



DEVELOPING THE AUDIT OBJECTIVES

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FOREWORD

These guidelines give advice on how to develop the audit objectives, formulated as questions, in the planning of an audit.

Sections 1 and 2 give a brief introduction to the method, identify its main features, and explain when to use it.

Section 3 is a detailed guide for auditors on how to use the method, step by step. This part is complemented with examples from audits conducted by the Court, adapted to the principles of this method of developing audit questions.

Annex I provides an example of a fully developed hierarchy of questions.

List of documents related

Who to contact

If you feel that the information provided in this document could be improved, please do not hesitate to communicate your suggestions: ECA-AMS.CONTACT@eca.europa.eu.

SECTION 1: WHAT IS THE PURPOSE OF THE METHOD?

Audit objectives in the form of questions

The **Audit Manual on Performance audits** of the Court¹ points out that it is appropriate to set out the audit objectives in the form of questions that the audit is to answer. It further points out that *"For performance audits, it is appropriate to set out the audit objective in the form of a question that the audit is to answer [...] This main audit question should then be converted into lower-level questions, the lowest level of which can be answered by carrying out specific audit procedures."*

"Issue Analysis"

This document proposes a method for developing audit questions, based on the Issue Analysis methodology. It is a rigorous, structured approach for developing the main audit question, and for bringing these high-level, and often abstract, audit questions into specific audit procedures, linked to detailed methodologies, criteria and evidence sources.

The method helps answer the following:

- What is the audit about?
- What evidence do we need to gather?

The method can also be suitable for developing questions for financial audits.

Developing and breaking down the questions by rules

The method proposes **rules** for developing the main audit question, and for breaking the main audit question down into increasingly more detailed questions, in a hierarchy of yes/no questions until the subsidiary questions are simple and manageable enough to be answered by carrying out specific audit procedures.

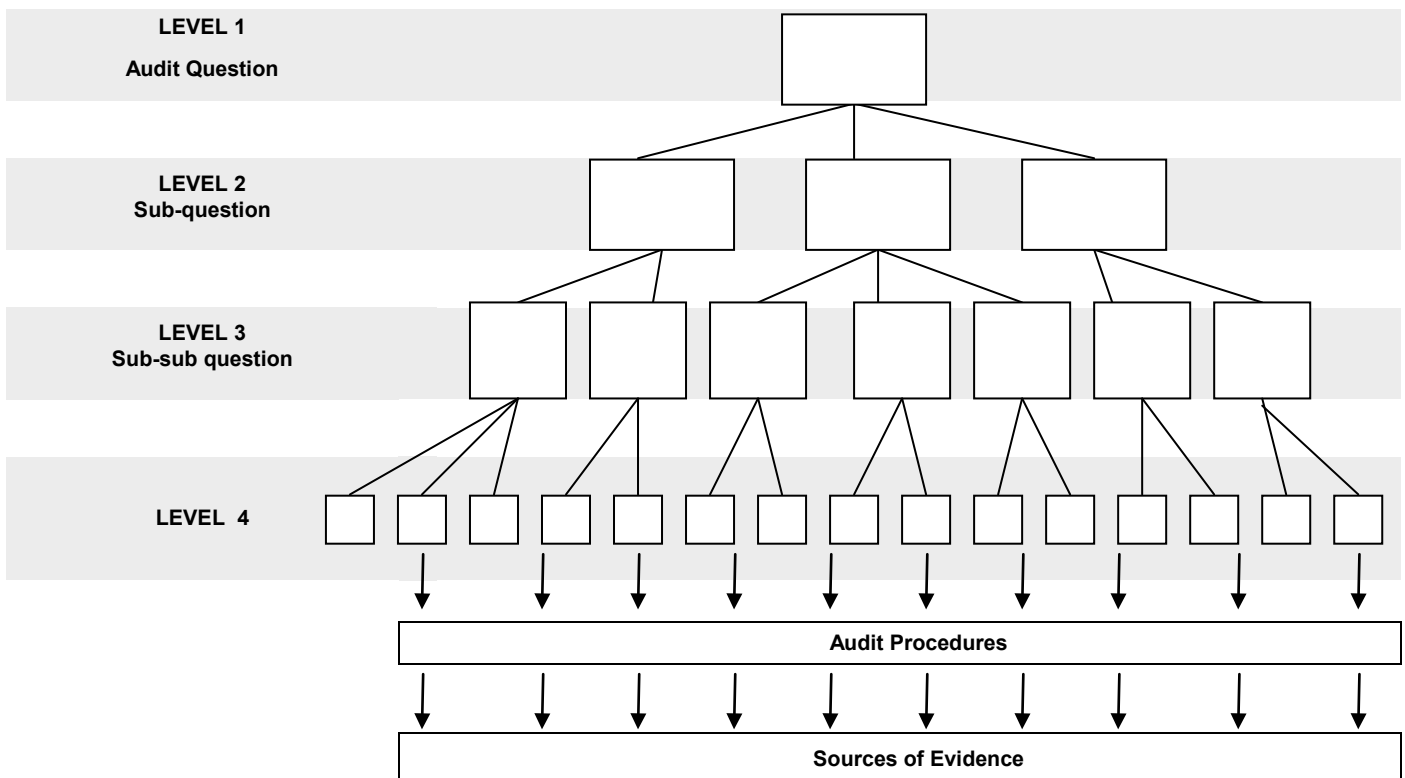
The purpose is to make it evident whether or not it is possible to conclude against the main audit question. Likewise, it should be possible to assess whether there is a logical chain from the specific audit procedures through the sub-questions all the way up to the main audit question.

