup>.

<sup>8</sup> Auditing Standards ISSAI 1000-series and ISSAI 4000.

<sup>9</sup> Audit Standard ISSAI 3000/16.

<sup>10</sup> Idem.

## 1.2.6 Relationship between performance audit & evaluation

Evaluation is an important element of the Commission's internal control system. According to the Commission<sup>11</sup>, 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,
- assist in an efficient allocation of resources,
- improve the quality of the intervention,
- 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 EU 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 ECA's performance audits to deliver comprehensive evaluations of EU activities. This is the responsibility of the Commission, Member States and other managers of EU 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 ECA'S MANDATE & OBJECTIVES FOR PERFORMANCE AUDITS

### 1.3.1 The ECA's legal obligations

**Treaty** The legal framework for the ECA's performance audits of EU activities is laid down by the Treaty. Article 287(2) of the consolidated text of the Treaty states that "*The Court of Auditors shall examine...whether the financial management has been sound*".

<sup>11</sup> Commission's Communications on evaluation: (SEC (2000) 1051), Focus on Results: Strengthening Evaluation of Commission Activities and SEC(2007)213, Responding to Strategic Needs: Reinforcing the use of evaluation .

### 1.3.2 The ECA's objectives

The ECA's Mission Statement provides that:

#### Mission

*The EU's independent external auditor*

As the EU's independent external auditor, the ECA contributes to improving EU financial management, promotes accountability and transparency, and acts as the independent guardian of the financial interests of the citizens of the Union. The ECA checks if the budget of the European Union has been implemented correctly, and that EU funds have been raised and spent legally and in accordance with the principles of sound financial management. As Europe faces ever greater challenges and increasing pressure on its public finances, the ECA's role increases in importance.

#### Role

*External auditors*

In democratic societies, complete, accurate and readily available information on budgetary and policy implementation is essential for effective scrutiny and decision-making. Such information helps promote sound financial management and serves as a basis for accountability. Like Member States, the EU needs an external auditor which can act as an independent guardian of the financial interests of its citizens.

*The EU's "financial watchdog"*

As Europe faces ever greater challenges and increasing pressure on its public finances, the role of the European Court of Auditors is of increasing importance. The ECA warns of risks, provides assurance and offers guidance to EU policymakers on how to improve the management of public finances and ensure that Europe's citizens know how their money is being spent. This is the essence of the ECA's contribution to strengthening the democratic legitimacy and sustainability of the European Union.

**Mission and role**

**access to systems and procedures  
in Member States**

The ECA's systems-audit work in the Member States may only include an assessment of systems and procedures for the management of the Union's revenue and expenditure. An audit of purely national procedures, financed solely from the national budget and not connected to the management of the Union's revenue and expenditure, is outside the ECA's mandate. However, the ECA is entitled to carry out fact-finding visits to the Member States but only to the extent that such visits are necessary in order to ascertain how the Union is performing its role of managing Union revenue and expenditure.

**access to systems and procedures  
in non-Member States**

There is no clear legal basis for the ECA's access to non-Member State systems even where the EU funding regulation confers on the Commission the power to entrust experts with the task of "control activities", e.g. on-the-spot checks. Each policy regulation has to be studied individually. However, the ECA may legitimately ask the Commission to be present during such on-the-spot checks. Such participation **should** be subject to the agreement of the Commission.

**is to provide independent  
information**

As indicated earlier, the ECA's performance audits are superimposed on a public accountability framework. The objective of the ECA 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 EU 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 ECA aims to contribute to improving the financial management of EU funds by making recommendations. Such improvement might involve:

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

The perspective of the citizen that is related to the performance of the audited entity **should** be taken into account where appropriate.



# PERFORMANCE AUDIT MANUAL

## CHAPTER 2 THE PERFORMANCE AUDIT APPROACH AND THE 3 'E's

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① Economy

② Efficiency

③ Effectiveness

2.4 Essential qualities of good performance audits

2.4.1 Sound judgement is exercised throughout the audit process

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

2.4.3 Audit questions are set which can be concluded against

2.4.4 Risks to delivering the audit report are analysed and managed

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

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

2.4.7 Possible conclusions and recommendations of the final report are considered from the planning phase onwards

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

2.5 Quality control

### 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 oriented 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 ECA'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 placed on one or the other depending on the specific circumstances of the audit:

Approach	Focus
Auditing performance directly	<a href="#">Inputs</a> , <a href="#">outputs</a> , <a href="#">results</a> and <a href="#">impacts</a> .
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, economic, social and environmental 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 the 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 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.

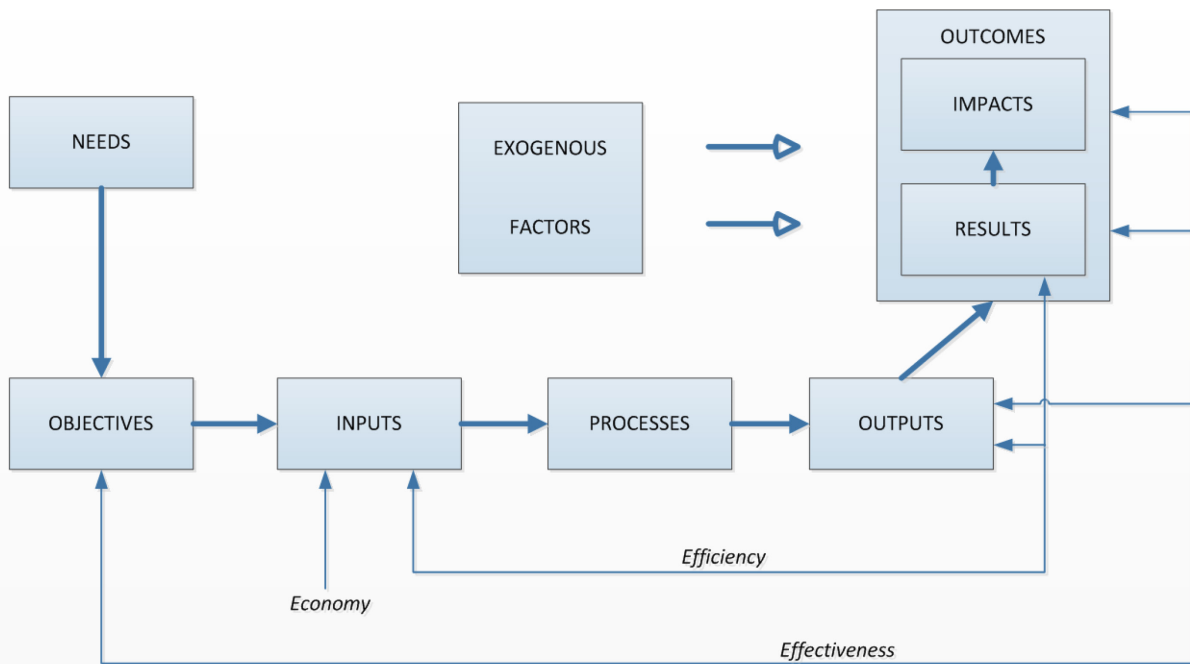
## 2.3 HOW TO APPLY THE 3 'E's

### 2.3.1 The use of logic models in performance audits

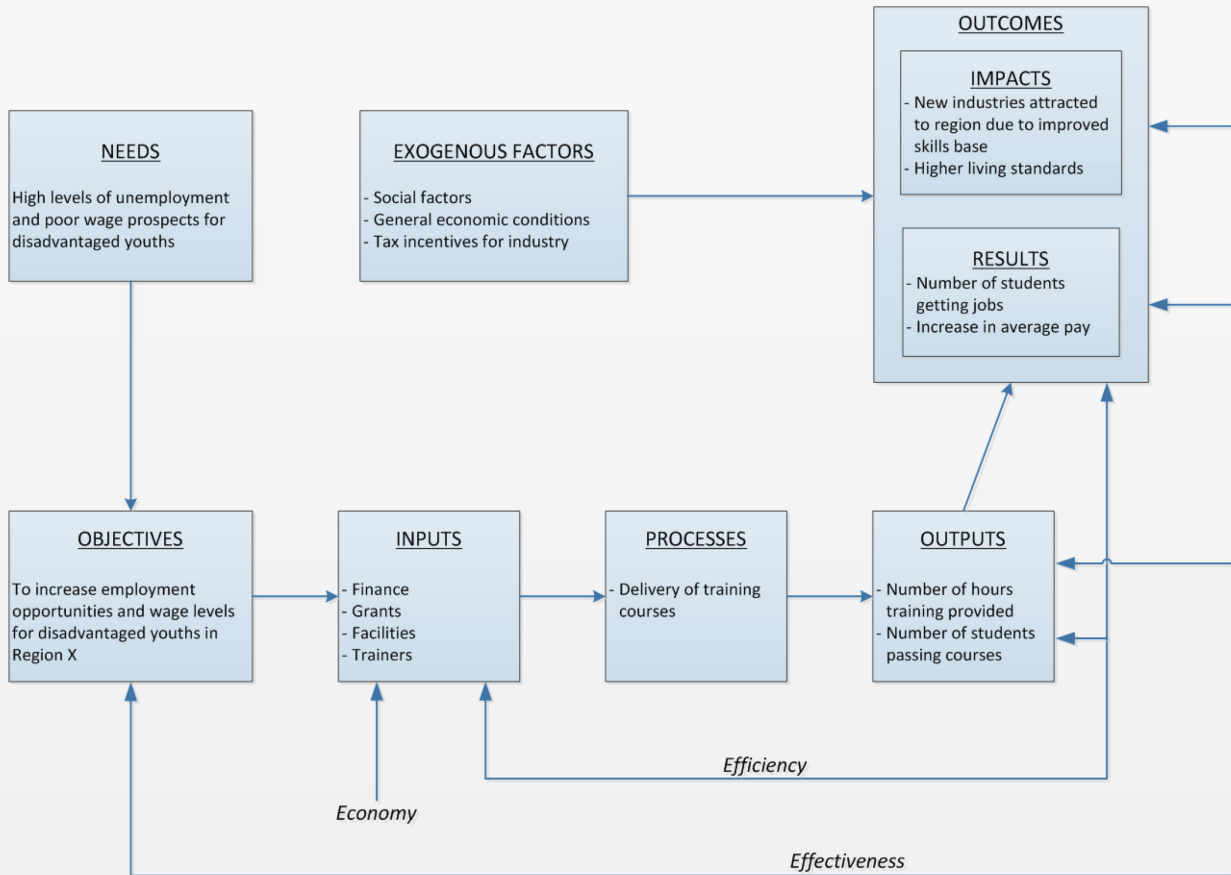
Set out the logic of the intervention

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 'E's - 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 programmes 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 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:

**Making the most of available resources**

- 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.

