

PEER REVIEW REPORT
ON THE POLISH SUPREME AUDIT OFFICE
– NAJWYŻSZA IZBA KONTROLI –
DECEMBER 2012



This peer review report was prepared by representatives of the SAIs of Austria, Denmark (team leader), Lithuania and the Netherlands, December 2012

Table of contents

Executive Summary	5
1. Purpose and Background.....	6
2. Main Conclusions, Strengths and Recommendations	8
3. Audit Selection and Planning.....	11
4. Implementation.....	18
5. Reporting	25
6. Follow-up	28
Attachment 1. About the Peer Review	30
Attachment 2. List of Audit Cases Reviewed	33
Attachment 3. List of Persons Interviewed for the Peer Review.....	34

Executive Summary

The Polish Supreme Audit Office, Najwyższa Izba Kontroli (NIK), requested a peer review of its audit approach including audit selection, planning, implementation, reporting and follow-up. The peer review was carried out in 2012 by representatives of the Supreme Audit Institutions (SAIs) of Austria, Denmark (team leader), Lithuania and the Netherlands. The purpose was to identify areas that may benefit from improvement and good practice. Specifically, NIK wanted to obtain assurance that it is compliant with professional standards, improve its transparency, learn from other SAI's experience in the areas of interest and improve key business areas.

The peers based the assessment of NIK's audit activities on a combination of international standards as defined by the International Organisation of Supreme Audit Institutions (INTOSAI) in the International Standards of Supreme Audit Institutions (ISSAIs) and the peers' experience with good audit practice.

The peers concluded that NIK operates in line with professional standards. In the audits reviewed, the peers did not identify any deviations from professional standards.

The basic international standards are currently being updated by INTOSAI. The peers recommended that NIK undertake a general gap analyses in order to identify possible differences between the standards and NIK's internal guidelines.

The peers found that NIK has a wide range of strengths to draw on and that NIK is well geared to making a positive contribution to the public sector in Poland. Covering the entire audit approach including audit selection and planning, implementation, reporting and follow-up the peers made 11 recommendations. These are to be understood against the background of the peers' general assessment of NIK's strengths.

The peer review did not include changes made at NIK during 2012 as the review mainly covered audits completed in 2011. In 2012, NIK introduced changes to the planning procedure as well as changes as a result of the amendment of the Act on the NIK. NIK has informed the peers about these changes and it is the opinion of NIK that they are in line with the relevant recommendations of the peers.

1. Purpose and Background

Memorandum of Understanding (MoU)

The MoU was signed 18 January 2012 by the President of NIK and the SAIs of Austria, Denmark, Lithuania and the Netherlands. The MoU sets out the purpose and mode of cooperation of the peer review.

The Polish Supreme Audit Office, Najwyższa Izba Kontroli (NIK), has requested a peer review of its audit approach. The peer review was carried out based on a Memorandum of Understanding (MoU) signed by the President of NIK and representatives of the Supreme Audit Institutions (SAI) of Austria, Denmark (team leader), Lithuania and the Netherlands.

According to the MoU the purpose of the peer review was to identify areas that may benefit from improvement and good practice. Specifically the objectives of the peer review were to:

- obtain assurance that NIK is compliant with professional standards;
- improve the transparency of NIK;
- learn from other SAI's experience in the areas of interest and improve key business areas.

The scope of the peer review was defined to cover NIK's audit approach including audit selection, planning, implementation, reporting and follow-up. The review included NIK's audit procedures and how these are applied in the audit work, as well as NIK's guidelines, policies and strategies. The review covered the different types of audits conducted by NIK.

The peers carried out the review on the spot during the first half of 2012. As agreed with NIK the review should cover already completed audits so that the entire audit process from beginning to end could be analysed and the peers' assessment supported by factual documentation. Thus, the review did not cover the changes introduced at NIK during 2012. Changes include both a new planning procedure and changes as a result of the amendment of the Act on NIK. NIK has informed the peers about these changes and it is the opinion of NIK that they are in line with the relevant recommendations of the peers.

The peers based their assessment of NIK's audit activities on a combination of international standards as defined by INTOSAI in the ISSAIs and the peers' experience with good audit practice.

Further details on the contents of the peer review can be found in [attachment 1](#).

About the Najwyższa Izba Kontroli

NIK is the principal authority of government auditing in Poland. NIK is subordinate to the Sejm, the lower chamber of the Polish Parliament.

NIK submits its reports to the Sejm. The most significant reports are the analysis of the state budget execution, pronouncements on results of specific audits and the annual report on NIK's activities. In the state budget execution audit (SBEA) NIK discharges the entire state budget. Pronouncements on results of audits are presented in audit reports dealing

ISSAI

The International Standards of Supreme Audit Institutions (ISSAIs) are a collection of professional standards and best practice guidelines for public sector auditors, officially authorised and endorsed by the International Organisation of Supreme Audit Institutions (INTOSAI).

The ISSAIs state the basic prerequisites for the proper functioning and professional conduct of Supreme Audit Institutions and the fundamental principles in auditing of public entities.

The State Budget Execution Audit (SBEA) is NIK's most important task. The SBEA is published annually in a document called "Analysis of the execution of the state budget and monetary policy guidelines" and is presented to the Sejm.

with a wide range of subject matters covering state, regional and local authority issues.

In 2011 NIK carried out 197 planned and 213 ad hoc audits covering various areas of state activity. 202 of these reports on the results of audits were submitted by NIK to the Sejm and 95 of these concerned the SBEA.

The activities of NIK are regulated by the Act on NIK. The Act regulates both NIK's tasks and the scope of activities as well as issues regarding NIK's internal organization, audit procedures and staff. The Act was amended in January 2010 with changes in the audit procedure taking effect as of June 2012.

Act on NIK
*Supreme Audit Office Act of
23 December 1994
amended 22 January
2010.*

The President of NIK is appointed by the Sejm for a six-year term of office. Organizationally NIK is divided into a Central Office in Warsaw and 16 regional branches – one in each administrative region of Poland. The Central Office comprises 14 audit departments covering the audit of state activities, and four administrative staff functions, which provide internal services to the organization. The 16 regional branches and the 14 audit departments are all directly involved in auditing.

Approximately half of NIK's 1,700 employees work in the branch offices.

2. Main Conclusions, Strengths and Recommendations

See **ISSAI 20** *Principles of transparency and accountability*

The peers consider the request for a peer review a way of improving the transparency of NIK. Improving transparency was one of the specific objectives of the peer review as described in the MoU.

In the MoU NIK asked for assurance that it is compliant with professional standards. The peers have concluded that NIK operates in line with professional standards. In the audits reviewed, the peers did not identify any deviations from professional standards.

The basic international standards (ISSAI 100, 200, 300 and 400) are currently being updated by INTOSAI. The peers have not directly compared all NIK's procedures with the specific requirements of the ISSAIs. An analysis to assure that NIK's internal guidelines are in line with the ISSAIs is a major exercise that might be undertaken by NIK itself gradually over a number of years. Such an analysis could provide NIK with an opportunity to reflect on its current audit practice. The peers suggest that NIK considers undertaking a gap analysis of the differences between its internal guidelines and the ISSAIs.

In line with the MoU, the review was aimed at identifying possible areas of improvement and in the report the peers present observations and findings from which NIK might benefit.

In accordance with the MoU, this report focuses on NIK's audit approach, including audit selection, planning, implementation, reporting and follow-up.

