Peer Review Report

of the Supreme Chamber of Control of the Republic of Poland

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January 2007

1. Preface

1.1. Peer review objectives and approach

1. In 2005, the Supreme Chamber of Control (the SCC) decided to carry out an external assessment of its audit practice to upgrade and develop the SCC's activities and development strategy. The President of the SCC asked the National Audit Office of Denmark to carry out a peer review.

2. The main objective of the peer review is to provide the Parliament and the public with knowledge as to whether the SCC is operating effectively in producing high quality audits.

The peer review should give an assessment of the extent to which the audit provides the public with clear, objective and useful information on the functioning of the state. The peer review should in particular cover the following specific issues: To examine whether the SCC's audit practice properly follows the guidelines included in the Auditors' Manual with special regard to the SCC's state budget execution audit, to examine whether the SCC's staff recruitment and training system contribute to the quality of the SCC's audit work, and to review audits carried out by the SCC's Internal Auditor in order to examine whether the internal audit reporting is reliable and in compliance with national and international standards.

3. In January 2006 the letter of intent was discussed. In March 2006, the peer review team developed a review plan that included the design and the methodology to be followed in the peer review. The peer review team discussed the plan with the SCC.

According to the plan, the specific issues will be dealt with in the following three chapters:

- Does the SCC achieve high quality when conducting audit?
- Does the management of human resources support the audit in a sufficient way?
- Is internal audit in compliance with standards?

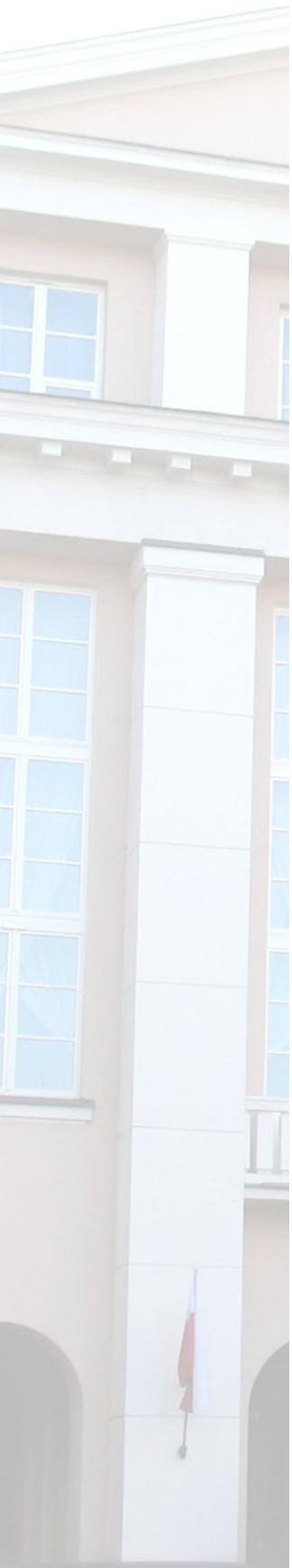
4. The reviewers have conducted their fieldwork at the SCC headquarters and at the SCC regional offices in Bialystok and Warsaw.

During three missions, the team has conducted interviews with the management, the Council of the SCC, the staff of the SCC, the staff of the Ministry of Finance, the Ministry of Health, the Ministry of State Treasury, the Ministry of Transport and the Chancellery of the Prime Minister. The team also met with the Budget- and Finance Committee and the State Control Committee at Sejm and the Office of Parliamentary Analysis.

The team has received translations of acts and regulations, auditors manual, audit programmes, work plans, prefaces and summaries of eleven pronouncements on audit results.

5. A draft of the final report has been discussed with the management of the SCC.

Chapter 2 is a summary of the main findings and important recommendations of the review of the three examined issues. Chapter 3 presents the



results of the analysis of the SCC's audit practice illustrated through five key areas. Chapter 4 presents the results of the analysis of the SCC's recruitment and training system. Chapter 5 presents the analysis of the internal audit of the SCC and chapter 6 presents status of SIGMA's recommendations.

1.2. About the peer review team

6. The Reviewer is the National Audit Office of Denmark (NAOD) represented by Niels de Bang (the Lead Reviewer), Lisbeth Herlev, Bente Lindberg, Jens Petersen and Roman Smigielski.

Members of the review team have worked in accordance with accepted standards of professional conduct and practice i.e. the INTOSAI Code of Ethics, 1998.

7. The review team would like to thank the internal team which has arranged meetings including transport and assisted the team in gaining access to the required files, documents and individuals during the review.

1.3. About the Supreme Chamber of Control

8. The SCC is the Supreme Audit Institution, reporting to the Parliament and acting in accordance with the principle of collegiate responsibility. The organisation and functioning of the SCC are regulated in the Constitution and the Act on the SCC of 23 December 1994, which also guarantee the independence of the SCC and its President. The President is elected by the Parliament for a fixed term of 6 years and may only be re-elected once.

9. The SCC audit remit includes government administration, local administration as well as economic operators to the extent to which they utilise public resources or fulfil their obligations towards the state.