Criteria, types and sources of evidence and even expected findings for the different questions should also be considered at this stage. Properly applied, the method should make it possible to focus the audit and determine what resources are needed to complete it.

This gives a good overview of the whole audit, and it becomes evident early on if proposed parts of the audit cannot be undertaken, due to a lack of relevant criteria or sources of evidence.

Breaking down the main audit question will form a pyramid². 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:



¹ Performance Audit manual, European Court of Auditors, Chapter 2.

² MINTO B., The Minto Pyramid Principle, Ed. Minto International, Inc., 2003.

SECTION 2: WHEN TO USE IT

| | |
|---|---|
| Audit Planning | This method is useful in the planning of an audit , and is particularly relevant for dealing with complex subjects. It should start as soon as one has an initial set of issues that are potentially worthy of examination in an audit, and one needs to put structure to those issues. |
| Preliminary Study | In practice, this will normally be during the preliminary study ³ , after the risk analysis has identified significant risks to the achievement of sound financial management. |
| Structure of the audit | The method is valuable for clarifying the main focus and structuring the audit . The process provides a framework for the audit, and can also serve as an outline for the report. It is important to achieve enough clarity in the initial planning of the audit to prevent time and resources being wasted on irrelevant or unnecessary work. |
| APM & Evidence Collection Plan | The method should lead us to put forward an audit planning document (Audit Planning Memorandum) including relevant audit objectives, and an Evidence Collection Plan including the criteria, methodology, evidence etc. |

STRENGTHS / WEAKNESSES

Strengths

- Achieving focus and clarity through structured, transparent thinking
- By clarifying the audit procedures early in the process, unnecessary fieldwork can be avoided
- A clearer link between the final report and audit evidence
- Easier drafting and more targeted use of resources

Weaknesses / Challenges

- Challenging and time consuming approach
- Danger of getting too caught up in low level issues and detail

³ In the European Court of Auditors the purpose of the preliminary study is to enable an assessment of whether the audit is realistic, realisable and likely to be useful. The preliminary study provides a basis for the detailed planning of the audit, to be set out in the Audit Planning Memorandum (APM).