The peers have found that NIK has a wide range of strengths to draw on:

STRENGTHS

- Well-qualified staff resources are available and NIK is considered an attractive workplace. NIK has a particularly strong position in financial and regularity auditing. Furthermore, NIK has access to in-house specialists in a number of areas and has the possibility of consulting experts and specialists when relevant. NIK provides internal staff training and aims at offering employees commensurate terms and conditions of employment.
- NIK is continually evolving and developing. The development has been described by stakeholders and NIK itself as a transition towards a more partner-like approach.
- Stakeholders perceive NIK as an independent authority with high credibility. In general, NIK is highly respected.
- NIK has a proactive approach to the media and to publishing audit results and communicates openly with the public about audit reports. Press contact is systematic and well-established. Furthermore, NIK has a well-functioning website with information that provides insight into NIK's work. Among other things, NIK has made its assessment criteria for the SBEA publicly available and publishes its annual work plan.
- The collaboration between NIK and the auditees runs according to well-established procedures. Comments and reservations of the auditees are taken into account and mentioned in the reports.
- The internal procedures are in writing and cover all aspects of the audits. Organizationally, NIK audits are managed with a steady hand – there is a relevant set-up with auditors, coordinators, advisers, management and specialist units providing advice in special areas like, for instance, law. Internal quality control, management supervision and documentation of audit cases seem to cover all substantial areas of the audit approach.
- The majority of the audits that were presented to the peers dealt with relevant and substantial issues. Some of the audit topics treated were innovative and dealing with important societal issues, which demonstrate that NIK is selecting audit topics of relevance to the Polish society and its citizens. This open-minded approach is generally confirmed by the stakeholders, who emphasize that the audits performed by NIK tend to spark interest and debate and are considered important contributions.

ISSAI 1 The Lima Declaration, Section 14 Audit Staff

It is the peers' general conclusion that NIK is well geared to making a positive contribution to the public sector in Poland. The following recommendations are formulated against this background and aimed at areas that may benefit from improvement:

RECOMMENDATIONS

- # 1. Continue to focus the audit selection process to ensure a more risk-based approach
- # 2. Consider moving further in the direction of conducting system analysis and scaling down substance auditing
- # 3. Consider the benefits of cross-cutting analysis and assure that findings and recommendations are directed at the appropriate level in the line of responsibility
- # 4. Consider procedures for awarding resources to the individual audit more flexibly depending on the scope and risk of the audit
- # 5. Continue to increase further the element of performance auditing
- # 6. Strengthen dialogue with the auditees
- # 7. Increase the involvement and participation of auditors at all stages of the audit, e.g. by strengthening teamwork and using a project-oriented approach to audits
- # 8. Continue to focus on improving the readability of the audit reports
- # 9. Increase the use of positive examples in audit reports to increase learning among auditees
- #10. Consider using external assessments in quality assurance of audit reports
- # 11. Strengthen the follow-up on audit results and recommendations

In the subsequent chapters of this report, the recommendations are described in more detail.

3. Audit Selection and Planning

The planning stage is an important part of the audit procedure and serves to ensure that the audits cover relevant areas and issues and that the audits performed by NIK add maximum value to the Polish public sector and Parliament.

Recommendation # 1. Continue to focus the audit selection process to ensure a more risk-based approach

NIK has laid down a strategy and set priorities for selecting audit topics and submits an annual work plan with audit themes to the Sejm.

Audit selection is to a large degree a bottom-up process. Departments and branches suggest audit topics, and management screens and selects.

The process is guided by audit priority directions that support the selection process. Until 2012 the priorities were rather broadly defined. The peers find that the priorities have helped NIK in its efforts to focus the selection process but that they could have been used further to guide the selection of audit topics.

NIK has a less stringent procedure for choosing ad hoc audits. By nature ad hoc audits are more loosely defined, but they should follow general and systematic selection criteria.

Until 2012 where a new planning procedure was introduced at NIK branches and departments NIK largely decided whether they wished to participate in an audit and which audit topics they wanted to advocate to management. This approach is motivational, but care must be taken to ensure that significant topics across branches and departments are audited and selected according to a risk-based approach.

Based on the cases reviewed the peers are of the opinion that especially for the ad hoc audits it is important to focus the selection process to ensure that risk and materiality is considered on a more global scale and not only in relation to the topic at hand. Ideally, the selection process should be organised to ensure that the risk and materiality assessment spans not only the individual auditees and audits but also the entire public sector.

A more risk-based approach to the selection of audits leads to a more efficient allocation of resources.

Several of the peer SAIs use a system or database for integrated risk analysis when monitoring auditees and preparing risk analysis for planning purposes. The purpose of using such a system is to make sure that planning and monitoring of auditees is based on a common framework.

Since March 2012 NIK has applied a new method for audit planning that is more centralized and strategically founded. NIK has informed the

See **ISSAI 3100** Performance Audit Guidelines – Key Principles, par. 2.4.1. Planning

Sejm – the lower Chamber of the Polish Parliament. NIK reports are sent to the responsible committees in the Sejm. At the Sejm the State Audit Committee is responsible for the activities of NIK.

Departments and branches
NIK is divided into a Central Office in Warsaw and 16 regional branches. The Central Office contains 14 audit departments and 4 administrative departments.

peers that the work plan for 2013 is being elaborated with a new approach to selecting audit topics. For instance audit priority directions are more narrowly defined and more precisely aimed at particular government activities.

Recommendation # 2. Consider moving further in the direction of conducting system analysis and scaling down substance auditing

Ensuring that the administration has well-functioning internal control systems is an important part of selecting and planning audits on the basis of a risk-based approach.

System audits test the internal control measures of the auditee.

NIK has procedures in place to gain an initial understanding of the key management systems of the auditee prior to the audit. For instance, NIK uses risk analyses when planning audits and each auditor is required to make him- or herself acquainted with the internal control systems that are applied by the auditee.

Substance audits test selected samples and transactions. The purpose of systems audit is to assess the processes and internal control systems of the auditee. The purpose of substance audit is to reach a reasonable level of assurance that the transaction or the accounts are accurate.

This prior knowledge of the auditees' systems is, however, not always used in the subsequent audit. In the cases reviewed, the system analysis does not always seem to guide the deployment of audit resources and consequently too many resources may be committed to substance auditing. The advantage of performing system-based audits is that a higher level of certainty is obtained using fewer resources compared to substance audits.

Generally, the peers found that systems-related risks are ranked equally with other types of risk. The risk analysis therefore does not systematically target the system-level.

The assumption is that if control systems are in place and well-functioning, the impact of other risks will be of minor importance. Thus, NIK might consider how to ensure that super- or subordinate risks are not ranked equally and that especially systems-related risks are prioritized in order to improve the effectiveness of the audits.

Ensuring that the auditees have well-functioning internal control or management control systems would eventually allow NIK to rely more on the systems and scale down substance auditing.

NIK has performed specific audits of internal audit within the system of management control across various sectors. This is a good example of NIK setting an agenda and addressing the general issue of management control systems.

See ISSAI 1610 Using the Work of Internal Auditors

NIK might also look for ways of making better use of the work performed by the internal audit units. This includes assessing their independence and the audit findings presented as well as helping them develop their audit methodologies. The purpose would be to strengthen the control systems and through collaboration stimulate the work of the internal auditors.

Examples of the use of internal auditors' work

The level of cooperation between SAI's and internal audit units depends on the political and legal framework. In the following, a number of examples of close cooperation between the peer SAIs and internal audit units are presented. These are meant for inspiration only and cannot be directly implemented in a Polish context.

