



*Peer review conducted by the supreme audit institutions of the
Netherlands, Poland and Sweden*

Peer Review Report National Audit Office of Estonia





Contents

Main Message	1
1 Introduction	3
2 Internal Conditions	5
2.1 Strategy	5
2.2 Shared values	7
2.3 Staff: Resources and competences	10
3 Product Quality	13
3.1 Financial audit reports	13
3.2 Performance audit reports and local government audit reports	16
4 Management of External Relations	20
5 Planning the Change and Recommendations	24
6 Response of the NAOE	26
Annexe 1 Main Questions	27
Annexe 2 Audits reviewed	28
Annexe 3 External stakeholders interviewed	29



Main Message

1

The National Audit Office of Estonia (NAOE) is highly respected and valued by parliament, government and stakeholders in society. Its independent audit work and analyses provide a unique assessment of the performance of public activities in Estonia. However, the organization's current positive status and position hold no guarantee for the future, and the peer review team therefore welcomes the initiatives of the NAOE to strengthen and improve its organization and operations. Having more impact is one of the NAOE's objectives.

The new strategy that the NAOE is developing is part of this improvement and can play a crucial part in the change the NAOE is seeking. Both the strategy itself and the process of developing it are important drivers for a shared understanding of the organization's direction and identity.

The peer review team highlights three aspects the NAOE could take into consideration in this change operation. Having a strategy is an important start but, looking at the NAOE practice, it needs to be complemented with:

1. continuous monitoring and measuring of quality and impact of the work
2. strengthening product quality, especially the strategic orientation
3. sharing of ideas in and across all levels of the organization

Monitoring and measuring: To have the desired impact the NAOE should introduce an effective feedback loop. The NAOE should actively seek information to assess the execution of the strategy and also assess the impact of different audits more intensively and feed this information back into the process, for instance in the annual planning process.

Strengthening: A feedback loop enhances the strategic orientation of the organization. The NAOE puts a lot of effort into producing technically good quality reports. Further diversification of products and interventions however seems advisable and efficient and could help to reach the strategic goals.

Sharing: The NAOE is a professional organization with highly educated



staff. Management can take more advantage of this asset by enhancing the internal dialogue. Natural moments to exchange views are in the (annual) strategic planning process and in the various phases of the audit. 2

Organizational/institutional development takes time. Planning the change and allocating resources to it will help the process. Monitoring the change and adjusting plans when necessary will keep the efforts relevant.

Our recommendations are primarily directed to the Auditor General and the head of departments of the NAOE.



1 Introduction

3

An international team with representatives of the SAIs of the Netherlands (peer review leader), Poland and Sweden conducted a peer review of the National Audit Office of Estonia (NAOE) in 2015.

The Memorandum of Understanding was signed in September 2014. The peer review's primary objective was to assess whether the audit practice of the NAOE was consistent with international auditing standards and provided parliament with independent, objective and reliable information on government performance.

It was agreed to focus the peer review on three main questions:

1. Are the main principles of independence followed by the NAOE?
2. Is the NAOE doing the right things?
3. Is the NAOE doing things right ?

In the course of the review the peer review team learned that the NAOE was on the verge of a period of transition and the review's focus shifted slightly to include dimensions that contribute to the discussions regarding this transition. Strengthening the impact is the driver for this desired change and the peer review report supports this ambition.

The peer review team visited the NAOE twice. In January 2015 the team organised a week of internal workshops to gain a comprehensive understanding of the view of management and staff on the NAOE's functioning and performance.

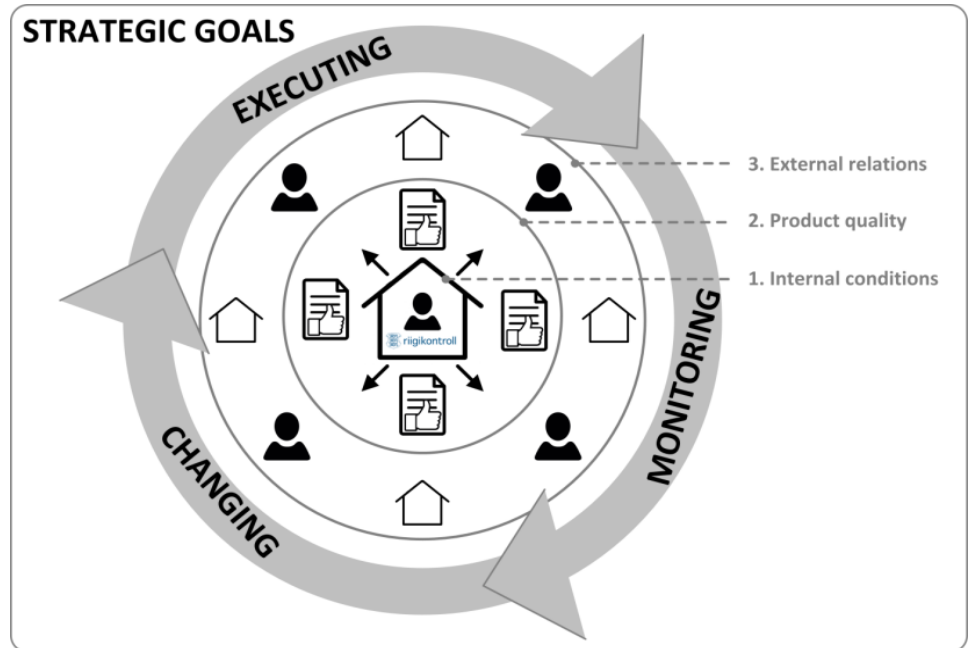
After reading through a selection of eleven audit reports published in 2013 and 2014 (see annexe 2) a second visit in April 2015 focused on interviews with the audit teams concerned and representatives of auditees and external stakeholders (see annexe 3).