**to maximise "productivity",**

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:

- 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 EU 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 EU funds? Are the criteria used appropriate and are they being implemented as intended?
- Do the EU 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 for 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:

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**ignificant / substantive conclusions and recommendations to the final report are considered from the planning phase onwards.

**T**ransparency - a 'no surprises approach' - is adopted with the auditee.

Important from start to end of audit

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 ECA'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 one overall audit question together with a limited number of sub-questions to be concluded against. 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 further 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 (so that together they are sufficient to answer the immediately preceding higher-level question).

All questions in the hierarchy **should** be 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. Audit questions **should** not, therefore, be formulated 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.

To facilitate the development of a good hierarchy of audit questions, audit teams **should** carry out an issue analysis exercise before writing the Audit Planning Memorandum (APM)<sup>12</sup>.

<sup>12</sup> CH 324/11 of 30 September 2011 on Audit Quality management. Detailed guidance on the process can be found in the Audit Guideline on Issue Analysis and Drawing Conclusions (internal documents).

#### 2.4.4 Risks to delivering the audit report are analysed and managed

The ECA must ensure that the period from the adoption of the APM to the adoption of the special report does not generally exceed 13 months<sup>13</sup>. The starting point for this period is the adoption of the APM (or a later date when the audit is planned to commence, as specified in the APM); the end date is that of the adoption of special report APC<sup>14</sup>

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 it is 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 the risk can 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 basic planning instrument - the (APM) - is a "contract" agreed between the responsible Member and the Audit Chamber. The APM defines the audit, the product to be delivered, the resources to be employed, and the delivery date. It includes an assessment of the risks to sound financial management, the audit questions, audit criteria, evidence to be collected or generated, and the methodology to be employed.

Tools and activities to help achieve successful delivery include:

- Issue Analysis and Drawing Conclusions (IADC) to produce quality reports that are clear, brief and rigorous, and have an impact;
- 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.

<sup>13</sup> The FR. Article 163(1) applicable from 1 January 2016 requires that the Courts special reports are drawn up and adopted within an appropriate period of time, which shall in general not exceed 13 months.

<sup>14</sup> APC – “Après procédure contradictoire” (after adversarial procedure).

#### 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 Possible conclusions and recommendations of the final report are considered from the planning phase onwards

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.

#### 2.4.8 Transparency - a 'no surprises' approach - is adopted with the auditee and other stakeholders<sup>15</sup>

The development of good and proper relations with stakeholders is a key factor in achieving effective and efficient performance audit results. As performance audits are not normally conducted on a regular (e.g. annual) basis on the same audited entities, channels of communication may not already exist. Therefore auditors **should** seek to establish and maintain good professional relationships with all stakeholders involved in an audit, promote a free and frank flow of information insofar as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective roles and responsibilities of each stakeholder.

The communication process between the auditor and auditee begins at the planning stage of the audit and continues throughout the audit process, by a constructive process of interaction, as different findings, arguments and perspectives are assessed.

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. As there are often no predefined audit criteria for the subject being audited, a full exchange of views with the audited entity is necessary. 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.

<sup>15</sup> ISSAI 300 – Fundamental principles of performance auditing, paragraph 29.

This approach is in keeping with good audit practice and the ECA's 'no surprises' approach. In particular, the audit objective, questions, criteria, and scope **should** be communicated preferably in writing, 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 Chamber.

Where important audit findings are made during an audit, these **should** be communicated in a timely manner to those charged with corporate governance. Notwithstanding the above requirement, auditors **should** not communicate to third parties, either in writing or orally, any information they obtain in the course of audit work, except where doing so is necessary to discharge the ECA's legal or regulatory responsibilities. Any such communication **should** be governed by the ECA's rules of procedure. Auditors, however, may exchange information regarding management deficiencies with internal auditors, should this information not be of a data-security or confidential nature, for the purpose of ensuring that identified shortcomings are addressed.

## 2.5 QUALITY CONTROL

Auditing Standard ISSAI 40 sets out the six elements of a system of quality control:

- Leadership
- Relevant ethical requirements
- Acceptance and continuance of auditee relationships and specific engagements
- Human resources
- Performance of audits and other work – see below
- Monitoring – in the language of the ECA, this is equivalent to the ex post annual quality assurance exercise carried out by DQC

The fifth element, performance of audits and other work, comprises two main functions: supervision and review, and engagement quality control review (EQCR). Supervision and review refers to the normal hierarchical monitoring of work conducted within the audit team. Thus, at its most basic level, the head of task monitors the work of team members, and the reporting member monitors the work of the head of task. However, the audit team may agree with the chamber directorate team that additional support be provided to the supervision and review activity, such as advice and guidance from a principal manager or subject matter expertise from a policy expert.

The second function of this element of quality control is EQCR, an objective evaluation of the significant judgments made by the audit team and the conclusions reached in formulating the report. For performance audits, EQCR is carried out (as a minimum) at the APM and preliminary observations stages. It is undertaken by staff independent of the audit team and is designed to provide additional assurance to the chamber that audits have been performed in accordance with professional standards and applicable legal and regulatory requirements, and that the reports issued are appropriate in the circumstances.

Details on how EQCR operates for performance audits are in the Vademecum of General Audit Procedures – Audit Quality Management Framework (internal document).



# PERFORMANCE AUDIT MANUAL

## CHAPTER 3 PLANNING THE AUDIT

### Chapters in the Performance Audit Manual

General introduction

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

Chapter 2: The Performance  
Audit Approach and the  
3 'E's

**Chapter 3: Planning the  
audit**

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② Determine the resources made available for the intervention

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③ Consider the timing and resourcing of the proposed audit

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① Define the audit questions

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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 supervision and review arrangements

⑧ Communicate with the auditee

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Annex I: Contents of an Audit Planning Memorandum

Annex II: Evidence Collection Plan

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#### Who to contact

For any further information, please contact:

European Court of Auditors

Directorate of Audit Quality Control Committee (DQC)

E-mail: ECA-DQC-CONTACT or eca-dqc-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, sets clear and reasonable objectives, defines a realistic and robust audit approach, and establishes the resources needed. If the audit is not well planned, there is a risk that the audit work will not be efficient or effective.