In one case, the internal audit department certifies the annual accounts of the ministries at the national level. Still, the SAI provides assurance on the consolidated state accounts. For this, the state accounts are annually submitted to the SAI for approval. The SAI relies heavily on the audit findings of the internal auditors of the ministries in order to get a sound basis for an opinion on the state accounts. Therefore, the SAI can direct a significant part of its audit capacity to performance audits instead of auditing the annual accounts.

In another case, the act governing the activities of the SAI in question stipulates that the SAI can carry out audits in close cooperation with the internal auditors of the government institutions. The SAI uses the work of the internal auditors to fulfil its audit mandate. The role of the SAI is to advise and supervise the internal auditors and to evaluate their planning and work to make sure that the demands of the SAI are met.

In a third case, the SAI has established cooperation with internal audit units in so-called task forces, where the SAI helps develop audit methodologies etc. The purpose is to evolve the internal audit units in order for the SAI to be able to rely more on their work.

The SBEA audit approach in relation to systems-based auditing

For all auditees the same accounting and reporting principles apply. These are laid out in the Accounting Act and the Public Finance Act. However, the auditees use a large number of different IT-solutions for their financial and accounting systems and different accounting techniques. Thus, the SBEA audits are required to cover several hundred different accounting systems, as no consolidated and harmonised IT-accounting system exists across the Polish public administration. This means that the audit of the state accounts is a very resource intense task for NIK.

The peers suggest that NIK should increase the joint efforts made in collaboration with the Ministry of Finance to improve the accounting and accountability system of central government and reduce the scope of the SBEA. A more uniform accounting system would improve transparency and further enable the public to hold public bodies to account. Furthermore it would facilitate NIK's work and provide NIK with further opportunities to look into priority areas.

Being able to work on the basis of consolidated accounts and solid accounting statements from the auditees would allow NIK to use its resources more efficiently and improve accountability.

In general, NIK has to fulfil a broad audit mandate including several layers of government (central, regional and local), state-owned and subsidized companies, etc.

SBEA – The State Budget Execution Audit is NIK's annual discharge of the state budget.

Formally, it is called the "Analysis of the state budget execution and monetary policy assumptions" and it consists of a range of audits of each item on the state budget as well as an audit of the monetary policy. The SBEA commits a large part of NIK's resources, i.e. almost 45,000 working days every year.

In the SBEA NIK covers the account items very broadly. NIK is free to choose its audit procedures, but is expected by the Sejm to cover specific account items at regular intervals.

NIK has informed the peers that NIK has introduced a number of changes in the audit methodology that reduce the level of sampling depending on the materiality, for instance so-called purpose-based sampling. These changes have been applied to audits carried out in 2012.

Description of selection of auditees under the SBEA

Below ministerial level, NIK is free to leave accounts unaudited in the SBEA.

The SBEA includes 3rd or 4th level administrators. At the 1st level (ministries), all entities are audited every year. At lower levels (with lower risk) NIK is free to leave accounts unaudited or conduct simplified audits. In total about 10% of the about 3,000 entities, corresponding to 270-300 entities, are audited every year (administrators at the lowest levels are audited every 6-7 years).

NIK's approach ensures broad coverage of all accounts. The inherent risk has been that the effort is not sufficiently targeted to the most risk-prone areas. The recent changes in audit procedures will according to NIK assure more focus on the inherent risk and areas identified in the risk analysis.

In order to assure broad coverage of the state budget NIKs selection process is guided not only by substantial risk analysis, but also by a principle of rotation. Minor units thus might receive more attention than significantly risky areas.

Consequently, NIK's challenge is to prioritize further among the audited entities. NIK might to a larger degree determine the level of resources to be allocated to each individual audit every year based on an assessment of risk and materiality. One way of doing this is to move further in the direction of conducting systems analysis and scale down substance auditing in the individual accounts.

Moving in this direction would probably increase the transparency of the audit principles and offer the advantages of a more system-based approach, i.e. a more efficient use of resources and a more risk-based approach to audit selection. Reducing the level of substance auditing, on the other hand, would force NIK to present more information on the methodology used and the level of coverage and assurance, i.e. NIK does not routinely cover all items, but targets the most risky and significant areas. NIK has informed the peers that NIK continually strives at applying a more risk-based approach.

Among the cases reviewed – also cases outside the SBEA – the peers noticed several audits that included very large samples of auditees that required large-scale audits involving many branches and auditors. The

peers agree with NIK that sampling and the size of samples should be based on an individual assessment considering many factors. Considerations on how to get an optimum of assurance balanced against available staff resources should always be based on sound methodological choices. However, a more risk-based approach to the audit sampling could have resulted in a more focused and efficient use of resources.

Examples of sampling in NIK audits

In the audit of the implementation of tasks to prevent overweight and obesity prevention among children and adolescents (P/10/190) a total of 74 entities were included in the sample audited. Among the auditees were many schools etc. The peers did not review the basis for the sampling and the methodology used, but it is worth considering, if the same results might have been achieved with a smaller sample. NIK has specified that sample size in this case also was a matter of assuring the credibility of the report.

In the audit of the execution of the government programme "My sports field – Orlik 2012" by local government administrative units (P/10/146), the initial risk analysis indicated that auditees in the bigger cities should be excluded. The entities finally included in the audit were chosen because they volunteered to participate in the audit.

Recommendation # 3. Consider the benefits of cross-cutting analysis and assure that findings and recommendations are directed at the appropriate level in the line of responsibility

As a SAI NIK is in a favourable position to look at aspects across the public sector, i.e. across sectors and across levels of responsibility.

When it is decided which type of audit that should be performed, the governmental level of responsibility towards which the audit should be directed should be carefully considered. In a number of the cases reviewed, the peers discussed whether a different audit design might have allowed NIK to direct its reservations at the level responsible for the design, monitoring or control of a particular programme instead of only addressing the level executing the programme. NIK is in an excellent position to address such issues and the peers find that NIK should utilize this position to its full potential.

In a number of cases, the peers found that audit findings reflecting problems of a general nature could have been addressed at a general governance level. Issues relating to programme design were not addressed at the level of governance responsible for designing the programme, but at the level of the units that were executing the programme.

Specific findings and recommendations of individual audits could to a higher degree be supplemented with general comments designed to hold the relevant ministry accountable in order to improve, for instance, ministerial supervision or governance structures.

See [ISSAI 1260 Communicating with those Charged with Governance](#).

The purpose would furthermore be to ensure accordance between competence and responsibility.

Examples where responsibility might be directed at a higher level

In a report on the use of railway properties for commercial purposes not related to the rail traffic (P/10/063), the audit could have addressed the issue of inadequate transparency and accountability more directly. The audit targets a state-owned joint-stock company, but the general mechanisms for managing the company as a 100% state-owned joint-stock company were not addressed directly. The report might have stated more clearly who the overall responsible parties are. Focus is primarily on the activities of the company. The audit might have benefitted from addressing the ministry's failure to report regularly to parliament on progress made in respect to disposal of unused properties, i.e. progress on commercialisation and debt payment in the company.

A report on the execution of the government programme "My sports field – Orlik 2012 by local government administrative units (P/10/146) could have included an audit of the development of the programme that was done at ministerial level. Only the local execution of the programme was audited. The audit might have addressed more clearly the connection between the activities performed at the lowest level of government and the national level, and the ministerial responsibility for the programme. The programme itself was subjected to a separate audit at a later point in time by the department at NIK that is responsible for the Ministry of Sports.

