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Background paper

Peer Review of the Supreme Audit Office of the of Slovak Republic

- Mr. Phil Duncombe, former Director, National Audit Office, United Kingdom

- Mr. Geoffrey Simpson, European Court of Auditors, Luxembourg

- Mr. Detlev Sparberg Member of the International Board of Auditors, North Atlantic Treaty Organisation (NATO), seconded to NATO by the Bundesrechnungshof, Germany

- Mr. François-Roger Cazala, French Cour des Comptes/SIGMA Principal Administrator

1. INTRODUCTION

1.1 Purpose and Scope of the Peer Review

1.   In 2001 the President of the Supreme Audit Office of the Slovak Republic ((Najvyssí kontroly úrad Slovenskej republiky – NKU) asked SIGMA to perform a peer review of this Supreme Audit Institution (SAI). As in other exercises of this kind, the purpose was to provide this body with an evaluation of the current situation and make recommendations for possible changes and improvements These recommendations are intended to help the NKU to develop towards being a fully effective SAI in line with international standards and good European practice, whilst taking into account the country's specific circumstances. The process should constitute an important contribution to the strengthening of the Slovakian financial control system and public accountability, as well as meeting the requirements of accession to the European Union.

2.   A peer team was established, consisting of:

- Mr. Phil Duncombe, former Director, National Audit Office, United Kingdom

- Mr. Geoffrey Simpson, Principal Administrator, European Court of Auditors, Luxembourg

- Mr. Detlev Sparberg Member of the International Board of Auditors, North Atlantic Treaty Organisation (NATO), seconded to NATO by the Bundesrechnungshof, Germany

- Mr. François-Roger Cazala, Conseiller Maître, French Cour des Comptes/SIGMA Principal Administrator.

3.   The review was designed to encompass both the activity and internal functioning of the organisation, and the relationship with its institutional environment, including the impact of the NKU work. The peers have worked according to the methods and criteria described below.

1.2 Background of the NKU

4.   The NKU performs public sector external audits. It was established by the Constitution of the Slovak Republic adopted after the split up of Czechoslovakia. However the NKU was not created from scratch but is largely based on previously existing institutions in terms of both staffing and working methods. The NKU is in fact one of the successors of the People's Control Commission/Ministry of Control; the other successors are the Control Section of the Government's Office, and the Control Department of the Ministry of Finance. The NKU is the most important of these bodies. As such and in spite of its independent status the NKU is not a "stand-alone" entity, but has continuing links, both formal and personal, to its "sister" institutions. As a matter of fact, the peers noted that there is no substantive difference between the work performed by NKU and that done by the bodies entrusted with "control" activities. In particular there are no apparent material differences in audit objectives or the techniques used.

5.   In practice, the main differences between the NKU and other services as identified by the peers in discussions are :

-   The independence of NKU and its relation to Parliament.

-   The fact that other control bodies can punish individuals, whereas the NKU does not have this power.

6.   This situation can be interpreted as reflecting a limited understanding of the "modern" role of a Supreme Audit Institution, as the NKU could be seen as not "supreme" or different from other "control" bodies. It is not sure whether the current NKU staff has a different perception about this issue or has views that the present situation could change in the future, thus bringing benefits for the both the NKU as an institution and the financial control system in the public sector as a whole.

7.   When it comes to its structure, the NKU comes closer to the monocratic/office type of SAI than to the "Court" model. Like in most other "continental" SAIs though, it is a collegial body with a three-person board at its head, all of them appointed by the Parliament for a limited term.

1.3   Public accountability in Slovak Republic

8.   A strong control culture exists in Slovakia. It is based on individual liability/responsibility rather than on corporate responsibility. The NKU appears to be one component of this control culture as it is entrusted with the task of identifying cases which could lead to punishing those individuals responsible for the irregularities affecting financial transactions as well as other management.

9.   It is clear that the development of the NKU towards more modern auditing practice goes together with the need to reappraise the current accountability mechanisms in place in the Republic of Slovakia. It may prove difficult to make rapid progress on some of the key recommendations made in this report, if considered favourably by the NKU, since the NKU does not have in its mandate the need to take action to address these systems and procedures. However, and in general, it is in accordance with the Lima Declaration and this is also a major trend amongst SAIs to play a proactive and leading role in the enhancement of public accountability in the public sector. This would suggest that the NKU makes proposals to introduce changes to the Slovak public accountability systems and procedures (e.g. to move towards a more managerial and corporate type of responsibility), even if it does not fall in its direct remit to implement these reforms.

1.4   Assessment criteria and methods used

1.4.1   Standards and yardsticks applied

10.   The Standards and yardsticks applied in the peer review are the Lima Declaration of the International Organisation of Supreme Audit Institutions (INTOSAI), the INTOSAI Auditing Standards, the European Implementing Guidelines for the INTOSAI Auditing Standards and the peers' own knowledge of best or good practices among the SAIs, particularly among the EU Member States.

11.   The European Implementing Guidelines, issued by the European Court of Auditors in 1998, are a natural yardstick for assessing the NKU. These standards represent a more precise and practical expression of INTOSAI Auditing Standards to be used in the EU context. They are applied for the audit of EU funds. For the SAIs of the Central and Eastern European Countries (CEEC) an assessment against these

Guidelines can be seen as an opportunity to conform more closely to EU practices. The IFAC (International Federation of Accountants) standards for the public sector are useful when more defined standards are needed in particular areas. This is often the case for the audit of public enterprises.

12.   We have also used as an evaluation yardstick, what is called "best" or "good" practices among the SAIs in the EU Member States and the CEEC, based on the knowledge and experience of the members of the peer group. This could prove useful as many important aspects of the management of an SAI are not specified in standards, and helps to allow practical solutions to be offered to the SAI being reviewed.

1.4.2   Methodology

13.   Discussions were firstly held with management of NKU and a great number of the audit staff, to which the peers are very thankful for the time spent and the information delivered. These discussions as well as those held with government officials and parliamentarians identified the following main areas as currently being important for the NKU: management and organisation, including the logistics, audit methodology, standards and manuals, planning and quality control, new types and areas for audit, reporting, audit results and making use of audit findings. The peer team made also use of former SIGMA baseline assessments, produced since 1999. A list of persons met is to be found in Appendix 1.

14.   Within the peer review, two documents are produced. The first of these is this Background Paper authored by the peers. It represents only the views of the peers. It is intended as an internal document and is presented only to the President of the NKU who may then decide on its further distribution. By its very nature it is more detailed than the other document – the SIGMA report. The latter document represents the major conclusions drawn by the peers and recommendations made by them. SIGMA's views do not necessarily reflect all the views of the peers. The SIGMA report is also handed over to the European Union delegation in Bratislava.

15.   A peer review is, by its very nature, an assessment rather than an audit. The time-frame and resources available to the peers do not make it possible to fully substantiate all findings or investigate issues as deeply as would be required to be really sure about the representativity of findings. To deal with this situation the peers used a contradictory procedure to confirm the accuracy and understanding of the facts. This draft Background Paper and the draft SIGMA report take account of the observations made during this procedure. To gather information we used extensive interviews and analysed all the documents identified as important that could be translated in the time available.

16.   The way our findings and recommendations are presented in this report follow the structure that has proven to be suitable in other reviews. The findings and assessments are presented together and then finally the recommendations made.

17.   Before the Peer Review started, the NKU management decided to initiate a Strategic Development Plan. The process was however suspended until the finalisation of the Peer Review in order to benefit from the outcome of this survey. The peers believe that most of the recommendations made below, if accepted by the NKU, could with profit be made more profitably useful if grouped into a Strategic Plan, that should be subject to a thorough discussion within the NKU.

1.4.3   Limitations

18.   The fieldwork was carried out during two separate visits of one week in November and December 2001. The review does not take into account any developments after this period. Considering the period of time available as well as the complexity of addressing an institution like the NKU, only those

aspects the peers deemed to be significant or essential are dealt with in this report. The report is therefore not intended to be an exhaustive view of all aspects of the organisation and work of the NKU.

19.   The limited number of documents available in foreign language is another limitation. In this regard, the peers can but commend the achievement represented by the regular publication of an English version of Kontrola, the NKU magazine; hardly any other SAI in candidate countries can compete with this. However it was quite obvious in discussion that, despite the quality of the translations obtained, an important number of concepts simply have no equivalent in the Slovakian administrative and financial framework . This has led to misunderstandings on both sides. Whilst every effort has been made to deal with these problems, it is unlikely that they will all have been eliminated in the present report.

2   PART I- BASICS ABOUT THE NKU AND THE GENERAL LEGAL FRAMEWORK

20.   A solid, stable and applicable legal framework is an indispensable prerequisite for institutional strength, independence and long-term development. Without a sound legal basis for its work, no Supreme Audit Institution could function in an effective manner. The Supreme Audit Institution's legal base should be laid down in the Constitution and the law and be complemented by regulations, rules and procedures.

2.1   Constitution, Audit Act, and other applicable acts

21.   The legal basis of the Supreme Audit Institution of Slovakia, the NKU, are the Articles 60 – 63 of the 1992 Constitution as amended in 2001. Further there is the "Act No. 39/1993 concerning the Supreme Audit Office of the Slovak Republic as amended by Act 458/200 passed by the National Council of the Slovak Republic" (later referred to as Audit Act). In addition to the Audit Act there are the internal "Regulations of Audit Activities (Guideline No. 11/1996, later referred to as NKU Audit Guidelines).

22.   The Constitutional Act and the Audit Act specify the NKU in the framework of the highest state bodies. The NKU itself has no executive authority, which is characteristic for its activities. The implementation of necessary measures resulting from the audit findings is the responsibility of other state bodies. However, the Audit Act has provided the NKU with an effective follow-up authority to ensure that its audit findings are actually implemented (§ 20).

23.   The new Constitutional Act changed the Constitution of the Slovak Republic No. 460/1992 in respect of the NKU considerably. In Article 60 the NKU audit remit was expanded and described in detail. In Article 61 the two five-year terms of service were replaced by two seven-year terms.

24.   In the Audit Act status, remit and tasks of the NKU are described in a comprehensive manner.

2.1.1   *Independence of NKU*

25.   Supreme Audit Institutions should have the functional, organisational, operational and financial independence required to fulfil their tasks objectively and effectively.

26.   The independence of Supreme Audit Institutions is one of the most, if not the most important element of the Lima Declaration of INTOSAI. It is generally considered preferable to lay it down in the Constitution of the state, as this makes it less easily ammendable. The issue of independence is also covered by the INTOSAI Auditing Standards paragraphs 53 – 63, explaining the independence from the legislature, paragraphs 64 – 75 from the executive and 76 - 80 from the audited entity. The independence concept comprises the autonomy to determine the subjects of the audit, its auditing methods, the contents of its reports as well as the right to submit their budget directly to the Parliament and to execute it without interference from the Executive. In the case of Slovakia, the fact that the basic powers of the NKU are laid down in the Constitution is in accordance with the Lima Declaration.

27.   The independence of an SAI can be further evaluated in respect of the functional and financial independence.

2.1.2   Institutional independence

28.   The NKU is an independent supreme audit office which is guaranteed by the Slovak Constitution (Article 60.1) and the (public) audit law (§ 1.1). In its audit activities it shall be bound only by the law (§ 1.1). Only the National Council is entitled to request the NKU to prepare its standpoint on the budget proposal (§ 5.2 and § 13.1 Audit Act) and to carry out an audit and submit a report (§ 5.3 and § 13.1 Audit Act). Neither the National Council nor the Government is entitled to interfere with the audit planning or the execution of the audits. This is fully in line with the requirements of the INTOSAI Lima Declaration, Section 8 and the INTOSAI Auditing Standards.

29.   With the amendments of Article 60 - 63 of the Constitutional Act the independence of the NKU has been further enhanced. Another aspect is that the President is entitled to be present at all proceedings in the National Council, its bodies and at the proceedings of the Government (§ 14 Audit Act). This also emphasises the independent role the NKU plays in its country.

2.1.3   Financial Independence

30.   Whereas in the past the NKU had to present its budget requests to the Ministry of Finance, which could modify them, the NKU may now present its budget requests directly to Parliament. The NKU has its own budget chapter in accordance with the Act 303/1995 on budgetary rules. This represents a significant step in assuring the independence of the NKU. It is also a rather high level of independence that many Supreme Audit Institutions of the EU member states have not yet achieved. However, the challenge will be to implement this new right in an effective way. The simple fact that an audit office may address Parliament directly does not automatically guarantee sufficient funds for its work. This should also encourage the NKU in its efforts to enhance its knowledge of the resources it uses and which it will need in the future.

31.   A further meaningful step towards greater independence results from the new Audit Act which now prohibits inspection of the NKU by the Ministry of Finance. The same act foresees arrangements for an external audit of the NKU, which should be performed by or under the authority of the National Council, which is in line with the most demanding standards. It can be also mentioned that the NKU's own internal auditor could also play a role in the assurance by helping to ensure that appropriate procedures are in place in this institution to guarantee a correct budgetary execution.

2.1.4 Designation and Protection of Top Management and Audit Staff

32. The independence of the top management is well assured by the strong position given to the President and the Vice-Presidents of the NKU. They are constitutional officers of the Slovak Republic and as such are elected and recalled by the National Council of the Slovak Republic by secret ballot (Article 8.2 Audit Act) for a period of 7 years (Article 61.3 of the Constitution), which may be extended. The posts of the President and the Vice-Presidents of the NKU are incompatible with several other activities explained in detail in Article 61.4 of the Constitution. The National Council can only recall them from their functions when one of them has been lawfully convicted of an intentional crime, has performed activities incompatible with the functions of the office or has not exercised his duties (§ 12 Audit Act).

33. With the amendments of Article 61 of the Constitutional Act extending the term of service from five to seven years the personal independence of the President and that of the two Vice-Presidents has been further enhanced.

34. The NKU selects and appoints its own audit staff although this is not specifically mentioned in the Audit Act itself. Their salaries are on a similar scale to other civil servants. This is similar to the situation in many other Supreme Audit Institutions.

2.2 Audit Mandate and Scope

2.2.1 Audit remit

35. The NKU audit mandate covers all expenditure passed through the state budget including state grants and subsidies. It also covers the income of the state budget including taxes, fees and fines.

36. The NKU's audit remit comprises the government spending of budgetary funds and use of state property, ministries and other bodies of central state government and their subordinate organs, other state organs, corporate entities established by central state authorities and other governmental bodies, state institutions and special agencies abroad. It also includes corporate bodies where the state is a shareholder and individual persons if they are spending state budgetary funds or using state property. It also comprises funds, municipalities (see below), legal public institutions and other corporate entities using the state budgetary funds and managing or using the state property (§ 4 Audit Act).

37. The audit remit of the NKU has recently been substantially expanded by Article 60 of the Constitutional Act and the peers recognise that this remit is amongst the broadest in Europe. The broadened audit mandate covers now also extra-budgetary funds such as the National Property Fund, the management of state property and the use of EU funds. The audit of the EU funds up to the end user has the potential to become an important part of the audit mandate and could serve a useful catalyst to improving and developing the audit methods and tools. The NKU has already started to audit EU funds.

38. The recent proposal to include the full audit of the revenue and expenditure municipalities into the NKU audit mandate was not finally accepted by Parliament. Accordingly municipalities can only be audited in respect of the use of funds received from the state budget as mentioned above. As municipalities are in principle subject to scrutiny by their own "controllers", the decision not to expand the role of the NKU does not create a real gap in the overall audit system. The issue is rather the organisation, quality and impact of the current audit arrangements of municipalities. The NKU can contribute to the process for example from a methodological point of view by being a sort of "speaking partner" for the audit of the municipalities.

39. **We recommend** that the NKU :

– develop its audit of EU funds with a view to acquire and use appropriate new techniques for these funds and disseminate them for use for its audit of for other public funds as well;

– consider how it can best contribute to improvement of the audit of the local authority sector by taking a more proactive role, including making recommendations and suggesting adequate methods.