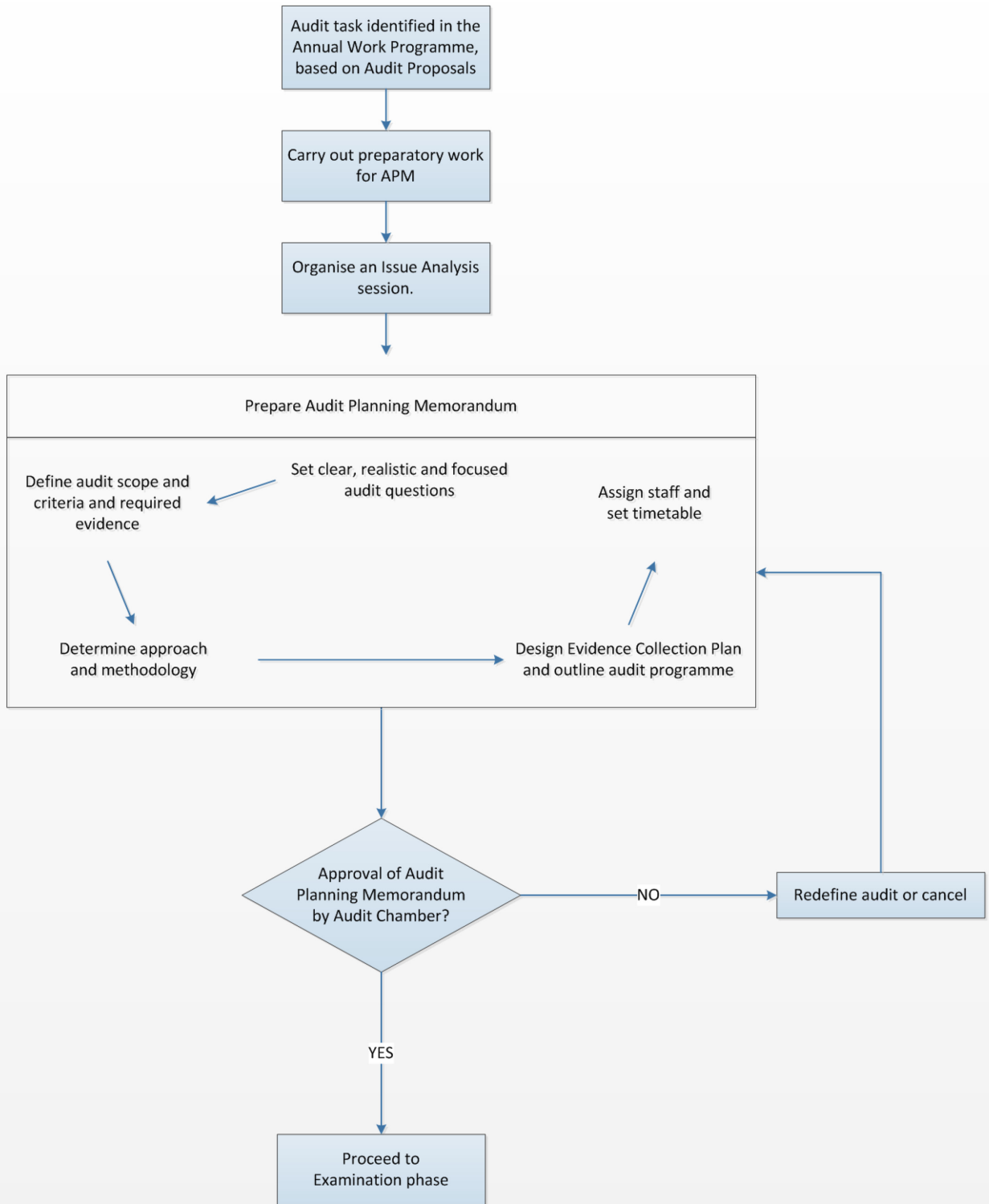
**and is the basis of the APM.**

Audit planning includes:

- Consideration of the significant risks to sound financial management, the potential audit objectives, approaches and methodologies, and whether the audit is realistic, realisable and likely to be useful.
- **The APM**, which is approved by the Audit Chamber, defines the audit scope, objective(s) and methodology, the resources to be employed and key milestones to be achieved in the proposed audit.

The following chart describes the audit planning phase; the audit planning and APM are described in more detail in this chapter.

AUDIT PLANNING PHASE





## 3.2 THE AUDIT PLANNING PHASE

### 3.2.1 Purpose of audit planning

#### **Preliminary work for the preparation of the APM**

The ECA requires Audit Chambers to develop audit proposals for each topic ranked as a priority<sup>16</sup>. 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 work develops and expands upon this information, which may lead to a reassessment of whether to carry out the audit as already planned in the AWP.

### 3.2.2 Preliminary work

#### **Making use of existing information**

The extent of the preliminary work necessary depends on the audit team's existing knowledge of the audit area, but must be such as to enable the preparation of the APM. In order to determine whether the audit is realistic, realisable and likely to be useful, auditors need to acquire up-to-date knowledge of the audit area. If the audit area and possible audit questions are well known, or the audit subject derives from existing financial or compliance audits, preliminary work may be unnecessary. Detailed audit testing work should not be carried out at this stage; rather, the emphasis is on considering the availability of information and the feasibility of methods.

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<sup>16</sup> ECA work programming: instructions and guidelines – 2016 up-date CA 018/16 (internal document).

**Carrying out the preliminary work**

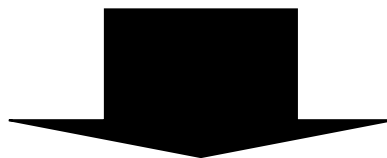
**ACQUIRE UP-TO-DATE KNOWLEDGE OF THE AUDIT AREA**

- ⇒ ① Identify the objectives and logic of the intervention and related indicators
- ⇒ ② Determine the resources made available for the intervention
- ⇒ ③ Determine the respective responsibilities of the various actors
- ⇒ ④ Identify key management and control processes, including IT systems
- ⇒ ⑤ Define information needs for management and control purposes
- ⇒ ⑥ Identify the risks to sound financial management



**OUTLINE THE AUDIT**

- ⇒ ① Take account of previous audits and evaluations
- ⇒ 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 up-to-date knowledge of the audit area

Extent and sources of information are varied.

The emphasis is on building a sufficient 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 ECA'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.

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 SMART<sup>17</sup> objectives. In addition, the implementation of these objectives must be monitored by the relevant DG through RACER<sup>18</sup> 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. 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 to facilitate this understanding.

#### 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.

<sup>17</sup> Objectives must be Specific, Measurable, Achievable, Relevant, Timely.

<sup>18</sup> Performance indicators must be Relevant, Accepted, Credible, Easy and Robust.

### ③ Determine the respective responsibilities of the various actors

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 shared or indirect 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 Budget<sup>19</sup>. In this context, the ECA 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 audit team **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 audit team **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 information needs for management and control purposes

Review monitoring and project selection criteria.

The audit team **should** identify the types of information and reports currently used by the auditee for management and control of its activities. 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 DQC 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

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).

<sup>19</sup> See Article 287 of the TFEU.

Information on risks is available from many sources.

In addition, the audit team 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 ICS 6 'Risk Management Process' 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.

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.

In planning the audit, the audit team **should** analyse the relative significance of these risks, mapping the likelihood of occurrence against the likely impact, both quantitative and qualitative. They 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 audit team **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 ECA or the Commission's Internal Audit Service (IAS). 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 questions 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. When preparing the APM, 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.

The audit team **should** then define which of these audit questions can be answered. 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. To facilitate this process, as well as identifying audit questions which could more efficiently be addressed in a separate audit, audit teams **should** carry out an issue analysis exercise before drafting the APM<sup>20</sup>.

## ③ Consider the timing and resourcing of the proposed audit

Keep within the required timeframe of 13 months.

The audit team should consider the timetable for the audit, including any preliminary work and the available resources. In this context, it **should** be borne in mind that the timeframe for carrying out an audit is 13 months, from the adoption of the APM (or a later date when the audit is planned to commence, as specified in the APM) to adoption of the report APC. Experience indicates that the time needed to carry out each stage of the audit **should** be planned as realistically as possible on the basis of past performance.

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 and should have regard to the agendas of the European Parliament and Council.

The audit team **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

Informal consultation on preliminary work, or oral presentations if necessary

In order to ensure an efficient planning process, preparatory work **should** not result in the presentation of a separate report to the Chamber. Instead, informal consultation on the preliminary work **should** be favoured. If considered necessary, an oral presentation could be made by the responsible Member to the Chamber in order to facilitate transparency and inform subsequent discussions on the APM.

Preparatory work should be limited to what is essential to research and plan a realistic, realisable and useful audit and to prepare and present the Audit Planning Memorandum.

<sup>20</sup> CH 324/11 of 30 September 2011 on Audit Quality management. Detailed guidance on the process can be found in the Audit Guideline on Issue Analysis and Drawing Conclusions (internal documents).

## 3.3 THE AUDIT PLANNING MEMORANDUM

### 3.3.1 Purposes and contents of the APM

#### Standard format of APM,

Detailed planning of the audit is set forth in the APM. The APM is the "contract" between the responsible Member and the Audit Chamber, 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 Chamber. 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 Chamber for decision, in the format set out in **Annex II**.

#### to include Evidence Collection Plan and Outline Audit Programme.

The APM **should** show (e.g. by way of an Evidence Collection Plan - see **Annex III**) how evidence will be obtained and analysed to answer the audit questions. It should also contain an outline of the audit procedures required for collecting and analysing the necessary information to allow the auditors to reach valid conclusions<sup>21</sup> (see **Annex IV** Outline Audit Programme). 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.

In order to promote efficiency in planning, and creativity and flexibility in conducting the performance audit, the audit team **should** as a rule avoid preparing excessively detailed or sophisticated APMs.

#### No audit work until APM approved.

The audit testing **should** not start until the APM has been approved by the Audit Chamber. 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.

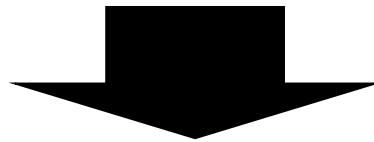
The issues to be addressed during the detailed planning of the audit, the results of which will appear in the APM, are set out in the following figure.

<sup>21</sup> See DQC Intranet for practical examples of Evidence Collection Plans and Audit Programmes for performance audits.

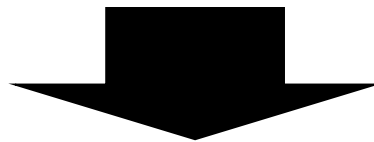
**Setting up the APM:**

**DETAILED PLANNING OF THE AUDIT - ISSUES TO BE ADDRESSED**

- ⇒ ① Define the audit question and sub-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



**ASSESS IF A SUFFICIENT BASIS HAS BEEN DEVELOPED FOR THE AUDIT**



**DRAFT APM**

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



## ① Define the audit questions

Ensure that the audit questions can be answered,

The APM **should** define the audit questions<sup>22</sup> based on the results of the Issue Analysis exercise. 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 concentrate on one topic,

In order to ensure that the audit objectives are thematically related, complementary and mutually exclusive, audit questions may be presented as a pyramid of questions with one overall audit question and a limited number of sub-questions, which 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 an EU 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,

<b>Relevance of the questions</b>	Is the topic material? Will the potential impact of the audit be material? Is it important for stakeholders (including the discharge authority and the general public)? Are there risks to sound financial management?
<b>Auditability</b>	Can all 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 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.