SECTION 3: HOW TO DEVELOP AUDIT QUESTIONS

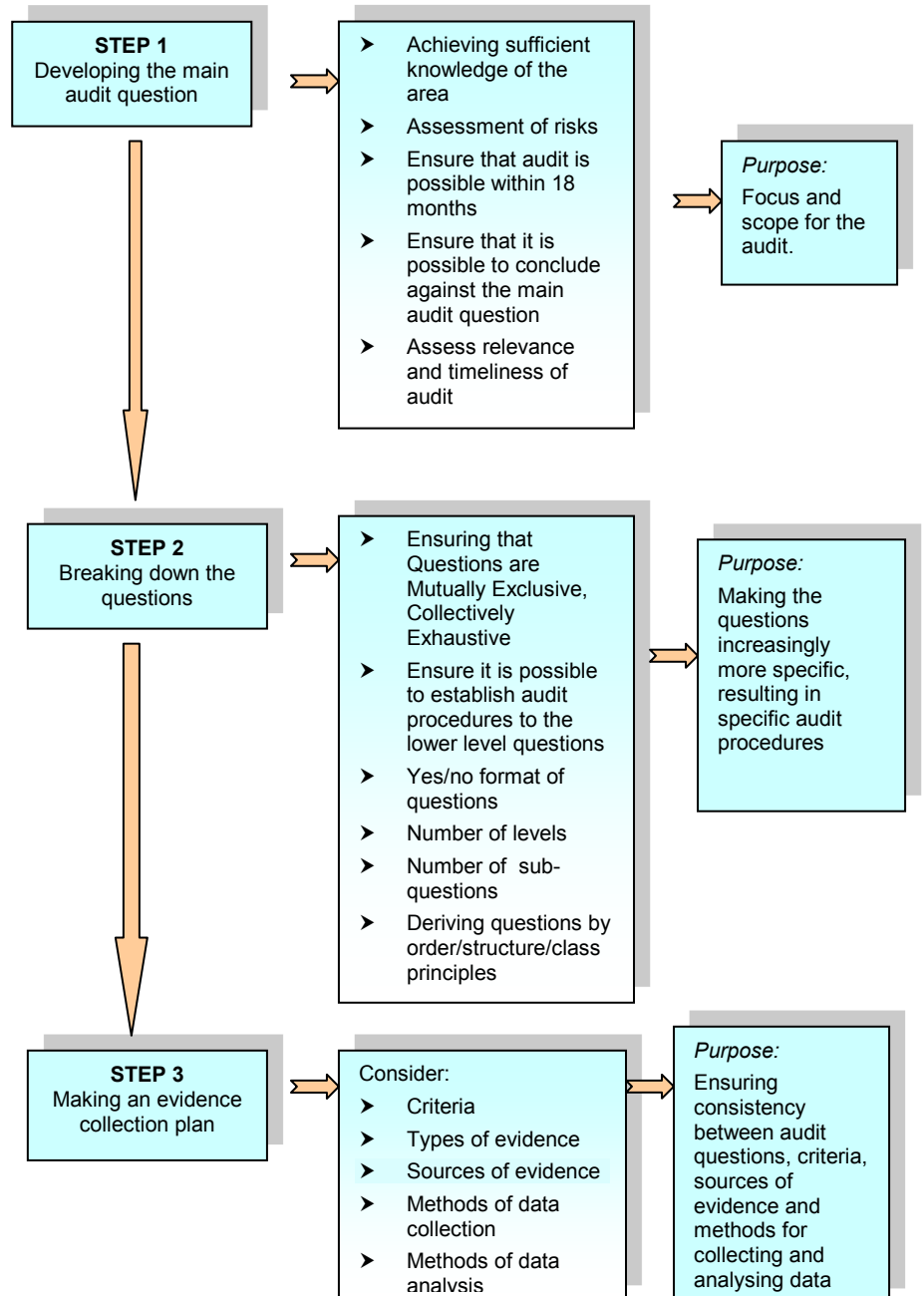
Sufficient knowledge of the area and an initial set of topics to start the procedure of developing the audit questions, will typically be arrived at through activities such as desk research, meetings with auditees, brainstorming and/or more structured creative thinking.

Also, the method of **Programme Logic Modelling** can be helpful to get sufficient overview of the audited area.