In a follow-up audit of a bus company privatisation (K/09/008) it was examined whether the company had made payments on a leasing agreement. Because it was a follow-up audit, the entity supervising and receiving the payments could not be included in the audit and the general mechanisms for collecting due payments were thus not audited.

*In **Poland** the public administration is divided into three tiers: voivodships, powiats and gminas.*

***Voivodships** are bodies of government administration at regional level. There are 16 voivodships in Poland.*

***Powiats** are the second-level unit of local government and administration in Poland. Powiats are a part of a voivodeships and are subdivided into gminas. There are 379 powiat-level entities.*

***Gminas** are local authorities or municipalities. There are 2,478 gminas in Poland.*

***Cross-sector audits** would, for instance, look at a particular problem across a range of institutions, regions or ministries.*

Because of the size of Poland and the large number of similar administrative structures like voivodships and gminas, NIK has a huge potential for performing cross-sector analyses.

Together with the selection of audit topics also the scope of the issue at hand should be carefully considered. Is it a local or a national problem, an isolated incident or a general phenomenon? Are there any crosscutting issues? These considerations seem particularly relevant when a decision is made to audit, for instance, a national programme at a regional level.

The peers have reviewed a number of audits where a different design of the audits at the planning stage might have enabled NIK to make general recommendations, rather than very specific remarks, e.g. on the local level, and thus direct recommendations at a national level.

Performing cross-cutting analyses is a challenge for many SAIs. However, it is also an area where SAIs may add value in a way that almost no other institutions can. Making comparisons across, for instance, a number of similar administrative structures represents an opportunity to identify possibilities for improvement by way of good practice examples and benchmarking.

NIK has presented examples of cross-sector audits and benchmarking, and might be able to add more value if this approach is strengthened further.

Recommendation # 4. Consider procedures for awarding resources to the individual audit more flexibly depending on the scope and risk of the audit

The allocation of time available for individual audits is organised around the principle that a total number of auditor days is allocated to the branches and departments participating. Subsequently, the directors distribute the hours among the auditors that are designated to participate in the audit.

The peers had the impression that a pre-determined period of time is more or less automatically awarded to the individual audits depending on the number of auditors and auditees involved. In several of the cases that were reviewed by the peers, the average number of auditor days was 60. Resources – auditors and auditor days – can be awarded more individually to suit the scope and risk of each audit.

A flexible planning approach will also be needed to support a more project-oriented audit approach (see recommendation # 7).

NIK has an IT-system (PILOT), which supports the audit planning. Information on time spent on each audit is recorded in this system. NIK systematically include past experience/data on time spent on previous audits for the planning of future audits.

NIK reports internally on the cost of audits. Costs are reported internally to management, but are not shared with the public or kept on file. Some SAIs have adopted a policy of reporting the cost of audits externally. Reporting publicly on the cost of audits could improve the transparency and accountability of a SAI and thereby demonstrate good practice. However, it can be a challenge to identify good cost measures independently of quality.

Cost data provides valuable insight into how resources are spent. In audits involving large samples and large numbers of auditees, the total amount of resources spent will be reflected. Using cost data actively as a management tool can strengthen internal management and cost-consciousness in the individual audits. High-risk areas might require deployment of more resources, whereas fewer resources are required when the risk analysis shows that the auditees' systems are well functioning.

4. Implementation

Financial Audit

Do the accounts present fairly, in all material respects, the financial position and results for the year, in accordance with the applicable financial reporting framework?

Compliance Audit

Are transactions in all material respects in compliance with the relevant legal and regulatory frameworks?

Performance Audit

Are the funds used kept to a minimum (economy), are results achieved at the lowest achievable cost (efficiency) and are the intended objectives achieved (effectiveness)?

See **ISSAI 100** *Fundamental Principles of Public Sector Auditing (Exposure draft)*

Value for Money

Performance audits look at the wider management issues of an organization or program and whether it is achieving its objectives effectively, economically and efficiently. They are sometimes referred to as "value for money" audits because they aim to show whether value has been received for the money spent. Value for money can be defined as the optimal use of resources to achieve the intended outcomes.

Audit implementation involves a variety of different processes. This chapter covers the types of audits that are performed, how the auditee is involved in the audit and how the audit work is organised.

Recommendation # 5. Continue to further increase the element of performance auditing

A key objective of any SAI is to examine the performance of the government and hold it to account for its activities. This includes financial and legal aspects as well as economy, efficiency and effectiveness.

NIK's audits include elements of financial, regularity, compliance and performance auditing. NIK has a strong point in financial and regularity auditing. In general NIK tends to focus on the input and less on the output of government activity. Consequently, performance auditing is less prevalent in NIK's work.

According to the ISSAI 3000 and ISSAI 3100, performance auditing focuses on economy, efficiency and effectiveness. The purpose of performance auditing is to improve results and performance in these areas and work as a catalyst for modernizations and changes in the public sector, consequently providing value for money.

Strengthening performance auditing, would allow NIK to focus more on value for money and holding government accountable, not only for spending money legally and in accordance with the defined purpose but also for ensuring that the money spent achieves the planned results and has the intended impact with output being produced at a low spending level.

According to the peers' experience, the present trend among SAIs is to broaden the scope of more traditional auditing tasks. Financial auditing is expanded to include understanding the operating systems of an institution and focusing on issues such as economy, management reporting and performance measuring in addition to the legality and financial aspects of the transactions of the institution.

SAIs are at different stages of their development towards performance or value for money auditing.

Many interesting subjects and problems emerge from NIK's audit plan, but the peers' review of a select number of audit cases seems to indicate that NIK's audits tend to focus primarily on financial, regularity and compliance issues, whereas particular focus on economy, efficiency or effectiveness is less common.

Examples of how to deal with the issue of effectiveness

In a report on the implementation of tasks in the scope of overweight and obesity prevention among children and adolescents (P/10/190) the audit was focused on determining whether the programme was implemented. The audit asked whether the tasks under the programme had been implemented in accordance with the regulations. Directly addressing the question of effect or impact would have entailed a discussion of whether or not the programme had the planned impact. It could be argued that some of the tasks implemented under the programme were not evidence-based, i.e. handbooks and conferences are not measures for reducing overweight and obesity.

In a report on the implementation of flood protection in the Oder river basin, including the "Programme for the Oder-2006" (P/10/180) the audit accepted the audited programme 'as is' because of the technical aspects of the matter. Effectiveness in this area would involve assessing whether the preventive actions planned would be able to prevent flooding. Often the SAI is not in possession of the relevant skills to assess the effects of tasks performed, but can instead assess, if the auditee has established performance indicators and evaluated possible impact. In this case NIK focused on assessing the way the programme was implemented.

In an audit of the use of railway properties for commercial purposes not related to the rail traffic (P/10/063) the audit programme focused largely on compliance issues such as whether or not a strategy was followed etc. In the audit programme the objectives of the auditees' activities – e.g. enabling the company to repay its debt and thus improve the standard of passenger services – are mentioned, but could have been integrated into the design and implementation of the audit.

In an audit of the execution of the government programme "My sports field" – Orlik 2012 by local government administrative units (P/10/146) the end-user perspective could have been included. The question of the benefit of the programme for those using the facilities could have increased the performance element of the audit.