The peer review team conducted its review in accordance with ISSAI standards on peer review (ISSAI 5600). Standards used in the peer review were based on ISSAI standards and guidelines for financial, compliance and performance audits.

The peer review was a comprehensive assessment of the operations and performance of the NAOE. To structure our assessment we used the framework presented below. We focussed on three elements: (1) the



conditions/processes in the NAOE organization, (2) the product quality and (3) the management of external relations. Those three are ideally linked to the achievement of the strategic goals.



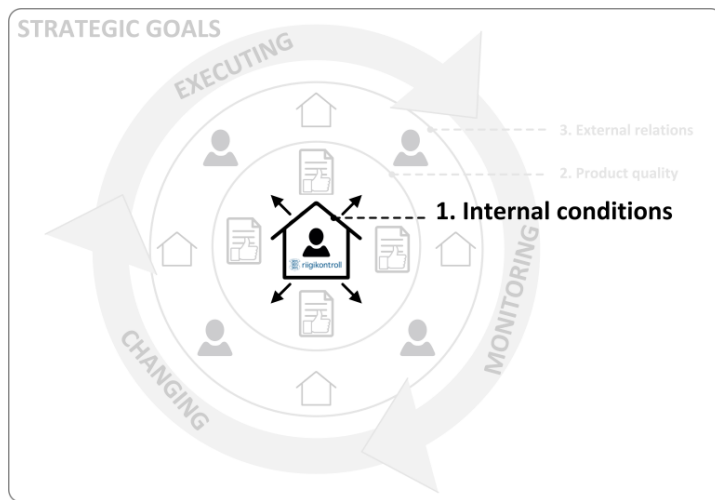
In the next three chapters we will address these three elements. In chapter 5 we will present our recommendations and the final chapter contains the response of the NAOE.

We would like to thank the NAOE colleagues for the open and constructive discussions and the excellent atmosphere during this peer review.



2 Internal Conditions

5



In this chapter we focus on the internal conditions of the NAOE. Does the NAOE organize its work in a way that optimally contributes to good quality products and impact? We focused especially on strategy, shared values, resources and competences. These aspects are important conditions for an effective and efficient organization but also important drivers for change, as shown in the table below.

CHANGE AND ITS DRIVERS						
Strategy/Vision	Shared Values	Resources	Competences	Plan*	->	Change
	Shared Values	Resources	Competences	Plan	->	Confusion
Strategy/Vision		Resources	Competences	Plan	->	Resistance
Strategy/Vision	Shared Values		Competences	Plan	->	Frustration
Strategy/Vision	Shared Values	Resources		Plan	->	Fear
Strategy/Vision	Shared Values	Resources	Competences		->	Chaos

Based on: Guido Vermeeren, 08-04-2014, <http://guidovermeeren.nl/>

* See Chapter 5 for planning the change.

2.1 Strategy

The NAOE has almost completed its new strategic plan. It is good practice for a SAI to formulate its strategic organizational goals and to have a clear vision on how to proceed in order to achieve them. A clear strategy provides the organization and the people who work for it with a common



understanding of the direction it wants to take and gives meaning and focus to its activities.

6

The NAOE's draft strategy sets the following ambitions:

The NAOE's ambitions

- The audits of the National Audit Office support the development of Estonia and are aimed at resolving and preventing serious problems in society.
- The National Audit Office audits all sectors as much as possible without excluding assessment of the reasonability of the use of public funds in any scope.
- The National Audit Office is a well-known and recognised audit organization.

Source: NAOE, September 2014

We have the following observations and recommendations on the development of the strategy and its execution in the coming period. Recommendations are put in green and are primarily directed to the Auditor-General and to his management.

Introduce a feedback loop

The execution of the strategy would benefit from a clearly designed and functional feedback loop. To introduce one and monitor the execution of the strategy and the progress being made and to make reasoned decisions about improving the NAOE's operations, the strategy needs further operationalization. Clear milestones indicating what objectives are to be reached and when are necessary to make periodic and meaningful assessments of the progress being made. An important part of the feedback loop is the use of follow-up audits. Follow-up audits are rare in the NAOE's current audit practice. However, they provide valuable information about the desired impact of the audits.

Be aware of who to target on and how

In the new strategy, the NAOE targets its work equally at the general public, local authorities, central government and parliament. However, these stakeholders often have different interests. Serving one stakeholder could even harm one of the others. Recognizing these tensions would strengthen the strategy. In the various projects, the NAOE should explicitly identify the intended users of its report and be aware of their different interests and the consequences for its activities.

During the peer review, media representatives told us that roughly 80 percent of the NAOE's reports were newsworthy. Some stakeholders stressed that the NAOE focused too much on being in the news, which could work counterproductive.



The draft strategy touches on different kinds of products, such as overviews, memoranda, organising seminars and other activities that support the main activities. The peer review team strongly supports those initiatives and thinks the NAOE could consider intensifying them.

The field of local government audit offers particularly important opportunities to increase the impact of the audits. Organizing seminars for (all of) municipalities about the results of the local government audits is an important instrument to increase the impact with relatively few resources.

Link the strategy to the planning process

For a strategy to work, there must be a clear link between the why, the how and the what. We observed that in the NAOE the three separate departments all have a strong role when it came to selecting the subjects for the different types of audit (financial audit, performance audit, local government audit). The new strategy gives the NAOE an opportunity to strengthen the balance between bottom-up ideas (departments) and top-down vision.