The SCC submits three key reports to the Sejm every year:

- analysis of the execution of the state budget and the monetary policy guidelines
- opinion on whether to discharge the government or not
- the SCC annual activity report.

10. Mission and Vision have been defined in the Strategy of the SCC, adopted in July 2002. The mission of the SCC is: *To ensure economic efficiency and effectiveness in the public service to the benefit of the Republic of Poland*. The vision for the SCC is: *To be a generally respected supreme audit institution whose reports are expected and considered valuable sources of information by the state authority and the general public*.

11. In the appendix you will find definitions of important basic terms.

2. Summary

12. In the summary, you will find answers to the main questions and the most important recommendations.

2.1. Does the SCC achieve high quality when conducting audit?

13. The team finds that the SCC achieve high quality when auditing – as the SCC has

- developed annual work plans, which are based on analysis of materiality and risk
- issued auditing standards in a manual for auditors, used efficient auditing methodologies, supervised audit works, and implemented a concept of quality control
- conducted audits in accordance with the provisions in the Act of the SCC and the Auditor's Manual
- undertaken efforts to improve its reporting
- followed-up on audits.

To further improve the high quality of audit, the team finds that the important recommendations are:

- Supplement the audit manual with instructions of required audit steps.
- Develop guidelines for IT audit.
- Continue to make improvements to ensure that audit reports are focused and short, while maintaining a good dialogue with the auditees.
- Consider proposals, which would imply that each auditee acts on the recommendations to a greater extent.

2.2. Does the management of human resources support the audit in a sufficient way?

14. The team finds that the management of human resources supports the audit – as the SCC has

- established procedures to ensure an open and transparent recruitment process with uniform, clear and objective criteria for the decision of appointment
- attached great importance to training and has established a compulsory training programme for all audit staff.

To further improve the management of human resources in supporting the audit work the team finds that the important recommendations are:

- Lay down required professional and personal qualifications for the staff – based on overall objectives and strategies. Specify the characteristics of an excellent staff and the type of qualifications needed in the future.
- Consider specialization in audit qualifications.
- Increase focus on management and systematic dialogue in the staff development.
- Evaluate the fulfilment of the objectives of the Professional Training for State Auditors' programme.
- Link the offered training more tightly to the objectives and strategy.

2.3. Is internal audit in compliance with standards?

15. The team finds that internal audit is in compliance with standards – as the SCC has

- appointed an internal auditor
- reacted to the internal auditor's reports on audit of the financial statements and budget execution.

To further improve the internal audit the team finds that the important recommendations are:

- Consider the necessity of providing more resources to the internal audit unit.
- The mandate of the internal auditor ought to be clarified and include full scale performance audit of the main activities of the SCC.

3. Does the SCC achieve high quality when conducting audit?

16. The team has analysed whether the SCC achieves high quality when conducting audit by focusing on five key areas. These are the audit planning, audit standards, tools, co-ordination and quality control, content of the audits, the reporting and the follow-up of the audits.

17. The team finds that the SCC achieves high quality when auditing – as the SCC has

- developed annual work plans, which are based on analysis of materiality and risk

- issued auditing standards in a manual for auditors, used efficient auditing methodologies, supervised audit work, and implemented a concept of quality control
- conducted audits in accordance with the provisions in the Act of the SCC and the Auditor's Manual
- undertaken efforts to improve its reporting
- followed-up on audits.

3.1. Are audits based on a plan, which includes analysis of materiality and risk?

18. The objective of setting up an audit plan is to enable the SCC to concentrate its audit work on the most important issues related to the functioning of the State, including the optimum use of the SCC's auditing potential.

19. The SCC conducts audit of state budget execution and other audit and the SCC has to identify the relevant entities and audit subjects across regions in order to concentrate the audit work. The SCC should analyse risk and materiality to ensure the best possible background for selection of entities.

Assessment

20. The SCC's audit plan is executed in order to cover the main entities and is based on an analysis of materiality and risk.

The specific planning of the state budget execution audit is initiated and monitored by the Budget and Finance Department, which is in close ongoing contact with the Department of Audit Strategy and other departments and regional offices. The planning of other audit is co-ordinated and monitored by the Department of Audit Strategy. This ensures a uniform planning in the departments and regional offices, which put forward proposed audit subjects for the following year. The team finds that the execution of the planning process takes place according to the manual. Both central and regional offices are involved in the planning process, as the regional offices may suggest subjects for examination.

21. The public and the ministries have an opportunity to suggest subjects for an examination for other audit. This has a positive effect on transparency. The SCC has informed the team that such a proposal is taken into account as one element in the risk analysis.

22. The SCC develops three-year strategic plans and annual work plans. In addition to planned activities, the SCC also conducts ad hoc audits. The strategic plan includes new focus areas each year (audit directions).

23. The team finds that the planning of the state budget execution audit is highly prioritized and standardized in the departments and regional offices, and that the SCC fulfils its obligations in that way. As the annual plan describes the audit activities in detail, it is used as a guideline when the SCC de-

velops a programme for the audits in order to carry out the SCC's planning strategy.