3-step process

The process can be conducted in three steps, which is explained in the following 3 sections: Step 1: Developing the main audit question, Step 2: Breaking down the questions and Step 3: Making the evidence collection plan. Below is a brief overview over this process.

Overview over the process



STEP 1 - THE MAIN AUDIT QUESTION

Starting point: identify the main audit question

The purpose of the main audit question is to provide the main focus and scope for the audit. It thus sets premises for the design of the whole audit. At this stage it is necessary to have a sound knowledge of the area and a clear idea of what the audit should address.

Important aspects to be taken into account when identifying this question are as follows:

- The main audit question should be based on the **assessment of the most significant risks** to the achievement of sound financial management in the area. The audit should preferably be concentrated on one or a couple of the major risks identified and should be concentrated on one topic. A common problem encountered in performance audits is that the scope is too wide to be managed.
- The main audit question should comprise an audit which can be achieved within the **times and resources** specified in the Annual Work Programme. It should also generally be possible to complete the audit within 18 months, as specified in the Performance Audit Manual (from APM launch to report publication).
- It should be possible to conclude against the main audit question by collecting, analysing and interpreting data. Limitations can include methodology, data collection and data analysis methods.
- Ensure that the focus of the main audit question is not likely to be overtaken by events, due to political or administrative aspects, e.g. new laws, planned reforms.
- The main audit question should comprise **a topic that is of relevance**, e.g. the area is financially significant and/or there is public or political interest in certain aspects; it has not been audited recently by the Court or other auditors; there is potential to contribute to improved financial management; and the audit is to be carried out when it is most likely to have a significant impact.

System based approach vs. direct assessment of performance?

One must ensure that the main audit question in fact comprises the topic one wants to pursue in the audit. Is the audit focused on assessing whether the audited entities have adequate management and control systems, implying a system based approach, or a more direct assessment of performance?

It is also relevant to consider whether the audit is focused on **economy, efficiency or effectiveness**. In many cases the scope of the audit can be one or a combination of any two of these elements, but is unlikely to include all three.

Examples of main audit question

- **examining control systems:** *Did the Commission's management systems and procedures permit a sufficiently rapid and appropriate response to the Tsunami disaster?*
- **examining performance directly:** *Has the Community humanitarian aid programme responded to rapid-onset disasters sufficiently quickly, with appropriate resources and donor coordination?*

Situation-Complication-Question

A method of developing the main audit question is called the Situation-Complication-Question structure. The **Situation** provides background on the subject, through a brief description of the starting point of the audit. This involves a non-controversial statement, or set of statements, which a listener/reader would either know to be true, or willingly accept as such.

The **Complication** represents the "so what?" factor, that is, what "complicates" the situation, and what makes the subject worthwhile to audit. There is usually a degree of subjectivity in the approach to the Complication, in that we most often have a particular Complication in mind to arrive at the audit undertaken; other complications might lead to different audits.

What is essential is that the most important topic is pursued, based on the prior assessment of the most significant risks.

As a result of the complication, a **Question** will generally arise in the reader/listener's mind.

Example: Situation - Complication - Main audit question

| | Example A | Example B |
|----------------------------|--|--|
| Situation | People own many different kinds of pets | Early school leaving is a problem in many countries |
| Complication | Dogs and cats are more popular than other pets | The Commission contributes significant funds to a co-financed programme to reduce the rate of early school leavers |
| Main audit question | Are dogs and cats the best pet to own? | Are the co-financed actions aimed at addressing this issue efficient and effective? |

STEP 2 - BREAKING DOWN THE QUESTIONS

After establishing the main audit question, which sets the focus and scope for the audit, one should start the exercise of breaking the question down into levels of sub-questions. The completed set of questions should take the shape of a pyramid, with the lower levels of sub-questions becoming increasingly more detailed and specific.

Levels of questions

At the lowest level, it should be possible to establish audit procedures - specific questions that can be tested against one or more sources of evidence. To attain sufficient detail, it is advisable to have **at least 3 or 4 levels** of questions. However, keep in mind that too many levels could reduce clarity.