The planning of the NAOE's activities should be more coordinated. It should include consultations on ideas of future audits, methodology and expected quality. Starting early enough during the year, it should encompass all employees through a cycle of meetings and on-line dialogue. The result will be a strategic audit plan for the NAOE. Its span will depend on the typical length of the NAOE's audit process and the size of its audit universe. A three years cycle is sometimes applied, although there are of course no hard and fast rules. A multi-annual cycle is not the only option. Strategic planning could also cover just the next year's audits. The main idea is to structure the planning discussions around topics, methodology and quality, and focus on a short, medium and long term impact.

The strategic planning's inevitable companion is *risk analysis*. The selection of topics as the outcome of an organization wide planning process inevitably means that the weighing of the risks should also be more integrated and not be an isolated activity within the different departments.

2.2 Shared values

A critical success factor for an effective and efficient organization is to have shared values of the organization's culture and identity: a common understanding of what an organization stands for and what kind of



interventions match its identity. Shared values help direct the activities more smoothly in the right direction and help establish a common idea of the necessary change. The draft strategy touches on some of these elements and we consider it good practice to make those organizational values explicit.

8

The organization's core values

The core values of the employees of the National Audit Office are objectivity and *independence, competence and diligence, cooperation and openness, and honesty and integrity.*

Source: NAOE, September 2014

The strategy meetings that the NAOE recently organized and plans to organize in the future are important examples of how to achieve a shared understanding of the organization's identity and desired direction. Moreover, the more frequent meetings in the NAOE's audit practice, for example between Auditor General and heads of departments, between heads of department and audit managers, between heads of department and audit team, are important facilitators for a common understanding of the organization. Cooperation and sharing ideas also facilitate a common understanding of the core values. The current practice of mixed teams being developed by the performance audit and financial audit departments is an important step in this respect.

However there is also an awareness amongst the Auditor General and the staff that the organization is not completely functioning as one and seems to be divided into three parts, along the lines of the three types of audit. Cooperation between audit departments is still limited and the perceived lack of added value to be gained from feedback received from outside a department during the quality control process is an indicator of the different values held in the organization. Of course there are some hindrances for a more integrated approach: The NAOE has different mandates for the different types of audit and each audit type demands specific expertise. The planning phases for the different types also differ, making it difficult to cooperate and have mixed teams and mixed audit objectives. We nevertheless believe that the NAOE's aim should first and foremost be to achieve the different strategic goals. The three types of audit are a tool to reach those goals. In a relatively small organization like the NAOE an efficient allocation of staff means prioritizing topics: not only in the department but also between departments. It also means a constant search for how to best combine the strengths of the audit types to approach a given topic more effectively. Staff is currently too strongly focused on their own departments.



Set the right tone at the top and enhance internal communication

9

The key drivers for a common understanding of the organization's core values are the tone at the top and internal communication. The Auditor General and the heads of department should set an example of how to work as one organization.

One thing to consider is the signing of the reports. In the current practice this is a responsibility of the heads of the department. Having the Auditor General sign reports instead of one of the three heads of department would be a strong internal signal that the NAOE is one organization rather than three and would strengthen the pursuit of shared values.

Independence

In the peer review of the NAOE of 2005 the peer review team (led by SIGMA) also had some observations on the signing of the reports and related that to the independence of the NAOE. It argued that in all supreme audit offices established under an auditor general, the auditor general has the comprehensive responsibility for the audit office including responsibility for auditing and reporting. According to the wording of the Estonian State Audit Office Act the auditor general has all these general tasks and responsibilities. Some key responsibilities, however, are excluded and given instead to the chief auditors (now heads of department) who are regarded as independent. In the 2005 team's opinion, the auditor general should have comprehensive responsibility for auditing and reporting, and for signing audit reports. He is appointed by parliament, whereas the chief auditors are appointed by the auditor general. Accordingly he should be the one with comprehensive responsibility.

Apart from this specific issue the independence of the NAOE concerns primarily the legal framework of the NAOE, the mandate and the decisions about budget. Under the Constitution, the NAOE is an independent state body exercising economic control/audit. The Auditor General is appointed by parliament on the recommendation of the President of the Republic for a term of five years. The Auditor General appoints staff, decides on the organizational structure, recruitment, salaries, remuneration, etc. The NAOE drafts its own budget, which is approved by parliament as a part of the State Budget. Budget negotiations are held with the Ministry of Finance, which presents the budget to parliament. The NAOE decides independently on the conduct, content and timing of audits, with the exception of those required by law. To conduct its audits, the NAOE has almost unrestricted access to information. It can decide on the timing and content of audit reports and publish them as it considers appropriate (exception: audits involving state secrets).

In the peer review of the NAOE in 2005, the peer review team concluded that the State Audit Office Act corresponds to a large extent to the INTOSAI recommendations and gives the NAOE considerable independence and a wide mandate. It did have one other consideration which also attracted the attention of the 2015 peer review team: the NAOE does not have direct access to parliament (the Riigikogu) as regards its own budget but has to go through the Ministry of Finance. There is a general agreement amongst SAs that a right of direct access to parliament is always stronger and better for independence than the need to go through the Ministry of Finance. However, only few supreme audit institutions have ever reached this optimum.

Without disregarding the interests of their own department, the heads of department could better balance the interests of the department and of the organization as a whole.

A more frequent exchange of ideas between senior management and staff



at all levels, both formally and informally, is also important. One way to enhance the structured internal discussions is the strategic planning process described above. Next to that, the strengths of several audits could be periodically shared among the staff, including the Auditor General.

