

| <b>LETTURA</b>   | <b>PAGINA</b> |
|------------------|---------------|
| <b>LETTURA 1</b> | <b>24</b>     |
| <b>LETTURA 2</b> | <b>26</b>     |
| <b>LETTURA 3</b> | <b>33</b>     |
| <b>LETTURA 4</b> | <b>39</b>     |
| <b>LETTURA 5</b> | <b>44</b>     |
| <b>LETTURA 6</b> | <b>45</b>     |
| <b>LETTURA 7</b> | <b>50</b>     |

## 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:

### LETTURA N.1

Important from start to end of audit

The auditor **should** ensure that:

- S**ound judgement is exercised throughout the audit process.
- M**ethodologies are appropriate and combined to capture a range of data.
- A**udit question(s) are set which can be concluded against.
- R**isks to delivering the audit report are analysed and managed.
- T**ools are employed to help achieve successful delivery of the audit.
- E**vidence is sufficient, relevant and reliable to support the audit findings.
- S**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.

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.

#### 2.4.4 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.

## LETTURA 2

#### 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>3</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.

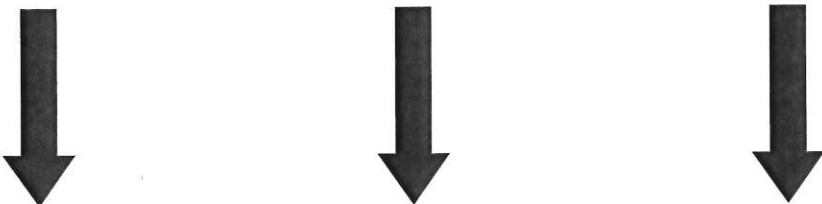
<sup>4</sup> APC – "Après procédure contradictoire" (after adversarial procedure).

Planning 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

**LETTURA 3**



**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**

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

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

**LETTURA 4**



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



**DRAFT APM**

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

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

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

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>.

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.

Identify sufficient, relevant and reliable evidence...

Remember data protection rules when collecting personal data

Sources of evidence.

TURA 5

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."

# TURA 6

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.

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.

The combination of methods depends on 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).

**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?**

TURA 7

**Description of the audit area**

The reasons for selecting the audit subject are clearly stated. Relevant background information is briefly presented on the audit subject (e.g. policy, programme, DG), which may include the main activities, financial information, laws and regulations, the objectives of the audit subject (which may be set out in a Programme Logic Model), and the roles and responsibilities of the major actors.

**Materiality and risks to sound financial management**

The monetary amounts involved are stated, and the main risks to sound financial management identified at the audit planning stage.

**Relevance**

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.

**Potential impact**

Potential impacts to be identified may include the influencing of future policies and programmes, potential cost-saving opportunities, and highlighting of good practice.

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

**Audit questions**

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.

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.

**Audit scope**

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.

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.

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