2.2.2 *NKU and the fight against corruption in the public sector*

40. The NKU was the main recipient of an important Phare assisted project "Support to SAO SR – Fight against corruption and organised crime occurring in individual branches of public administration"[1]. This illustrates a particular concern about the vulnerability of the Slovak economy to such risks, as in most other economies in transition. It is recognised that more effective audit and control would positively contribute to the fight against corruption and organised crime, although the NKU should bear in mind that this is not a traditional role for a supreme audit institution. This means that, while the auditor must exercise due skill and care in the performance of his work, he is not responsible for identifying complex schemes involving fraud and corruption. The peers noted that the NKU has correctly assumed its responsibilities in regard to the fight against corruption.

41. In this context the peers noted also noted that the relations between the NKU and the office of the General Prosecutor are generally good. However the office of the General Prosecutor would prefer the NKU to include more criminal facts in its reports, to disclose the names of guilty persons and to quantify the value of the damage incurred. The peers think that the current practice of NKU more correctly reflects the nature of an audit institution and compliance with international standards.

42. Improvements are perhaps possible in the way the co-operation with the Prosecutor general is organised. The fight against corruption and co-operation with the office of the Prosecutor General is currently the task of each section or branch office. Legal Service assists them in respect of legal questions upon request by the service concerned. There is, however, no central responsibility within the NKU for co-ordinating its efforts in respect of the fight against corruption.

43. The peers are of the opinion that the fight against fraud and corruption would be enhanced if a sort of central focus point was designated within the NKU. It would have the task to co-ordinate audit efforts in this important area and to liase with the authorities responsible to ensure an appropriate follow-up of specific cases detected, and ensuring a consistent approach by NKU auditors to specific situations. However, the creation of such a service would in no way diminish the responsibilities of individual auditors to be vigilant in detecting or identifying activities linked to corruption, nor of the section or branch concerned.

44. Such a central responsibility could be allocated to a person or persons within one department. They then would have the possibility to specialise in the difficult challenges involved in investigating, reporting and following-up fraud cases. They would also be more easily in a position to decide which cases should be reported to the office of the Prosecutor General, or where suspicion and evidence are not strong enough. It also would be possible to further develop the good relationship with the office of the Prosecutor General in order to improve the co-operation between the two offices.

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[1] PreIns Fund 98130101

45.   In addition, this service should issue further detailed instructions and guidance to audit staff indicating how to proceed in cases of suspected fraud. Such instructions should specifically cover the need to procure and protect evidence while taking due account of the security of the auditors involved. Particularly as the fight against corruption is not the mainstream audit work that has to be carried out on a daily basis such a specialisation could help improve the quality of the audit work in general.

46.   We recommend that the NKU consider establishing a central focus point responsible for the co-ordinated fight against fraud and corruption and that more specific instructions and guidance should be issued to the auditors how to proceed in case of suspected fraud.

2.2.3   *Legal audit mandate (Types of audit)*

47.   The NKU has the mandate to carry out financial and performance audits. According to § 5.1 Audit Act the office shall elaborate an opinion on the proposal of the final or closing state account. This opinion is based on various financial audits carried out during the first months of each year. The opinion is not an "auditor's opinion" in the strict sense of the INTOSAI Auditing Standards (paragraphs 163 – 183), and the financial audits do not correspond to modern auditing standards, as will be explained in more detail in part III below. The work done is more of an analytical character, similar to that performed for the standpoint expressed on the draft state budget.

48.   As regards performance audit the mandate follows from § 3 Audit Act stating that the office shall conduct auditing also in view of economy, effectiveness and reasonability. Accordingly the office has already carried some performance audits and is currently carries on with this. Good example of audits containing several elements of a performance audit are the cross-sectorial audit of the VAT reimbursement carried out by the Section of taxes and customs, and the audit of the gas industry being carried out by the Section of transformation and management of state property. In general the NKU often includes performance findings in financial audit reports, which is a natural development leading to pure performance audits in the future.

49.   In the peer's view the NKU's legal audit mandate and scope is in line with international auditing standards and causes no limitation in scope in the approaches or methods it can apply. As such no changes are required to the Audit Act in order to enhance its audits, but rather attention should be paid to the objectives of those audits and the methods and practices used. This would most likely imply changes and additions to the NKU internal guideline, irrespective of any amendment to the Audit Act.

50.   We recommend that the NKU develop its financial and performance audit methods as will be described below. In order to achieve a consistent application within the office the methods should be laid down in the NKU Audit Guidelines and included in the staff training.

2.2.4   *Issuing of Recommendations to the auditee*

51.   Neither the Audit Act itself nor the NKU Audit Guidelines give any indications whether or not the reports should or may contain recommendations based on the audit findings. The peers received different opinions from the staff interviewed on this matter. Some directors and auditors were convinced that they had no mandate to include recommendations in their reports, either in regularity or performance audits. Others interviewed were of a different opinion, and the peers were shown reports that contained several recommendations.

52.   All Supreme Audit Institutions of the EU member states include recommendations in their reports. This follows also from the INTOSAI Auditing Standards paragraph 182 according to which reports

on irregularity may be prepared irrespective of a qualification of the auditor's opinion. "By their nature they tend to contain significant criticisms, but in order to be constructive they should also address future remedial action by incorporating conclusions or recommendations." It also follows clearly from the standards paragraphs 187 and 188 stating that "performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions and recommendations are an important aspect of the audit and, when appropriate, are written as a guide for action".

53.	Recommendations are very helpful for the auditee by indicating possible direction to solve the problems identified and how to reduce the risk of deficiencies in the future. Supreme Audit Institutions in particular are in the privileged position of having an overview over many different institutions and practices are thus in a good position to the auditee with practical help in this respect. They can identify good practices or bad experiences as a result of their audit activity. Well judged recommendations can also be a useful preventative instrument, and they definitely increase and enhance the impact the Supreme Audit Institution has on contributing to the good financial governance of their country.

54.	The peers are under the impression that the NKU top management does recognise these advantages and is in favour of formally introducing recommendations in the audit reports. However, until now they have left it to the individual staff member or to the audit teams whether to include recommendations or not as no overall NKU policy has yet been established in this respect.

55.	Issuing recommendations does not impinge upon the independence of an SAI. It is the responsibility of the auditee's management to consider and then accept them, in full or partly, to amend them etc and then to implement them in an effective way. By giving recommendations, the NKU would not usurp management's role or responsibility as it is exclusively up to them to make the decisions. Recommendations should indicate the main components of any changes required, with due regard to the likely cost of implementation.

56.	In the peers' view, the key issue for the NKU is to try adding value to government through its audit work. Adding recommendations to an audit report is an important tool for improving the public financial management in Slovakia. Therefore the NKU should make more use of this possibility. Issuing recommendations does not require a specific authorisation in the law, as this is one of the typical instruments arising out of the results of auditing. However, the way how recommendations are to be conceived and presented should be laid down in the NKU Audit Guidelines.

57.	**We recommend** that the NKU should express clearly, e.g. in the Audit Guidelines, that where appropriate audit reports should contain recommendations for improvements in the above-mentioned sense. At the same time the NKU should make sure that all staff understand and apply these requirements in the same way.

### 2.2.5	*Adoption and implementation of International Auditing Standards*

58.	It is widely accepted that Supreme Audit Institutions should adopt audit policies and standards in order to provide a clear framework in which their audit work can be undertaken. This good practice is in particular underlined in one of the key recommendation of the Prague conference of the Presidents of CEEC-SAIs. The NKU has expressly and specifically chosen to adopt such a framework to as can be seen from the Audit Act. According to § 2 a (3) of the Audit Act, under the headline 'International Co-operation', "the office shall apply the international auditing standards used in the European Union and adapting them on the conditions of the Slovak Republic and the requirements of the quality of audit activities and professional competence". This requirement is placed under the headline of international co-

operation instead of being mentioned in § 3, which deals with the auditing standards to be applied by the office.

59.   However, the peers had the impression that this has not yet been fully understood nor accepted by the staff members at all levels. The peers noted in particular that neither the NKU Audit Guidelines nor other internal documents mention the above international standards and their application in the audit of the NKU. The Audit Guidelines, despite their utility as guidance for the auditors, can hardly be recognised as "audit standards" in the recognised sense of the term.

60.   The above-mentioned provision is in fact far from being fully implemented as will be shown below. To adopt and implement the standards is in fact not simply a matter of inclusion in a legal text but first and foremost an issue of training and practice. Therefore it is of strategic importance that these standards are fully understood and applied by the audit staff as appropriate.

61.   We recommend that the NKU ensure that these international auditing standards and guidelines are applied as closely as appropriate. In order to achieve this, the applicability of these standards should be specifically covered in the NKU Audit Guidelines. In addition the staff should be receive training in the standards to ensure that they are applied in the most complete and consistent way.

2.2.6   *Variety of Different Internal Documents*

62.   In the framework of the preparation of the Peer Review, the Legal and Methodological Department has issued a list of various internal NKU documents. This list comprises texts of apparent different nature: "Organisational Order", "Work Order" and "Collective Agreement" as well as "Guidelines", "Orders of the NKU President", "Instructions of the NKU President", "Other Measures" and finally "Negotiations orders of Commissions and other". It is not clear for an "outsider", even when looking at the documents themselves, to understand precisely what is the legal (or practical) bearing of each of these categories, or the differences between them. This is all the more so since these different orders, instructions and guidelines are not defined, nor mentioned in the NKU Audit Guidelines.

63.   Internal instructions are very important for the good and consistent communication and work performance of any Supreme Audit Institution. However, these instructions should be issued with a framework of rules so that everybody understands the importance of each instruction. Using so many different general titles for the instructions indicates that their importance and the need to be followed differs. Therefore this should be clearly defined in the legal framework.

64.   In any case there would be significant benefit to gathering and codifying all internal instructions of a general type into an administrative handbook, organised by topics and regularly reviewed and updated. Such a document should be given to each newly recruited person and would of course be installed on the NKU's intranet.

65.   We recommend that these internal instructions should be issued in a more structured manner such as consolidating them into an administrative handbook. Their status, importance and decision requirements should be laid down in general guidelines similar to the NKU Audit Guidelines so that their importance is equally well understood by all staff.

2.2.7   *Presentation of documents*

66.   According to the peers a further general reason for the apparent lack of consistent understanding and possible implementation of laws and regulations is the fact that changes (which happen quite often) are

not published in a user-friendly way. For example the Audit Guidelines have been amended during the last three years by five addenda. They were published and distributed separately and not incorporated into the guideline text itself. Therefore each time issues in the guidelines were discussed with the peers, the staff concerned used the old text only as the amendments were not easily available. As some of the addenda have established considerable changes, especially addendum No. 5, dated 2 March 2000, the application of an outdated text can lead to undesirable results. The same principle equally applies to other laws and regulations.

67. **We recommend** that:

- The amendments to the Audit Guidelines should be incorporated into the text itself in order to avoid that old versions are applied.

- The NKU should further regularly produce consolidated versions of amended texts.

2.2.8 NKU guidelines

68. Some regulations within the NKU Audit guidelines seem inconsistent. For example the head of an audit group is entitled to send the protocol to the auditee (Article 13.1). He may also determine the time and location of the protocol discussion (Article 13.2). However, the transmittal letter concerning this discussion has to be sent by the section director or even the President or Vice-President (Article 13.2).

69. According to Article 14.5 reports discussed in the sector meeting will be submitted to the President, Vice-Presidents and the other directors of the relevant sector. However these are the same persons that have just discussed the report.

70. The role of the directors in the audit and reporting process is not clearly defined. This also applies to a certain extent also to the President and the Vice-Presidents, including in respect of their functions and relations with each other. As such the peers received different opinions concerning the important question of whether these three persons form a collegial group or are subject to the President's veto.

71. The meeting structure, their functions, tasks and decision power is not clearly laid down in the Audit Guidelines. The council is mentioned in Article 14.6 indicating that its members "will inform the council on results of reports discussion from the section meeting". However, it is not mentioned, neither in the audit law nor the Guidelines, who the members of this council are (Article 14.4 only mentions the "relevant" members), what its functions and tasks are and how its decisions take place.

72. The meeting of NKU directors is mentioned in Article 14.4 and 14.7, again without indicating functions, tasks and decision power. The same applies to the sector meetings mentioned in Article 14.4 and 14.5.

73. Meetings where audit results are discussed and decided upon are a highly important part of each audit office. Therefore their structure, functions, tasks and decision power should be clearly laid down and known by every staff member.

74. **We recommend** that:

- The NKU reviews the NKU Audit Guidelines fundamentally taking into consideration the above mentioned aspects. A good opportunity for doing this is the fact that the Audit Act and the Constitutional Act have been amended. This has a strong impact on the NKU Audit

Guidelines. The NKU should enhance their Audit Guidelines with the aim of making them clearer and more comprehensive.

− The NKU ensure that a consistent and clear wording is used in translated texts, since some of the problems mentioned above may relate to translation difficulties.

3. PART II - ORGANISATION AND MANAGEMENT

3.1 Organisational Structure

75. The NKU is structured into 7 Audit Sections namely, 2.1 Economic and Financial Strategy; 2,2 Defence, Interior, State Offices; 2.3 Tax and Customs; 3.0.1 Audit of EU Funds; 3.1 Economic Branches and Environment; 3.2 State Property; and 3.3 Public Consumption. There are also the administration departments of Finance; Personnel; Legal Affairs and Methodology; Information Technology; and International Relations. There is an Internal Auditor. The staff are located at the headquarters in Bratislava or at one of the two local offices at Banska Bystrica and Kosiče. The structure of the NKU seems well established and understood by the staff.

76. Responsibility for the Audit Sections is shared between the President and the two Vice Presidents. The President has responsibility for 119 staff, covering the administrative activities of the NKU and including 57 staff at the two branch offices in Banska Bystrica and Kosiče. The Vice Presidents are responsible for the staff of the Audit Sections at headquarters, some 55 and 53 staff respectively.

ORGANISATION CHART		
Department	Staff Numbers (including auditors)	Audit Staff Numbers
President:	1	
Secretariat	2	
Internal Auditor	1	1
Press Office	1	
Personnel Department and Salaries	7	
Information Systems Department	7	
Finance Department	7	
Economical Administration	20	
International Relations Department	8	
Legal and Methodology Department	8	
B. Bystrica Branch Office	28	26
Košice Branch Office	29	27
Vice President:	2	
Economic and Finance Section	18	15
Defence, Interior and State Office Section	20	19
Taxes and Customs Section	15	14
Vice President:	2	

Economy Branches and Environment Section	18	17
Transformation and Management of State Property Section	18	17
Public Expenditure Section	17	16
Totals:	229	152

Source: NKU 9 October 2001

77. The peers were unclear as to the rationale for the split of responsibilities between the President and Vice Presidents but the peers consider that it is not common for the President of an SAI to have such major operational responsibilities. It is more usual for instance to gather all horizontal and support tasks under one umbrella such as a general secretariat. It would be more usual for the President to arbitrate on the allocation of work responsibilities and to take the final decision on audit reports, activity reports and the other outputs of the NKU.

78. The number of branch offices, two, and the staffing levels appear to be justifiable but the peers consider that this organisational structure should not be accepted forever. In particular the forthcoming evolution of audit in the NKU to meet international and EU standards and working practices should be mirrored in the structure of the office. Essentially, the organisation and structure of an SAI must be flexible enough to ensure that staff are utilised in the most effective and efficient manner.

79. Within each Audit Section the staff are normally assigned to Audit Groups, in order to undertake specific audit tasks. These are the building blocks for the various audit events and they are designed so as to allow flexibility in performing small audit events whilst allowing major audits, such as that of the 'Execution of the State Budget'.

80. The Peers note that there is a certain similarity between the numbers of staff on each organisational unit throughout the NKU and that staff do not seem to be distributed according to a formal needs' assessment. We appreciate that audit events use differing numbers of staff according to the work involved, but the NKU might usefully employ a more flexible staffing matrix so that managers would be more likely to consider using staff from 'outside' their areas. The peers note that the staff of the branch offices appear to work on a more flexible basis (apart from specialised areas such as taxation).