10

A SAI's structural organization can support its mission and strategy. SAIs throughout the world are structured differently. Sometimes the organizational structure mirrors the structure of central government, with the audit departments concentrating on one or more ministries and carrying out different kinds of audit (as in the case of the Dutch and Polish SAIs). Sometimes strategic themes determine the structure of the organization (as in the case of the UK SAI). Sometimes audit type is the principle for structuring, as in the case of Estonia and Norway. All structures have their strengths and weaknesses. A common structuring principle is 'structure follows strategy'. The peer review team is of the opinion that the desired changes in the NAOE can be achieved in all of the above mentioned organizational structures and therefore refrains from a recommendation on this topic.

2.3 Staff: Resources and competences

Being a small SAI there is a constant challenge to balance the ambitions on the one hand (as formulated in the strategy and the audit plan) and resources (people, money, time) on the other.

People
Time
Money



Ambition

When developing the strategy and ambitions one should take account of this balance and the number and quality of staff needed.



Cuts in the NAOE's budget

The budget granted to the NAOE by parliament determines the resources available for the audits. Like other governmental organizations in Estonia the NAOE has been confronted with budget cuts. Having a broad statutory mandate as the NAOE has, extra resources can always be put to good use. Whether or not the NAOE can do what is necessary with the current resources was not part of the scope of this peer review. To make a convincing case resources should be linked to statutory tasks and strategic goals, risk analysis, impact achieved and interventions needed.

The assessment of the NAOE's reports (see chapter 4) and our interviews with staff justify the conclusion that the NAOE has competent auditors. The NAOE seems to have a good mix of staff (education, experience, skills).

Enhance strategic quality

To turn to the NAOE's audit practice, it could be said that the NAOE is more concerned with the technical quality of its audit products than their strategic quality. Technical quality is concerned with audit design, methodology and execution and reliable and valid findings. These aspects are of course of crucial importance for a SAI but do not automatically achieve the desired impact. The strategic quality of the products is of equal importance and basically concerns the relevance of the reports.

The NAOE's Auditor General has a strong external profile and has (and takes) the opportunity to talk to and influence members of parliament and members of the cabinet both formally and informally. Staff focus on strategic quality on the other hand could be strengthened. The development and execution of the new strategy provides momentum to shift the focus. The NAOE's staff has the potential to do this and could be challenged more in this respect. In all departments we met auditors and audit managers who could function as ambassadors for this change. The NAOE's ambition as an employer is well formulated in the strategy and could also be directed towards this strategic orientation:

NAOE's ambition as an employer

A place of work that offers an outlet for professionals who are provided with diverse opportunities for self-development. Working conditions comply with modern requirements, are flexible and support creativity.

Source: NAOE, September 2014

Staff could be challenged to engage more in discussions relating to such questions as:



- What are the strategic objectives of this specific project?
- What timeline fits the political situation?
- What product (audit report or something else) is needed in the specific situation?
- Which stakeholders can support us to strengthen our message?

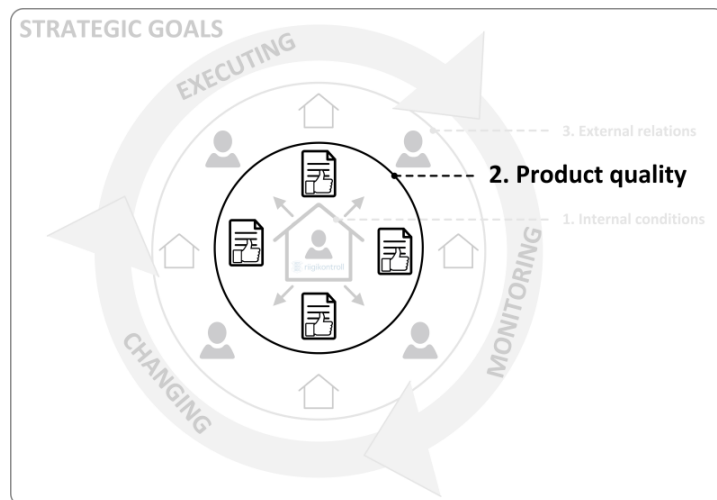
12

These are questions that could be discussed early in the audit process involving the Auditor General, head of department, audit team and advisors.



3 Product Quality

13



This chapter looks at product quality. The quality of the products must be undisputed if they are to have the desired impact. On an annual basis the NAOE publishes between 30 and 40 audit reports. About half of them are financial audit reports, 10-15 are performance audit reports and 6-8 are local government audit reports. The peer review team selected and assessed eleven reports (four performance audit reports, four financial audit reports and three local government audit reports (see annexe 2). To assess the product quality we focused on such aspects as selection, design, coherence, presentation and added value. We distinguished between our recommendations concerning the financial audits on the one hand and the recommendations on the performance and local government audits on the other hand. Our recommendations are primarily addressed to the management (head of the department and audit managers) in these departments.

3.1 Financial audit reports

In the peer review team's opinion the financial audits are ISSAI compliant and technically of a high quality. The strategic quality of the products could be stronger. The NAOE is aware of this and is thinking of ways to improve the added value of its financial audits.

The law prescribes the timing and topics for the majority of the financial



audit reports. An important development is that in the near future the ministries and other central government institutions will stop issuing annual accounts per ministry. The NAOE will not be obliged any more to issue reports for each entity. These reports are underused and important findings are also included in the consolidated report. The NAOE is now considering options how to organise its reporting on audit findings in the future.