3.2. Has the SCC issued relevant auditing standards, tools, co-ordination and quality control?

The SCC has issued a manual containing standards

24. The aim of auditing standards and guidelines is to achieve the objectives of an audit institution. A manual provides a uniform base that can be referred to when planning, carrying out and evaluating audits.

Assessment

25. The SCC has issued auditing standards based on the INTOSAI Auditing Standards, the European Implementing Guidelines for the INTOSAI Auditing Standards and the International Standards on Auditing of the International Federation of Accountants (IFAC). However, the SCC has also taken into account Polish legislation.

The SCC's auditing standards form the basis for its comprehensive audit manual. The manual describes the principles and methodology guidelines applicable to all audits. In the manual there are also descriptions of the audit procedure, formalities, criteria for formulating topics etc. The SCC manual includes specific guidelines on auditing privatisations, IT investments and areas with a high risk of corruption.

26. The team finds the manual detailed in describing the audit formalities and audit laws and rules. The guidelines provide a common standard for the audits, which are to be executed by a large number of departments and regional offices.

27. The team finds it positive that the Department of Audit Strategy continuously works on improving the audit methodology and tests the guidelines in the manual. This gives an opportunity to improve and ensure that the manual has a practical basis.

28. The Department of Audit Strategy has identified a need to develop guidelines on IT audit. The team agrees with the Department of Audit Strategy in this consideration.

Recommendation

- Develop guidelines for IT audit.

The SCC uses efficient auditing tools

29. The SCC has set out a standardised procedure in audit sampling and in evaluating the obtained results within the SCC. The methodology, which reflects the requirements of audit sampling, serves to improve the reliability of audit results and application of the approved international standards.

Assessment

30. The team finds that the SCC has developed a useful software tool for statistical sampling (Auditor's Assistant programme). Both theoretical and methodological criteria for a well performing statistical sampling have been implemented. Departments and regional offices are offered the programme and use it to some extent, but some auditors find it necessary to ask the Budget and Finance Department for assistance while using it.

Recommendation

- Expand the training in the use of the Auditor's Assistant programme and increase knowledge of the possibilities of the programme.

Co-ordination and knowledge sharing are incorporated in the audit process

31. The SCC performed 170 audit examinations and audited 2.903 bodies in 2005. To co-ordinate so many audits in the course of one year is a huge task. The team has visited departments and regional offices to find out, whether the co-ordination of audits is sufficient.

Assessment

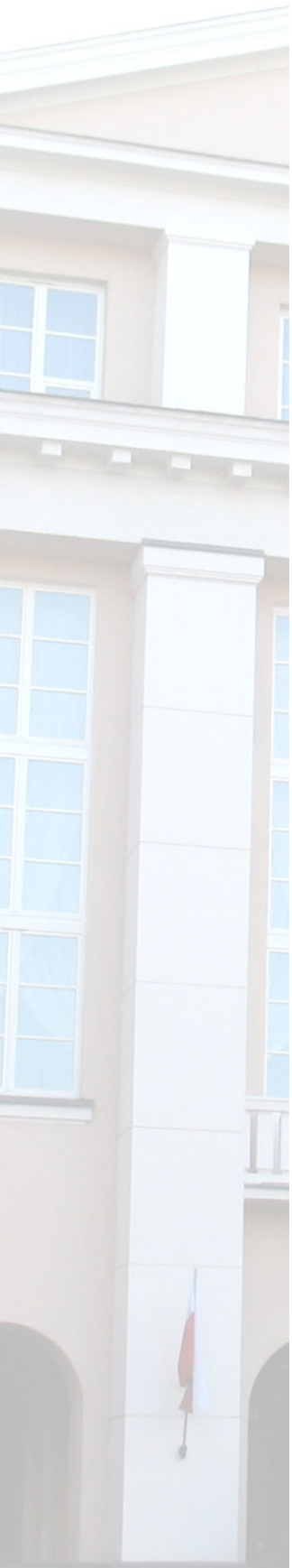
32. The SCC usually carries out its audit work on a co-ordinated basis – i.e. thematic topics are agreed by the Council of the SCC and audits are carried out according to the common audit programme by a number of audit departments and regional offices.

33. To some extent co-ordination is by the auditees perceived as being insufficient. However, all audits are coordinated by the SCC, but the vast number of audit themes to be covered every year has on occasion lead to overlapping visits. The SCC should continue its efforts to improve the co-ordination between the various audit teams in order to create the least possible inconvenience to the auditees.

34. The development of an electronic Document Management System (ESOD) has been underway in the SCC for some time. The system should support documentation of the audit. The SCC states that all documentation must be available in a printed version for documentation in court. However, the team finds that while respecting this, more internal electronic knowledge sharing might still be beneficial to the working processes within the SCC. At the moment the SCC uses the PILOT system which is a comprehensive tool for recording, information sharing and monitoring of audit process. Furthermore, intranet is commonly used in the SCC.

Recommendation

- Continue to improve the co-ordination between the various audit teams in the SCC by using the Electronic Document Management System (ESOD).