81. The peers note that the Act on State Service has been passed by Parliament and will be implemented in April 2002. We welcome the fact that the NKU, while in general covered by this overall legislation, will be able to determine more freely their internal staffing arrangements but that to make best use of this freedom the NKU must introduce modern management tools in their assessment of the work undertaken by their staff. (See also section on staff management below).

82. The peers note that responsibility for training currently rests with the Personnel Department. We consider that, in view of the importance that training will play in the development of the NKU over the next few years, a specific training department should be set up under the direction of a training specialist. This would also ensure that best use will be made of the training centre at Bojnice.

83. We welcome and endorse the appointment of an Internal Auditor for the NKU. This appointment will greatly assist in meeting the challenges arising as the development of the NKU proceeds. This is a good step for the NKU, we note in particular that the Internal Auditor reports directly to the President and that her audit programme is approved directly by him.

84. We are concerned, however, that the Internal Auditor acts as President of the NKU's tendering committee for procurement. The peers consider that there is a potential conflict of interest for the Internal

Auditor in this role. Procurement by the NKU is certainly an area that we would expect the Internal Auditor to audit and must therefore be independent of that process.

85.   We understand that the Internal Auditor also participates in audit events. We consider that this arrangement is justifiable since the Internal Auditor is unlikely to have a role in assessing the process of the audits undertaken. It is important however that she is provided with the same opportunities as audit staff to audit training and development activities.

86.   We recommend that:

– The NKU should carry out an assessment of their organisational structure, this being an appropriate topic to address in the framework of a strategic development plan.

– The NKU consider the role and relationships of the President and Vice Presidents with particular regard to administrative management, and pay attention to the establishment of a general secretariat.

– Particular attention is paid to ensuring that the structure of the NKU, including the branch offices, allows staff to be utilised in as flexible a way as possible for audit events.

– The NKU consider the establishment of a training department, headed by a training specialist.

– The role of the Internal Auditor as President of the tendering committee for procurement is reconsidered so that there is no conflict of interest.

3.2   Staff Recruitment

87.   "SAIs should ensure that their staff are competent, capable and committed to help guarantee that effective audit work is produced in conformity with international standards and good European practices" (Rec 9 of the Prague Declaration, 1999)

88.   Recruitment and retention of high quality staff is of crucial importance to the continuing development of a SAI. The peers recognise that different methods of recruitment and appointment are used by SAIs but, in accordance with the Lima Declaration and the INTOSAI Auditing Standards, an SAI should adopt policies and procedures to recruit personnel with suitable qualifications (above-average knowledge and capabilities, good level of academic achievement - normally university level or equivalent - and sound professional experience).

89.   To ensure that an SAI is recognised by Parliament and the public as a well-qualified and incorruptible organisation, the competition for positions that become available should be open, fair and transparent. They should meet the highest standards of recruitment, with known rules and criteria which require open competition through public advertisement. The recruitment process should prevent the risk of 'personal' or politically motivated appointments. It is advisable to have approved procedures and guidelines for recruitment.

90.   The recruitment process is defined by the NKU in their internal regulations although the process is not stipulated in legislation. When the NKU identify a vacancy it will be advertised and the selection process starts with a review of the applications received. The selection committee normally comprises the President, Vice Presidents and the Director of the Section. Interviews are held with the Director of the Section; a second interview with the Vice President of the area concerned; and a final interview with the

President. The successful applicant will be provided with a job description and a standard employment contract.

91. The new Act on state service requires a university degree for all candidates for public sector positions.

92. The NKU also requires candidates to have at least one foreign language and some accounting knowledge and experience of the area for which they are applying. We were informed that these criteria arise from an oral decision of the President. They should be formalised by inclusion in the NKU's Internal Regulations, but the NKU should avoid to be too demanding on conditions such as previous experience. In the current situation, the peers think that the future interest of the NKU is would clearly be better served by recruiting as many young staff as affordable, without too much attention paid to previous working experience.

93. All new recruits receive an 'Induction Plan' setting out all the legal measures that must be studied, the internal regulations and requiring them to participate in all training opportunities provided. There is a probation period of three months and, within that period, the recruit must pass an examination that tests their competence. The Chair of the Examination Board is a Vice President and the Board also has an audit methodology expert. This process applies to all recruits (at HQ and at local offices), except for the President and Vice Presidents. Also, applicants for the position of Director undertake a competitive examination, diagnostic testing and interviews. Members of the National Council were involved in the assessment but the President of the NKU takes the final decision.

94. The peers note that it is highly unusual to involve politicians in the selection process of audit staff, even at senior level, in an SAI. This may have been undertaken in the particular circumstances pertaining at the time but we do not consider that this practice should be continued.

95. We were told that there is provision for the President to appoint experts for specific tasks. These appointments may not be subject to open competition.

96. The NKU normally receives large numbers of applications for positions. We were told, for example, that an advertisement for one post in the Personnel Department received 55 applications. The Personnel Department also maintain a database of applications, including unsolicited applications. We were told that the Personnel Department review this for potential high quality applicants when a position becomes available.

97. We were told that, in the past, some staff left the NKU to join the private sector but that later some of them rejoined the NKU. Retention of staff is not regarded as a major issue of concern for the NKU at the moment.

98. We note that recruitment procedures, overall, seem to provide a fair method for ensuring that the NKU obtain the best possible candidates for the vacancies offered.

99. **We recommend** that:

- The Personnel Department make public a guide to the recruitment policies and procedures of the NKU. This should include the detailed criteria that are applied by the NKU in the selection of staff.

- All vacancies are advertised, including those for advisers or for specialist posts. This serves to ensure that the recruitment process for the NKU is as transparent as possible.

− The selection of NKU staff is not influenced by politicians at any stage.

− The NKU prepare a human resource strategy to address the issues, including those noted above, that are likely to arise as issues as the NKU adapts to the changes covered in this report.

3.3　Staff Numbers and Experience

100.　Staff resources are always a high cost for any organisation and it is invariably difficult to have as many staff that the needs of the work seem to dictate. It is important for SAIs to be able to demonstrate to the Parliament and to the public that they are employing the right numbers of able staff required for the work being undertaken, commensurate with the ability of the country to afford the costs involved.

101.　At 19 February 2002, the NKU employed 228 staff, of whom 152 were audit grades. The peers were told that, during 2001, the NKU recruited 31 employees and 24 employees left[2]. 176 employees had a University degree and 24 were educated to secondary school level. We were also told that the average age of the staff of the SAI was relatively high (above 44 in 2002). This age profile may lead to a large loss of knowledge and experience for the NKU in a short timescale when the staff concerned reach retirement age. The NKU must specifically consider the implications of this situation before the problems arise.

102.　Overall staff resources at present seem reasonable in the light of the work currently undertaken as set out in the President's Annual Activity Report. It is noteworthy that Parliament authorised two additional staff for the audit of EU funds when requested by NKU. Similarly, Parliament authorised five additional staff for the (new) audits of the health Insurance Funds and the National Property Fund. Most audit sections told us that they considered that they were understaffed although we observe that they had made no systematic means to assess the workload of their sections or of the staff resources required.

103.　It is important, too, that the NKU make the best use of the staff that they have so that all essential work will be undertaken at the right time, to the best possible quality and at minimum cost. There are a number of management tools, including time recording systems, that would assist the NKU in ensuring that these important criteria are addressed. Use of such tools would also greatly assist the NKU in supporting their case for additional staff or other resources to undertake both essential and discretionary audit tasks.

104.　We recommend that:

− The NKU considers, as part of their human resource strategy, the management tools that they should use and develop to assist them in assessing how best the objectives and priorities of the NKU's duties and responsibilities can be addressed.

− In the short term, the NKU formally assess their staffing requirements in the light of the needs of the work. (See also section on time sheets below).

3.4　Staff Resource Management

105.　As part of the audit process, the Slovakian NKU estimate the amount of staff time required for a particular event and allocates staff accordingly. In planning the audit events, the NKU take decisions on the relative priority of audit tasks.

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[2] Figures for 2000 were respectively 22 and 17.

106.   Staff are a valuable but expensive resource. It is highly unlikely that any SAI will be able to address all the audit priorities that it would wish. There are, however, many standard management tools available that assist managers in assessing the amount of time that staff spend on their work. These tools also provide useful information about the "costs" of an audit event in terms of the time spent by staff on the key parts of the audit such as planning, fieldwork, audit completion and audit reporting.

107.   Many SAIs now use computerised management tools to assist them in this process. These require staff to produce records of time spent on each audit event [time sheets] on a periodic basis (often weekly) to show what time they have spent on each audit event and on other activities such as training, leave or sickness. This also means that staff need not always be assigned to audit events consecutively, they may work on more than one audit event at a time.

108.   In the experience of the peers, the time spent on audit reporting is often underestimated and a time management package enables management and staff to understand where the key pressure points arise. The benefits of obtaining this information include improved monitoring of time spent on individual audit events or part of audit events; and improved management information to assess the relative priority of audit events.

109.   As well as providing senior management with useful staff resource information at the planning stage of an audit event, it also allows monitoring of all work as work progresses through to the audit completion stage. A small investment yields a wealth of useful management information to help assess priorities and make audit events more efficient. It assists managers to make more effective use of staff time rather than focussing simply on the time available.

110.   We recognise that some staff might view such management tools with suspicion as control or disciplinary measures. It belongs to the management to use these tools in a way appropriate to prevent these suspicions. We however consider that their introduction is of considerable benefit to both management and staff as they clearly show how time is spent and where points of pressure arise so that appropriate remedial solutions can be applied.

111.   We note that, at headquarters, some staff have remained assigned to the same work area for the whole time they have been employed by the NKU. With some exceptions, notably specialist staff with particular knowledge needed for an audit area (such as Tax), the peers' experiences suggest that a policy of transferring staff between Audit Sections on a regular basis is highly desirable. This policy of 'job rotation' helps to ensure that staff obtain broader knowledge, skills and experience which can then be usefully applied to different work areas. It also helps to overcome the problem of staff becoming too familiar with audited entities and the risk of staff overlooking or ignoring new issues in their audit area.

112.   It is important that Directors maintain a core of knowledgeable staff in their Sections, but we suggest that the NKU set a maximum target of five years for staff to remain in the same Section (this would apply whether or not they are promoted during the period). It would of course be a flexible target so that individual staff work longer or shorter periods according to their particular expertise and to the requirements of the job. The peers found that such a practice would be favoured by many of the staff interviewed.

113.   In many EU SAIs opportunities are available for staff to be seconded or exchanged with staff from auditees, often the Ministry of Finance. This can be very useful to help sensitise the auditees to the changes being made in audit and to the needed changes in internal financial control in public administration. There may be some resistance by the auditees to such an approach but the peers consider that this would help reduce the suspicion about the role of the NKU in the new environment in Slovakia, and certainly strengthen the professional expertise of NKU staff.

114.   **We recommend** that:

− The NKU consider the early introduction of a time recording and monitoring system for all staff, this being an appropriate topic for the strategic development plan.

− The NKU should design and implement a job rotation policy for all staff, including Directors. This is to ensure that their knowledge, skills and experience develop throughout their career with the NKU.

− The NKU actively pursue the potential for seconding or exchanging staff with key auditees, such as the Ministry of Finance.

3.5   Training and Education

115.   "SAIs should develop the technical and professional capacity of their staff through education and training" (Recommendation 10 of the Prague Declaration, 1999)

116.   Training and professional development is one of the most important developmental tools and it is a crucial component of the arrangements required to ensure that audit work is undertaken to a high standard. INTOSAI Auditing Standards require an SAI to develop and train staff to enable them to perform their duties competently and effectively. Training is expensive in terms of cost, time and the use of resources. It therefore needs to be well managed and carefully planned so that it is directed to areas and staff where it will have the most practical benefit and impact.

117.   Training at an SAI should ensure the enhancement of the knowledge, skills and aptitude of their staff with the objective of setting up best-equipped audit groups to undertake the audit events. We note that the age profile of the NKU will require the recruitment of new staff in the short to medium term but that there is a shortage of staff trained in modern audit techniques in the general population. It will be important therefore for the NKU to be ready with a training capacity that will be able to accommodate the training needs of recruits and existing staff.

118.   The NKU provide a basic training programme for new entrants and also offer courses for the continuing development of their staff. Training courses are held in the NKU premises in Bratislava and in the local offices in Banska Bystrica and Kosiče. The NKU have recently obtained a training centre in Bojnice and it is planned that most training will take place there in future. The peers recognise that this training facility will provide a valuable opportunity to enhance further the training and education possibilities for staff in the future.

119.   Care will however need to be exercised to ensure that the primary objective of the NKU to complete high quality audit events is not compromised by the need to make full use of this new training centre. The peers consider that there is a risk that the relatively distant location of the training centre might result in a significant increase in staff time in travelling to training courses and a potential loss of time available for direct audit events. This will need to be carefully managed by the NKU.

120.   The training required for new recruits joining the NKU during their three-month probationary period is set out within the "Recruitment" section above. Training after the probationary period requires each audit employee to take the course "NKU SR Auditor". The NKU obtained accreditation to implement this training in 1996. The course lasts two weeks and NKU staff provide lectures on audit topics. Each employee is required to pass a written test and an oral examination. After passing, they receive a certificate "Auditor of the NKU SR". In 2001, 13 NKU employees passed this examination.

121.   This is an excellent development and the peers consider that this should be built upon to provide for a secondary level of formal audit training for staff. Section 3 of this report refers to a number of shortcomings in the methodology and working practices of the NKU. The peers consider that it would be valuable for the NKU to enhance their existing training programme with a more comprehensive and structured programme specifically designed to provide a well-qualified and motivated workforce. We consider that the NKU would benefit substantially in attracting high calibre recruits if it provided an accredited "certificate for public auditors".

122.   At present, continuing audit training is also provided by the Personnel Department on the basis of requests from Directors of Audit Sections and a training programme is provided twice a year. The peers were told that the Personnel Department ensures that specific seminars, lectures and courses are provided according to the needs of the individual audit sections.

123.   Training is also provided in other professional institutions. For example, the majority of NKU staff were re-trained in computer use of Word and Excel at the Educational Academy. The NKU also provide training in accounting and in new regulations that are promulgated. Twice a year, the NKU provide one-week courses in German and in English, focussed on specific audit terminology.

NKU SR — KEY TRAINING ACTIVITIES FOR 2001		
Course	No. of Staff	Costs (Sk)
Phare seminars (2 + 5 days)	243	0
Audit skills (terminology etc)	124	51,423
Laws etc	110	14,268
Training trainers (5 days)	24	0
IT courses	12	28,100
Other (B.Bystrica)	25	9,000

Source: NKU Note 7 November 2001

124.   In total some 78 training events were held in 2001 and some 1,298 NKU employees attended (some employees attended more than one event). The budget for the cash costs of training totalled 570,000 Sk and we were told that some 420,000 Sk was spent in the year. We note that the staff resource cost of this training is not immediately available for consideration by NKU management. Overall, however, the figures above suggest that the NKU are able to respond to the training needs arising from a challenging audit environment.

125.   The peers recognise the training opportunities offered to staff by the NKU's Personnel Department and the professional manner in which it is organised. To assist the Department in further developing their training programmes the following comments can be made.

126.   We were uncertain about the basis of the course programme and the minimum time that the NKU required all staff to spend on continuing audit training [continuing professional education (CPE)]. We were told that staff are informed of training courses every quarter. This may be sufficient but the NKU should make regular assessments to ensure that training needs of all staff are continuously reviewed and monitored. We consider, however, that the time is now right for the NKU to undertake a full training

needs' analysis of their staff. This will involve an assessment of the knowledge, skills and competences of the existing NKU staff which can be measured against the requirements of the NKU in the short and medium term. Such an analysis will enable the NKU to develop a training strategy which will feed into the NKU's strategic development plan. This strategy will also enable the NKU to devise a comprehensive training and professional development programme for their staff.