14

Try to use as much capacity as possible for special, risk-based, thematic financial audits

The materiality for the consolidated accounts of central government is higher than that for the accounts per ministry. The NAOE can therefore achieve savings on its financial audit efforts in the future. This capacity can be used for work with greater added value for stakeholders, such as special reports. The special financial audit report on grants in 2013 enjoyed a lot of attention and was highly appreciated by stakeholders. These special reports should fit the overall strategy and when relevant be combined with compliance and/or performance audits perspectives.

Clarify the scope of the regularity audit work not included in the audit opinion

The audit opinion gives attention to the true and fair view of the accounts as well as the regularity of underlying transactions. However the opinion on the regularity of transactions is limited to the State Budget Act, the Public Procurement Act and the State Assets Act. For other as considered important legislation, the NAOE checks the compliance with the essential requirements. Irregularities are presented in the report but do not affect the opinion; for example the Civil Servant Act for labour expenses. This scope limitation is described in each report. Because findings on other as considered important legislation are not part of the opinion, the scope of the audit of these other regulations is not completely clear now. To avoid confusion for readers, we give in consideration to make it more clear to what extension these other regulations have been audited on regularity.

Invest in knowhow on information technology

The FA work complies with the relevant standards. Important aspects like the audit manual, risk analysis, audit documentation and audit trail, and quality control are all adequately arranged and functioning. IT aspects become more and more important in the financial audits. Regarding implementation of IT Baseline Security Systems the NAOE does not carry



out audit procedures, as this work is done by professional (external) IT auditors. The NAOE does test the IT systems in a part of the audited entities, where IT systems play an important role in financial accounting. We would recommend the NAOE, given the fact that IT becomes more complex and important each year, to invest more in developing and maintaining IT knowledge and capacity, to support financial audits in greater extent with IT related audit procedures. Experience of the NAOE team conducting IT performance audits will be a source of valuable help.

15

Further strengthen reviews on private sector audit reports used by the NAOE

As the group auditor for the consolidated report (ISSAI 1600), the NAOE gives guidance to the private sector auditors whose work it uses. Also the NAOE performs procedures to gain assurance whether it can rely on their work (like meetings, discussions, asking explanations). We would recommend to also perform some reviewing of audit files to ascertain the quality of the work, and to document all reviewing activities in the audit files. This will be even more important when private sector auditors also audit the regularity of transactions of foundations and state owned companies.

Improve the readability of reports

The readability of financial audit reports has the attention of the NAOE and has been improved over the years, but could be improved further by more use of infographics, key figures on the ministry (for example main income and expenses) and even shorter texts focusing on the message at administrative level (less legalistic/technical). In particular, the most important financial audit report, the consolidated report, which enjoys the most attention, could be presented in a more attractive form and written more from the point of view of the main stakeholders. The report would be strengthened if the summary paid more attention to the report's main message instead of the main technical findings. Also presenting the findings from the viewpoint of the user can enhance readability.

The findings about lease contracts and budgeted revenues (financial audit report of Ministry of Economic Affairs and Communication) undermine the budget right of Parliament. The issue of undermining the budget right is not explicitly mentioned in the report, but is relevant for Parliament.



3.2 Performance audit reports and local government audit reports

16

On the whole, the audit topics selected for performance audit and local government audit are very relevant and material. Performance audits place a strong emphasis on management, efficiency and effectiveness. Both performance audits and compliance audits often have a clear citizens' perspective. The audit reports are reader-friendly and the presentation is accessible to auditees as well as to subject experts and other stakeholders. It is evident that the NAOE succeeds in writing reports that raise issues of interest to the wider public. The report summary in itself is generally excellently compiled to illustrate key messages and to stimulate the reader's interest in the report.

The audits, especially the performance audits, focus on thematic performance problems rather than a single programme or entity, and so there is great potential to add new perspectives. Audits usually encompass the full accountability chain by examining the central government's policies and management as well as assessing actual implementation by agencies or municipalities. One of several examples is the performance audit of the sustainability of water, which departed from environmental goals to embrace drinking water and wastewater at EU, state and local levels.

Strengthen the strategic selection process

The selection process is mainly bottom-up and reflects the auditors' continuous field monitoring and accumulated field knowledge. The fact that audit teams are specialised in some areas also means that other areas in the public sector are relatively less audited. The peer review team feels that a more strategic selection process would broaden the coverage and also justify the choices made to external stakeholders. The strategic selection process could consider the timing of audits more specifically.

Pre-studies (audit plans) are a good instrument to prepare for the main audit and develop the relevant focus and approach. On the whole, the NAOE's pre-studies are thorough and well designed. The main study uses a wide range of qualitative and quantitative methods for both performance and compliance audits. Data and information are often collected from a variety of sources. In addition, external subject experts are sometimes engaged for specific assignments. Since extensive primary data are collected, the audits have a good potential to provide auditees



and stakeholders with new knowledge and perspectives.

17

The audits often have a broad focus and touch upon many relevant issues. As mentioned, above, the short and clear summary increases understanding of the report, even with the wealth of information at hand. Nevertheless, we feel that reports could be strengthened in a number of areas.

Strengthen the coherence between purpose, questions, methodology, findings and conclusions

The pre-studies prove that the audits have a well-reasoned audit design, but this is not always made clear in the final audit report. A more comprehensive presentation of the audits' purpose, questions, scope and limitations would make the reports' logic clearer and support the link with conclusions and recommendations. The peer review team thinks that the local government audits in particular could select sample or case municipalities in a manner that would accurately fit the specifics of the main audit question and enhance the possibility to draw even stronger conclusions from the results. Sometimes a sample of 15 would be feasible, but sometimes it will be worth considering to survey all 200 (e.g. for a question as "do all municipalities comply to..") and sometimes only a few cases would be a good fit (e.g. to answer a more explorative question and study cases in depth). It is also worth considering on what characteristics one selects individual cases. Size of the municipality can be one characteristic but other characteristics such as old or new, income of the population, region, etc. might be also important, depending on the audit question.