The SCC has routines to ensure high audit quality

35. In the strategy from 2002, the SCC outlines strategic objectives to ensure high quality and usefulness of pronouncements on audit results. As the SCC's audits must meet quality standards, it is necessary to ensure that quality assurance requirements are complied with at all stages of the auditing process.

The SCC's auditing standards require that the work of the audit staff at each level and in each audit phase should be properly supervised during the audit; documented work should be reviewed by a senior member of the audit staff. Supervision is essential to ensure that audit objectives are met and that the required quality of the audit work is maintained. Proper supervision is therefore necessary in all cases, regardless of the mandate and responsibility of individual auditors.

Assessment of quality control (Hot review)

36. The team finds it relevant that the supervision of audits is executed by the team leader, supervising advisor, audit coordinator, deputy director and director of audit department or regional office. Moreover, the Audit Strategy Department gives opinion on draft audit programmes and pronouncements on audit results. This assures the quality of executed audits (Hot review). The team finds the new practice of publishing the protocol and post audit statement contributes to concurrent improvement of quality.

All ideas for examinations, the programme and pronouncements must be discussed with the Department of Audit Strategy and then approved by the management. This ensures high quality.

The council of the SCC consists of the management and a panel of experts – which to a high extent ensure the quality of reporting and thus indirectly that the manual is followed.

Assessment of quality control (Cold review)

37. The SCC has implemented a concept of quality control and has tested the concept by making a quality review of planned audits carried out in 2005, excluding the state budget execution audit. According to the plan, the quality reviews will include the state budget execution audit in the coming year. This will give the SCC useful input for the identification of improvement areas within the manual and procedures.

3.3. Are audits in accordance with the provisions of the Act of the SCC and the Auditors Manual?

38. The Act on the Supreme Chamber of Control mandates the SCC to execute both regularity and performance audits. According to the Act, the SCC undertakes audits from the point of view of legality, economic diligence, efficacy and integrity.

Assessment

39. For the time being, audits of the legality, economic diligence, efficacy and integrity are performed as a part of other audit and the audit of state budget execution. The audits are in that respect in accordance with the Act.

The SCC's manual outlines the auditing practice of the SCC's regularity audits and performance audits but they often coincide. This type of audit implies that there are only few specific reports focusing on performance audit. At the same time, the state budget does not specify an activity-based budget. The SCC has a special challenge to carry out performance audit in order to ensure economy, efficiency and effectiveness of entities.

40. The team notes that the SCC from time to time executes special or very large examinations of a single area. An example is an evaluation of the transport sector during the past 15 years and an examination of coal mines. The team finds these studies very useful.

41. The team was informed that the Ministry of Finance has implemented a pilot project of an activity-based budget. The team finds that implementing the activity-based budget will improve the SCC's possibility to carry out more performance audits in the future and it will improve the transparency of activities performed by entities.

42. The team was under the impression that departments in the central office and regional offices of the SCC to a large extent fulfil the procedures as described in the manual. Particularly new auditors found the manual useful; whereas more experienced auditors sometimes found the detailed guidelines somewhat overwhelming. Instructions of required audit steps would be helpful.

Recommendation

- Supplement the audit manual with instructions of required audit steps.

3.4. Is the SCC aware of the importance of presenting clear conclusions in the reports?

43. The Auditors' Manual points out that the reports (audit protocol, post audit statement and pronouncement) should be balanced, free of misstatements, produced with a specific reader in mind, focused and without unnecessary details.

Assessment

44. To ensure that audit findings are presented to the auditee in a clear, brief and comprehensible way, the President has recently changed the procedure for publishing protocols and post audit statements. Furthermore, the President requested the protocols and post audit statements to be shorter (page limit). The team finds this very important and it is a positive initiative to reduce the number of pages in reports and make them more focused.

45. The SCC has also suggested to simplify the contradiction procedure. The team finds this very useful and sensible. Merging protocol and post audit statement into one document will increase transparency and make it easier for the institutions to see what the findings and conclusions are based on. On the other hand, the ministries, which the team has visited, prefer the

old procedure as they are concerned that the deadline for submission of their reaction to a given post audit statement could potentially be tightened.

Recommendation

- Continue to make improvements to ensure that audit reports are focused and short, while maintaining a good dialogue with the auditees.

3.5. Is the follow-up on the audits effective?

46. The SCC undertakes audits on the order of the Sejm or its bodies, on the request of the President of the Republic of Poland, the Prime Minister, or at its own initiative. The Sejm's way to handle the SCC's reports is strictly defined in the Regulation of the Sejm. The decisive role in this respect is played by the Speaker and the Presidium of the Sejm. The material handling of audit findings and recommendations is taken care of by different Standing Committees on behalf of the Sejm.

Assessment

47. The SCC has a follow-up procedure. Some of the auditees are behind in implementing the recommendations of the SCC. Sometimes, the entities do not agree with the proposals of the SCC. However, the team finds the "follow-up audits" very useful to ensure that the recommendations are followed.

48. The team finds it appropriate that the pronouncements of the SCC are sent to the various committees in the Sejm and that the State Control Committee deals with the most important ones. The SCC is always present when the Committee deals with the pronouncements.