It is also important to keep the questions short and clear for the sake of transparency. If the questions get too long and complex, the risk is that they become ambiguous or difficult to comprehend.

Mutually Exclusive and Collectively Exhaustive questions

At this stage, it is important to keep in mind that the questions should be **Mutually Exclusive (ME)**, meaning that the questions are different and distinct from one another - they do not overlap.

At the same time, the full range of relevant questions on the subject should together be comprehensive that is sufficient to answer the higher-level question. In this sense they are **Collectively Exhaustive (CE)**. This provides a logical structure to the arguments.

Example: Breaking down questions ME & CE

| Main audit question: be member of the EU is or could be value for money? | | | | | | |
|--|---|------------------------|---|------------------------------|-----------------------|---|
| Level 2 | 1. For member countries? | | | 2. For non-member countries? | | |
| | <p>Mutually Exclusive <i>The category 'Member countries' is different and distinct from the category 'Non-member countries'. No country can be both member and non-member.</i></p> <p>Collectively Exhaustive <i>All countries in Europe fall into the two categories "member countries" and "non-member countries". There is no need for additional categories</i></p> | | | | | |
| Level 3 | 1.1 For France? | 1.2 For Germany? | 1.3 For every other member country? | 2.1 For Iceland? | 2.2 For Norway? | 2.3 For every other non member country? |
| | <p>Mutually Exclusive <i>The countries are different and distinct from each other.</i></p> <p>Collectively Exhaustive <i>All the European countries collectively cover all member or non-member states. Investigating these can together answer the main audit question</i></p> | | | | | |

Phrasing of questions in yes/no-format

The questions should be phrased as yes/no questions to provide focus and clarity. This makes the questions more clear, and makes it easier to be concrete on what procedures or evidence in the end are needed to answer the question.

By contrast, less specific questions like "seeks to examine how the work of Agency X has changed since Policy Y", or questions phrased as: "to what degree", "how successful" easily become very wide in scope, and can easily trigger a lot of unnecessary description of the subjects, since they are less focused.

There is also a risk that it becomes difficult to collect sufficient evidence to answer the question conclusively, or that one does not know whether the question is answered or not.

Questions can often easily be rephrased into yes/no questions without changing their content.

The question *'To what extent do rural development investment measures effectively address the problems of rural areas?'*

could rather be phrased as: *'Do rural development investment measures effectively address the problems of rural areas?'*

The fact that the questions are phrased in a yes/no format does not mean that the questions should be answered with a single 'yes' or 'no'. The audit evidence in performance audits tends to be persuasive, rather than conclusive, and will often be subject to the auditor's judgement. The answer to the main audit question would therefore tend to be answered with a 'yes, but...' or 'no, however...'

Number of sub-questions

The number of sub-questions in each level should be between 2 and 5. This has to do with clarity. If the number of sub-questions for one question exceeds five, one should think again, to find if it is possible to regroup the sub-questions.

At the same time, the number of sub-questions should also exceed 1. If there is only one sub-question to a question, there might be some sub-questions missed, or the sub-question could merely be a restatement of the higher-level question.

Principles for deriving sub-questions

In order to ensure that sub-questions at all levels are both mutually exclusive (not overlapping) and collectively exhaustive (comprehensive), a logical framework needs to be employed.

A recognised approach is to break down a question according to one of three principles: by order, structure or class:

| <u>By Order</u> | |
|-----------------------------------|---|
| Chronological: | Time order: first to occur, second to occur, etc. E.g. performance for different years, or sequential (one event has to come prior to the other). |
| Inputs, processes, outputs: | Cause-effect ordering, with input, processes and output |
| <u>By Structure</u> | |
| Organisational level or function: | By division, unit, levels, institutions, services etc. |
| Geographical: | Ordering by location, e.g. countries, regions |
| Demographical: | Division of population into subsets, e.g. age, gender, types of employees, education level |
| Financial structure: | By components of an organisation's or institution's financial structure |
| <u>By Class</u> | |
| Performance indicators: | All relevant performance indicators, such as costs, timetable, technical performance |
| Success factors: | All relevant success factors for a programme. |
| Priorities: | The main priorities for a programme, e.g. primary policy objective, secondary policy objective, third policy objective. |

Examples by principle

When starting the process of breaking down the questions it is necessary to analyse the main question to understand its component parts in order to decide which principles would be applicable.