Present the main message in a more explicit and deliberate way and consider a separate chapter on conclusions

In addition, the reports effectively consider different topics by highlighting findings and linking them to a conclusion and a recommendation. Although each finding might be relevant, this structure also isolates each part of the report from the bigger picture. Delivering numerous messages without explicit reference to the audit purpose or questions harbours the risk of the reader losing the main message. The report narrative would be easier to follow from purpose to conclusion if the different messages were grouped into a structure that better guided the reader through the report. A good structure which is occasionally used is to present an issue in the following order: criterion – condition – finding – cause/consequence. The use of this structure will also contribute



to having shorter and more concise texts.

18

The NAOE's reports do not have a separate and comprehensive final chapter that aggregates all conclusions. A concluding chapter linked to the audit questions and placed in the context of the audit could contain more horizontal assessments and deeper reasoning about causes and general room for improvement. This would add considerable value for a more knowledgeable reader. A key advantage of a separate chapter is that the main messages would be presented together and thus be clearer. Moreover it would offer an opportunity to elaborate on a more aggregated level about possible improvements, for instance relating to the system as a whole. A concluding chapter would also increase the ability to make recommendations. The recommendations are specific and clearly addressed to the responsible entities. Yet they are not weighed or clearly linked to the bigger context. The peer review team also believes that the NAOE's recommendations are sometimes very detailed and thus touch upon the auditee/management's responsibility to identify solutions to particular problems. A separate chapter on conclusions and recommendations would also enable the NAOE to present a final opinion on the occasional open endings regarding the auditee's comments. In many reports it was not clear if the NAOE acknowledged the auditee's response.

The NAOE's performance audits often examine whether services are delivered efficiently and/or effectively to clients or citizens. In turn, compliance audits assess compliance with laws, regulations, and in some cases criteria of what could reasonably be expected. In this sense an interesting practice was used in the local government audit of child welfare, which consulted the entities concerned to establish reasonable and relevant criteria that were acceptable to all parties. This approach to performance and compliance audits has great potential to identify problems and strengthen added value for auditees and other stakeholders.

In several instances it seemed as though the NAOE's findings were based on data or knowledge already known to the auditees. This raises the question of whether audits could have added more external value by being scoped differently, taking another perspective or compiling existing information differently.

Sometimes the wealth of the empirical data leaves more room for analyses and the compilation of information in a new light. The peer review team thinks that more horizontal comparisons in certain audits, e.g. of investment projects or procurement practices, would be helpful for analyses of the entities' relative performance. Such comparative analyses

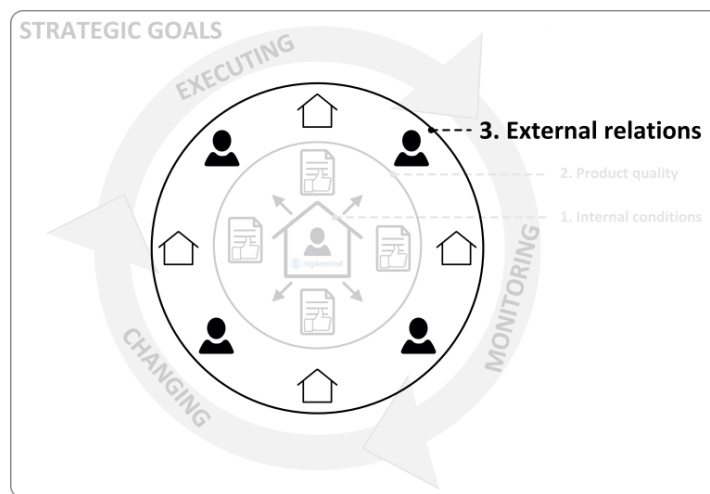


could moreover be used as a starting point to look into the causes of the problems identified. For both performance audits and compliance audits the NAOE could aggregate data from cases or samples in order to reliably state the materiality of a problem or establish how common a particular feature is in similar entities or municipalities in general. An explanatory audit approach was successfully used in the performance audit of e-health to identify the causes of a failed reform and the lessons learned for the health sector and the public sector as a whole.



4 Management of External Relations

20



In previous chapters we considered various ways in which the NAOE could enhance its impact.

A strong indicator of the impact actually achieved is the way the NAOE and its products are perceived by stakeholders. This chapter deals with stakeholder perception.

The main addressees of SAI reports are parliament, government and other auditees. Important external stakeholders are the media and professional bodies (e.g. academics, NGOs). We met with representatives of those stakeholders and based this chapter on their responses (see annexe 3).

The NAOE is generally seen by the stakeholders as a respectable, important and influential organization. Most stakeholders judge its reports to be of high quality. The NAOE's staff is perceived as competent, knowledgeable and professional. The independent opinion of the NAOE is considered a huge asset.

Most audit reports receive close attention from the stakeholders; the annual report ('Overview of the use and preservation of state assets') enjoys particular praise. The NAOE's recommendations are thought to be taken into account by the responsible government entities, sometimes in



the long run if ministries initially respond negatively. The audit reports arguably lead to improvements in public sector performance.

21

According to the Budget Committee the ministries might not agree with the SAI's findings. However, maybe 70% of its recommendations are taken into consideration in plans and the like in the long run.