127.   Staff should also be required, in the light of the training available from the above research and in conjunction with their managers, to develop personal training plans to ensure that their training addresses the needs of the NKU. In this way the NKU will achieve the benefit of having a "bottom up" approach to staff development which will provide a valuable input to the overall training strategy. As part of developing the training strategy, NKU management might wish to set a minimum training target for all staff to meet each year, a figure of between five and ten days a year is not unusual in other SAIs.

128.   The changes suggested by the peers will require close management if it is to succeed. For this reason we consider that it will be necessary for the NKU to identify a core of NKU staff who have the knowledge required and upon whom training can be focussed in the short term, not least for them to be trained as trainers.

129.   As noted in the 'Organisational Structure' section above, it would also be useful to have a separate training department, headed by a training professional who would also develop close links with the NKU's audit methodology department. This liaison will be important to ensure that the training being provided meets the latest developments in audit methodology and in the implementation of new policies and procedures. There would also be valuable feedback from the audit practitioners to the audit methodology staff to inform them about how changes are working out in reality.

130.   When addressing training issues, the NKU might consider further links with the Association of Slovak Auditors. There would be benefits to carrying forward audit development in Slovakia jointly. Members of the Association who are working in the municipalities and in the State-Owned enterprises audited by the NKU, will benefit from an understanding of the work of the NKU and joint training programmes might be developed.

131.   We recommend that:

−   The NKU undertake a formal "training needs' analysis", covering all staff and taking into account the comments made above. This analysis should provide the bedrock for a comprehensive staff training and development plan, which might also usefully feed into the NKU's overall strategic development plan.

−   The gap between the needed and the available skills for the recommended revised approach to audit by the NKU (see part 3 below) should be addressed by providing a comprehensive training and professional development programme for all audit staff. This will be fundamental to the success of the programme for change if our recommendations on the audit mandate, area and scope are accepted by the NKU.

−   All staff are provided with a personal training plan that is reviewed by their line managers regularly (normally annually) to ensure that the knowledge, skills and aptitude of all staff are monitored and improved continuously. We recognise that this might be achieved in the medium rather than the short term.

−   As part of this process, the NKU should cover specific training on the 15 EU Implementing Guidelines, in particular:

    −   risk assessment

    −   audit sampling

    −   the internal control environment

    −   the audit of computerised accounting systems

−   Training should be covered also in areas such as management and personal skills (e.g. effective interviewing, presentation skills, client relations, team building).

−   Appropriate liaison should be made with the Association of Slovak (private) auditors.

3.6   Staff Appraisal

132.   To ensure that the work of the NKU is of consistent high quality and consistent throughout the NKU, it is important that the quality of the work of staff is formally reviewed and monitored by NKU management. It is important that the system is transparent and perceived as fair by all those involved. NKU senior management should make formal comparisons between the appraisals made in each Section to ensure that there is consistency in the assessments being prepared. The Peers regard a formal system of appraisal as a valuable tool for management to identify the strength and weaknesses of the staff in the organisation. This information can be fed into, for example, the training strategy to ensure that the necessary training and development events can be set up at the right time.

133.   We were told that assessments were discussed with staff as necessary but we are unclear whether a formal record of the assessment is retained on a personal file for each individual and whether the views of the staff member concerned are recorded.

134.   As a minimum, performance should be assessed in writing by the appropriate manager at the end of each audit event and a cumulative assessment considered by more senior management at least once a year. The assessment may cover audit skills such as critical ability, knowledge of audit processes, legal knowledge, protocol [report] writing, and capacity to deliver to deadlines. More experienced staff might be assessed on their staff management skills.

135.   We recommend that a formal staff appraisal system be introduced by the NKU which is open and transparent.

3.7   Internal Communication

136.   The organisation of the NKU with their multiple internal Sections and two Branch Offices (which are not yet linked into the intranet), the differences in status between the President/Vice Presidents and the audit staff and the strong hierarchical relations within the NKU are all obstacles to the development of good, effective, internal communication. Such obstacles do not favour the building of shared vision, mission and values which are needed if the NKU are to implement its desire to evolve towards a well-performing audit institution. The peers recognise that there are instances where attempts have been made to improve communications in the office, but we feel that it is important for the NKU to address the issue across the office as a whole and as part of an overall strategy. The adoption of a Mission and Vision statement has often proved a useful step to improve, if not to create, the sense of common values within a SAI, thus paving the way for better internal interaction. Examples of Vision Statements from other SAIs that the NKU might wish to consider are set out in Appendices 2 and 3.

137.   We also note, however, that despite the attempt to place the laws, regulations, decrees etc on the intranet, many staff told us that they had not referred to them and, in some cases, they were not even aware of the information. Of course, such shortcomings are difficult to "prove" but the Peers consider that serious and strategic thinking should be devoted to the issue of improving internal communication, both vertical and horizontal, as soon as possible.

138.   The journal 'Kontrola' is a very good step in the right direction and we endorse the use of this vehicle to provide a good mix of information to staff. We feel, in particular, that this journal could be used to reflect the views of audit staff on the impact of the peer review and also in the future, on the problems arising from the implementation of changes arising from this review.

139.   We recommend that:

  − That the NKU consider how internal communications might be enhanced to ensure that all staff are aware of the current availability of information and of current requirements.

  − The NKU consider the interest of a 'Vision, Mission and Values' statement.

  − The NKU develop an internal communication strategy to improve the working relationships and professionalism of the staff.

  − The NKU develop procedures to ensure that internal communication is taking place.

3.8   Premises

140.   The Peers note that the headquarters building in Bratislava appeared quite small and that there seemed to be limited rooms available for meetings or for training events. Audit staff are often out of the

building undertaking their audit tasks but we feel that serious consideration should be given to improving the working conditions of the staff as soon as practicable.

141.   Of particular concern is the situation of the library. We were shown a collection of books and periodicals in two cupboards outside the Information Systems Department's offices. In our view a fully stocked and easy-accessed library is vital to help staff develop their professional knowledge. We recognise that much information is accessible through the intranet but, as noted above, we did not find that staff were yet fully able to access this service effectively.

142.   Moreover, there are many periodicals and other sources of information that will not be included on the intranet but which should be accessed by audit staff for general knowledge or task-specific reasons. This material should be available to all staff, even when on audit, and they should be encouraged to use it. It is important, too, for the librarian to have the time to investigate sources and provide an information support service for audit staff – particularly as they are likely to be out of the office on audit.

143.   We recommend that:

- The NKU consider whether improvements to their premises in Bratislava can be carried out.

- The library facility is greatly improved and accommodated in a room where staff can browse.

- A librarian is appointed who can investigate sources and provide information to staff who are e.g. away on audit.

3.9   The Use of Information Technology

144.   The peers were informed that there are PCs in all offices but they are not yet available on a one-to-one basis. The NKU has 178 PCs of which 130 are laptops (to enable auditors to use them on audits). We were told that some 30 per cent of the PCs are over 4 years old. This level of provision does not seem unreasonable to the peers.

145.   The NKU has achieved a high degree of development in hardware and system software, well in line with other SAIs. The Headquarters in Bratislava is equipped with a local area network with 5 servers and there is access to the Internet, in particular with access to other government servers. An IT Strategy was prepared in early 2001. There are plans to link the local offices to headquarters as soon as finance is available.

146.   The NKU Intranet contains a large volume of information including basic administrative material but also working materials, Guidelines, data, and Government links.

147.   The NKU's IT-infrastructure is developing. Owing to the rapid development in IT and the high ambitions of the NKU SR we find that there are gaps to be filled which need more resources for investments in hardware, software and the training of staff. The provision of laptops and personal computers seems good but this will need to be continually assessed to ensure that this level of provision does not degrade as new technology is introduced externally.

148.   Access to the Internet and the intranet and to government databases is good. The provision of information on the intranet is also good although not all staff seem to be making full use of it. We recognise, for example, that the European Implementing Guidelines are available in Slovakian and have been included on the intranet. This does not however mean that all staff who need to access the material, actually do so.

149.   Most staff seem to use their computers for basic word processing and spreadsheet functions as well as for access to the network to obtain data and information relevant to their audits. Greater use could be made of computer-assisted audit techniques (CAATs), such as IDEA and ACL, although specific training of those staff with the competence and aptitude will be needed. This is expensive and the trained staff become highly marketable for the private sector so provision of such training should be considered for the medium rather than the short term. There is, however, scope for administration management system, such as time recording, as already referred to above. Such computer-based systems could be introduced in the relatively short term.

150.   The use of computers is becoming more widespread throughout government and auditors need to understand the impact of this new technology on their work. This will involve a basic knowledge of how computers will assist them in their work (basic computer programmes such as Word, Excel, Access, PowerPoint); how computer-generated data obtained in their audits might be corrupted or manipulated; how computerised systems at Ministries might be interrogated by auditors e.g. to assist in sampling the transactions required for audit.

151.   We recommend that:

 − The current information technology strategy is revised to take account of recent developments and the changes envisaged for the future.

 − The NKU strategic development plan includes consideration of the development of Information Technology in the NKU.

 − The branch offices are provided with access to the intranet as soon as practicable.

 − Audit needs regarding information technology be assessed as part of the training needs' analysis referred to above.

4.   PART III   AUDIT PROCESS AND IMPACT

4.1   Methodologies standards and manuals

4.1.1   Staffing and resources of audit methodology department

152.   The audit methodology department or support service is a key element within any professional audit organisation and should be provided with a commensurate level of resources, in terms of both quantity and quality, and have an adequately and sufficiently defined role and hierarchical status. The methodology department of the NKU currently comprises two employees and is effectively a unit within the legal department and therefore under its hierarchical responsibility.

153.   The peers consider it undesirable that the methodology department continues to be placed within the legal department. It does not reflect adequately the fact that the remit of the methodology department should cover all professional work of the NKU, including that of the legal department. This is of particular importance since the provision of opinions on new and modified legislation is currently a key element of the NKU's work (276 opinions provided in 2000).

154.   The audit methodology department should be open and visible and play a more active role in the professional work of the NKU based on both the identification and resolution of general issues, as well encouraging and responding to individual requests for help. It should actively search for areas of good practice within the institution to be suitably developed and provide a basis for wider use. For example the peers identified examples of good practice within the Tax department which could be beneficially adopted for use within the whole organisation.

155.   The peers note that the incorporation within legal department was a relatively recent move that occurred at the time the staffing of the department was reduced from three to two and its responsibilities reduced. It is understood that the methodology department was previously required to provide an opinion on all audit reports prior to finalisation, but this task was subsequently suspended.

156.   It is the peers' opinion that the NKU's methodology department is currently understaffed, under utilised and probably under valued within the organisation. It should be reinforced with personnel with a wider knowledge of modern audit methods and techniques. The reactions of audit staff and management interviewed indicated that the methodology department currently has only limited impact or influence within the NKU. This is due in part to poor internal communication and no active participation of audit staff in key elements of its work such as the preparation of the new audit manual. Furthermore the peers note that methodology department is missing an important opportunity by not being more involved in key tasks such as the preparation for the audit of the SAPARD agency. This would provide an ideal opportunity to actively influence this new and critical audit task, and would also constitute a valuable learning opportunity.

157.   Without an adequately resourced and supported methodology department there is a risk that the future developments needed in defining and applying a wider range of audit approaches and methods will

not be implemented in a effective or timely manner. Without a visible, accessible and active methodology department there is a risk that the quality of on-going audit work is compromised, that good practice is not identified and promoted and the ultimate influence of the department overly restricted.

158.   **We recommend** that:

- The importance of the role and the work of the methodology department within the NKU should be explicitly recognised and visibly supported by the highest level of management.

- The methodology department should be removed from its position within the legal service and be given the status as a separate department placed under the direct responsibility of the President.

- The methodology department should be adequately resourced in terms of both number of staff, and their professional experience to allow the far-reaching reforms that are necessary to be both understood and implemented. High level intensive training in modern audit practice and standards should be provided to the department's key staff, perhaps by taking advantage of the good links between the NKU and other SAIs within the EU and beyond.

- Efforts should be made to improve the critical task of communicating the responsibilities, role and services of the department to audit staff and management.

- Formal mechanisms should be put into place for audit staff and management to be consulted on key methodological issues.

- The methodology department should become fully and actively involved in all crucial aspects of the NKU's work such as the preparation for its role as certifying body for the SAPARD agency.

- As part of its ongoing efforts to develop methodology theory and practice, the methodology department should actively seek to identify instances of good practice within the NKU for adoption and application on a wider basis.

4.1.2   *Current audit approach and methodology*

159.   As stated in Section I above, the Audit Act governing the role, work and methods of the NKU states at Point 2 a (3) that "the office shall apply the international auditing standards used in the European Union and adapting them for the conditions of the Slovak Republic and the requirements of the quality of audit activities and professional competence.". As described in the analysis in Section I, this is intended to mean the INTOSAI auditing standards, which are specifically aimed at the work of Supreme Audit Institutions. The rather broad nature of these standards is complemented at a European level by a set of more detailed implementing guidelines, prepared during the 1990's by a Working Group established by the Presidents of the SAIs of the European Union.

160.   Given that INTOSAI auditing standards, and the EU implementing guidelines, are the standards to which the NKU does, and should, aspire, the peers have used these as a basis against which the organisation and implementation of audit work is judged. At this stage it is important to bear in mind that not all EU SAIs are completely fulfilling all requirement in all respects, however given that the standards represent best, or at least good, practice, a significant level of compliance should be the medium to long term goal for any SAI. As stated in the Audit Act, as well as the standards themselves, the INTOSAI

standards should be applied as far as the audit mandate of the individual SAI allows. An analysis of the legal position of the NKU indicates that there are no significant constraints faced by the NKU in this respect, and many of the requirements such as for audit evidence and documentation should be applied in all situations.

161.   It is considered good professional practice to incorporate the theoretical and practical aspects of an audit's definition, organisation, implementation and reporting into one source, generally referred to as an audit manual[3]. This allows the audit approaches to be understood and followed by audit staff and management in a consistent and effective manner. Furthermore an audit manual can serve as a transparent vehicle for demonstrating to the outside world that professional standards are being applied, and what those standards are. This helps contribute to a feeling of confidence in the important work of a government auditor. As such it is vital that any audit manual is complete, comprehensive and prepared to an extremely high standard, particularly as it plays a key role in contributing to ensuring the quality of the work of the institution.

162.   The peers note that the requirement for detailing the theoretical and practical definition of audit work has been specifically recognised by the NKU. It is currently defined within two main sources. The first of these are the Regulations of Audit Activities, (hereafter referred to as "Audit Guidelines"). The Audit Guidelines contain a relatively detailed definition of the main practical steps of an audit, the responsibilities of the parties involved and a definition of the output such as protocols and audit reports.

163.   The conception and presentation of the Audit Guidelines gives the impression of them being a legal rather than operational document. For example there is no definition of the audit approach(s) to be followed, no help or guidance provided on selecting populations or topics for audit. In general the guidelines present what practical steps should be taken, but not how these steps are to be taken.

164.   The peers note that the Audit Guidelines date from June 1996. As described in detail in Part I of this report, elements have been updated to take into account changing requirements however no consolidated version incorporating all such changes is available either to the peers or audit staff. An example of this is the requirement for the opinion of the methodology department to be obtained for audit reports remains in the version provided and translated for the peers, despite this requirement having been lifted some time ago.

165.   The second main place that the NKU's audit methodology is defined and presented is within the Audit Manuals currently under preparation by the audit methodology department. At the time of the Peer's visit four modules in the form of booklets had been prepared on: Basic methods and techniques, Code of Conduct, Performance audit and Imposing fines.