A number of factors may have contributed to the less pronounced focus on performance auditing:

- As NIK's audits include elements from different audit types, performance auditing is in competition with financial, regularity and compliance auditing.
- Audits focusing on economy, efficiency or effectiveness require different audit methodologies, and often a more technical and specialist-based assessment of the results achieved by the auditee. Financial, regularity and compliance auditing can deliver almost statistically and legally valid evidence of the level of compliance, i.e. the extent to which activities are performed in compliance with existing law and objectives. Thus, performance auditing requires more subject-related assessments, and often more experimental audit designs. Finally, audit results are based on a type of audit evidence that is often more open to discussion.

The 3 Es

Economy – keeping the cost low

Efficiency – making the most of available resources

Effectiveness – achieving the stipulated aims and objectives.

See **ISSAI 100** *Fundamental Principles of Public Sector Auditing (Exposure draft)* and **ISSAI 3000** *Standards and guidelines for performance auditing*.

Regularity Audit is an essential aspect of government auditing. The main objective for the SAI is to make sure that the state budget and accounts are complete and valid. This provides parliament etc. with assurance about the size and development of the financial obligations of the state. The SAI examines the accounts and financial statements of the administration to assure that operations have been correctly undertaken, completed, passed, paid and registered.

See **ISSAI 300** *Field Standards in Government Auditing*

Regularity audit is often grouped with both financial and compliance audit and can be considered a type of financial audit with a more strict focus on legal aspects (compliance with applicable budgetary laws and regulations).

NIK has tried to scale up performance auditing, and some of NIK's branch offices have performed audits that reflect a move in the direction of straight performance auditing. To increase the element of performance auditing, audits can be designed to focus more on the output side and the impact of government activity rather than on the input side.

The peers find that the performance element of NIK's audits can be increased if the auditors are given the opportunity to gain experience in designing, implementing and reporting on performance issues. Another approach would be to encourage a number of auditors to specialize in performance auditing and thereby promote performance auditing in the organization.

Increasing performance auditing also implies introduction of new methodologies like, for instance, interviewing techniques. Interviews are often used as an essential part of the SAI's investigation and documentation of audits. Interviews performed are documented in minutes or are transcribed and presented to the auditee for approval if they are serving as audit documentation.

At NIK, using interviews and interviewing techniques might be promoted as a valuable methodology in performance auditing.

The peers also recommend that NIK should make an effort to align its understanding of performance auditing with the ISSAI vocabulary. In a number of cases reviewed, the peers found that in the context of the particular audit 'performance auditing' was taken to mean 'performance of tasks', i.e. determining whether specific tasks are performed. Auditing whether specific tasks have been performed borders on compliance auditing whereas strict performance auditing aims at determining whether the tasks performed fulfil the objectives intended and have the intended impact.

It is the peers' perception that the focus on accountability is growing in many countries.

NIK might also address the issue of holding government accountable for its performance by focusing on inadequate performance reporting by public sector entities. The first step towards performance measurement is to ascertain whether the central administration has identified performance indicators and reports on performance. NIK might be able to focus on the contexts in which and how public entities report on performance as part of promoting principles of good public governance across the public sector. This exercise would also involve an effort to promote performance-based accounting and as a side effect strengthen a cross-sector perspective.

Accountability

One of the fundamental values of good public governance is accountability: Who is responsible for the way public sector tasks are undertaken and what results are being achieved? It must be clear where the ultimate responsibility is placed, and accountability presupposes an understanding of that responsibility, clear roles and robust structures.

*See **ISSAI 100** Fundamental Principles of Public Sector Auditing (Exposure draft)*

Recommendation # 6. Strengthen dialogue with the auditees

Today NIK is increasingly being perceived as a partner by the auditees. However, the contact between NIK and the auditees appears more formal than in the respective SAIs of the members of the peer review team.

At NIK, documentation of audit results and the discussion of audit findings between auditor and auditee are based mostly on written sources.

The risk analysis generally does not involve contact with the auditee to get access to new information, and the results of the risk analysis that is carried out prior to an audit are not discussed with the auditee.

NIK generally does not discuss the purpose of the audit with the auditee at the beginning of the audit. The auditee is not formally provided with an opportunity to comment on the assessment criteria in the initial phase of the audit process. This is primarily relevant for performance audits where the assessment criteria often depend on the nature of the individual audit.

As regards the financial-type audits in the SBEA, the assessment criteria are described and made publicly available at NIK web-site. The peers consider this good practice.

The peers are of the opinion that the risk analysis, especially at the audit programme stage, could be improved further if NIK engaged in dialogue with the auditees. Discussions with the auditees would provide a better basis for NIK to identify the most important risks at an early stage of the audit.

Such dialogue might include a discussion with the auditee of the auditors' initial risk analysis in the context of a particular audit.

It is the opinion of the peers that under the amended Act on NIK, it will become more important for NIK to establish good, informal contact with the auditees in all phases of the audit. Presenting the results of the audit late in the process increases the risk of mistakes and serious misunderstandings, if communication throughout the process has not been close. The formal points of contact do not preclude informal contact at different levels and stages throughout the entire audit process.

Discussing the audit criteria with the auditee is particularly important in respect to performance auditing where audit criteria and standards are often established to suit the individual audit. A discussion with the auditee of the assessment criteria is particularly important at an early stage of the audit.

Dialogue and cooperation with the auditees can be strengthened at an overall level as well. NIK could ask the auditees to evaluate the cooperation with NIK at a general level and in that way receive input on their perception of NIK's work. NIK has no formalized procedure for evaluating the

The amended Act on NIK among other things implies that the auditee will receive audit findings once towards the end of the audit process. Before the Act was amended the auditee received both audit protocol and post audit statement.

collaboration with the auditees. The only exception is meetings pertaining to individual audits and these tend to be focused on the substance of the actual audit rather than on the nature of the cooperation.

Several of the peer SAIs conduct surveys among their auditees and stakeholders to collect input for further improvement of cooperation and the audit work. NIK might consider commissioning an independent external consultant to conduct such surveys at, for instance, intervals of 4-5 years. The input from surveys can help NIK focus its efforts and improve established procedures.

Example of evaluation of the cooperation between the SAI, the auditees and other stakeholders

One of the peer SAIs recently conducted a survey among its auditees and stakeholders including representatives from parliament. An external consultancy firm conducted the survey and presented a report on its findings. The survey was followed-up by an action plan drafted by the SAI.

In relation to the audit of the state budget, several of the peer SAIs give the auditees the opportunity to provide feed-back on the audits. Both the audit process and the results are evaluated. When an audit is finished the auditees get an opportunity to comment on the planning, communication, reporting and usefulness of recommendations in a questionnaire.

One peer SAI is performing regular surveys among its auditees, journalists and members of parliament. The audit process as well as the results of the audits is evaluated. The results of the survey provide the basis for developing procedures and reporting.

Auditors are staff performing the audits.

Coordinators have a special responsibility in planning and coordinating big audits that include several branches and departments.

Supervisors are usually staff which supervises the work done by auditors in a particular office, branch or department. Whereas coordinators oversee the work of all NIK units participating in an audit, the supervisor has line management responsibilities in his or her unit.

Advisors are designated staff with particular responsibilities and competencies e.g. used for overseeing the audits, commenting on audit plans and reports, answering technical questions etc. Advisors include legal, economic and technical advisors.

Recommendation # 7. Increase the involvement and participation of auditors at all stages of the audit, e.g. by strengthening teamwork and using a project-oriented approach to audits

Auditors at NIK are not directly involved in the planning of the audits. The audit programme is drafted by coordinators and advisers. The audit programme describes in detail the specific audit tasks that the auditors are to undertake. The different branches or departments that are participating in an audit are given the opportunity to comment on the programme, but often the auditor who is going to perform the audit is not appointed until after the design of the programme is finished.