Order principle

An example of how to break down the main audit question by using the **time principle** in a sequential cause-effect way is the question from the audit on Early School Leaving (ESL) and the European Social Fund (ESF). Here the important concerns in the main audit question are the efficiency and effectiveness of the co-financed actions.

In order to assess efficiency and effectiveness it is necessary to look at input, processes and outputs. It would therefore be logical to use the input/process/output principle of time when breaking the questions down to the next level.

Example : Deriving sub-questions by order (from the audit on Early School Leaving)

Are there adequate procedures to ensure the efficiency and effectiveness of ESF actions aimed at addressing the issue of ESL?

- Have resources been applied for the needs of beneficiaries in a cost-efficient manner? (**input**)
- Have the actions been managed in a coherent and efficient manner? (**process**)
- Have appropriate monitoring, research and evaluation activities been carried out to ensure that actions are effectively addressing the objectives set? (**assessing output**)

Note that applying this principle also makes the subjects of the sub-questions different and distinct from each other, and thus **Mutually Exclusive**. The 3 sub-questions cover all relevant aspects of the co-financed actions, and are together sufficient to answer the main audit question; they are thus also **Collectively Exhaustive**. It is important to make sure that no relevant aspects needed to answer the main audit question are left out.

Structure principle

An example of breaking down the questions by **structure**, more specifically by organisational level, is this question from the audit on Devolution⁴. Successful management is the key notion here.

It would be possible to apply the time perspective, to see if the process was managed successfully in different time periods. However, successful management in this instance involves a lot of people and processes to be managed in a big and complex organisational environment.

It therefore seems somewhat more relevant to look at how this process has been managed at the different organisational levels (Commission, central services and delegations).

Example : Deriving sub-questions by structure (from the audit Devolution)

Is the Commission managing the devolution process successfully?

- Have **delegations** been well prepared for devolved management?
- Have **central services** been well prepared for devolved management?
- Does **the Commission** have effective procedures for monitoring performance of devolved management?

Breaking the questions down by the different organisational levels makes them **Mutually Exclusive**, and since all relevant levels are included, they will also be **Collectively Exhaustive**.

⁴ Devolution is a form of [decentralization](#). In the EU context devolution is the granting of powers by the Commission in Brussels to the EC Delegations in non-Member States in order to improve the effectiveness of policy implementation.

Class principle

An example on how to break down the questions by **class** is also from the audit on Devolution where the question is broken down by success factors. Central to this question is the concept of proper management of costs.

To assess this, one option is to look at different types of costs and to break the question down according to this (e.g. administrative costs, personnel costs) to see if they were all properly managed. Other ways of breaking the question down would probably also be possible, but what might be most useful here is to assess what the term 'properly managed' means, what factors have to be in place for the costs to be properly managed.

No doubt, estimation of costs in an accurate and realistic way, and proper monitoring and reporting are important success factors for proper management of costs.

Example : Deriving sub-questions by **success factors** (from the audit on Devolution)

Were the costs of devolution properly managed?

- Was there a clear and accurate estimate of the costs?
- Do estimates compare with actual costs?
- Were costs properly monitored and reported?

Broken down in this way, the subjects here are also different and distinct from each other, and thus **Mutually Exclusive**. The questions are also together sufficient to answer the question, and in this respect **Collectively Exhaustive**.

When breaking down each question into its lowest level, the question should be detailed enough that it is possible to **establish the specific audit procedures**. For these sub-questions, it is possible to perform specific audit procedures in order to answer them, e.g. to check whether estimates exist, whether they are accurate and realistic compared with actual costs and whether there is a system for monitoring and reporting of costs.