166.   The peers note from interviews with audit management and staff that there was no widespread consultation with audit staff and management during the preparation of these modules. Furthermore there has been no test period of application in draft form, prior to the contents being finalised and final prints prepared. Such consultation and trial testing is considered extremely important for the following reasons:

  –   The valuable theoretical and practical experience of auditors can be taken into account;

  –   Potential practical implementation problems can be identified in time for changes to be made;

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[3] Indeed this is an INTOSAI auditing standard requirement at Point 2.1.13 which states "*The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.*"

- The simple imposition of an audit manual from above, with no prior consultation, may be badly perceived by audit staff leading to resistance in applying them.

167.   Auditor's reliance on the audit manual is encouraged not just through the quality of the document itself and effective training, but also by auditors considering that they have a stake in the contents.

168.   The relative status of the two sorts of document existing in NKU (Audit Guidelines and audit manual) and how they interact is unclear to the peers. For example are they intended to be complementary or supplementary? Are later modules of the audit manual to incorporate the provisions of the Audit Guidelines? In the case of contradiction between the two documents, which should be followed?

169.   The first issued audit manual module entitled The Basic Methods and Techniques of Audit is of critical importance as it defines the basis for the overall approaches and methods to be used for all audit work. It contains a large number of different methods, many of which are unfamiliar to the peers, and does not explain the overall audit methods. The NKU has not taken the opportunity to specifically recognise the two basic audit approaches from points 1.0.38 to 1.0.40 of INTOSAI auditing standards – regularity (financial) and performance. This is of particular importance given that a subsequent module deals specifically with performance audit without there being a formal defined basis for this type of work. It is then possible to question whether the NKU in fact applies the provisions of Article 2 a (3) of its Audit Act.

170.   Neither the Audit Guidelines nor the audit manual modules issued to date contain tools to help implementation of their provisions. Such tools can include pre-printed forms and worksheets dedicated to individual elements of the process, or IT based calculation tools or routines. Not only does this make life easier for the auditor and reduces the time needed, but it also helps ensure the quality of the work done, facilitates supervision and review and helps ensure compliance with audit manual provisions and documentation requirements (see __ below).

171.   We recommend that:

- The NKU should explicitly recognise that INTOSAI auditing standards are being applied, and that it is following the EU implementing guidelines for detailed implementation purposes. All constraints to their application due to particularities in the mandate of the institution should be clearly identified.

- The standards and guidelines should be carefully reviewed and all material elements either included within audit manuals and supporting material, or if not used then the non-adoption should be specifically noted and supported. The NKU should document this important process, have it authorised at a suitably senior level, and maintain it as a permanent record. The situation should be regularly monitored and updates done as necessary, for example when standards are added to or modified. This process could be undertaken in conjunction with an external experienced body such as an EU SAI.

- The status of the audit manual should be defined, together with its relation with the Audit Guidelines. In the medium term the NKU should incorporate the latter in the Audit Manual to ensure that it is a complete and comprehensive guide to all elements of the NKU's professional work.

- The audit manual should cover all elements of the audit process from planning to reporting, and define not just what should be done and why, but also how it should be done. It should be recognised that the challenge is not just preparing the manual, but ensuring that it is subsequently put into practice.

− The basic techniques module of the audit manual should recognise the two main types of government audit : regularity and performance.

− Implementation tools should be introduced to facilitate the work of auditors, and help encourage compliance with audit manual provisions. These tools can include pre-printed forms and worksheets in the most practical formats. They could be pre-printed paper forms or be included as part of an IT support package for printing on demand. Other implementation tools include IT based calculation routines with a common example being support for calculation and analysis of statistical sampling.

− The drafting of the audit manual should include wide consultation with audit management and staff, allowing their experience and ideas to contribute to the process. All new drafts should be put into practice on a test basis first, to allow practical problems of implementation to be identified and corrected prior to final approval and issue.

4.2 Types of audit: legality, compliance, financial, performance, cross sectorial

4.2.1 Basic audit approach

172.   The audits currently undertaken by the NKU are largely based on the approach intended to identify of errors and shortcomings within a population under audit – generally a ministry (or parts of a ministry) or public entity. The purpose of the underlying audit work is to identify either all errors within a population, or as many errors as possible within the time allocated. The errors found are then reported in the audit protocol and the information used to make the necessary corrections.

173.   The Lima Declaration defines the specific objectives of auditing as "the proper and effective use of public funds; the development of sound financial management; the orderly execution of administrative activities…". Against these criteria the NKU's approach can be considered to be overly passive since it concentrates on detecting individual errors (for subsequent correction) rather than the wider range of more modern approaches and methods aiming at contributing towards improving financial management. Furthermore most protocols contain no information on weaknesses in systems or recommendations for their improvements (see section 4.3.2. below).

174.   The peers note that the approach used of identification of individual breaches of legislation is very similar to the work of a number of internal audit (control) bodies within the Slovak Republic. These include the Finance Ministry's, the Government office's and line ministries' "controllers". This similarities in tasks is reinforced by the co-ordination activities between the NKU and these other institutions which is generally restricted to ensuring that a given population for a particular year is not being audited by more than one of the audit bodies.

175.   By performing as an integral element of internal control, the NKU is not taking full advantage of its unique and privileged position as supreme audit institution whose purpose is to evaluate and audit all elements of government finance and they way it is managed. This role should therefore include assessing the work of these internal control bodies, and making use of it where appropriate, rather than simply providing the same services.

176.   One of the most important parts of the NKU's work in terms of profile and impact and level of resources used is the standpoint or opinion provided on the closing state budget. This should be of great importance since it is used as a basis for the parliament to decide on granting discharge to the government

over its management of the state budget. The audit work undertaken by the NKU to support its conclusions appears to be essentially similar to its other audits, and concentrates on identifying and reporting individual breaches of laws and regulations in managing and accounting for the raising and use of state funds.

177.   Formal opinions on budgetary execution are becoming an increasingly common requirement for SAIs to produce, and are often referred to as attestation audits[4]. The biggest single difference between the generally accepted basis for attestation audits, and the work done by the NKU for its opinion or standpoint, is the concept of positive assurance. This involves providing an opinion based not only on the identification of errors or shortcomings (things going wrong) but also transactions that are free of error (things going right). This therefore requires that the underlying audit work is also carried and recorded with this specifically in mind, and positive results treated with the same importance as negative results.

178.   The results of attestation audits are of particular importance to the user as they present the complete view of a population and allow the quality of the underlying financial management to be assessed and areas for improvement identified. This contrasts with the NKU approach where errors found are reported, but the user of the opinion is unaware to what extent the transactions not mentioned are free of error and well managed, or indeed whether they have been examined at all.

179.   To develop and implement an attestation audit requires a fundamental rethink in the objectives and approach to be followed. In particular it involves the use of sampling techniques, since no audit body will normally have the resources to audit each transaction each year. Sampling provides a statistically supported estimate of the level of illegality or irregularity in the population (and conversely the level of accurate and correct transactions), and is very efficient and effective in this role. The approach does not however identify all cases of illegality, but estimates their likely impact. As such it is not a suitable method for fulfilling the current NKU policy of identifying as many errors as possible for subsequent corrective action.

180.   We recommend that:

–   The NKU should fully recognise and develop its role as supreme audit institution by using a wider range of audit approaches, methods and techniques, and applying these to all aspects of government accounting and financial control.

–   The NKU should avoid duplicating or supplementing the role of Slovakian state internal control bodies, but use the results of their work where appropriate, and evaluate their role and work as part of an overall examination of elements of the internal control system.

–   The NKU should increasingly reduce the emphasis on identifying individual errors and replacing this with a greater emphasis on evaluating overall financial management and making recommendations for improvements.

–   The NKU should consider the possibility of developing in the medium-term its opinion or standpoint on the closing state budget into a fully recognisable attestation audit providing positive assurance.

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[4] This is one of the major recommendations by the SAI Presidents of the CEEC in their "*Recommendations in the context of European integration*".

4.2.2 *Evaluation of systems*

181.   As stated in the Lima declaration one of the key objectives of a supreme audit institution is to contribute towards the improvement in financial management of the states assets and resources. Effective and sound management is generally achieved through the establishment and consistent functioning of systems of procedures and controls to administer transactions in a correct, accurate and legal way. In particular the control procedures should prevent or detect and correct all material errors. A key task of any SAI is therefore to evaluate the systems in place, and make recommendations to remedy weaknesses or further improve them.

182.   Currently the NKU does not consistently recognise the validity of these concepts and objectives in its Audit Guidelines and audit manual, although the peers did note some understanding of the concepts in discussions with individual audit groups. The emphasis of the audit work and subsequent reporting in protocols is currently on the reporting of infractions of legal provisions concerning individual transactions. Thus little or no attention is paid to analysing the reasons for errors or irregularities occurring due to weaknesses in systems of procedures.

183.   By placing more emphasis on improving systems the NKU could be actively contributing to reducing the level of error in the future and thus be helping to significantly improve the impact of its work. This type of information is generally either already obtained by the auditors when obtaining the current audit evidence, or would only require a modest amount of additional resources.

184.   During their interviews and discussions in Slovakia in both the NKU and the audited bodies, the peers noted that there was only a very limited understanding of the reasons for, and operation of, systems. Much of this may be due to the emphasis placed on individual rather than collective responsibility. The sound functioning of an organisation is apparently left to individuals correctly fulfilling their functions under their own responsibility, rather than having a system of adequate procedures and checks under the responsibility of the section or organisation head to help ensure that this happens.

185.   An initial and significant contribution of the NKU to the strengthening of financial control in the public sector in Slovakia would be to monitor and check the ongoing changes in this area, in particular the introduction of internal audit.

186.   We recommend that:

–   The NKU should recognise that one of its key tasks is to promote and contribute to ensuring the sound and effective management of public funds. This should be done by encouraging the establishment and implementation of effective systems of internal control.

–   When audit work is planned and undertaken, its scope should be broadened to include analysis and evaluation of principal systems, with particular emphasis on identifying weaknesses or room for improvement.

–   The audit work should also concentrate on identifying areas of good practice in terms of systems, and use this information as an example to, and encouragement for, other ministries or services.

–   The NKU contribute by recommendations to the establishment of effectively organised and staffed internal audit units in the Slovak administration.

4.2.3 Pilot Audits

187.   The peers' experiences suggest that formal training courses are unlikely to be sufficient in themselves to familiarise with and develop modern audit techniques. To address the need for change, we consider that the NKU would benefit considerably from introducing 'pilot audits' in a small number of selected audit areas. Pilot audits are a valuable management tool which highlight shortcomings in current laws, regulations, standards, working practices and procedures. They allow experienced staff to make relevant and appropriate recommendations on what changes might be needed to ensure the successful implementation of the EU Guidelines.

188.   It is important that the pilot audits are carried out in entities that are receptive to the proposed changes in the audit approach. They provide an excellent vehicle to allow Parliamentarians and others to see and contribute their views on the development and implementation of international auditing standards. The audits would also contribute greatly to the development of the Audit Manual as well as feed into the NKU's strategic and annual planning process. In this way, specific shortcomings regarding the NKU's working practices, documentation standards etc can be identified and addressed.

189.   We recommend that the NKU considers undertaking two or three pilot audits implementing the EU Implementing Guidelines (and only the requirements of those Guidelines) in entities that receive directly state budgetary funds

4.2.4 Performance audits

190.   The development and undertaking of effective performance audits is one of the biggest challenges currently facing the public audit sector. However it is also recognised of being of great importance given the wide impact that such work can have.

191.   The peers note the importance that the NKU places in this type of audit as illustrated by one of the first of the audit manual modules produced being dedicated to this subject. Interviews with audit staff and management however suggested that there is currently in NKU a limited understanding of the key concepts involved, with many considering that such work involves simply checking compliance with legal provisions of an economic nature. This illustrates the need to address the issue of performance audit in a progressive and prudent manner.

192.   In the first instance the peers think that the development and strengthening of the financial audit is and remains the priority of the NKU. This fits with the broader perspective of ensuring that the Slovak state administration implements strong and efficient internal financial control systems and that public accountability is respected.

193.   Further development of the performance audit should be built upon the strengths of the financial audit. However there is merit in continuing and developing some current initiatives such as the production of synthesis reports, basically of a financial audit nature, but also containing elements of the audit of the sound financial management and even performance or value-for-money. The further development of performance audit should also be based on the development of cross sectorial/thematic audits (e.g. in significantly material areas such as public procurement or civil service management).

194.   We recommend that:

   −   Given the developments needed in regularity (financial) audit, particularly through the introduction of modern attestation audits, the peers recommend that the introduction of performance audit be considered as a lower priority.

–   The NKU continues however to produce synthesis reports, as this will provide a useful bridge to the introduction of new approaches and develop cross sectorial/thematic audit work.

–   In the meantime the methodology department should carefully monitor the professional developments in this area within Europe and beyond.

–   Closely monitored pilot performance audits could be used when the techniques are introduced to test and evaluate the theoretical and practical concepts involved. These pilot audits should be done in close co-operation between the audit groups and the methodology department.

4.2.5   *Audit programming*

195.   For the NKU, like many other public audit bodies, planning is of critical importance as the resources it has available are not sufficient to cover all its potential tasks. These tasks can be divided into three broad categories. The first of these are the obligatory tasks that the NKU has to undertake each year, many of them being a statutory requirement such as the opinion on the closing state account or the standpoint on the annual budget. The second are the tasks that the NKU is more or less obliged to undertake such as following up denunciations or complaints, and audits specifically requested by Parliament. The third category represents the discretionary tasks such as in-depth audits of a particular area or budgetary organisation that the NKU may wish to undertake.

196.   The challenge of planning is therefore to consider and allocate staff and other resources to both meet its statutory obligations in the most efficient and effective way, as well as devoting sufficient resources to the discretionary tasks based on a clear set of objectives and priorities. A typical example of a policy for discretionary tasks is the objective to cover all discretionary areas within a defined cycle such as e.g. five years. Furthermore there is a widespread use of risk analysis for selecting audit tasks, with the greater resources being placed in areas with the greatest risk of error or irregularity occurring.

197.   The NKU clearly recognises the importance of planning as illustrated by the production since 1994 of a six monthly plan. The plan identifies all the audits to be undertaken during the period by audit section. It gives a number of elements of key information: the title of the audit; an indication of the goals or objectives of the audit; the entity being audited; the timetable; and information on co-operation intended when doing the audit. The six monthly plan is based on proposals for individual tasks from directors of audit groups, and approved by the NKU President on the basis of the draft submitted by the legal and methodology department.

198.   The six monthly plan is not only used for internal planning purposes but is also sent to Parliament and government bodies such as the finance ministry and the Government Office. Earlier draft versions are discussed with the other Slovakian state audit bodies for the purposes of co-ordination. As discussed above this co-ordination is generally restricted to ensuring that a particular entity is not being audited twice during a particular year.

199.   Audit tasks are identified by a serial number. However these run from number one upwards each six months meaning that many of the numbers are repeated twice per year, every year. This practice leads to the risk of confusion, particularly as some audits overlap the six-month periods. Due to this, and as the reference number is used in communication with the auditee and the outside world, it would be preferable to allocate a unique number for each audit.

200.   The planning process is undertaken during the latter part of the preceding six month period, with the final adoption taking place towards the end of that period. For example the timetable for the

preparation, discussion and adoption of the plan for the first half of 2002 has a number of deadlines extending from 9 November 2001 with the final approval and distribution programmed for 19 December 2001. As such the planning process happens very soon before the work should take place, with the final deadline being less than two weeks before the new year. This does not leave much scope for discussion and resolution of problems that could arise.

201.   The peers are pleased to note that the six monthly plan discloses the specific objectives of each audit task, and that the NKU therefore recognises the importance of this information. However a detailed examination of the six month plan for the first half of 2001 showed that in most cases the objective are very broadly stated, often restricted to the "audit" or "evaluation" of general aspects. This does not therefore recognise the more varied and specific objectives of audit (and indeed evaluation) such as to conclude on the correctness of accounting records, to conclude on the legality and regularity of transactions, to conclude on the capacity of systems to assure the proper administration of transactions, to conclude on compliance with particular legal prescriptions, to conclude on the effectiveness of measures taken to assure sound financial management etc. This information will become of particular pertinence once the NKU adopts the wider range of audit approaches and methods (and the varied objectives) prescribed by INTOSAI auditing standards.