Drafting the programme centrally offers the advantage that a relatively uniform design can be applied across an often vast number of auditees. However, failing to involve the auditors in the planning phase may reduce their sense of ownership and understanding of the audit tasks. NIK tries to solve this problem by testing each auditor's knowledge of the contents of the programme prior to the audit. The peers find that NIK should consider the added value of these tests.

Another risk related to the centralized approach is that the advantages of team work are not fully utilised, i.e. the different competencies of the auditors and their experience and knowledge of the respective auditees.

The peers also found that some audit programmes suffered from information overload and – when compared to the final audit results – seemed to be inadequately targeted. The reason for that might be inadequate interaction between those planning the audit and those performing the audit.

The peers recommend that NIK consider involving the auditors designated to perform the audit in the planning in order to share knowledge of the task at hand and to create a sense of ownership and motivation. This approach would also help to ensure that all the skills and competences of NIK's employees are utilized.

The use of teamwork and a project-oriented approach to audits

During fieldwork auditors seem to be working on their own much of the time. This seems particularly to be the case in the large coordinated audits and in the audit of the SBEA where many auditors across branches and departments work alone at the locations of the individual auditees. Most audits at the individual auditees are performed by one auditor providing input to the overall audit.

At NIK audit teams are often very large. In many cases the audit teams comprise more than 30 people working at separate auditee locations.

This approach is different from the one pursued in the peer SAIs, where close teamwork is widely used. Small teams usually work together and cover the entire audit across several auditees.

Having large numbers of auditors working individually offers the advantage that large audits can be performed over a shorter period of time. However, it also poses the risk that NIK misses an opportunity to learn and accumulate knowledge from audits on the same topic and thereby allow the auditors to dig deep and get to the core of the matters.

Having 30 generalist auditors visit one or two auditees each produces a different result than if three or five specialist auditors audit the entire sample.

Furthermore, large teams make it difficult to adjust the audit programme during the audit and at the same time assure a unified approach across the auditees.

NIK could benefit from an increased focus on team-building activities for the teams undertaking large audits. The benefits of working in teams are, for instance, improved knowledge sharing, diversity, use of different skills/competencies and enhanced learning.

The peers find that NIK should consider introducing a more project-oriented approach for the audits instead of having individual auditors work alone. Rather than performing simultaneous audits at several auditee locations, NIK could consider committing fewer auditors, but for a longer time-period. This would allow the auditors to visit more auditees and thereby increase their level of knowledge and cross-cutting understanding of the administrative practice. On a trial basis, NIK has introduced the use of teams and projects, but so far has not found a suitable final approach that covers all the requirements of NIK. One branch for instance has experimented with more project-oriented audits with smaller audit teams of up to 12 people.

Introducing project and team work will require training in team work and project management.

If the size of audit teams is reduced, NIK might also be able to commit fewer resources to supervision and coordination and thus improve efficiency.

Coordination issues, bottleneck problems and inadequate knowledge sharing during an audit might be solved by applying a project-oriented approach. If small audit teams are allowed more time to perform the audit, less coordination may be required and accumulation of knowledge may be improved.

Using a more project-oriented approach also implies allocating resources more flexibly to suit the scope of each audit.

5. Reporting

An important part of an audit is communicating the results and ensuring that up-to-date information is made accessible to the auditee, government, parliament and other stakeholders to act upon.

Recommendation # 8. Continue to focus on improving the readability of the audit reports

It is the impression of the peers that NIK has made a large effort to improve the readability and layout of its reports in recent years and has succeeded in making published audit reports more appealing to the readers. Especially the audit reports called 'Information on audit results' seem to have been prioritised as regards presentation and communication of audit results.

NIK's efforts to communicate audit results include the issue of press releases and briefing of media representatives by its press office. It is the impression of the peers that this is an efficient strategy that helps ensure that the message gets across.

However, the reports differ as regards their readability; some of the audit reports are characterised by, for instance, technical and abstract language, which makes them difficult to read. This particularly applies to post audit statements. Generally, the information on audit results is also more readable than the SBEA.

The efforts made by NIK to improve the readability and presentation of its reports can thus be improved further. This is an area, which consistently require the attention of SAIs that want to present complex and technical issues in a readily accessible form without losing sight of the details, etc. It is a permanent challenge for all SAIs to get their message across to the public.

Examples of efforts made to improve readability

In one peer SAI, a specialist unit that is not involved in the audits is dedicated to editing and making sure the message delivered in the audit reports is clear. The unit includes journalists and staff with a master degree in communication.

In another peer SAI, auditors are trained in communicating and getting a message through. At specialised courses, the auditors are taught, for instance, how to use simple language and logical structures to guide the readers through the report.

In one SAI, a selection of published reports are subjected to cold reviews by journalists and communications experts as regards language, delivery of message, presentation, etc. The results of these annual cold reviews are discussed and shared with the entire staff of the SAI.

NIK might consider making editing and presentation a specialized and prioritized task. Another suggestion might be to subject reports to systemat-

Information on audit results – audit report presented to the Sejm summarizing the results of a number of audits

Post audit statement – report presenting NIK's assessment of the audit findings

Audit protocol – report presenting audit findings to the auditee

Audit file – the documentation behind the audit reports

According to the amended Act on NIK the post audit statement and audit protocol will be **merged**.

ic external reviews regarding their adequacy, conclusiveness, readability, etc.

Improving the readability of reports will help NIK to ensure that its messages get across to a larger audience and address other stakeholders than the auditees under audit and the recipients of the reports in parliament.

Recommendation # 9. Increase the use of positive examples in audit reports to increase learning among auditees

See **ISSAI 400** Reporting Standards in Government auditing, par. 24-25

Traditionally, auditing is focused on finding errors and irregularities and less on identifying positive examples and good practice. However, it is increasingly considered good practice for SAIs to focus also on examples of good practice encountered during the audit. Among the peers it is becoming common practice to present a balanced view and highlight not only negative findings, but also positive examples in the audit reports.

Focusing on good practice among auditees promotes positive changes and provides benchmarks against which the auditees can measure themselves.

The peers find that NIK only occasionally report on positive findings and primarily highlights negative findings. Positive findings are generally only referred to under the term 'no irregularities found', whereas deficiencies are diligently listed. The reason for this might be that NIK is often required to justify its negative remarks, which therefore must be more elaborate, whereas positive remarks are readily accepted.

In a report reviewed by the peers, NIK presented negative as well as positive examples of auditees' practice in small text boxes in the margin of the report. The peers consider this a relevant approach to highlighting good practice that others can learn from.

According to the stakeholders, audit findings are balanced in the context of the audits, but the audit reports do not provide the auditees with an opportunity to benchmark themselves against other parts of the administration. Consequently, it is important that NIK elaborates on the underlying causes of a problem and if possible explains the causes of the problems. Knowing whether a particular irregularity is an isolated mistake or reflecting a problem within procedures, interpretation of the regulations, etc. is important.

NIK could benefit from balancing findings and presenting best practice and positive examples. Highlighting positive examples would give the auditees an opportunity to learn from best practice and would increase the forward-looking aspects of the audits.

Recommendation #10. Consider using external assessments in quality assurance of audit reports

NIK has established a set-up for internal quality assurance including hot reviews by, for instance, directors, advisers and supervisors during the audit. In some instances, also cold reviews are undertaken by parts of the organization that have not been involved in the audit.