Recommendation

- Consider proposals which would imply that each auditee acts on the recommendations to a greater extent.

4. Does the management of human resources support the audit in a sufficient way?

49. The team has analysed whether the recruitment procedure supports the requirement of skilled staff and the training is provided according to required qualifications.

50. The team finds that the management of human resources supports the audit – as the SCC has

- established procedures to ensure an open and transparent recruitment process with uniform, clear and objective criteria for the decision of appointment
- attached great importance to training and has established a compulsory training programme for all audit staff.

4.1. Does the recruitment procedure support the requirement of skilled audit staff?

The recruitment procedure ensures an open and transparent process with clear selection criteria

51. The SCC has with Regulation by the President of the SCC introduced a new procedure for recruitment. The procedure is in accordance with the recommendations in SIGMA's peer review and rests on the Lima Declaration and INTOSAI Auditing Standards.

52. In the new procedure, all vacant posts are advertised by public announcements. Applicants are selected after an open competition where their qualifications in different areas are tested and the result of the test forms part of the decision of appointment.

Assessment

53. The team finds that the procedure of recruitment ensures an open and transparent process with equal, clear and objective criteria for the decision of appointment. The procedure prevents the risk of individually or politically motivated appointments and is crucial for the appointment of the best candidates. This new procedure represents a very positive development compared to the previous procedure.

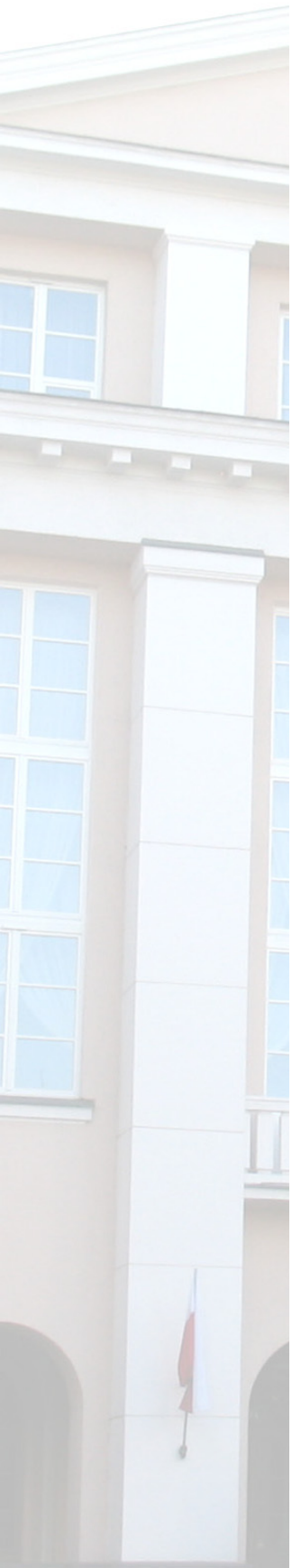
Recommendation

- Evaluate the different elements of the recruitment process to make sure that they fulfil the objectives.

The recruitment process ensures that the SCC recruits staff who contribute to the objectives and the development of the SCC

54. The purpose of recruitment is to ensure that the most qualified staff is employed. The best staff contributes with professional and personal qualifications to achieve the goals both in the short and the long run.

55. The SCC has in "Strategy of the Supreme Chamber of Control, Mission and Vision" included several overall objectives and indicators on how the objectives are fulfilled.



56. The recruitment process is based on a description of the vacant posts and the needed qualifications. It is made by the manager who has the vacant post. After receiving the applications, the Recruitment Board selects those applicants who meet the requirements. The selected applicants are invited to a number of tests. Afterwards the applicants, who performed best in the tests, are invited to an interview.

The procedure applies to vacant posts in the SCC's departments and the regional offices.

57. The selection is based on a test of professional and psychological skills where the result of each test counts individually. The tests are made as multiple choice exercises.

58. The SCC only recruits staff with some experience – and preferably with experience from the professional area they are going to work with in the SCC.

Assessment

59. The team finds that the SCC has to supplement the overall objectives with a specification of the need of qualifications in the organisation – for staff as well as for managers.

60. There is no operational strategy for the human resource area and as a result no precise qualification profiles for professional and personal qualifications. Personal qualifications could be e.g. ability to co-operate, communicate and develop as well as commitment, independence and personal efficiency.

61. The team acknowledges that the centralized recruitment process in the SCC is important in order to ensure an open and transparent recruitment.

However, the centralized process implies that the manager who has a vacant post is not involved in the selection and decision of appointment. The manager's input to and influence on the recruitment is just a list with the needed qualifications. In practise, the best employee will have the right combination of professional and personal qualifications and it will be a question of balancing and prioritizing in the specific case. Equally, a mutual harmonization of expectations through a dialogue with the manager is important for a successful recruitment.

62. Interviews with the applicants take place in a forum with a number of top-managers. This may cause a situation where it is difficult to get a true impression of the applicants' personal qualifications, values and attitudes.

63. There is no clear relation between qualification needs and tests. The tests are the same for all applicants although the jobs might be quite different. The professional test measures theoretical knowledge, which at the same time appears from the diploma.