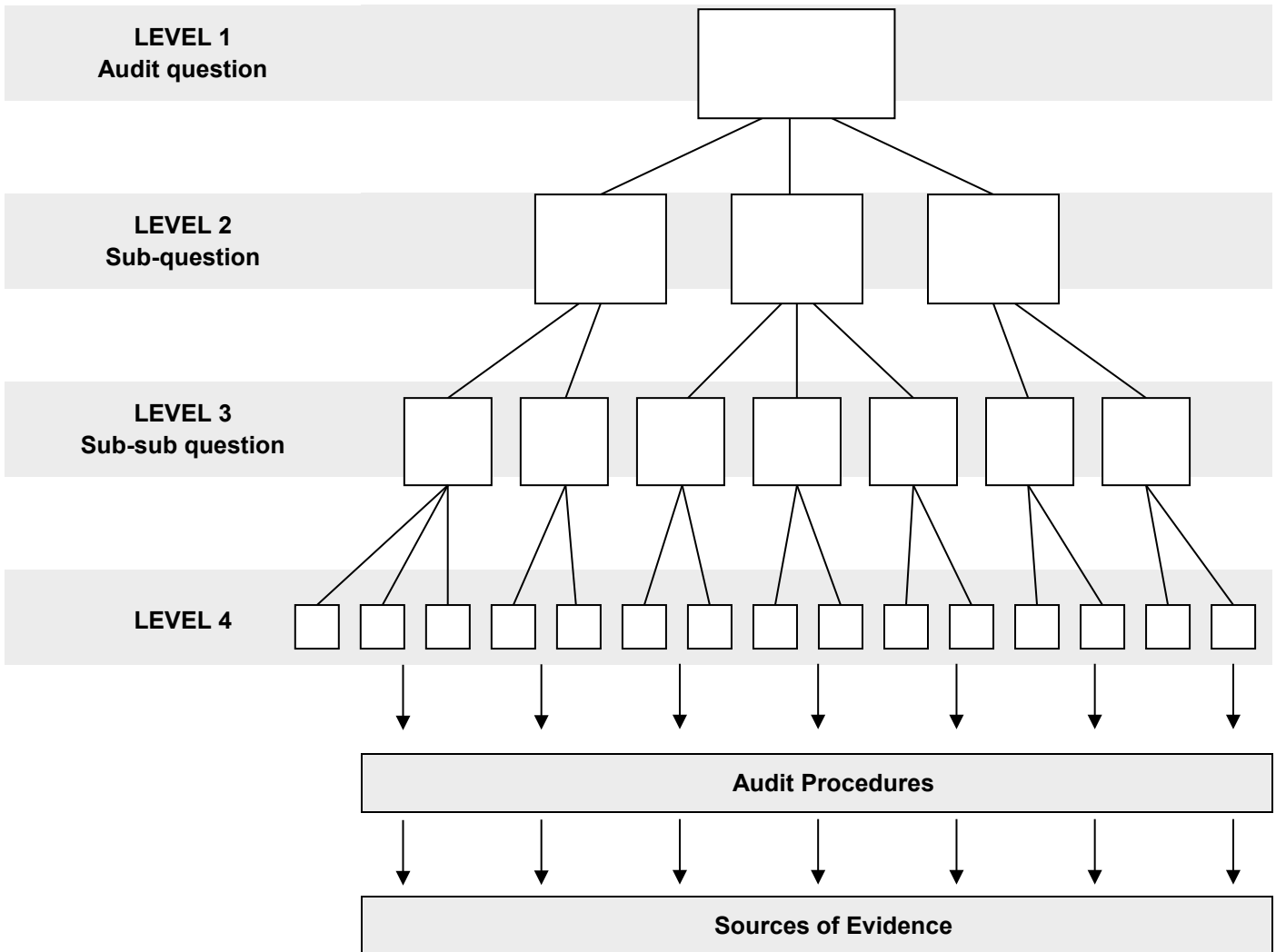
<sup>22</sup> DQC has Guidelines for developing audit questions (internal document).

**From audit question to sub-questions.**

The *audit question* 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 main 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 from one another (mutually exclusive), but together cover the main aspects of the question (collectively exhaustive) at the immediately higher level<sup>23</sup>.

Breaking down each audit question will form a pyramid<sup>24</sup>. 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:**



<sup>23</sup> More detailed guidance on the development of audit questions and sub-questions can be found in the Audit Guideline on Issue Analysis and Drawing Conclusions and the Guideline on Developing Audit Questions.

<sup>24</sup> 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 Devolution**

Level 1: Audit question	Is the Commission managing the devolution process successfully?	
Level 2	Level 3	Level 4
<b>1. Have delegations been well prepared for devolved management?</b>	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 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?
<b>2 Have central departments been well prepared for devolved management?</b>	2.1 Were headquarter (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 devolution?
	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?
<b>3. Does the Commission have effective procedures for monitoring performance of devolved management?</b>	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 Does the Commission ensure that the needs of HQ continue to be addressed after sub-delegation? 3.2.2 Does the Commission ensure that the underlying principle is respected?
	3.3 Was 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

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

✓ <b>WHAT</b>	the programme(s), ABM activity and action(s) & budget lines to be audited
✓ <b>WHO</b>	the Commission departments and/or other entities to be covered by the audit
✓ <b>WHERE</b>	the geographical scope of the audit
✓ <b>WHEN</b>	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. When laws, regulations, and other compliance requirements pertaining to the audit entity have the potential to significantly impact on the audit questions, then the audit should be designed to address these issues in order to conclude on the audit questions.

## ③ Establish the audit criteria to be used

Audit-appropriate criteria are essential to assess performance

Audit criteria are standards against which the 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 open to 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

Identify sufficient, relevant and reliable evidence...

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.

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

... and remember data protection notice when collecting personal data

Special attention **should** be given to audit tasks where personal data is used as audit evidence. According to Article 25 of Regulation No 45/2001, a data controller (i.e. the person who is responsible for the treatment of personal data) is obliged to give prior notice to the Data Protection Officer. The APM **should** make a reference to the treatment of personal data<sup>25</sup>.

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.

<sup>25</sup> For example: "It is confirmed that no personal data will be treated during the audit"; or "It is confirmed that personal data from X (e.g. describe the data population in receipt of an EU co-financed subsidy) will be used during the audit. A notification to the DPO has been made on (date), which was registered as Data Protection treatment no XXX. The DPO accepted the notification with no remarks/with the following remark(s) XXX."

**Qualitative and quantitative techniques**

Different methodological approaches may be employed at different audit phases and for different purposes (see various audit 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 ECA 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 supervision and review arrangements**

**A core audit team**

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. The APM should plan for a stable core audit team for the duration of the audit, with a permanent team leader, deputy team leader and responsible Member. The potential for efficiencies and reducing the audit duration by increasing the team size **should** be considered.

**And realistic plan is needed**

The audit **should** be planned and managed as a single project from APM to APC stages using the ECA's audit management and documentation tools (Audit Management System (AMS) and ASSYST II). A realistic plan **should** be established, indicating resources and responsibilities involved for each main task throughout the audit lifecycle. The plan **should** detail the quantity of resources required; competencies and expert knowledge of the audit team in the subject matter, and possible external expertise if needed. It **should** also give detailed timetables for each phase of the audit process (including report publication), with reporting milestones established for each phase, and a focus on external deadlines where relevant (e.g. the issue of new regulations in the audited area).

As a general rule, no more than five Member States (or beneficiary countries) **should** be visited on the spot in the course of an audit. The choice of Member States should automatically include a smaller Member State (in terms of population, geographic size or financial support received). Where deviations from these general rules are considered necessary, they **should** be explained in the APM.

scheduling 13 months from APM approval to report adoption.

The APM should set out the full timetable for the audit starting with any preliminary work considered necessary to the planned publication date of the report. In this context, the timeframe for an audit, from APM approval to the adoption of the special report (after the adversarial procedure) is 13 months. Experience indicates that the time needed to carry out each stage of the audit **should** be planned as realistically as possible on the basis of past performance. In exceptional cases, where a longer timeframe is required, this **should** be justified and approved by the Audit Chamber.

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 adversarial 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 (see Audit Quality Management Framework – VGAP – internal document) **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 Chamber concerned, and to add value by considering their different perspectives, provision **should** be made for a progress report, to be submitted orally or in writing by the Member responsible to the Audit Chamber. 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.

Arrangements for documenting and managing audit processes **should** be referred to in the APM including quality control procedures.

### ® Communicate with the auditee

Continuous dialogue and mutual understanding between auditors and auditee personnel, emphasised in the ECA'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
<b>Start-up</b>	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 so as to help reduce misconceptions or false expectations by the auditee.
<b>Prior to missions</b>	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.
<b>From start to end of mission</b>	Auditors discuss the audit procedures with auditee staff, keep them updated on progress and conduct a wrap-up meeting to inform them of facts that have arisen.
<b>Statement of Preliminary Findings</b>	Findings arising from the audit are documented and communicated to the auditee (see chapter 4).
<b>Pre-adversarial &amp; adversarial procedure</b>	To ensure agreement of audit findings (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.