202.   As the principal purpose of audit planning is the effective allocation of resources this aspect of is particular interest in the planning process and documentation. In this respect the NKU's six month plan provides only limited information as it is restricted to the timetable indicating the start and end dates of three key aspects: audit planning, audit performance (field work); and implementation (final reporting). The six month plan does not therefore contain the critically important information on the number or grades of staff involved, or the time they are planned to spend on the task (on the basis that not all staff well need to work for the whole planned period). It is therefore not possible to establish from this document how the resources of the NKU are being used, or indeed whether they are all being used.

203.   Furthermore the management of the NKU were unable to provide the peers with information on how the resources of the organisation are being used. In order to be able to manage the organisation effectively comprehensive analytical data should be readily available. The peers note that whilst the six month plan examined shows tasks that are due for completion during the next six month period, the plan does not show any information on the audits started during the previous six month periods, but not yet complete. As such the plan does not give a complete view of the activities during the period.

204.   The six month plan does not disclose the basis and reason for selecting the audit task, be this obligatory or discretionary. Whilst this type of information can be considered as confidential in some cases (for example when the NKU is investigating a denunciation), in most cases it is not. Moreover the peers were not provided within any supporting planning documentation justifying either the reasons for audits or the actual resources to be used, either on an institution-wide basis, or within individual audit groups. In particular there appears to be no clearly defined logical assessment of the objectives and priorities of the NKU and or information on how these are addressed by the planning process. As with audit work, it is important that vital processes such as overall planning or programming are fully documented and this information maintained.

205.   In discussions with directors of audit groups it appears that the selection of discretionary tasks is largely based on risk assessments by the individuals involved. The factors taken into account are not documented but often arise from previous experience or outside information such as from the press or complaints from members of the public. As seen above, this can provide a valid basis for selecting certain audit tasks but should be more formalised in terms of method and documentation. In particular the risk factors to be taken into account should be defined and disclosed. Without a level of agreement of these

criteria there is a risk that different audit groups apply different criteria meaning that the overall all objectives of the NKU may not be met.

206.   Whilst the six month plan covers the audit tasks for a six month period at a relatively detailed level, there appears to be no longer term planning specifically undertaken and documented. Annual and multi-annual planning is a common characteristic amongst state audit bodies: This is done at a less detailed level but allows strategic decisions on policies, objectives and policies to be taken in time for any complementary measures to be taken such as specific training requirements.

207.   We recommend that:

– The NKU should continue with, and further develop, its formal planning process taking into account the following recommendations.

– The specific objectives and priorities of the NKU should be formally established include specific consideration of the approach for the obligatory and discretionary tasks and the strategy for their coverage.

– In particular the use of risk analysis should be further encouraged, but using commonly agreed criteria and requiring full documentation of the process.

– Longer term strategic planning should be undertaken, with the preparation of a rolling multi-annual plan in broad terms, a more detailed annual plan and then six month detailed plan containing more operational data.

– The six month plans should be completed in good time before the period in question starts, and that all planning discussions and decisions should be documented.

– The six month plan (and longer range planning) should give more detailed information on resource use through the number, grade and time to be spent by staff for all audit tasks. This should be complemented by a report consolidating this information and showing how the staff resources of the institution are being used.

– The six month plan should include information on audit tasks still underway from the previous period(s) to allow a complete view of the resources being used to be shown.

– Audit tasks should be allocated a unique number that cannot allow any scope for confusion within the same year, and between years.

4.2.6   *Planning individual audits*

208.   After an audit task has been selected then detailed planning of the task is required. Point 132 of the INTOSAI auditing standards states "*The auditor should plan an audit in a manner that ensures that an audit of high quality is carried out in an economic and effective way and in a timely manner*". The NKU undertakes planning for its audits, resulting in an "Audit Programme", (hereafter referred to an the "audit plan" to avoid confusion with audit programmes, which in the generally accepted sense of the term refer to documents setting out the detailed audit steps needed to meet the audit objectives). The preparation of the audit plan in covered by Article 4 of the Audit Guidelines, together with a model layout. The audit plan has the status of a legal document, containing as it does a number of key items of information, and is formally submitted to the auditee.

209.	The NKU current audit plans should contain more information on the detailed audit objectives, which as for the six month planning, are currently too broad to be operational. These detailed objectives should then be translated into details of the audit procedures and steps required to meet those objectives (audit programme). More information should be provided on the use of staff resources, showing the planned usage of staff on a daily basis, linked in with the audit programme.

210.	The reluctance to provide a greater level of operational information in the audit plan may be linked to the audit plan being a legal type of document with a relatively wide distribution. Obviously this makes it a very formal document which needs specific approval for changes to be made, meaning that audit management is discouraged from including more detailed information on the basis that it is more likely to be changed or adjusted during the process[5].

211.	Whilst the peers found some examples of more detailed planning documentation setting out detailed audit objectives and audit programmes, or detailed staff planning and allocation, this was generally not available for the peers to review. In particular there is no formal requirement within the NKU for detailed planning documentation to be prepared and kept. The peers consider this to be good practice for what is an essential part of the audit process.

212.	In examining the six month plan the peers noted that in some cases very little time is allocated to the formal planning process (a week or less) whereas in others (more rarely) it extended to two months. It was difficult to appreciate this large variation, particularly the time for undertaking the audit work does not usually vary to such as extent. In any case less than one week to plan an audit seems to be an extremely short period of time even for audits of a follow-up nature.

213.	As explained in the section above on overall planning, staff resources are not sufficient to undertake all the obligatory and discretionary tasks available to the NKU. As such the allocation of staff resources to a particular audit task is of critical importance as an over allocation of staff to one task could mean another task being under-resourced or not undertaken at all. In a logical planning sequence, the specific audit objectives to be achieved for the task are defined, the audit programme devised showing the audit steps needed, and then the appropriate staffing requirements are calculated based on number and experience of staff, and the time and timing of their participation.

214.	In the case of the NKU the peers found during discussions and interviews that the allocation of staff was not always justified using this bottom up process. In many cases it appears to be based on what seems reasonable, or is available. This can have significant consequences. For example the peers were informed in some audit groups that smaller ministries are subject to a total audit whereas larger ones are audited on a selective basis since less resources are available. This illustrates the existence of a top down approach to the resource allocation (ie. what is available) rather than a bottom up one (i.e. what needs to be done). No apparent logical justification could be provided for smaller ministries to be subject to a more comprehensive audit than large ministries other than the availability of staff resources.

215.	One of the critical elements of audit planning is the identification of the detailed audit objectives defining the exact purpose of the audit and the results to be obtained. This is then complemented by the preparation of audit programmes which set out the audit steps needed to achieve the desired audit objectives. Audit programmes are therefore a key element in the process since they provide a practical guide for individual auditors to follow, and which then serve as an important basis for supervision and

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[5] See for example Point 5 of Annex I of the Audit Planning section of the EU implementing guidelines which states that: *"Audit planning is a dynamic process. To achieve audit objectives it may be necessary to make changes to the original plan as the audit progresses."*

review (see section 4.4 below on quality issues). The next step, also undertaken in the planning process, is the preparation of detailed audit questionnaires setting out the individual practical steps to be followed.

216.	The peers note that there is no formal requirement within the Audit Guidelines for either audit programmes or audit questionnaires to be prepared, either within the audit planning process or at a subsequent stage. In discussions and interviews with audit management and staff some instances of these types of documents being prepared was found on the initiative of the individuals involved. The NKU should recognise the importance of the audit programme and questionnaire processes and build upon the good practice identified to ensure it is undertaken on a consistent basis throughout the organisation.

217.	In addition, and as for the overall six month planning process, there is no requirement within the NKU Audit Guidelines and audit manual for an explicit and documented consideration of risk. Interviews by the peers showed that the audit staff do have an implicit understanding of the notions, however as the process is not based on clear criteria, nor documented, it is difficult to arrive at a clear assessment of the situation. One particular audit was discussed which had been initiated through some information from the financial police on a particular aspect of the organisation in question. The resulting audit covered all aspects of the organisation without the auditor(s) undertaking the work not informed of the areas where suspicions were held. The peers were informed that this was for – the otherwise laudable- reasons of independence. As such no particular or special attention was paid to the areas at risk which may have required a higher level of work or supplementary audit steps.

218.	Depending on the types of audit being followed, risk analysis is used to ensure that sufficient attention is paid to the areas more at risk, and to determine other key criteria such as the amount of audit testing to be done. Risk assessment play a particularly important role in attestation type audits where the auditor assesses the amount of testing required to arrive at the necessary conclusions. In terms of the regularity-type audits (which comprise the majority of current audits undertaken by the NKU) the use of risk analysis can be of particular benefit. These types of audit are focused on identifying the errors on individual transactions and therefore the audit resources should be directed towards areas at particular risk of error. This should help ensure the best use of resources for the organisation as a whole.

**219.	We recommend** that:

– Audit planning should result in a more complete and operationally based planning document, perhaps prepared as a complement to the current audit plan as defined in the Audit Guidelines.

– All aspects of the planning process should be carefully documented.

– The planning should clearly identify the detailed goals and objectives of the audit. Depending on the goals of the audit, the planning should take specific account of risk assessment to ensure that sufficient attention is paid to areas at particular risk.

– Audit programmes should be prepared showing the detailed audit procedures necessary to reach the detailed goals and objectives. These should be complemented by the preparation of audit questionnaires setting out the practical audit steps to be followed by audit staff.

– Staff should be allocated in sufficient numbers, time and experience in order to meet the audit objectives through the complete and effective completion of the audit programmes.

– The same criteria to determine the extent of audit and testing should be applied equally to smaller and larger organisations alike.

4.2.7 *Performing the audit*

220.   The NKU undertakes a significant number of audits each year with 130 being completed during 2000 which the peers consider to be a good result for the resources available. It seems that this number is decreasing with 84 (estimate) in 2001 and 46 planned in the first half-year plan for 2002. This could also be interpreted as a good sign in the direction of more comprehensive type of audit work. It is not however possible from the annual report to obtain information on the distribution of the main types of audit undertaken, including those directed to the obligatory task such as the opinion on the closing state account on the one hand, and discretionary tasks on the other.

221.   In undertaking their review of the NKU, the peers inspected a number of audit tasks, and discussed them with the audit management and staff involved. Due to the limited time available, and other constraints, these reviews were largely limited but did allow some important observations to be made. In particular the peers consider that many of the audits examined were of good quality, and that this sentiment was reflected in the discussions with auditee bodies and other stakeholders such as the parliament.

222.   Of particular concern to the peers however was the limited amount of audit documentation maintained within files. Whilst the peers recognise that the NKU requires documentation to be obtained and kept to support observations in the audit protocol (Audit Guidelines Article 11), this is too restricted compared with the INTOSAI audit standard Point 156 which states: "*Auditors should adequately document audit evidence in working papers, including the basis and extent of planning, work performed and the findings of the audit.*".

223.   In practice at the NKU, formal documentation is generally restricted to copies of documents, or originals of these documents in certain circumstances, to support observations in audit protocols. As these protocols largely contain observations of individual transactions not complying with legal provisions, then the documentation is generally at this level as well. None of this documentation appears to be kept in formal files.

224.   Documentation at a wider level such as reporting the complete range of audit work undertaken is not formally maintained. Individual auditors are at liberty to decide how and on what basis they can document their work. In practice the papers remain their personal property to do with as they wish. Instances were noted by the peers of individual auditors having destroyed their working papers upon completion of the audit to which they pertained. The peers were told that at an earlier stage of its existence the NKUs obliged auditors to complete and maintain audit notebooks, but that this requirement was subsequently dropped.

225.   The consequence is that the NKU generally has no record of the audit work undertaken by its auditors. This is a significant weakness. The NKU cannot therefore be sure what transactions were inspected, what transactions where considered to be free or error and irregularity, and why, and the basis for key decisions taken. Of particular importance are instances where findings initially indicated the existence of an error, but subsequent examination and discussion arrived at the conclusion that the transaction was in fact free of error. Neither is there a basis for supervision and review of the work performed, or other quality control and assurance procedures that the peers recommend should be introduced (see section 4.4 below).

226.   An example of the problems caused by a lack of documentation was clearly illustrated within one of the audits examined by the peers. This involved an examination of a population comprising a large number of invoices. Insufficient resources were available to audit or inspect all the invoices, so the auditor examined a selection or a sample only. However no record was kept of the work done by the auditor,

including the criteria for selection, or the invoices actually selected and examined. This is critical information since it concerns audit evidence. All that was recorded were the transactions containing errors.

227.   This weakness will become of increasing concern as the NKU could develop a wider range of audit approaches, including the development of attestation type audits, and different methods such as statistical sampling. Attestation audits are of particular concern as they result in audit opinions on areas certifying no material incidence of error. As such transactions examined and found to be free of error will be as important for evidence purposes as transactions found to contain errors. Furthermore the peers recommendation for establishing an integrated quality control and assurance system requires, as one of its bases, adequate documentation of all parts of the audit process to be maintained.

228.   The importance of adequate documentation of the whole audit process cannot be overemphasised. Not only does the documentation provide evidence of what work has been undertaken, and decisions taken, but also provides a basis for supervision and review and other quality control procedures. Indeed audit documentation provides a record of the quality of the work performed which is of vital importance for an external or supreme audit institution not subject to audit itself.

229.   The basis for audit documentation are working papers prepared by the auditor, which record all planning and audit work undertaken. These working papers are maintained in audit files, with separate files dedicated to each audit. Audit files are generally further divided in current audit files recording the work performed on a particular financial year or reporting period, and permanent files in which background and other information of an ongoing interest are maintained for use each year.

230.   The peers note that there is no mention within any of the Audit Guidelines or audit manual on the topic of audit materiality. This is a very important concept used within the audit profession concerning the significance of the findings[6]. Only significant or material findings should be reported upon. It is evident that insignificant findings are not reported on by the NKU in its protocols, however this decision is presumably undertaken by the auditor involved based on his or her own judgement, with no formally established rules or guidance to assist. As such it is likely that there is an inconsistent treatment of this matter throughout the organisation. The setting of clear guidelines on materiality will become of particular importance as the NKU develops the use of attestation audits, and the associated techniques such as statistical sampling.

231.   We recommend that:

–   The NKU introduces a comprehensive and effective policy on audit documentation, covering namely:

    –   the conversion of specific audit objectives into detailed audit programmes setting out the audit tests to be carried out ;

    –   the preparation of audit working papers in the form of checklists and tests schedules to document the nature, extent, results of and conclusions to be drawn from the audit tests undertaken.

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[6] See for example INTOSAI auditing standards point 9 which states: "*In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report*".

- It should be very clearly established that audit working papers are the property of the NKU and not the individual auditor concerned. They should be kept individual audit files dedicated to the audit task and reporting period.

- Permanent audit files should be established which contain information on the audited entity that is of a more background or ongoing interest. The permanent files should be reviewed and updated each year.

- The NKU should specifically recognise the concept of materiality and establish rules and guidelines for its use both within its regularity audits and the future wider range of audits that the NKU is encouraged to develop.

4.3   Reporting

4.3.1   Reporting Procedures

232.   As regards the reporting procedures the Audit Act is very explicit about the document, signed by the auditors, where the audit findings are reported to the auditee : the "protocol". It *"must contain, in particular, a description of the facts found, and where any violation of juridical regulations have occurred, an indication of the provisions so violated"* (§ 15 (1) c.). In § 15 the procedure concerning this protocol is explained in detail including the "preliminary protocol", "partial protocol", "memorandum" and "record". The protocol and the following documents mentioned in § 15 are only sent to the auditee, not to the National Council, the Ministry of Finance, or the overseeing line ministry (unless of course when they are the auditees).