NIK has not established systematic external review of the final reports in terms of, for instance, methodology used, presentation, etc. NIK might benefit from having panels of external experts perform cold reviews of the published reports. The purpose would be to use their input for further development of the quality of reports based on lessons learned.

Examples of using external experts to undertake cold reviews

One peer SAI uses external experts to undertake annual reviews of published audit reports. Every year all reports submitted are subjected to technical reviews and selected reports are subjected to reviews of language and communication.

The technical reviews are performed by academia like university professors, etc. These reviews are focused on whether the audit topic is relevant and well founded, whether the method used provides the best results compared to the purpose of the audit, whether there is a clear connection between arguments and conclusions and whether recommendations and findings are relevant and understandable.

The reviews of language and communication are undertaken by journalists/communications experts who focus on matters relating to communication of the message, presentation, language, etc.

See **ISSAI 40** Quality Control for SAIs

Hot review is a process through which a SAI seeks to ensure that all phases of an audit (planning, execution, reporting and follow-up) are carried out in compliance with the SAI's rules, practices, and procedures. "Hot" refers to the fact that quality control is undertaken while the audit is still being elaborated.

Cold review is a review completed after the audit by persons who have not been involved in the audit under review. "Cold" refers to the fact that quality assurance is undertaken once the audit is completed.

6. Follow-up

Once an audit is completed a process designed to check whether weaknesses identified during the audit have been corrected and recommendations made have been implemented should be initiated. A follow-up process facilitates implementation of the audit results and recommendations and provides feedback to the SAI, parliament and government.

Recommendation # 11. Strengthen the follow-up on audit results and recommendations

International standards prescribe that SAIs follow-up on whether or not the auditee has carried out relevant measures based on the results and recommendations of previous audits. Follow-up on previous results should be conducted in a structured manner.

The follow-up procedure differs from SAI to SAI and some SAIs have a legal obligation to follow-up after each audit. NIK has no such comprehensive legal obligation, but has implemented a specific follow-up procedure as each new audit always includes a status on the implementation of previous recommendations. According to the Act on NIK, the auditee is required to describe the measures that will be taken in response to the audit. NIK does not systematically check whether the measures described are implemented.

Prior to each audit under the SBEA, NIK asks the auditee to present the measures that have been taken in relation to previous audit results and recommendations.

Audits performed outside the SBEA are not in the same way followed up systematically and there are no general guidelines determining when follow-up audits should be performed. Consequently, NIK does not have an overview of whether or not auditees have implemented recommendations at the level of the individual audits and NIK does not systematically report on this. NIK may on occasion decide to return to an auditee and, for instance perform a follow-up audit or a series of planned audits in the same area. This is an effective instrument in assuring that auditees take action on the results and recommendations of previous audits.

As the results and recommendations of previous audits are not systematically followed-up, NIK is not in a position to report to Parliament on whether or not the administration takes action on the audit findings and implements the recommendations made by NIK.

See **ISSAI 11** INTOSAI Guidelines and Good Practices Related to SAI Independence, Principle 7. The Existence of effective follow-up mechanisms on SAI recommendations

See **ISSAI 3100** Performance Audit Guidelines – Key Principles, par. 2.4.4. Follow-up

Examples of follow-up procedures to check, if auditees act on audit results and recommendations of previous audits

One peer SAI has special procedures that guide the follow-up on previous audits. The overall follow-up procedures are regulated by law. After the audit, the responsible minister must present a written response to the audit within 2-4 months. Within 1 month after having received the minister's response, the SAI will present a memorandum on the minister's response to parliament's Public Accounts Committee. Subsequently, and at regular intervals, the SAI will contact the responsible minister to check progress. Finally, the SAI reports to the relevant parliamentary committee once the problems discovered by the audit are solved and recommendations implemented.

In another peer SAI, the follow-up process requires the auditee to inform the SAI on the implementation of the recommendations made approximately one year after the publication of the relevant audit report. The information provided by the auditees is categorised and published in a specific report. A sample of auditees is selected for a follow-up audit in the subsequent year.

Attachment 1. About the Peer Review

The peer review was carried out in 2012. The main part of the review was performed in the first half of 2012 with visits and interviews on the spot. Fieldwork was conducted at NIK's headquarters in Warsaw and at the branch office in Kraków.

The members of the peer review team were Rechnungshof of Austria, Rigsrevisionen of Denmark (team leader), Valstybės Kontrolė of Lithuania and Algemene Rekenkamer of the Netherlands.

The representatives from Austria were director Helmut Berger and director Liane Stangl. From Denmark representatives were director Henrik Berg Rasmussen, special advisor Maibritt R. Kallehauge and senior auditor Roman Śmigielski. Also special advisor Jens Petersen assisted on the review of the SBEA during one visit. From Lithuania director Mindaugas Macijauskas participated and from the Netherlands senior auditor Herwig Cleuren.



Photo: Peer review team at NIK in Warsaw, June 2012

Method

The peers selected a number of audit cases for review. The cases cover substantial audit areas of NIK. [Attachment 2](#) includes a list of audit cases reviewed. The sample selected was intended to cover the audit work done at NIK broadly. The sample covers both planned and ad hoc audits, coordinated and non-coordinated audits, audits carried out by different departments and branches and different subject matters.

The most important parts of the audit files for the selected cases were translated for the peers. The cases selected represent only a sample and were intended to provide insight into NIK's multiple audit activities. None of the documents reviewed included audits of EU funded activities.

The sample primarily includes audits completed in 2011.

The purpose of the review was to cover NIK's audit approach as including audit selection, planning, implementation, reporting and follow-up. In order to cover these different phases the peers based their work on the

Planned audits are included in NIK's annual work plan.

Ad hoc audits are not included in the annual plan and comprise e.g. audit topics that are suggested by individual directors and approved by top-management throughout the year.

Coordinated audits can be either planned or ad hoc and include large audits involving several branches and departments

checklist included in ISSAI 5600, which is based on internationally accepted standards. The checklist was the starting point for going through the selected audit cases.

When assessing NIK's audit approach, the peers applied a combination of international standards as defined by INTOSAI as well as the team members' experience with good practice in their respective SAIs.

The review included not only NIK's audit procedures and how these are used in the audit work, but also NIK's guidelines, policies and strategies. The review covers not only audit-related issues but also to some extent management and organizational matters. The review covered the different types of audits conducted by NIK.

As agreed with NIK the review mainly covered completed audits, so that the entire audit process from beginning to end could be analysed and the peers' assessment supported by factual documentation. The changes introduced at NIK during 2012 were not included. These include changes introduced at NIK after the amendment of the Act on NIK and changes to the planning procedure.

A number of central documents from the audit files as well as manuals describing audit procedures and various policy or strategy papers were translated for the peers. In addition to these written sources, the peers also had access to key staff involved in the individual audits. The peers conducted a number of interviews with the staff involved in each audit and met with both auditors, heads of departments and branches and, when relevant, audit coordinators. The peers also received general presentations of NIK's audit approach.

The peers were at liberty to ask detailed questions to the written sources, presentations and audit cases.

The peers also met with representatives of external stakeholders such as parliamentary committees, media and auditees at national and regional level.

Attachment 3 includes a list of persons interviewed for the peer review.

In total, the peers conducted more than 30 interviews as well as a number of meetings where the initial findings were discussed. The peers conducted the fieldwork during 4 visits to Poland.

During the interviews, the peers explored a range of themes relevant to NIK's procedures and practice. The interviews represented a significant source of information and provided the platform for discussions of specific as well as general aspects of NIK's work.