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 Chamber.

The APM submitted to the Chamber is subject to EQCR, part of the ECA's framework for quality control (see section 2.5). Detailed procedures for how EQCR operates are set out in the Vademecum of General Audit Procedures – Audit Quality Management Framework - EQCR and in practical arrangements issued by the Chambers<sup>26</sup>.

<sup>26</sup> Internal documents



### 3.4 QUICK SPECIAL REPORTS

<b>Tackling narrowly defined audit subjects</b>	<p>It may be necessary at times to carry out audits that are not included in the Annual Work Programme at short notice and at an accelerated pace. These audits requiring immediate examination and reporting may arise due to changing circumstances, for example, a request from the European Parliament or from the Council. They are intended to tackle narrowly defined audit subjects within a tight time-frame with prompt communication of the results to auditees and stakeholders. The objectives and scope of the audit task <b>should</b> therefore be limited in nature (e.g. to a single issue).</p>
<b>Exceptional products</b>	<p>Given their specific origins “quick special reports” should be considered as an exceptional product among the ECA’s range of special reports and should not be regarded as falling within the ECA’s normal audit process. Due to their ad hoc nature, the decision to produce a quick special report would most likely require rescheduling other tasks and <b>should</b> be taken by an Audit Chamber or the Court.</p>
<b>do not require an APM or detailed preliminary work</b>	<p>Due to their expeditious nature, no presentation or reporting on the results of preliminary work or of an APM is required. Instead, an engagement letter <b>should</b> be presented to the Audit Chamber by the Reporting Member setting out in a clear and concise manner the need for the expeditious treatment, the audit work to be performed, the resources and timeframes required, and the anticipated impact of the audit. The engagement letter <b>should</b> also indicate which administrative arrangements, if any, are different for this audit and whether these arrangements have been discussed in advance with the relevant Commission departments.</p>
<b>but notified to the auditee</b>	<p>An overview of the planned scope and timing of the audit should be communicated to the auditee and effective two-way communication ensured during the audit<sup>27</sup>.</p>
<b>No audit missions</b>	<p>Missions to Member States or third countries are unlikely to be feasible under a quick audit process. However, this would ultimately depend on the specific circumstances of the audit.</p> <p>As the carrying out of quick audits requires close monitoring, the use of ASSYST and AMS tools is also mandatory for these audits. Similarly, EQCR is applicable as with other audits but it may commence while audit work is ongoing.</p>
<b>Quick reporting of results</b>	<p>Audit findings are not formally communicated to the auditee. However, before adopting the report, the auditee <b>should</b> be given the opportunity to comment on the audit findings, conclusions and recommendations. Findings are formally cleared through adversarial procedures or other channels and the Preliminary Observations and Special report <b>should</b> be adopted by the Audit Chamber (or the Court, if necessary).</p>
<b>Drafting of report</b>	<p>In order to avoid any unnecessary delays, the reporting phase should be pre-scheduled with the DQC Directorate. A drawing conclusions meeting <b>should</b> be held between the audit team, Director and staff of the Reporting Member’s Private Office (or Reporting Member), and possibly DQC to define the key messages to be featured in the report.</p>

<sup>27</sup> ISSAI 100/43 Effective communication throughout the audit process.

**Adoption** Quick special reports may be adopted by a written procedure without recourse to a formal meeting of the relevant chamber. The period after which the Chamber's decision becomes definitive ("emergency-brake procedures"<sup>28</sup>) is also shortened to two days.

**Publication** Quick special reports may be published on the internet in the drafting language as soon as adopted and when the auditee's definitive replies have been received. They are not usually published in hard copy.

It is estimated that the total required time for a quick report from approval of the engagement letter to publication is between six and eight months.

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<sup>28</sup> The term "emergency brake procedure" refers to article 26(4) of the Court's Rules of Procedure.

## ANNEX I: CONTENTS OF AN AUDIT PLANNING MEMORANDUM<sup>29</sup>

### 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 APM preparation stage. 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 planned, and the reporting calendar.

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

<b>Description of the audit area</b>	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.
<b>Materiality and risks to sound financial management</b>	The monetary amounts involved are stated, and the main risks to sound financial management identified at the audit planning stage.
<b>Relevance</b>	Interest in the subject matter from the Parliament, Council, Commission, the public, 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.
<b>Potential impact</b>	Potential impacts to be identified may include the influencing of future policies and programmes, potential cost-saving opportunities, and highlighting of good practice.

### What are the audit questions and audit scope?

<b>Audit questions</b>	<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>
<b>Audit scope</b>	<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.</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>

<sup>29</sup> The APM template is available on the DQC Intranet.

## How will we get the answers?

<b>Audit approach</b>	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.
<b>Audit criteria</b>	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.
<b>Audit methodology</b>	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.
<b>Likely outcome of the audit</b>	The likely outcome identifies areas in which findings may be identified, conclusions drawn and recommendations made. It addresses the audit questions, and should not be too detailed or give false hopes of far-reaching effects of the audit.

## How will the audit be resourced, supervised and monitored?

<b>Resources, costs and timetable</b>	<p>The audit team is identified by name, audit grade and time allocated, and the budget, including consultant<sup>30</sup> 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.</p> <p>It is <b>obligatory</b> to use the ECA's electronic audit management system (Audit Management System - AMS) in planning and reporting on the sequence of tasks for each part of the audit process. This tool presents a graphical representation of the duration of tasks against the progression of time, and the relationships between different parts of the process. It also provides a critical path analysis 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.</p>
<b>Risks to delivery within time and budget</b>	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.
<b>Quality Control arrangements</b>	A progress report from the responsible Member to the Audit Chamber 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 Chamber's reporting system, and the documentation of the audit findings and working papers in ASSYST II.

<sup>30</sup> Requests for budget provisions for external experts should be made to DQC as soon as they are planned.

## Has the auditee been informed?

### Reference to discussion

Reference is made as to whether the audit objectives, questions, scope and criteria have been discussed with auditee management in preparing the APM and whether their reaction has been duly considered. In addition, planned contacts with the auditee and external experts throughout the course of the audit (as well as expected presentations of reports to Parliament, Council and the media) **should** be included in the APM in the form of a brief communication plan containing information on who will be responsible for each communication; what the communication will be, and when is it likely to occur.

## Conclusion

We propose that the audit be undertaken. We hereby ask the Audit Chamber for permission to proceed with the audit in the manner outlined above, and with the resources and timeframes indicated.

## ANNEX II: 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"> <li>- Answers can be yes, no, yes but, or no but.</li> <li>- Answerable</li> <li>- Logical</li> </ul>				<ul style="list-style-type: none"> <li>- Legislation, regulations, professional standards</li> <li>- Standards, measures or results commitments of auditee</li> <li>- Performance of comparable organisations, best practice, or standards developed by auditor</li> </ul>	<ul style="list-style-type: none"> <li>- Facts (numerical evidence; descriptive evidence, qualitative information)</li> <li>- Experiences / Perceptions / Opinions</li> </ul>	<ul style="list-style-type: none"> <li>- The entity, other public entities, published research, beneficiaries, suppliers, interest groups</li> </ul>	<ul style="list-style-type: none"> <li>- <i>In person</i> (observation, examine documents, interviews, focus groups)</li> <li>- <i>By post, telephone, e-mail</i> (request documents, questionnaires)</li> <li>- <i>Sample surveys</i> (which could be either in person or by post, e-mail)</li> <li>- <i>Benchmark</i> against comparable entities</li> </ul>	<ul style="list-style-type: none"> <li>- Quantitative evidence (e.g. trends, comparisons, ratios)</li> <li>- Qualitative evidence (coding, matrices)</li> <li>- Systems analysis (e.g. flowcharts)</li> <li>- Case studies</li> </ul>

## ANNEX III: 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

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#### Who to contact

For any further information, please contact:

European Court of Auditors

Directorate of Audit Quality Control Committee (DQC)

E-mail: ECA-DQC-CONTACT or [eca-dqc-contact@eca.europa.eu](mailto:eca-dqc-contact@eca.europa.eu)



## 4.1 INTRODUCTION

**From APM approval to clearing findings,**

The audit examination phase commences at the start of audit work, following approval of the 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, and drafting and clarifying audit 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. In general, the organisation of the audit **should** also satisfy the requirements of good project management<sup>31</sup>.