64. The rather formal and schematic outline of qualifications is too simple and does not provide the best candidates for the SCC. The theoretical and professional qualifications are the basis of the recruitment, but it is the

team's experience that personal qualifications are crucial to ensure full benefit of the professional qualifications in the daily work.

65. The fact that the SCC wants to employ staff with experience from the areas they are going to audit in the SCC combined with little mobility in the organization may impact on the SCC's reliability. Mobility of staff and managers is common practise in a number of SAI's and is an important part of competence development.

Recommendations

- Lay down required professional and personal qualifications for the staff – based on overall objectives and strategies. Specify the characteristics of an excellent staff and the type of qualifications needed in the future.
- Consider how the immediate superior could be more involved in the final decision – once the best candidates are identified.
- Consider specialization in audit qualifications.

The SCC has developed a practice for the introduction of newly recruited staff

66. Newly recruited staff has a tutor who introduces them to the work at the SCC and ensures their practical preparation for nomination. The tutor maps out the programme for the newly recruited staff.

67. There is no probation period, but an assessment of the nomination after approximately two years.

Assessment

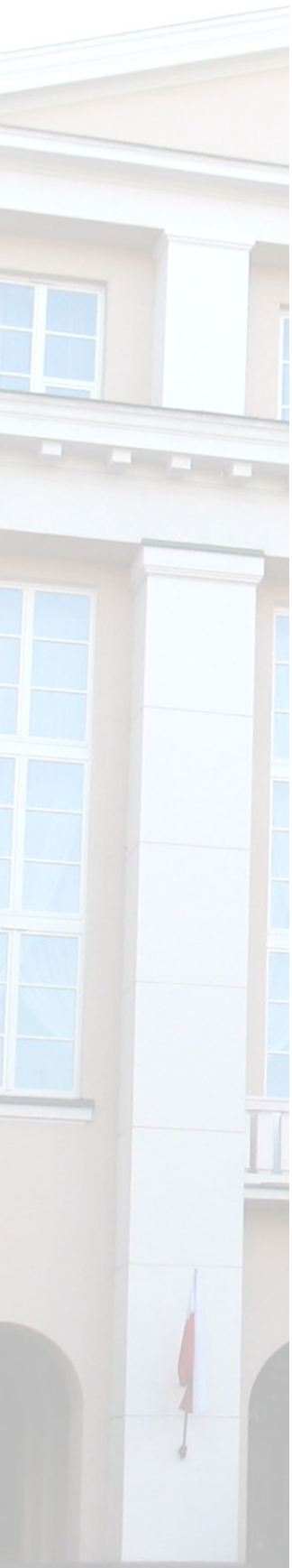
68. The arrangement with a tutor is very good. However, it is important to ensure that the tutor communicates the attitudes, values and professional approach that support the development of the SCC.

69. There are no guidelines for evaluation of newly recruited staff's overall performance or guidelines for a probation period. In addition to this it typically takes two years before an assessment is made in connection with the application exam.

70. It is the team's experience that newly recruited staff needs strong involvement from the manager to ensure that they are integrated in the daily work and develop their qualifications as quickly as possible. The managers do not spend time on a systematic dialogue and feedback with the newly recruited.

Recommendations

- Lay down guidelines for the introduction and the supervision by the tutor and evaluate the fulfilment of the guidelines.
- Increase focus on management and systematic dialogue in the staff development.



4.2. Is training provided according to required qualifications?

The "Professional Training for State Auditors" programme covers the needs for training in the application period

71. The Professional Training for State Auditors programme is compulsory for all auditors in the SCC. The programme covers theoretical and practical aspects of auditing. The training and the final examination is a precondition of nomination.

The teaching method is mostly lectures, seminars and self-studies. Part of the training is conducted by external teachers.

Assessment

72. It is very positive that the SCC has a compulsory training programme, which can be compared to a certification. The content of the programme reflects the fact that it is not possible to obtain a master's degree in auditing in Poland. It means that the SCC has a major need for basic training in audit theory and audit practise, and the SCC is making an effort to meet this challenge. The programme covers the needs for training in the application period.

73. The participants find the Professional Training for State Auditors programme to be well-functioning, well carried out and with qualified teachers, but also quite time consuming.

By limiting the number of lectures and involving the students in practical cases from the SCC, the benefit for the participants will increase.

74. In the programme it is assumed that all staff needs to have the same knowledge and training. However, there may be a big difference in training needs depending on whether staff has a degree in law or economics or a technical degree, and whether they are newly recruited or experienced staff.

Recommendation

- Evaluate the fulfilment of the objectives of the Professional Training for State Auditors programme.

Identification of the development needs of the nominated staff is based on the overall strategies and individual assessment

75. The Human Resource Department makes a training catalogue every year on the basis of what the staff wants, the managers' suggestions and the Human Resource Department's knowledge of the needs.

76. Each auditor and audit supervisor participates in at least 40 hours of professional training every year. The selection of training areas is made by the staff and the supervisor.