233.   The "protocols" are the basis for most of many other reports. In the Audit Act the following different NKU reports to the National Council are mentioned. The NKU:

- submits an opinion on the proposal of the final state account of the Slovak Republic to the National Council (§ 5.1);

- prepares its standpoint on the proposal of the state budget Upon request by the National Council (§ 5.2);

- submits to the National Council a report of auditing results of the past calendar year (annual report) (§ 5.4);

- submits a report of auditing results whenever requested by the National Council (§ 5.4);

- shall submit to the National Council its standpoints and reports in conformity with § 5 when is requested by it (§ 13.1).

234.   The President shall inform the National Council and the appropriate bodies about important findings and the facts resorting from the auditing activities (§ 13.2).

235.   These NKU reporting activities are only mentioned briefly in the Audit Act without giving further details.

236. In addition to the above-mentioned reports in the Audit Act the NKU reports frequently to the National Council and its committees about its audit findings. This useful practise is not mentioned in the law itself unless § 13.2 according to which the President informs the National Council about important audit findings is interpreted extensively. The Peers were informed that in addition to what is laid down in the Audit Act procedures have been developed together with the National Council in an informal and unwritten way, how to present these additional reports to Parliament and how they are handled by it and its committees.

237. Normally a law dealing in detail with handling audit findings that are not submitted to Parliament should include even more details about the procedures concerning the more important reports addressed to Parliament, its committees and/or ministries. This is not the case in the Slovak Audit Act. As changes of audit laws are rather difficult and time-consuming, and in addition the present Audit Act has recently been amended, the peers refrain from recommending another amendment.

238. In the NKU guidelines the procedures concerning the protocol are described in detail (Articles 11-13). However, the process how to produce a final report is only described rather briefly (Articles 14 and 15). The NKU Audit Guidelines leave it also open to whom such a report has to be sent, to the line ministry concerned, the Ministry of Finance and/or the National Council respectively to one or more of its committees. This is left for the President's or Vice-Presidents' decision in a rather vague way: "At suit[7] of relevant NKU Vice-President, NKU President will decide which reports will be sent to relevant bodies for information and/or forward to relevant bodies for further proceeding" (Article 14.8).

239. As the final reports are a very important if not the most important part of the audit process, the procedure should be laid down very clearly and leave no possibilities for doubts and different interpretation. Also the addressee of each report should be known at an early stage, as it should be tailored to the special requirements of each recipient. Only if an audit report fulfils this requirement it can be really effective.

240. Therefore the NKU Audit Guidelines should be more specific as regards the procedure for issuing reporting. They should set rules under which circumstances reports should be sent to the National Council and/or to one or more ministries, what the reports should contain and how it should be followed up.

241. **We recommend** that:

− All reporting procedures be laid down and explained in detail at least in the NKU Audit Guidelines.

− In particular the procedures concerning the final reports should be made clearer and more specific.

4.3.2 *Content and layout of audit protocols/reports*

242. Within the NKU the principal tool for the presentation of audit findings are the audit protocols. Currently audit protocols can be considered as legal and rather legalistic documents. In particular they communicate the individual findings of the auditor on errors detected, rather than providing any sort of opinion. The protocols are used in a formal process for the individual errors to be corrected. Transactions

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[7] We understand this translation as "on the proposal "

on which no errors were found are not reported. The protocols are confidential documents and are essentially used to report to the auditee.

243.   In the peers opinion the true utility of the protocols is limited since they do not include sufficient information to put the findings into their overall context. In particular it is of interest to be aware of the incidence of errors within an audited organisation to be able to judge how serious the problems identified really are. Some large errors in a large ministry may be of less significance than much smaller errors in a small ministry. Without background information on size of the budget and value of transactions audited, this is very difficult to assess.

244.   The audit protocol does not set out the detailed audit objectives or the audit coverage. As such the reader is not aware of the purpose and extent of the audit. For example in one protocol for which a translation was obtained it is stated that selected areas of expenditure were examined, but with no information of which ones, why and how much they represented.

245.   Neither does the protocol include recommendations for improvements of the control environment. The rigidly imposed rules for the form, layout and content of audit protocols, together with their legal nature, may not be particularly well suited for reporting on the wider range of audit types recommended by the peers. In particular, the introduction of attestation and performance audits will require differing (and different) report types, and an increased emphasis on evaluating and reporting on systems of internal controls will need a further type.

246.   The second main element of audit reporting is the audit reports prepared from the audit protocols. These are less legalistic in nature and bearing than the protocols and have a wider distribution such as to the parliament and general public. In contrast to the protocols neither their form nor content are defined by the audit act, and the prescriptive information contained within the Auditing Guidelines is minimal.

247.   We recommend that:

– The stringent and carefully defined elements of the audit protocol should be reviewed to ensure that it is sufficiently flexible and appropriate for the different types of audit that the NKU should be developing in the future.

– The audit protocols should include more information on the scope of the audit and the detailed objectives. It should present the findings based on the work done to achieve these objectives, and then clearly conclude on them.

– Information should be provided on the extent of the audit work in terms of the value of transactions or other measures audited. This can then be used to place the findings in terms of errors and irregularities found in their proper context.

– If the current dual reporting is maintained, then the concept of the audit report should be further developed in terms of the type of report suggested by INTOSAI auditing standards.

– The purpose, form and content of the audit report should be more clearly defined within the Auditing Guidelines and/or audit manual, while keeping the positive aspects of flexibility.

4.3.3   Annual report(s)

248.   There are three main types of annual reports produced by the NKU. The first and most important of these is the annual report on the activities of the NKU (hereafter referred to as the 'activity report'). This is a substantial and carefully prepared document that provides a detailed account of the work of the NKU during the year. Statistics are presented on topics such as the number of audits and opinions and provides summaries of the principal results of its work.

249.   Of particular interest is information provided on the total value of errors found, with comparisons made with previous years. However the peers consider that this information would be of much greater interest if it were presented as a percentage of the total value of transactions examined. This would not only allow the total audit coverage of the NKU for a particular year to be assessed, but also provide an indication of the incidence of error in percentage times which is not evident from the presentation of absolute values. It is obviously of much greater concern if 20% of transactions by value are affected by errors, than if only 0.5% are so affected.

250.   The second element of wider reporting is the preparation of a bulletin four times per year which contains the audit reports for the period.

251.   The third element of reporting of the activities of the NKU is the publication in Slovakian and English of the magazine Kontrolla once or twice a year. This is presented in an attractive formal and contains useful information on the NKU and its work. Articles on topics of wider interest are included within, although being often of a technical nature they are evidently aimed more at the knowledgeable reader than the public at large. The peers particularly commend the NKU on this initiative.

252.   We recommend that the activity report could be made more useful and comprehensive by placing the information on errors or shortcomings found into their proper context. This could be done by presenting information on the total value of transactions examined to allowing the incidence of the problems to be assessed.

4.3.4   Timeliness of reporting

253.   The peers note that the NKU recommends the importance of timely reporting, and uses an effective system of deadlines throughout the audit process. It appears that these deadlines are generally met. In particular the NKU meets the demanding deadline required for producing its opinion or standpoint on the proposal for the state budget.

4.4   Quality control, quality assurance

254.   Trust needs to be placed in the work, reports, opinions and recommendations of a supreme audit institution, by parliament, government, and the public at large. This is particularly critical given the fact that an SAI is the "last stop" in the process, meaning that no one audits the output of the auditor. For this level of trust to be achieved, the work not only needs to be of the highest quality, but how this is achieved should be demonstrable to the outside world. Quality is achieved not only through recruitment and training of the best personnel and the use of high quality audit manuals and tools, but also by the establishment and implementation of formal quality control and assurance procedures.

255.   The peers found that the formal procedures put into place by the NKU to ensure quality are relatively limited, and rely essentially on two factors. The first of these is the close contact between audit manager and auditor during the audit field work, and the second is an examination of the findings disclosed

in the draft audit protocol. This is not supported by documented file reviews either before or after completion of the audit. In undertaking its interviews and discussions held with audit management and staff, it was apparent that the type and extent of these procedures vary considerably between the individuals and groups involved. Furthermore there is a strong feeling that the quality is based very much on trust in the auditor's work.

256.   In respect of the observations included in the protocols, this approach can be considered relatively effective since the contents can be examined and discussed in detail. Furthermore the evidence supporting the findings are kept with, or attached to, the original document. The effectiveness of the procedure can be judged by the positive feedback that the peers received from auditees and other stakeholders on the quality of protocols. However this approach does not allow the quality of the work resulting in no error or observation to be assured. This type of evidence is also of importance, and should become more so if the NKU introduces more attestation type audits, particularly in respect of the opinion on the closing state budget.

257.   The peers are particularly concerned about situations where a potential error was discovered during the audit field work, but the judgement of the auditor was that no error should be reported. Under the current arrangements this decision process cannot be examined or eventually challenged unless the individual auditor decides to discuss the matter with the section head or the team leader. This therefore depends on the auditor wishing or remembering to do this, whereas quality control procedures should help ensure that all key audit decisions are reviewed and approved at a suitable level.

258.   Feedback received by the peers by auditors and management during interviews indicated that formal review and approval of auditors' fieldwork (as opposed to final report or protocol) would be somehow perceived as a lack of trust in an auditor's professional capacities and judgement. This point of view is not generally shared within the modern audit profession[8]. Firstly a professional and competent auditor has no need to fear a review of his or her work when this has been prepared using the expected high standards. Secondly nobody is free from making mistakes, and an independent review of work done and key judgements made can either provide assurance that this is not the case, or to allow corrective action to be taken. Furthermore such review procedures provides valuable information for staff appraisal purposes by identifying strengths and areas where further development is needed. It is also a useful tool for helping identify professional training needs both on an individual and an institution-wide basis.

259.   The overall objective of measures to ensure quality should be to build in quality at all stages of a process. This is generally recognised as involving four distinct phases or processes:

–   definition and dissemination of high standard audit policies and standards;

–   "real time" review and supervision (Quality Control) of audit planning and field work to ensure the appropriate, complete and accurate application of the adopted policies and standards;

–   "ex-post" reviews on a selective basis (Quality Assurance) to monitor compliance with the adopted policies and standards; and

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[8] INTSOA auditing standards Point 3.2.2 states: "*Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.*". Point 3.2.4 states: "*All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses.*".

    − identification of training needs and review and modification of policies and standards where necessary.

260.   In the context of the quality assurance system the critical importance of Quality Control needs to be emphasised. Indeed a separate section 3.2 of the INTOSAI auditing standards entitled Supervision and Review covers this. In particular this states at point 3.2.4 that the purpose of review is to ensure that:

    − *all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;*

    − *all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and*

    − *changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.*

261.   It implies, in particular, that audit procedures should be reviewed and supervised in real time (ie. as the procedures are being undertaken) to allow corrective action to be taken at an early stage. This therefore helps ensure that the desired quality is built into the process from the outset, not inspected in at a later stage, such as the final draft stage of a report or protocol.

262.   The present arrangements within the NKU impose a number of constraints on effective quality control in real time. In particular, the current procedures of documenting audit work undertaken means that supervisors and co-ordinators cannot conduct documentary reviews until the audit protocols are finalised and presented to them. Furthermore the lack of a requirement for records of all audit work (i.e. including that leading to no observation) to be maintained and available for inspection precludes effective review as there is little basis on which it can be undertaken.

263.   The peers note that there is no formal quality assurance function within the NKU although the Internal Auditor examines some very limited aspects of audit implementation such as compliance with deadlines. It is understood that if there are significant doubts about the quality of a particular audit then the President can order another audit team to re-perform the audit. In practice this facility is used very infrequently, and the peers were informed that the last such case was a number of years ago.

264.   We recommend that:

    − The NKU should develop and implement an integrated system for assuring the quality of the institution's professional output.

    − The purpose and need for the measures to be taken should be clearly and carefully explained to all members of management and staff and every effort made to ensure that they are implemented throughout the organisation. This communication process is of particular importance due to the significant changes needed in working practices and probable perception of some auditors of it being an attack on their independence.

    − Particular emphasis should be placed on quality control through the application of the INTOSAI auditing standards on this area. This requires documentation to be prepared and maintained for all audit work undertaken and reviews of this work undertaken by a senior member of the audit staff.

- The NKU should start planning the introduction of a quality assurance system by establishing a department of suitably qualified personnel reporting directly to the President (this could be part of the methodology department). This service should concentrates its efforts on undertaking quality assurance reviews on audit tasks and particular attention should be paid to making it an active process through the wide distribution of the main lessons to be drawn. Appendix 4 gives a description of the main functions of a quality assurance department.

4.4.1 *Audit decision making process*

265.　　The various responsibilities of the different actors (audit staff, managers, directors and council) are set out in detail in section 1 of this report. In terms of the audit decision making process these arrangements cannot be regarded as fully satisfactory when checked against commonly accepted standards. In particular too much discretion is placed in the hands of the audit staff, to the detriment of the higher management level. In practice it is the judgement of the individual auditor that decides what observations should be placed in the audit protocol, with management having little power to intervene. This problem is compounded by the fact that no documentation is required to be maintained for the whole audit process, and a lack of effective and structured supervision and review.

266.　　This arrangement is very unsatisfactory since it is the audit managers, and ultimately the directors that have responsibility for the correct execution of an audit task. Currently however this responsibility does not come with an adequate framework or sufficient tools necessary to complete the task. Undertaking an audit involves taking decisions at many levels. It is often those decisions taken by auditors that have the greatest impact, for example to decide as to whether such finding is an error or not.

267.　　The peers found that the practice varied around the NKU with some section heads having continuous and open dialogue with audit staff, allowing key decisions to be agreed and approved, whereas in other areas there was minimal dialogue and almost complete trust was placed in audit staff.

268.　　We recommend that:

- The NKU should establish a rational hierarchical structure for undertaking its audit work. This should provide that management is ultimately responsible for the correct execution of audit work, and that audit staff is hierarchically subordinate.

- In particular all key audit decisions both taken during planning and field work should be documented by auditors, then reviewed and approved by management.

4.5　　Audit follow-up

4.5.1 *Standard follow-up*

269.　　The follow up of audit observations is a critical part of the audit process. It is a waste of resources to undertake an audit if the results of the work are not followed up, particularly in terms of taking corrective action. In this way an audit body can actively contribute towards one of the principal aims of assuring and improving financial management.

270.　　In the peers' opinion, the process for follow-up within the NKU is well structured and set out in the Audit Guidelines. It provides a very good basis for this important aspect of the audit process. There is agreement　with　the　auditee　in　the　document　on　"measures"　on　the　type　of

changes/improvements/corrections to make within a defined timetable. The NKU then follows up during the next audit to make sure the measures took place as. Parliament can help if there is problem that corrective measures not taken, but this is very seldom needed. As such the peers conclude that the follow-up process is effective and well managed.

271.   However the observations and associated recommendations concentrate on correcting individual errors on individual transactions. As detailed in sections 4.2.1. and 4.2.2. above, the NKU should be developing the range of its audit approaches to specifically include the evaluation of systems of control, with the objective of making recommendations for improving systems. Such recommendations are rather more difficult to implement than correction of individual errors and will therefore result in more discussions with the auditees, and an increased and more difficult level of follow up.

272. **We recommend** that:

- the NKU should continue to build upon its current level of follow up by establishing a strategy on how the specific problems faced when dealing with wider ranging recommendations such as on the improvement of control systems are provided.

4.5.2 Follow-up by the National Council

273. The NKU undertakes audits on its own initiative or the request of the National Council. All NKU reports submitted to Parliament go to the Committee for Finance, Budget and Currency. This committee forwards each report to other committees concerned. The peers were informed that as a rule the committees do not have to take actions as all problems have been solved before the report is submitted to the National Council. There was only one case in the year 1999 when the National Council had to interfere on the basis of an audit report and refer the matter to the Ministry of Finance and ensure that personnel changes were made.