**With objectivity and judgement essential.**

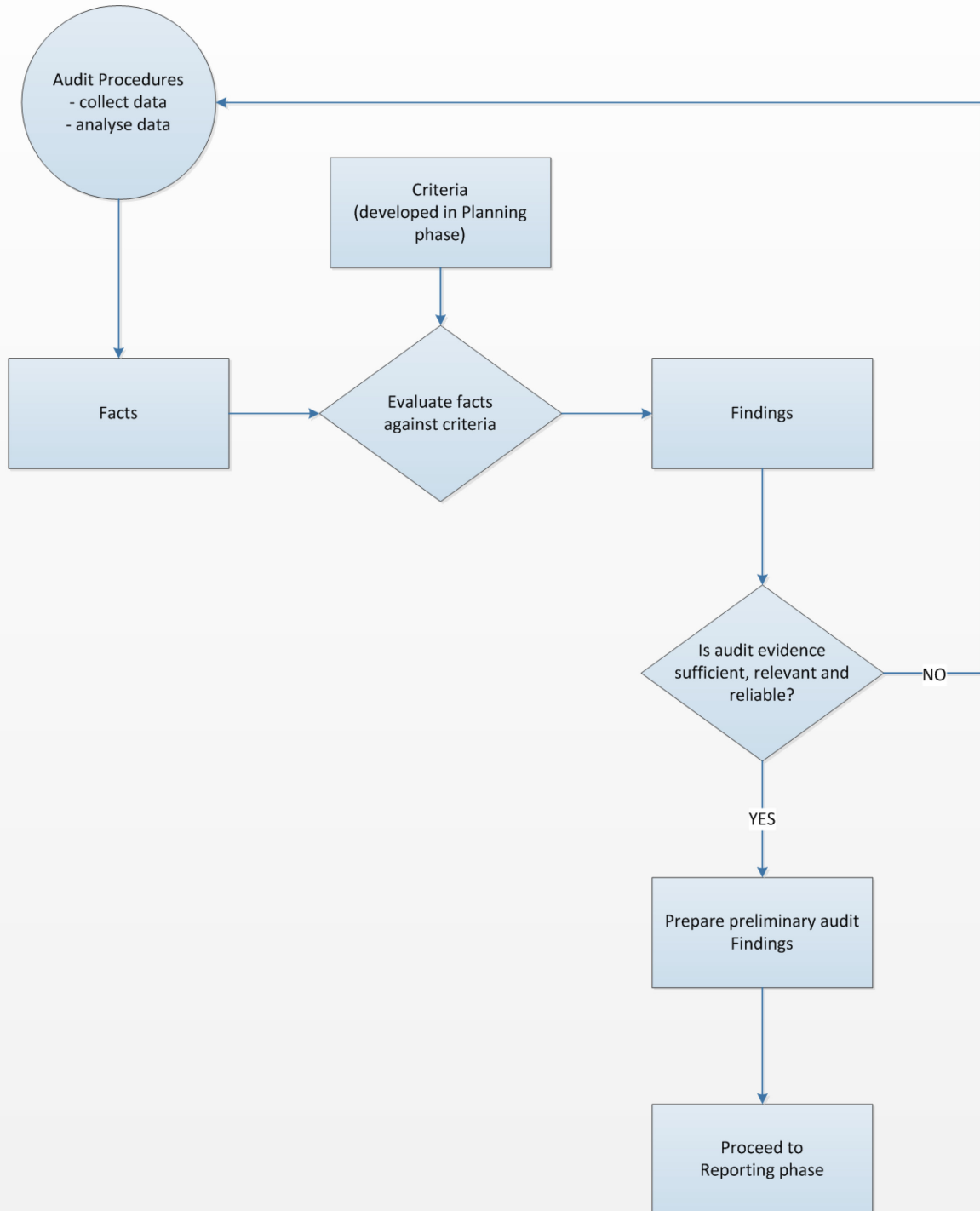
It is critical that auditors consider from different perspectives the activity being audited and keep an unbiased attitude to information presented while being open-minded to different views and arguments.

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.

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<sup>31</sup> Audit Standards ISSAI 300, para. 37, ISSAI 3000, para 96-97 and ISSAI 3200 good project management and submitting the plan to supervisors and SAI management, para 56-60.

AUDIT EXAMINATION PHASE



## 4.2 DELIVERING SUFFICIENT, RELEVANT & RELIABLE AUDIT EVIDENCE

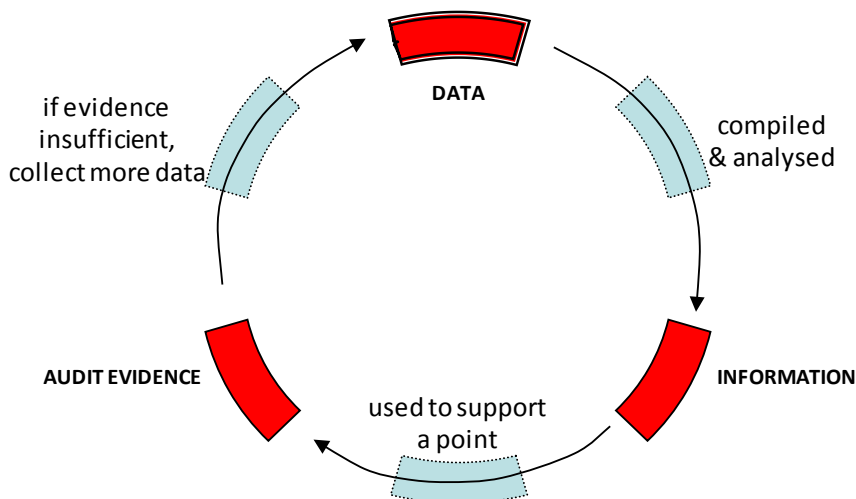
### 4.2.1 Purpose of and approach to the examination phase

<p><b>A search for evidence</b></p>	<p>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.</p>
<p><b>to arrive at an audit finding</b></p>	<p>During the audit examination phase, audit procedures are carried out to collect and analyse data; the resultant evidence or fact (<i>'what is'</i>) is evaluated against the pre-determined audit criteria (<i>'what should be'</i>) in order to derive audit findings; and the causes and effects of these findings are determined. Audit findings therefore consist of the evidence compared to the standard (expressed in the form of an audit question or criterion) and an analysis thereof. The findings are communicated to the auditee, whose written response is required, whether indicating agreement or reasons for disagreement. .</p> <p>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 and when different findings, arguments and perspectives arising during the course of the audit are assessed.</p>

### 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 auditors to 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 so that the auditors are not 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:

Practical constraints on evidence

- 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 not only of facts, but also of 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.

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 <b>purpose</b> 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 <b>materiality</b> in monetary terms or the <b>significance</b> 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 <b>independence</b> of the source of the evidence	greater reliance can be placed on evidence which emanates from independent sources
the <b>cost</b> 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 <b>risk</b> 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 <b>care</b> 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	
<b>generated directly by the auditors</b>	through interviews, questionnaire surveys, focus groups, direct inspection and observation. 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.
<b>provided by the auditee</b>	such as information from databases, documents, activity statements and files (e.g. reports of the Internal Audit Capabilities, impact assessments and ex-post evaluations). 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.
<b>provided by third parties</b>	which may have been verified by others or whose quality is well known, e.g. national statistical data. 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.

#### 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
<b>PHYSICAL</b>	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.
<b>DOCUMENTARY</b>	This evidence may be in electronic or hard-copy format. However, useful information may not always be documented, thus also necessitating the use of other approaches.	Review of documents, reports, manuals, literature, the internet, postal or web-based surveys.	Performance management reports, policies & procedures, system descriptions, letters, contracts, survey results.
<b>ORAL</b>	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 <b>should</b> 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.
<b>ANALYTICAL</b>	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 analysis<sup>32</sup>

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 planning phase).

The character of data collection usually changes as the audit proceeds. Initially, e.g. during the planning phase, the auditor is interested in more general information; as the audit proceeds, the 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 I) 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.

<sup>32</sup> See DQC 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 ECA's auditors may use the data and findings generated by the Commission's Internal Audit Service (IAS) and by the Commission's evaluation reports.

When the ECA contracts work out to other parties (either auditors or experts), it **should** communicate its ethical policies and quality control procedures to such parties and seek confirmation that they have an effective quality control system. It **should** also check that they have the necessary competencies required to perform the work, and that they are subject to appropriate confidentiality arrangements.

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 working papers. 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 it<sup>33</sup>. 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: assessing their independence, objectivity and professional competence prior to their engagement; ensuring the terms of reference and scope of work are appropriate; and evaluating and corroborating 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 any issues arising.

### 4.3.4 Data collection and ethics

In 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 observed.

<sup>33</sup> See Guidelines on Evaluation (DQC Intranet) for further information.

Auditors **should** discuss among themselves and 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. When performing risk-assessment procedures and related activities, they **should** determine how and where fraud might occur and the extent to which such acts affect the audit result<sup>34</sup>. In the occurrence of such an event, the standard Court procedures in respect of irregularities and fraud **should** be followed.

The auditor **should** have a questioning mind and maintain professional scepticism. Notwithstanding the auditor's past experience of the honesty and integrity of the entity's management, the auditor **should** recognise that a situation of irregularity or fraud could exist. When planning the audit, some time and resources **should** be provided for unpredictable events.

#### 4.3.5 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,

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.

<sup>34</sup> Auditing standard ISSAI 1240 (ISA 240, paragraphs 15 – 24).

and understand deficiencies.

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.

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.

#### 4.4.2 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 established by the evidence, 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

As mentioned in section 2.4.8, the communication process between the auditor and auditee begins at the planning stage of the audit and continues throughout the audit process, by a constructive process of interaction, as and when different findings, arguments and perspectives are assessed. Furthermore, as stated in the previous section, the auditor needs to make the auditee aware of the preliminary audit findings to determine and verify whether corrective action has already been taken and, if so, take this into consideration for reporting purposes. The communication of preliminary findings (standards, facts, and analysis) also provide 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 audit visit. Preliminary audit findings need to be assessed in light of the auditee's responses. The results of this communication and confirmation should be documented as part of the audit process.