*The **ISSAI 5600** is a guideline on peer reviews. It provides guidelines and good practice examples for SAIs that wish to embark on a peer review exercise.*

As an appendix to the ISSAI 5600 is a Peer Review Checklist. This checklist provides detailed questions for selected review areas. NIK peer review took its starting point in chapter 4 of the ISSAI 5600 checklist. Chapter 4 covers the audit approach and includes audit selection, planning, implementation, reporting and follow-up.

The findings presented in this report are based on the observations made by the peers during the review of audit files and staff interviews and on the statements made by the stakeholders over the course of the review. It should be noted that this exercise is a review and not an audit.

NIK's audit procedures will to some extent be changed to reflect the amended Act on NIK. Some of the amendments entered into force during the peer review. Furthermore, NIK is in the process of updating its internal audit manual guidelines. The peer review does not consider these specific changes, but takes a general perspective on the audit procedures and possibilities for improvement.

The peers received all necessary information in a spirit of cooperation, mutual respect and dialogue. The peers did not experience that their access to selected files or staff was restricted. The peers were well received by all parties involved in the peer review exercise. The peers' discussions with NIK were characterized by openness and a willingness to exchange information. The peers have not only performed a review of NIK, but have also learnt from seeing how things are done at NIK and have thereby had the opportunity to discuss and reflect on the audit approach in their own institutions.

Attachment 2. List of Audit Cases Reviewed

Audit Cases Reviewed During Peer Review

Presentations

P/09/144 Effectiveness and regularity of the multi-annual programme "State support in respect of nutrition" implemented by the municipalities of the Małopolskie Voivodship in 2006-2009

P/09/161 Aid granted to victims of the tornado of 15 August 2008 and elimination of its consequences in the Opolskie and Śląskie Voivodeships

P/09/178 Audit of the measures implemented to increase the efficiency of transportation systems in Poland's major cities

P/09/186 Functioning of selected companies established by municipalities in Dolnośląskie Voivodship

P/10/003 Performance of Local Government Appeals Tribunals (SKOs)

P/10/045 Operation of selected IT systems at the Ministry of Treasury

Sampled Audit Cases

P/08/141 Nutrition and cleanliness in public hospitals

K/09/008 Bus company privatisation, follow-up on payments on leasing agreement

I/10/007 Privatization of The Poznań Orthopedic Equipment Works Ltd.

S/10/009 If formal and legal requirements were fulfilled in the construction of windmill farms in Oława and Legnickie Pole municipalities

P/10/037 State budget execution in 2010, part 19 – Budget, Public Finances and Financial Institutions (and Coordination of budgetary audit)

P/10/063 The use of railway properties for commercial purposes not related to the rail traffic

P/10/145 State budget execution in 2010, part 85/12 – Małopolskie Voivodship

P/10/146 Execution of the government programme "My sports field – Orlik 2012" by local government administrative units (Lublin)

P/10/180 Implementation of flood protection in the Oder river basin, including the "Programme for the Oder-2006"

P/10/190 Implementation of tasks to prevent overweight and obesity prevention by children and adolescents

K/11/007 Execution of the government programme "My sports field – Orlik 2012" by local government administrative units (follow up - Gdańsk)

P = Planned audit

K = Follow-up audit

I = Other (from the group of ad hoc audits)

S = Complaints-based audit

Attachment 3. List of Persons Interviewed for the Peer Review

Staff Responsible for or Participating in Audit Cases Selected for Review

Mr Mieczysław Biernat, Technical Advisor, Regional Branch in Wrocław
Ms Agata Brzeska-Lebiecka, Legal Advisor, Regional Branch in Kraków
Mr Grzegorz Buczyński, Director, Department of Science, Education and National Heritage
Ms Maria Chryczyk, Economic Advisor, Regional Branch in Kraków
Mr Przemysław Dowgiało, Senior Public Audit Expert, Regional Branch in Wrocław
Mr Mariusz Gorczyca, Public Audit Expert, Regional Branch in Kraków
Mr Wojciech Graca, Senior Public Audit Expert, Regional Branch in Opole
Mr Sławomir Grzelak, Deputy Director, Regional Branch in Warsaw
Mr Dariusz Jurczuk, Deputy Director, Regional Branch in Gdańsk
Ms Elżbieta Karczmarczyk, Deputy Director, Department of Budget and Finance
Mr Krzysztof Kępa, Economic Advisor, Regional Branch in Lublin
Mr Marcin Kopeć, Deputy Director, Regional Branch in Kraków
Mr Leszek Korczak, Economic Advisor, Department of Infrastructure
Mr Jan Kosiniak, Deputy Director, Regional Branch in Kraków
Mr Krzysztof Kubiak, Economic Advisor, Regional Branch in Wrocław
Mr Jerzy Lorenc, Economic Advisor, Department of Economy, Public Assets and Privatisation
Mr Dariusz Łubian, Deputy Director, Department of Public Administration
Mr Piotr Miklis, Director, Regional Branch in Wrocław
Mr Adam Pęziół, Director, Regional Branch in Lublin
Ms Jolanta Roter, Chief Public Audit Expert, Department of Economy, Public Assets and Privatisation
Ms Anna Rybczyńska, Senior Public Audit Expert, Department of Budget and Finance
Mr Wiesław Sawicki, Technical Advisor, Department of Strategy
Ms Elżbieta Sikorska, Deputy Director, Department of Economy, Public Assets and Privatisation
Ms Jolanta Stawska, Director, Regional Branch in Kraków
Mr Mariusz Syrek, Senior Public Audit Expert, Regional Branch in Gdańsk
Mr Paweł Szymanek, Public Audit Expert, Regional Branch in Lublin
Mr Michał Thomas, Economic Advisor, Regional Branch in Gdańsk
Mr Waldemar Wypych, Senior Public Audit Expert, Department of Infrastructure

NIK Management Representatives

Mr Paweł Banaś, Advisor to the President of NIK
Mr Roman Furtak, Director, Department of Audit Methodology and Professional Development
Mr Wiesław Karliński, Deputy Director, Department of Audit Methodology and Professional Development
Mr Wojciech Misiąg, Vice-President of NIK

Media Representatives

Mr Paweł Płuska, TVN

Mr Roman Osica, RMF FM

Mr Robert Zieliński, Dziennik Gazeta Prawna

Representatives of Parliamentary Committees

State Audit Committee:

Mr Mariusz Błaszczak, Chairman

Public Finance Committee:

Mr Sławomir Arkadiusz Neumann, Vice-Chairman

Representatives of Auditees

Ministry of Regional Development:

Mr Sławomir Lewandowski, Director, Office of the Director General

Mr Marek Michalski, Director, Department of Support for Infrastructural Programmes

Mr Marcin Szymański, Deputy Director, Department of Support for Infrastructural Programmes

Mr Adam Zdziebro, Secretary of State

Małopolska Voivodship Office:

Ms Małgorzata Bywanis-Jodlińska, Director General

Mr Jerzy Miller, Voivodship Governor

Marshalls Office of Małopolska Voivodship:

Ms Dominika Bartoszewicz, Deputy Director, Department of Budget and Finance

Mr Hubert Guz, Deputy Director, Department of EU Funds

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Mr Gerard Madej, Deputy Director, Department of Organization and Legal Affairs

Ms Alina Nowakowska, Deputy Director, Department of Audit and Control

Mr Stanisław Sorys, Member of the Board of Directors

Mr Jakub Szymański, Deputy Director, Department of Regional Politics