In 2005 and 2006 the SCC has provided two specific courses for managers: On quality management and on modern process management.

77. Assessment of the nominated staff takes place once a year by filling in a form.

Assessment

78. It is very positive that the SCC attaches great importance to training and that SCC every year offers a lot of different courses. It is also very positive that the audit staff participates in at least 40 hours of training per year. It gives the signal that training is prioritized and has to be incorporated in the annual plan. However, some of the experienced staff members think that the timing and relevance of the courses offered could be improved.

79. It is a challenge for the SCC to link the offered training more tightly to the objectives and the strategy. If the training is to support the SCC's professional development, it is necessary to specify the challenges more precisely and thus specify the qualification needs for staff and managers.

80. In addition to the development of the audit area, the training should to a larger extent be based on specific demands on professional and personal qualifications. Training should be discussed in a dialogue with the staff during the annual evaluation. It is a good idea to agree on a development plan with the individual staff. The development plan might include training as well as other types of competence development.

81. The team finds it important that the annual assessment is based on dialogue, qualified feedback and a broad evaluation of performance.

82. Management is an essential part of the development of staff because it is in connection with the daily work that the most important competence development takes place. To further develop management of staff it would be important to improve systematic management training and development activities.

Recommendations

- Link the offered training more tightly to the objectives and the strategy.
- Focus on the importance of management in relation to staff development.

5. Is internal audit in compliance with standards?

83. The team has analysed whether the internal audit of the SCC is submitted to external rules and is reliable.

84. The team finds that internal audit is in compliance with standards – as the SCC has

- appointed an internal auditor
- reacted to the internal auditor's reports on audit of the financial statements and budget execution.

5.1. Is the internal audit of the SCC subject to external rules?

85. As stated in the outcome of the IVth EUROSAI Congress (1999) SAIs ought to abide by the same rules they recommend others to enforce. Hence, they ought to establish internal audit procedures to ensure the effectiveness of their own work. Internal audits should be structured to provide SAIs with a clear picture of how the institution is performing. These internal audits should provide regular monitoring of operational indicators and conduct assessments of audit results.

Assessment

86. In accordance with the provisions of the Act of June 30, 2005 of Public Finance the SCC has appointed an internal auditor.

87. The internal audit unit consists of two auditors. The resources are critical in managing the tasks of the internal audit unit.

Recommendation

- Consider the necessity of providing more resources to the internal audit unit.

5.2. Is the internal audit reliable?

88. The financial statements and budget execution reports of the SCC are verified solely by the internal auditor. The internal auditor is reporting to the President of the SCC as well as the State Control Committee and to the Public Finances Committee at the Sejm. The internal auditor's opinion on the financial statement of the SCC is not included in the Annual Reports of the SCC's Activities.

Assessment

89. The audit of the execution of the state budget, part 07 concerning the SCC, is conducted in accordance with the SCC's auditing standards and with the methodological guidelines included in the Auditors' Manual.

90. The team noticed some limitations in the mandate of the internal auditor concerning audit of the efficiency of auditors due to lack of access to personal files. However, the reports issued by the internal auditor are reliable.

Recommendations

- The mandate of the internal auditor ought to be clarified and include full scale performance audit of the main activities of the SCC.
- Consider the necessity of including the internal auditor's opinion in the Annual Reports of the activities of the SCC.

6. Status of SIGMA's recommendations

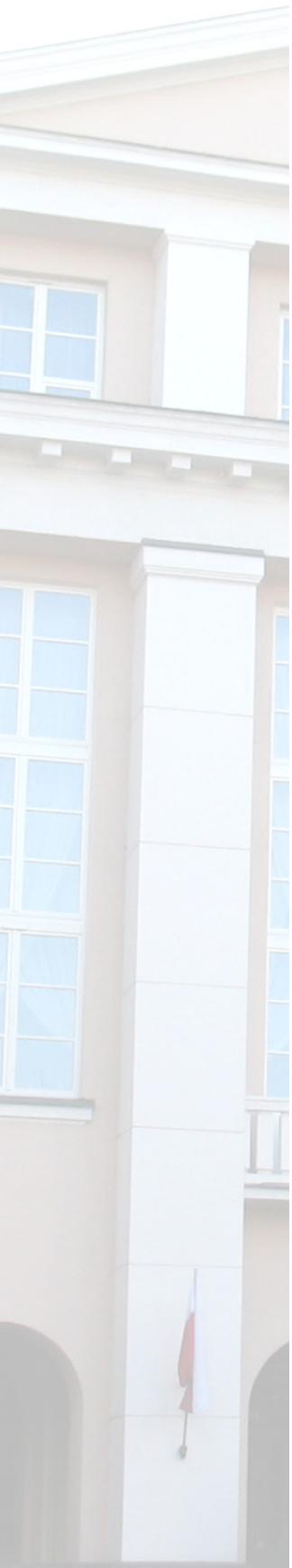
91. In 2000, the SIGMA carried out a peer review of the SCC. The report examined legal framework, implementation of auditing standards, management of the SCC, reporting and application of audit findings.