In principle, there **should** remain no disagreement on the factual content following this process. Furthermore, issues which may lead to controversial discussion during the subsequent adversarial procedure with the Commission must be duly identified and carefully analysed. Differences of view 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 **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 audit findings are cleared, thus helping to ensure that the audit findings are evidence-based. Audit files and working papers 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.

is the basis for report contents,

Good documentation of audit evidence helps to ensure that:

- a defensible basis exists for the audit findings and draft final report contents (which is particularly important during the adversarial 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. In many instances, a single note summarising the key points of several meetings is sufficient. However, it is recommended that the auditor, at the beginning of the audit, inform 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 cross-referencing of audit findings to the evidence, prior to their submission to the reviewer/approver. 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 Head of Task **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 work of staff assigned to the audit, in order to ensure that the audit questions are answered. Elements of supervision include providing staff members with sufficient guidance, 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 Head of Task and responsible Member perform such monitoring at a detailed level using the Audit Management System tool (AMS). The Audit Chamber also has a role to play in monitoring performance.

#### Taking corrective action.

*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.

## ANNEX I: DATA COLLECTION AND ANALYSIS METHODS

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



# PERFORMANCE AUDIT MANUAL

## CHAPTER 5 REPORTING PHASE

### Chapters in the Performance Audit Manual

General introduction

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

Chapter 2: The Performance  
Audit Approach and the  
3 'E's

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  
Directorate of the Audit Quality Control Committee (DQC)  
E-mail: ECA-DQC-CONTACT or [eca-dqc-contact@eca.europa.eu](mailto:eca-dqc-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 Report”<sup>35</sup> or, on occasion, the issuance of a President’s Letter<sup>36</sup>. It thus includes drafting, approval of the preliminary observations by the Audit Chamber, the adversarial procedure with the Commission, adoption of the final report by the Chamber, translation, presentation to the discharge authority<sup>37</sup> and publication. 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. Note that the audit questions presented in the special report **should** be those questions which give rise to the report’s conclusions. These questions need not be exactly the same as the original audit questions as set out in the APM<sup>38</sup>.

### which effects change

Publication helps to ensure that the ECA’s work results in real change and provides transparency in terms of the management of EU funds. The reputation and credibility of the ECA 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 EU spending. As the ECA’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 ECA’s output.

### based on a good audit.

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.

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<sup>35</sup> A special report is the reporting vehicle generally used for communicating the results of performance audits.

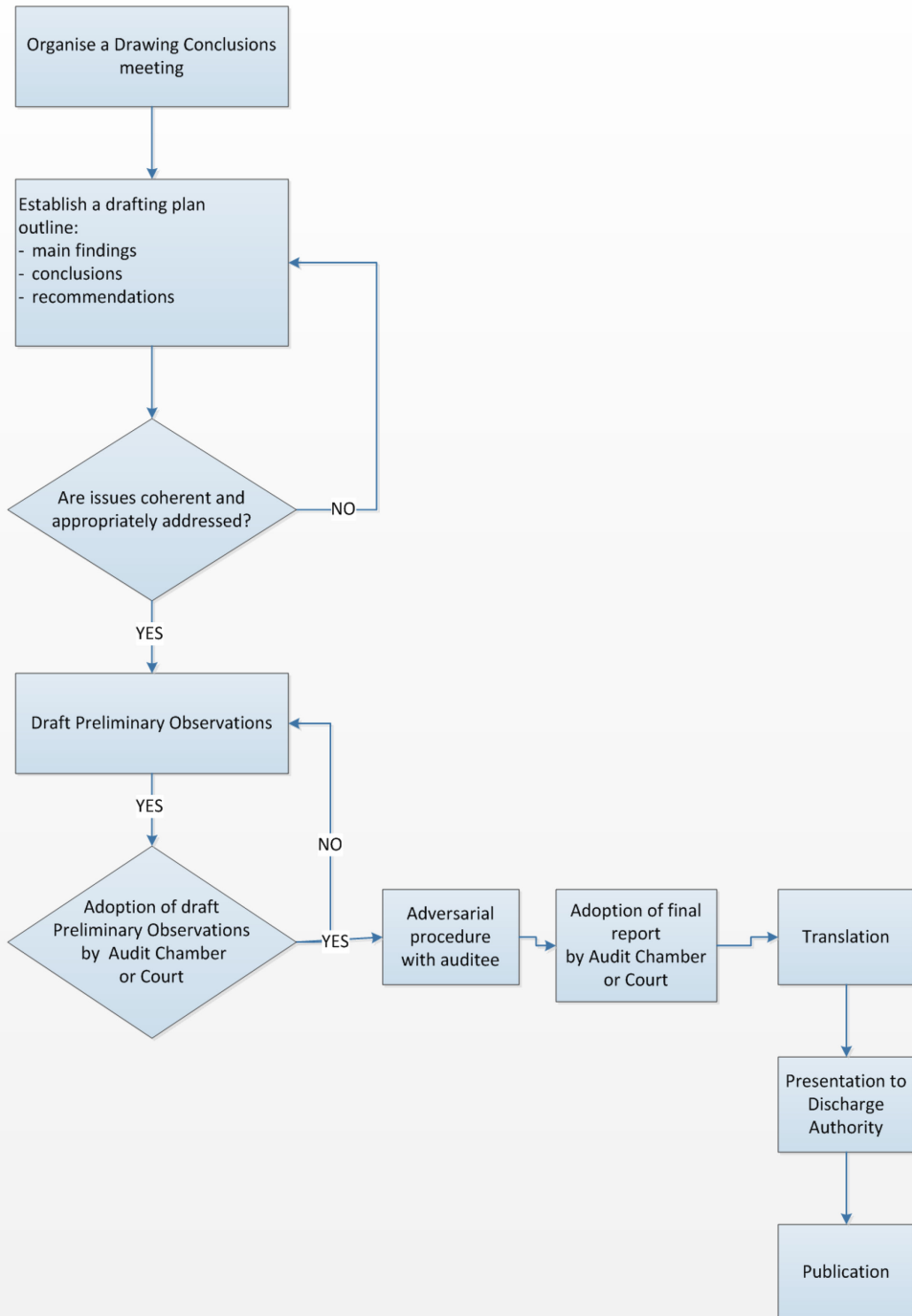
<sup>36</sup> A President’s Letter comprises the report, with a covering letter from the President of the Court, which is sent to the auditee. It is not necessarily translated or published. The decision to publish a President’s Letter is taken on a case-by-case basis by the Court.

<sup>37</sup> The European Parliament, through its budgetary control committee - the CONT. Special reports are also presented to the Budget Committee, and may be presented to other specialised committees of the Council and European Parliament.

<sup>38</sup> The audit work is carried out with the aim of answering the APM audit questions. However, it is often the case that those questions are not the most suitable basis for presenting the Court’s conclusions in a special report. In these circumstances, for the purposes of reporting in special reports, audit teams are not required to adhere strictly to the APM questions.



AUDIT REPORTING PHASE



## 5.2 REPORT QUALITY

Based on the INTOSAI Auditing Standards and guidelines for performance auditing, (as well as the report writing audit guidelines), the ECA'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. In order to increase the likelihood that the ECA's reports are easily identified by internet search engines, thus increasing their visibility and impact, all reports **should** include, wherever possible, the words "Europe" or European" in their titles. 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 stated 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"><li>- Noise enters office when windows are closed</li><li>- Draughts enter office when windows are closed</li><li>- Fumes enter office when windows are closed</li></ul>

#### ⑤ Relevant

Timely and value-added.

The report's contents must pertain to the stated 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 ECA'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.

## ® 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

	<p>The ECA's reports have a wide range of addressees, such as the discharge authority, the auditee<sup>39</sup> and the general public.</p>
<b>Discharge authority.</b>	<p><i>The discharge authority</i> - the European Parliament acting on the recommendation of the Council - is a critical target group, which uses the ECA's reports in a direct and practical way to assess financial management, support its discharge decisions and make observations and requests.</p>
<b>Auditees.</b>	<p><i>Auditees</i> are managers of the budget, and experts in the area. As detailed findings will have been communicated to the auditee during the audit process, the report can focus on communicating the overall findings and main messages.</p>
<b>European citizens.</b>	<p><i>The citizens of the Union</i> are reached in large part through coverage of the ECA's reports by the media. This target group is rarely expert in the audit subject.</p>

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 EU or audit context. This avoids the need for sensationalism to attract 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

Sketch report outline early in audit

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.

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 Head of Task, needs to be reviewed periodically throughout the audit.

<sup>39</sup> Generally a European institution, agency or body, rather than individual beneficiaries or Member States.

and present in progress report.

As part of the Audit Chamber's monitoring of audits, a progress report, as envisaged in the APM, **should** be prepared, generally by the Head of Task, and presented to the Audit Chamber. 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 audit completed,  
develop drafting plan

Audit teams **should** carry out a "drawing conclusions" exercise between the completion of the audit work and the drafting of the report<sup>40</sup>.

On the basis of the drawing conclusions session, the report outline **should** be developed into a more detailed *drafting plan*. The drafting plan is generally established by the Head of Task, 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 Task 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.

<sup>40</sup> CH 324/11 of 30 September 2011 on Audit Quality management. Detailed guidance on the process can be found in the Audit Guideline on Issue Analysis and Drawing Conclusions (internal document).

It is the role of the Head of Task to ensure that the preliminary observations are drafted and the necessary revisions made following input from the Reporting Member, Chamber Members and the Court.

Before the Preliminary Observations are drafted and in order to ensure that audit results are of adequate quality, the questions set out in the Vademecum of General Audit Procedures – Audit Quality management framework checklist in Appendices 1.2.(a) – (c) **should** be considered (internal documents).

and referenced to audit findings.