Many audit reports, especially performance audit reports, receive much publicity. The media have easy access to the NAOE and are satisfied with its service to journalists. Press releases and summaries are highly appreciated. The NAOE is seen as proactive and has a considerable presence in the media. A large majority of its reports are newsworthy and topics are deemed well chosen.

The peer review team also found some points for attention. An important point is that parliament's use of its reports can be improved. The NAOE has a direct influence on auditees and reaches people via the media, but the impact of its reports (improvements in performance) could be strengthened if parliament (especially members of coalition parties) made more use of the conclusions and recommendations. According to some of the stakeholders interviewed, the reports are currently used principally as a tool for the opposition.

"It could be helpful to do more follow up audits on topics where improvements are not picked up enough by ministries and politicians to keep them awake."

University

Auditees are sometimes critical. They are especially sensitive to the negative tone of reports (and press releases). More constructive reports would have more impact instead of just media attention, according to these stakeholders.

"It would help if the NAOE would have more focus in her audits: more long-term, less issues and more analysis. Thereby they have to change their imago to have more impact, from critics to assistant, of course in an independent way. Auditees and Politicians don't always want new problems: they're looking for solutions."

Auditee financial and performance audits

On the other hand, stakeholders agree that the media are sometimes very necessary to generate the pressure to bring about change. However:



some guidance from the NAOE in these cases would be highly appreciated.

22

"Of course we understand media-attention is sometimes needed to get some changes, but it would help to understand the reports if we had got a presentation from the NAOE in person. In that way you can ask questions and it would enhance the learning."

Auditee local government audit

Some interviewees said that financial audits were undervalued and the NAOE should find ways to increase the impact of its financial audit reports (especially 'selling the message'). Individual annual financial audit reports on each ministry and other central government institutions receive little attention. The reasons for this are the technical nature of the findings and the fact that many of the reports (which are issued compulsorily) contain few critical findings (by far the most financial audit reports contain positive audit opinions).

According to the parliamentary Budget Committee the financial audits, which by nature primarily give assurance on the true and fair view of the accounts and the regularity of transactions, are only interesting when deviations are shown, but major problems are usually not reported. Some stakeholders noted that some performance audits took too long and lost momentum.

"It can sometimes take even two years for finishing an audit. Outdated information in the reports, which reduces value and makes it easier to ignore recommendations and findings by politicians."

NGO

All in all the interviewed *auditees* are quite positive about the NAOE. The technical quality of the financial reports is highly appreciated and the performance audits and local government audits are valued for the comprehensive overview of the audited subject and clear description of the situation. The relation between the NAOE and the ministries is generally speaking quite good. Concerns are especially on the before mentioned (too) critical tone and broad scope of some audits. Also mentioned by some auditees is that the audits produce little new information.

Develop a relation management strategy that complements the new overall strategy



In the chapter on internal conditions and the draft strategy we argued that the NAOE should be more aware of who to target and how. In addition it might be advisable to have a separate plan/strategy for relationship management.

23

"In our case the report was a business to business report, but the NAOE choose the full swing media attention. Because of that we were weeks busy to organize the stress instead of solving the problems."

Auditee performance audit

The interviews revealed that stakeholder interests were reflected in the perception of the NAOE. The key issue for the NAOE to solve is how best to serve and approach the various stakeholders and achieve its strategic goals. The NAOE already undertakes various activities to enhance the impact of its products, e.g. press releases, TV and radio interviews, briefings in parliament, seminars, etc. More activities are possible; in particular, more can be gained from having an integrated view of how to approach stakeholders, knowing that not all parties can be served simultaneously to their full satisfaction.

"The target group is very wide now: everybody should understand the report which makes the messages really difficult to shape. More influence can be added not only by reports, but also by additional activities for different groups of stakeholders."

NGO



5 Planning the Change and Recommendations

24

Without a plan, a regular check-up of it and, when necessary, a change of plans (the familiar 'plan-do-check-act cycle') a change operation is likely to fail. Critical risks include:

- *Discouragement.* Even with fully committed change allies, detailed discussions can often be difficult and tiring.
- *Worse, not better.* The SAI is a working machine – you cannot stop it to impose improvements. Imperfect change will weaken the impact rather than strengthen it.
- *Little at a high price.* A lot of effort and discussion, but no one knows why the results are merely average.

To implement a change operation, the NAOE must be willing to invest time and resources over a longer period. Gradual quality improvement without losing momentum and distinguishing between short and longer-term results is advisable. Measuring the change results and discussing them internally with the staff and involving the staff in the operation are necessary steps in the process.

Our peer review report can be one of the inputs for the change operation. There are different aspects that the NAOE should take into account in the change operation. The development of the new strategy is important but needs to be complemented with:

1. continuous *monitoring and measuring* of quality and impact of the work
2. *strengthening* product quality, especially the strategic orientation
3. *sharing* of ideas in and across all levels of the organization

We strongly believe that strengthening the organization will not succeed without full commitment of management and without strengthening the internal dialogue. That is the reason that we have our recommendations in the following order:

Sharing of ideas

Set the right tone at the top and enhance internal communication



- Make sure that the tone at the top supports the desired behaviour in the organization.
- Take full advantage of the highly educated staff in the organization and use internal dialogue as a must.

25

Monitoring and measuring of quality and impact of the work

Introduce a feedback loop

- Operationalise the strategy and have clear and measurable milestones.
- Measure the quality and impact of the products and feed the information back into the system.
- Conduct more follow-up audits to gain an insight into what has been achieved and how activities and products can be strengthened.