The SIGMA made 74 suggestions of which 6 were high on the list of priorities. Out of the 6 suggestions as many as 4 have been fully implemented, and 1 has been partially implemented. Of the remaining 68 suggestions, 45 have been fully and 8 partially implemented according to an overview prepared by the SCC in February 2006. 15 were refused by the SCC, e.g. because their implementation would require a law amendment, thus placing them beyond the SCC's authority.

92. The team has not considered suggestions made by the SIGMA that require law amendments (unless initiatives have been taken), suggestions that the SCC is currently implementing or suggestions that are no longer of interest.

93. The team has chosen to highlight and comment on six suggestions, which the SCC can implement, but which have not yet been fully implemented. They are:

- The SIGMA recommended the SCC to separate the present audit type including all four audit criteria (legality, economic diligence, efficacy and integrity) and distinguish between: *Regularity audits* and *Performance Audits*.
  The SCC has not fully implemented this recommendation as the existing approach allows for more comprehensive assessment of audited activities/entities. The team found that there were only few specific reports, focusing on performance audit. However the team was informed, that the Ministry of Finance has implemented a pilot project on activity based budgets. The team finds that implementing activity based budgeting could improve the SCC's possibilities of carrying out more performance audits in the future, and it could also improve the transparency of activities performed by entities.
- The SIGMA recommended the SCC to review the entire reporting cycle, starting with simplified contradiction and appeals procedure and ending up with a revised system to ensure that parliament and government take action on audit findings and recommendations.
  The team finds that the SCC has implemented this recommendation as regards the organisational and procedural matters. With the suggestion



to simplify the contradiction procedure, the legal part of the recommendation will also be implemented.

- The SIGMA recommended the SCC to design and implement a job rotation policy for all staff.
  The team finds that the SCC has not implemented a job rotation policy for geo-economic reasons and because auditors participate in audits co-ordinated by other departments or regional offices. The team acknowledges that there could be difficulties in moving staff between regional offices and that co-ordinated audit provide an excellent opportunity for competence development. However, the team finds that a higher degree of mobility might be fruitful in order to further improve the competence development and the reliability of the SCC.
- The SIGMA recommended that the size of reserves for not programmed audit tasks should be reconsidered.
  The SCC has not implemented this recommendation, but has monitored the level on a current basis. The team recognizes that the SCC's existing practice allows for greater flexibility. The team considers this to be an appropriate solution provided that the SCC ensures careful follow-up on the number of audit tasks carried out.
- The SIGMA recommended the SCC to make a more comprehensive survey of the stakeholders' perception of the audit process, its focus, and the reporting procedures, thus getting a basis for further discussions of improvements.
  The SCC has not implemented this recommendation on the grounds that it is too soon after the introduction of the manual. The SCC will, however, implement the recommendation at a later stage when the SCC has performed its own quality assessment The team agrees with this procedure.
- The SIGMA recommended that the present separation of the reporting process into three separate formal procedures should be replaced with a combined reporting system. As a minimum, merging the reporting of the audit protocol and post audit statement into one document should be prioritized.
  The team has been informed that the SCC has suggested a simplification of the contradiction procedure by merging protocol and post audit statement into one document.

94. The team finds that the SCC to all intents and purposes has implemented or is in the process of implementing SIGMA's suggestions.

Very generally, the SCC has upgraded the auditing practice in line with international standards.

Appendix

Basic terms used in this report

Audit reports include:

- *audit protocol*, a document containing the reports on the actual state of an audited entity, disclosed during the audit
- *post audit statement (management letter)*, a document prepared after completion of audit activities on the basis of audit findings included in the audit protocol, containing opinions, comments, conclusions and recommendations
- *pronouncement on audit results*, a document developed on the basis of *audit protocol* and *post audit statement*, containing an overall presentation of audit results.

Economy, minimum possible costs of activities undertaken taking quality into consideration. One of the criteria of *performance audit*.

Effectiveness, a level of consistency between the desired results and the actual results of an activity. One of the criteria of *performance audit*.

Efficacy, an audit criterion used to ascertain whether the audited unit fulfils its objectives.

Efficiency, a relation between an output and an input used to produce this output. It may have the following forms:

- maximum output (of certain quality) available at a given input
- minimum input to obtain given output (of certain quality).

One of the criteria of *performance audit*.

Integrity, an audit criterion concerning performance of duties with due care, conscientiousness and in due time; due fulfilment of requirements; compliance with internal operational rules for a particular unit; documenting particular actions of factual states according to their actual condition, in an appropriate form and on required dates, without omission of relevant facts or circumstances.

Legality, one of the audit criteria indicating compliance with constitutional and regulatory provisions, with provisions of ratified international contracts, with ordinances and local acts, and with internal provisions in force in the audited period.

Performance audit (value for money audit), a type of audit aimed at examining *economy*, *efficiency* and *effectiveness* of running a business (an activity) or managing an audited unit.

Regularity audit, an audit of compliance with legal provisions and documents determining activity directions (programmes).

(From GLOSSARY OF TERMS RELATED TO AUDIT IN PUBLIC ADMINISTRATION issued by the SCC in July 2005).

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