Combining principles

It is also important to note that it is possible to apply **different principles for the different levels** of questions, and this will actually often be the case. In example below, the level 2 questions are broken down according to organisational function, while the level 3 questions are broken down by time:

Example : Deriving questions by structure (level 2) and time (level 3) (From Audit of Devolution)

| Level 2 question By <i>structure</i> (Organisational function) | Level 3 question By <i>time</i> (chronological) |
|--|---|
| Have delegations been well prepared for devolved management? | Needs in delegations properly assessed ? Needs in delegations properly addressed ? |
| Have central services been well prepared for devolved management? | Head Quarter needs properly assessed ? Head Quarter needs properly addressed ? |

Meetings

Developing the audit questions is an iterative process, and should take place in a well prepared meeting, and it is important that the whole audit team takes part. One can also consider - if possible - including management and important stakeholders, such as the auditees.

An **inclusive approach** like this can give valuable input, and also ensures commitment. Someone with experience in this method could be used to help facilitate the process, preferably someone not involved in the audit, who can look at the topic with fresh eyes.

The **length** of these meetings will depend on the nature and complexity of the audit, but as a rule of thumb, assuming appropriate preparation is undertaken before the meeting, 2-3 hours should be sufficient to develop the top levels of the questions. A follow-up meeting will often be needed a week or two later to develop the output into a robust structure of questions.

An example of a fully developed hierarchy of questions is in Annex I

STEP 3 - MAKING AN EVIDENCE COLLECTION PLAN

When the audit team has arrived at a fully developed hierarchy of questions and sub-questions, the next step is to think through the following stages of the audit, including:

- What criteria are applicable?
- What evidence must be gathered to get good and valid answers to the questions?
- What are good sources of evidence?
- How will this evidence be analysed?

Ensure clear audit trail

A clear link through the audit is achieved by assigning criteria, sources and types of evidence, and methods for collection and analysis of the data for each lowest level question.

It can be useful to do this exercise in a matrix, where one starts off with the main audit question, then the sub-questions, criteria, sources of evidence, methods for data collection and methods for data analysis for each of the lowest level questions. It can also be useful to add expected findings in the matrix, as far as this is known.

A table like this will help in judging whether the proposed audit is feasible, and will represent a good basis for a common understanding of the audit for the audit team, the management and all relevant stakeholders.

Assure consistency

It will also make it easier to decide whether there is **consistency** between the audit questions, criteria, sources of evidence and the methods for collecting and analysing data, and whether this is sufficient to answer the audit questions.

Example : Extract from the Audit Planning Memorandum on Early School Leaving

| | | | | |
|---|--|--|--|--|
| Level 1 - Main audit question: Are there adequate procedures to ensure the efficiency and effectiveness of ESF co-financed actions aimed at addressing the issue of Early School Leaving | | | | |
| Level 2 question: Have the possible benefits arising from the funded action been adequately assessed in arriving at a funding decision? | | | | |
| Level 3 question: Has analysis been carried out of the possible costs and benefits of this action? | | | | |
| | Level 4 questions | Does this analysis quantify all likely costs of the action? Does this analysis quantify all potential benefits arising from the action? | | |
| | Criteria | Sources of evidence | Types of evidence | Collection and analysis methods |
| | An appropriate needs-based analysis should be carried out to inform the decision justifying the allocation of funding to EU co-financed measures | <ul style="list-style-type: none"> - Documents from Member State authorities, setting out the basis of the allocation of funding. - Research reports on subject from other Member States | <ul style="list-style-type: none"> - Signs of any needs based analysis performed, or lack of such in the documents. - Documentation of such analysis | <ul style="list-style-type: none"> - Review of documents setting out the basis of the allocation of funding. - Document review of research reports on subject from other Member States |

Sources of further information

ECA guideline "Issue Analysis and Drawing Conclusions"

Annex I: Example of a developed hierarchy of questions, adapted from the APM on Devolution

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