Be aware of who to target on and how

- Develop a relationship management strategy that complements the new overall strategy.

Link the strategy to the planning process

- Introduce a strategic planning process that cuts across the departments.
- Carry out a parallel organization-wide risk analysis.

Strengthening product quality and strategic orientation

Enhance strategic quality

- Make sure attention is paid to the strategic quality of the products and a broader range of products in order to achieve the NAOE's goals.

Strengthen the financial audit reports

- Try to use as much capacity as possible for special, risk-based, thematic financial audits.
- Clarify the scope of the regularity audit work not included in the audit opinion.
- Invest in know-how on information technology.
- Further strengthen reviews on private sector auditor reports used by the NAOE.
- Improve the readability of the reports.

Strengthen the performance audit and local government audit reports

- Strengthen the strategic selection process.
- Strengthen the coherence between purpose, questions, methodology, findings and conclusions.
- Present the main message in a more explicit and deliberate way.
- Consider a separate chapter on conclusions.



6 Response of the NAOE

26

The Auditor-General of the NAOE responded to the draft report on the first of September 2015.

“The National Audit Office of Estonia thanks the whole Peer Review team for their valuable work and efforts. We are glad we were reviewed by such open-minded and highly professional experts, and we hope the experience was useful for all parties involved. We find that the report evaluates the current state of our institution in a fair manner. We are pleased to see that from the neutral evaluators’ view, the NAOE is a highly respected and influential organization within Estonian governance system. The report also points to aspects where the NAOE could improve its performance. These clearly need our attention, if we want to be - and also to be seen as - a professional organization. We find the recommendations of the Peer Review to be relevant. It is good to acknowledge that a number of them correspond with the challenges and issues the NAOE’s management is currently trying to resolve, but apparently needed to be clearly spoken out. The clear impact of the Peer Review is that most of the issues highlighted during the provisional feedback of the report have been addressed already. The conclusions of the report have raised discussions on both top management level as well as in audit departments and support services. The next steps will include preparation of a concrete action plan to fulfil our new strategy incorporating the important issues pointed out in the Peer Review report”.



Annexe 1 Main Questions

27

We started the peer review with three main questions:

1. Are the main principles of independence followed by the NAOE?
2. Is NAOE doing the right things?
3. Is NAOE doing things right?

We elaborated on these questions in the different chapters and used another structure for our assessment. Summing up the answers to the questions are:

Are the main principles of independence followed by NAOE?

The constitution and the State Office Act give the NAOE a considerable independence and a wide mandate. The mere fact that the NAOE does not have direct access to Parliament for the budget but has to go through the Ministry of Finance cannot be considered a severe weakness considering that only few Supreme Audit Institutions have this arrangement.

Is the NAOE doing the right things?

The NAOE is certainly doing the right things (auditing relevant topics) and is respected by its stakeholders. But having a clear strategy, linking the activities to this strategy, measuring the impact and feeding back this information into the system would undoubtedly strengthen its position.

Is the NAOE doing the things right?

The NAOE publishes strong, readable reports that are technically undisputed in the financial audit area but they are somewhat underused. Performance audit and local government audit reports cover topics that matter to society but they would be more convincing if they had a stronger, more coherent presentation and a sharper focus on the main message.



Annexe 2 Audits reviewed

28

For our peer review we reviewed 11 individual audits.

Financial audits:

- Consolidated report (Auditing of Annual Accounts 2013 and legality of transactions of the state);
- Ministry of Economic Affairs and Communications (Auditing of Annual Accounts 2013 and legality of transactions of the Ministry of Economic Affairs and Communications);
- Chancellery of the Riigikogu (Auditing of Annual Accounts 2013 and legality of transactions of the Chancellery of the Riigikogu);
- Report on grants to external public bodies (Granting and appropriate use of support given to foundations established by the state).

Performance audits:

- Organization of management of public companies;
- Sustainability of drinking water and wastewater systems;
- Activities of the state in implementing the e-health system;
- Management of Educational Investment.

Local government (compliance) audits:

- Organization of child welfare in municipalities, towns and cities;
- Follow-up audit of investment planning in municipalities, towns and cities;
- Public procurements in Viimsi Municipality and its companies.



Annexe 3 External stakeholders interviewed

29

For our peer review we spoke to key representatives of:

- Parliament: Budget Control Committee.
- Ministry of Economic Affairs and Communications:
 - Budget Department;
 - Internal Market Department and Economic Development Department.
- Ministry of Education: State Assets Department.
- Ministry of the Environment: Environmental Usage Division.
- Ministry of Finance: Secretary-General and Deputy Secretary-General of Fiscal Policy.
- State Shared Service Centre.
- Ministry of Social Affairs: Deputy Chancellor of Health and Child Defence Department.
- Media: Postimees newspaper and Estonian Broadcasting Cooperation ERR.
- Municipality of Viimsi.
- NGOs: Praxis (Independent Centre of Political Studies), Estonian Cooperation Assembly and Estonian Renewable Energy Association.
- Eesti Energia: Supervisory Board.
- Health Insurance Fund: IT Department.
- Universities, professors of Comparative Public Policy, University of Tallinn, and Finance and Governance, Tallinn University of Technology.



Front row, left to right: Paul Neelissen (Algemene Rekenkamer), Pawel Banas (Najwyższej Izbie Kontroli), Jenny Öhman (Riksrevisionen), Frank van den Broek (Algemene Rekenkamer)
Back row, left to right: Fredrik Friberg (Riksrevisionen), Luc Terra (Algemene Rekenkamer), Barbara Goezinne (Algemene Rekenkamer).