274. In the National Council there is no specific Audit Committee dealing with the NKU reports. As these reports did not contain controversial problems that required a parliamentary decision or support such a committee was obviously not necessary. Until now the existing procedures were in most cases sufficient to solve the issue without Parliament's interference.

275. The situation might change when NKU starts to produce more complex and controversial reports. This often happens with the results of performance audits where the audit office criticised legal but uneconomical or ineffective and inefficient practices. In these circumstances a special committee established by Parliament to deal with the SAI's reports and to enforce the implementation of recommendations is of a great advantage. However, it would be more useful to first produce and present this type of reports to the National Council in order that they understand the requirement for a special audit committee more easily than simply presenting it on a hypothetical basis.

276. In the short meeting with representatives of the National Council the peers were informed that all committees appreciated the reports submitted by the NKU. This included also the opinions on the budget proposals and the state accounts, which were regarded as rather critical, objective and useful.

277. In the peer's view the NKU was very successful in having the legal changes it required including the amendment of the Constitutional Act accepted last year without major problems. This seems to indicate a good relation with the National Council. However, the NKU does not yet make full use of the committees by generally producing and submitting to the National Council uncontentious reports only. Actions taken by the appropriate parliamentary committee in order to enforce the findings and recommendations of an audit report are an extremely powerful instrument in the area of comprehensive financial control. This would encourage the Government to act and would emphasise the importance of public accountability.

278. **We recommend** that in future the NKU involves the Committee for Finance, Budget and Currency and the other committees concerned more actively. The NKU should ensure that all matters presented in its reports are fully considered, acted upon and followed up. The NKU should also work towards the creation of a special audit committee in the National Council.

4.5.3 *Impact of audit reports/decisions: impact on internal control procedures, public accountability, on laws and regulations in public finance*

279.   As the peers have stated in many other places in this document, the current audit approach of the NKU concentrates predominantly on the identification of individual instances of errors or irregularities in transactions. The purpose of this work is to allow corrective action to be taken such as obtaining a repayment or reducing a subsequent period's budget by the same amount, and the sanctioning of the individual(s) responsible. As such the impact of its work on the wider topics of internal control procedures and accountability seems to be limited, and the NKU is not, in the peers opinion, contributing sufficiently to these critical issues.

280.   In terms of laws of a financial nature, the NKU is requested to provide official opinions. This is a substantial task as illustrated by the fact that in 2000 the NKU expressed its opinion on 276 drafts of generally binding regulations such constitutional acts, acts governmental orders and regulations. It is therefore likely that there was a significant impact of the NKU's work in this area, although no documentation was provided by the NKU illustrating the effectiveness of this work. There could be benefit for the NKU to try to get feedback on how this type of service is appreciated and useful. At a minimum, the NKU could evaluate how its comments/opinions were mirrored in the wording of the finalised legal texts.

281.   We recommend that:

- In broadening the nature and scope of its work the NKU should be seeking to actively contribute to improving the extent and quality of internal control procedures. In particular the audit work should include an evaluation of existing systems, identification of weaknesses, and provision of cost-effective recommendations for improvements.

- The NKU should establish its own system for assessing the impact of its findings, with a summary of this information to be published in the Annual Activity Report. This should include assessing the impact of non-audit activities such as the opinions provided on draft legislation and regulations.

- The NKU should consider to perform an assessment of the value and impact of its legal advice work.

4.5.4 *Publicity of the outcome of the audit work/reports: impact on media*

282.   In the peers opinion the NKU has a comprehensive and open policy on the dissemination of the results of its work. The peers noted though that this policy resulted more from the compliance with requirements set at a nationwide level by the Act on freedom of information enacted in 2000, and reflected in the NKU Guidelines 9/2000 and 8/2001, than from autonomous and deliberate steps taken by the NKU itself. It should be recalled that the freedom to make public the audit findings is an essential feature of the SAIs.

283.   In respect of press, the strategy principally comprises the organisation of monthly press conferences to present on-going work as well as the results of completed audit tasks. The latter discussions are based on audit reports (the document derived from the audit protocols) which are made available to those present. Press conferences are undertaken by the President and Vice presidents (in the presence of the official spokesperson), who are the only people empowered to answer questions. Directors or other elements of audit staff are not authorised to communicate to the press.

284.   The NKU has a hotline through which individuals can request information such as copies of reports. In addition audit reports are made available on the NKU's website (www.controll.gov.sk) and it produces four times a year a bulletin containing all (non-classified) audit reports for the period.

285.   The arrangements for the publicity of the work done by the NKU seem to be currently generally satisfactory.

APPENDIX 1: LIST OF PERSONS MET

Supreme Audit Office of the Slovak Republic

Mr.Ing.Jozef Stahl, President

Mr.JUDr. Igor Maly, Vice-President

Mrs. JUDr. Danica Borisova, Vice-President

Department of Foreign Relations

Mr.Julius Molnar, Director

Mr.Ing.Karol Svitel, Chief Officer

Department of personnel

Ms.JUDr.Eva Gasparová, director

Financial department

Ms. Ing. Zuzana Grancova, director

Department for legal affairs and methodology

Mr. JUDr. Ivan Habaj, director

Ms. JUDr. Tatiana Kopecka, legal

Mr.Ing.Stefan Farkas, methodology

Mr.JUDr.Otto Mravec, methodology

Department for Information Technologies

Mr. Ing. Marian Fabian, director

Ms RNDr. Anna Harmathova, Chief Officer

Training center Bojnice

Mr.Ing. Marian Olostiak, manager

Department for support

Mr.Ing.Lubomir Rozporka, director

Internal audit department

Mrs.Ing.Sidonia Sarnikova internal auditor

Press officer and speaker

Mr.Marian Varga

Audit section 2.1 (Economical and Financial Strategy)

Mr.JUDr.Stefan Vikrut, director

Ing. Julius Bohač, head of audit group Economical and Financial strategy

Ing. Tomas Otta, auditor

Ing. Igor Gaspar, auditor

Mr.Ing.Milan Prelec, auditor

Audit section 2.2 (Defense, Interior, State offices)

Mr. Ing.Marian Palkovic, director

Mr. Ing.Jozef Nespala, head of department

Ms.Ing.Lubica Hajduckova, Auditor

Audit section 2.3 (Tax and Customs)

Mr.Ing. Miroslav Leginus, director,

Ms. Ing.Eleonora Molnarova, head of section

Audit section 3.0.1 (Audit of EU funds)

Ing. Igor Ciho

Audit section 3.1. (Economical Branches and Environment)

Mr Ivan Fischer, director

Ing.Marian Sisak, head of audit group (environment)

Ing.Lydia Hennelova, head of audit group (economic departments)

Ing. Vladimir Cisar, head of audit group (transport)

Mrs.Ing.Viera Eiselova, auditor

Mrs. Achbergova, auditor

Audit section 3.2. (Transformation and State property)

Mr.Ing.Anton Klima, director

Mr. Ing.Marian Nerad, head of section

Audit section 3.3. (Public consumption)

Ing.Peter Kapuscinsky, director

Mr.Ing.Jaroslav Niščak, head of audit group (culture and mass media)

Mrs.Ing.Jozefina Bošanska, head of audit group (health)

Audit section Banska Bystrica

Mr.Ing.Vladimir Lassak, director

Ms.Ing.Maria Cimbalistova, head of department

Audit section Kosice

Ing.Stefan Matias, Head of state expenditure section

Ing. Stanislav Corej , state income section

Mgr.Stanislav Pribula, auditor, state expenditure section

Ing.Beatrice Velova, state property management

Ing.Josef Jak, state expenditure section

Ing.Vladimir Jurek, state property management

Ing.Miroslav Radovian, state income section

National Council of the Slovak Republic

Committee for Finance, Budget and Currency

Mr Ing.Vladimir Manka, vice-chairman

JUDr. Milan Benkovsky,

Mr Martin Kujan, member

Ing. Vladimir Toth, secretary

Government Office

Control section

Mrs Ing. Jarmila Trnovska, complaints department

Ing.Tibor Licko, director methodology and legal affairs department

Ing Michal Rasu, financial control department

Mr Ing. Peter Suchanek, economic control department

Ministry of Finance

Mr. Ing. Ronald Blasko, Minister's advisor

State Budget Department

Ms Ing. Anna Furbeckova

Ms Ing. Kvetoslava Brusnicka

State Treasury Department

Mr. Ing. Daniel Ferjancek , Director

Mr. Ing. Peter Dovciak, Director

Mrs Ing. Libusa Sustekova

State final accounts department

Mr Ing. Juraj Macejka, Director

Department of Accounting Methodology

Ms Ing Helena Ivanicova, Director

Ms Ing.Judita Rusinakova

Financial Control and Internal Audit department

Mr. Ing. Boleslav Nejezchleb, director

Ms Ing. Dana Dyckova, director, methodology division

Ministry of Health

Mrs Eva Benkovicova   Control and Complaints Department

Ministry of Environment

Control department

Mr Ing.Vincent Andrassy, director /control department/

Mr Ing.Jaroslav Kralcak, controller

Economy department

Ing. Viola Prohackova Prochazkova, general director

ISPA-Phare financial department

Mrs Adriana Neuhauzova

Ministry of Administration and Privatisation of National Property

Mr. Ing. Peter Svec, Head of Office

Mrs Ing.Simonovicova, director of controll department

Mr Ing. Vladimír Kuban, Director General

State Property Fund

Mr JUDr.Pavol Hulik , Vicepresident

Mr. Stefan Petery Head of Internal Audit

Ministry of Interior

Control and inspection section

JUDr. Josef Kret, general director

Mgr. Milan Jonis, deputy general director

Ing. Alfred Kratky, director, economic control division

Ministry of Agriculture

Foreign relations department

Mr Ing.Viktor Borecky, CSc., Director - Department of Foreign Relations

Control section

Mrs Ing. Maria Fedorkova, director

Mr JUDr. Juraj Dejmuth, deputy director,

Financial department

Mrs Ing.Eva Lukacikova, Head of Department

Ministry of Economy

Control section

Mr Ing.Stanislav Péli, director of control department

Ms Mgr. Maria Zelenayova, metodology /control department

Mr Jan Tyrala, Officer /financial control

Mr Ing. Dušan Dobiš, Head of department /economical control

Economy department

Mrs Ing. Marta Zemanova, budget sub-department

Prosecutor General's Office

Mr Ctibor Kostal, Deputy Prosecutor General

Mrs Darina Svabyova, International Department

Mr Karol Hucik, Criminal Department

City of Kosice

Mr. Zdenko Tribula, Mayor

City of Banska Bistryca

Mr. Jan Kralik, Mayor

APPENDIX 2: EXAMPLES OF MISSION AND VISION STATEMENTS

This Appendix provides some examples of mission and vision statements in use in Member State SAIs.

1.   Vision of the National Audit Office of Denmark (Rigsrevisionen) by the year 2003

The Rigsrevisionen is an up-to-date professional organisation carrying out homogenous and high quality

2.   Mission Statement Algemene Rekenkamer

The Netherlands Court of Audit works to improve the performance of the government and the organisation connected to it. To do this, the Court provides the cabinet, Parliament and those responsible for audited organisations with information based on audits.

This information includes conclusions and recommendations with respect to management and policy. The Court of Audit considers objectivity, reliability and usefulness as most important characteristics of its products, independence and efficiency as most important characteristics of its production process.

3.   Mission and Vision statements National Audit Office (RRV) of Sweden

Mission: To help the nation spend wisely

Vision: That the opinion of RRV shall always be requested:

- that the RRV shall be an audit institution of world class

4.   Vision and Mission of the UK National Audit Office

Vision: To help the national spend wisely.

Mission: To promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

Mission AUDIT21: To provide independent assurance, information and advice to Parliament on the proper accounting and use of public resources, and to help clients to improve their financial management.

APPENDIX 3: EXAMPLES OF VALUES

This Appendix provides details of the "Values" of the NAOs of Denmark, Sweden and the United Kingdom which may be used to establish similar "values" in the Czech Republic.

1.   Danish values

We make our own order of priority	We assemble data in co-operation with the administration	We ensure quality in our products and evaluate our work
We choose our own methods	We ensure that similar audit tasks are examined the same way	We currently assess our audit methods with i.e. inspiration from abroad
We are aware of and bound by our responsibility in society as a body of control	Our conclusions are based on research and facts	We are pleased to co-operate and to share our knowledge and experience with others
Our audit results reflect only the viewpoints of the National Audit Office of Denmark	Our products are up-to-date, topical and useful	We commit ourselves actively and constructively in each other's work
We are straightforward and accommodating when informing the Press of factual circumstances	We inform the administration of our tasks and are pleased to discuss working methods and audit results	We are positive towards the administration and to each other
	In the National Audit Office of Denmark employees are loyal to each other	We aim at increasing effectiveness and efficiency by way of development, education, simplification and specialisation

The viewpoints of the administration are presented in our reports	The National Audit Office of Denmark has a family friendly policy, and we are aware of our social responsibility as workplace

2.   Swedish values

Objectivity: We search for and report on facts, we provide an account or our opinions of departure, and that we only draw the conclusions supported by underlying empirical data and information.

Integrity: The RRV and all members of staff shall be steadfast in professional assessments.

Professional excellence: We have the requisite expertise and skills, a commitment to our task, and thereby professional pride which implies that we can always stand up for the quality of the work we do.

Our fundamental values shall permeate our daily work.

3.   UK values

Co-operative spirit: We all have a shared responsibility for achieving corporate goals and we must work together, listen to one another and support each other. After having the opportunity to give our views, we must support decisions taken and work collaboratively with colleagues to make them succeed.

Integrity: We must be independent and objective and observe the highest professional and personal standards. Our work must be fair and just.

Looking outwards: We operate in a changing world. To be successful we must identify and contribute to the interests of parliament and our other stakeholders.

Making a difference: We must plan, manage and deliver our work in ways that add value by promoting good practice, securing financial savings and other benefits and meeting stakeholders' expectations.

Open communications: We must all communicate clearly, both inside and outside the Office. We must be ready to challenge and be challenged in the pursuit of excellence.

Professional excellence: We must consistently deliver work to the highest quality and adopt the best professional standards and practices. We must encourage and reward innovation and search for continuing improvements in economy, efficiency and effectiveness in our work.

Valuing individuals: We employ people with talent. We must recognise their achievements and apply fair and flexible systems to help everyone reach their full potential. We value the differences in individuals and the diversity they bring to the organisation.

APPENDIX 4: A QUALITY ASSURANCE FUNCTION IN AN AUDIT INSTITUTION

A quality assurance function is generally undertaken by a separate department reporting directly to the highest level of the institution, thereby ensuring the necessary independence of the function. The function should be staffed by suitably senior and experienced auditors and its tasks can include the following:

- quality Assurance review of audit work incorporating all aspects from planning to report;

- ad hoc investigations such as following up complaints against auditors; and

- analysis of other aspects of the audit framework such as the establishment of procedures, standards and manuals.

The bulk of the available resources should be devoted to the review of audit procedures resulting in reports of reviews to be submitted to the President who decides on the appropriate follow-up of matters raised. Whilst the confidentiality of the reports should be assured, it is generally considered good practice for those directly involved with the audit tasks reviewed to be provided with an opportunity to react to the draft report, and in particular to correct any factual errors.

It is also considered good practice that, while individual detailed review reports remain confidential on a *"need to know"* basis, an *annual summary of the most significant general conclusions* to be drawn from the Quality Assurance reviews should be prepared and widely distributed within the institution. Such a procedure raises awareness by audit staff and management of the importance of overall quality control, which is the responsibility of all auditors whatever their grade or specific responsibilities. It should also highlight the principal weaknesses to be overcome and can serve as a vehicle to disseminate instances of best practice among audit sectors. Finally, it underlines the critical importance of implementing quality control procedures in real time and to take corrective action where appropriate. It helps underline that Quality Assurance is a complement to, but not a substitute for, the on-going quality control process and procedures such as supervision and review and should not be viewed as a safety net to overcome inherent weaknesses in this area.