The draft preliminary observations **should** be accompanied by a document which cross-references each observation (per auditee) to the corresponding audit findings. Such a document helps the audit team to ensure that all findings are directly sourced from the audit findings and is necessary in order to prepare the pre-adversarial 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 ECA'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. For this purpose it **should** include clear statements such as “The objective of the audit was...”; “The audit covered the period...”; “The audit examined...”; “The audit found...”, and “The audit recommends...” 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. It **should** contain a statement but it **should** not contain audit observations. 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 and methodology

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. Different readers have different needs and expectations. "Front-line" readers such as the discharge authority and media may not read beyond the executive summary. However, readers from the audit and academic community usually welcome more detail, in particular concerning the scope and methodology employed in the audit work supporting the special report. Therefore, this section within the main body of the report **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; audit methodology and approach, sources of data, and any limitation to the data used. Detailed information **should** then be included by way of annexes.

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.

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

## ⑤ Conclusions and Recommendations<sup>41</sup>

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.

and to the right auditees

The ECA's main auditee is the Commission. However and in particular in audits undertaken in relation to shared management mode, whenever appropriate the recommendations may be addressed to Member States (or even to a specific Member State or MS authority (see 3.2.3))<sup>42</sup>.

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.

<sup>41</sup> For more information see additional guidance on writing audit recommendations, QA 012/16 (internal document).

<sup>42</sup> More information on addressing recommendations to Member States is provided in DEC 094/15 Recommendations to Member States for special reports and annual reports (internal document).



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.

Auditors **should** refer to all significant instances of non-compliance and significant instances of abuse<sup>43</sup> that were found during or in connection with the audit. Where such instances are not pertinent to the audit questions, they **should** nevertheless be communicated to the auditee, preferably in writing, at the appropriate level.

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 ECA's reports

Exercise great care

Regarding the naming of third parties in the ECA's reports, the judgement in the Ismeri case<sup>44</sup> was that "*the Court might in certain cases be required to give the names of third parties directly involved in serious malfunctions of the EU institutions. The assessments made in such cases of the persons concerned might constitute a fault giving rise to liability on the part of the EU [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 ECA's report or can be easily identified by the reader.

<sup>43</sup> Auditing Standard ISSAI 1240/P6 "Abuse involves behaviour that is deficient or improper when compared with behaviour that a prudent person would consider reasonable...".

<sup>44</sup> 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.

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 judgement 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.

#### 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 prompt questions about the quality of the findings. Court reports **should** be interesting and easy to read, and provide a positive image of the ECA'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 acted upon 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 ECA cannot arrive at a definitive conclusion. When an assertion represents the ECA'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 DQC, whilst recent reports, both from the ECA 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. Non-textual information such as pictures and maps form part of the report and therefore such material **should** be included in all approval and adoption stages of the preliminary observations and special report, including the adversarial procedure.

## 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 DQC on such matters.

## 5.5 REVIEWING THE REPORT

Reporting Member, audit team and Chamber EQCR,

The Reporting Member is responsible for submitting high-quality reports to the Chamber. To this end, the Member **should** assess whether 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.

Effective supervision and review within the audit team (section 2.5) is particularly important in supporting the Reporting Member in achieving a high-quality report.

The first time a full draft of the audit report – known as the ‘preliminary observations’ – is submitted to the chamber, it is subject to EQCR. In this case, in addition to initial self-assessment by the audit team, responsibility for EQCR is split between the Chamber Director (on matters relating mainly to evidence) and DQC (on matters relating mainly to presentation).

Detailed procedures for these quality control arrangements are contained in the Vademecum of General Audit Procedures – Audit Quality Management Framework – EQCR (internal document).

Audit Chamber.

The Audit Chamber **should** then review and approve the draft preliminary observations.

## 5.6 CLEARING THE REPORT<sup>45</sup>

From first reading to final adoption,

The 'clearance' process covers the period from the time the draft preliminary observations are first submitted to the Audit Chamber, through the adversarial procedure with the Commission, until final adoption by the Chamber.

Once the Chamber 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 ECA's 'no surprises' approach; and
- timely and effective communication with the auditee on the preliminary audit findings.

Article 163 of the Financial Regulation (FR) requires that *“the Court of Auditors shall transmit to the institution or the body concerned any observations which are, in its opinion, such that they should appear in a special report. Those observations shall remain confidential and shall be subject to an adversarial procedure. The institution or body concerned shall inform the Court of Auditors, within six weeks of transmission of those observations, of any replies it wishes to make in relation to those observations”*.

including the Adversarial Procedure

The six weeks period includes what is generally known as the adversarial procedure, during which a meeting is arranged between the institution concerned and the ECA. The primary purposes of this meeting are to resolve, firstly, any disagreements over the facts and, secondly, any differences of opinion between the ECA and the Institution (or other body) over interpretation of the evidence. The meeting is also used to finalise the institution's replies to the observations. DQC acts as an intermediary in arranging and chairing such meetings.

and pre-adversarial meeting,

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

The changes made to the text of the draft special report as a result of the adversarial procedure must be apparent in the final draft report to be submitted for Chamber 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 ensure that the special reports are drawn up and adopted within an appropriate period of time, which shall, in general, not exceed 13<sup>th</sup> months<sup>46</sup>. The special reports, together with the replies of the institutions or bodies 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. The Court of Auditors shall take all necessary steps to ensure that the replies to its observations from each institution or body concerned, as well as the timeline for the drawing up of the special report are published together with the special report.”*

<sup>45</sup>Additional guidance is available in the Vademecum of General Audit Procedures : Clearing audit findings for performance auditors (internal document).

<sup>46</sup> See also DEC 116/15 FINAL Measuring the 13 month target (internal document)..

Once the definitive version of the special report has been adopted by the Chamber, it is submitted to the ECA's Translation and Language Services Directorate for translation into the official languages.

## 5.7 DISTRIBUTING THE REPORT

Special Reports are published and distributed in accordance with the ECA's procedures. The latter include making the report available on the ECA'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 CONT (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 and findings

Assessing and measuring the impact of the ECA's performance audit reports is a necessary element in the cycle of accountability. The recommendations made in special reports **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 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 ECA's performance - follow-up provides a basis for assessing and evaluating the ECA's performance; and
- ✓ creating incentives for learning and development - follow-up activities may contribute to better knowledge and improved practice.

Following up recommendations serves several purposes.

The follow-up work takes the form of "limited reviews" carried out by the Audit Chambers, which assess the extent to which the auditee (generally the Commission) has addressed the findings and recommendations contained in the ECA's special reports. It does not however, assess the effectiveness of those actions taken by the auditee, as this would require a detailed audit enquiry. Accordingly, a detailed examination of a specific special report may be carried out by Audit Chambers as an 'in-depth' follow-up audit, if considered necessary.

Follow-up will normally take place three years after publication of the special report. The starting point could be the regular follow-up reports submitted by the Commission and other institutions to Parliament when these are available, as well as the Commission's follow-up database known as RAD (Recommendations, Actions, Discharge). The ECA reports on the follow-up of its special reports in an annual follow-up report or by way of separate special reports. The annual follow-up report contains the results of the work carried out by the ECA to assess the corrective actions of the auditee in response to the ECA's audit findings and recommendations.

### Selection of reports for follow-up

During the AWP process, Audit Chambers select the special reports in consultation with Chamber V which they intend to follow up as part of this annual task<sup>47</sup>. The reports are selected on the basis of two criteria: whether more than two to three years have elapsed for the auditee to address the recommendations, and whether the recommendations are still relevant.

### Planning the work

The work, which is less than that required for a reasonable assurance audit, is performed on the basis of a brief planning document rather than a detailed planning memorandum. Under normal circumstances, following up one special report **should** not require more than 10 auditor-weeks.

The review as performed by the Audit Chambers, follows up the audit findings (weaknesses) and recommendations included in special reports, and includes the following stages:

- 1) a review of the Commission's management database (RAD) as a preliminary source of data, in respect of the audit reports being reviewed as well as a review of the ECA's relevant databases;
- 2) a documentary review of annual reports, action plans, policy documents, specific reports and their analysis;
- 3) obtaining and analysing evidence on the specific actions taken by the Commission to implement recommendations and address weaknesses identified;
- 4) sending clearing letters containing preliminary findings drafted according to a standard template.

The review by the audit teams **should** ascertain the state of implementation of the ECA's recommendations (fully implemented; implemented in most respects; implemented in some respects; not implemented; no longer relevant; could not be verified).

### Scope and approach

In reviewing the implementation of the ECA's recommendations, the audit team may wish to review the status of the Commission's Action Plans in relation to the requests of the Discharge Authority (as required by the Commission's Internal Control Standard No 9) as a source of complementary information.

Chamber V is responsible for coordinating the task either in a form of a contribution to the annual report chapter or as a separate special report. The Reporting Member is a permanent Member of Chamber V.

The detailed procedure for the follow-up can be found in the Vademecum of General Audit procedures (internal document)<sup>48</sup>.

## 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.

<sup>47</sup> DEC 006/10, CH 234/10 and DEC 44/16 (internal documents).

<sup>48</sup> Note: Court's methodology for the follow-up is currently being further developed (as indicated by DEC 44/15 – internal document) in particular in relation to recommendations addressed to the Member States and the upcoming ECA strategy 2018-2020.



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, and possible wider applications for all performance audits



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