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European Organisation of Supreme Audit Institutions



EUROSAI News

**The European Court of Auditors Presents its 1994 Annual
Report and First Statement of Assurance**

Environmental Auditing in the Public Sector

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EUROSAI magazine is published annually on behalf of EUROSAI (European Organisation of Supreme Audit Institutions) by the EUROSAI Secretariat. The magazine is dedicated to the advancement of public auditing procedures and techniques as well as to providing information on EUROSAI activities.

The opinions and beliefs are those of the editors and contributors and do not necessarily reflect the views or policies of the Organisation.

The editors invite submissions of articles, reports and news items which should be sent to the editorial offices at TRIBUNAL DE CUENTAS, EUROSAI Secretariat, Fuencarral 81, 28004-Madrid, SPAIN.

The aforementioned address should also be used for any other correspondence related to the magazine.

The magazine is distributed to the heads of all the Supreme Audit Institutions throughout Europe who participate in the work of EUROSAI.

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Editorial

November 1995 marked the fifth anniversary of our Organisation of Supreme Audit Institutions.

In the spirit of that occasion, I would like to dedicate this editorial to all the people and institutions that have made this fifth anniversary of the Foundation Conference of EUROSAI possible.

The European Regional Group is now well consolidated within INTOSAI and has made considerable advances. Together, we have established the basis of our commitment to the public sector, a commitment we shared when EUROSAI was founded. We have also had occasion to welcome new members. Thirty-one delegations registered at the founding session of our organisation; today, the organisation comprises 39 member states. What better evidence that EUROSAI is thriving, and has earned the recognition and support of the states within the European region?

By making the most of the means at our disposal, we can ensure that our young but solid Institution continues to provide a forum for dialogue, co-existence, training, co-operation, information and mutual enrichment. Moreover, the EUROSAI magazine offers us a valuable medium to help accomplish these goals.

We are living through a fascinating period in history, and are both witness and party to the shaping of a new Europe. The third issue of EUROSAI magazine also reflects this process, and in the variety of its contributions portrays a very enhanced picture of the content, functions and capacities of the European Supreme Audit Institutions today.

In addition to the general information, announcements of new memberships and details of the organisation's activities, this issue of the magazine dedicates a section to the European Union. It also launches a new initiative - an informative section which we hope will become a permanent feature of our magazine - describing the make-up of the different European Supreme Audit Institutions. It is inaugurated with an article on the Supreme Audit Institution of the Czech Republic, the in-coming President of EUROSAI. Finally, the magazine publishes six articles contributed by the representatives of Romania, Germany, Great Britain, Albania and Austria.

Before closing, I would like to mention the III EUROSAI Congress, which is scheduled to be held this year, 1996. This meeting of the supreme authority of our organisation will set new goals to be achieved during the next three-year period. May I recommend the resources of this magazine as a channel for divulging the findings of these professional and technical initiatives.

Milagros García Crespo, Secretary General of EUROSAI.
President of the Spanish Court of Audit.



Eurosai News

NEW MEMBERS

- The XI EUROSAI Governing Board meeting, held in Velence, Hungary in November 94, commissioned the Secretariat to determine whether or not the Vatican and Liechtenstein were EUROSAI members.

The findings of the Secretariat concluded that the Vatican is not a member of EUROSAI, while Liechtenstein is.

- The XI EUROSAI Governing Board meeting also accepted two

new members: the SAIs of Slovenia and Moldavia.

- The XII EUROSAI Governing Board meeting in Warsaw, Poland, in May 1995, agreed to Latvia's application for membership.

- Croatia applied to the EUROSAI for membership in October 1995; this was discussed at the Governing Board meeting, held in Sweden in February 1996.

The up-dated list of EUROSAI members now reads as follows:



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LIST OF SUPREME AUDIT INSTITUTIONS

- | | |
|----------------------------------|-----------------------|
| 1 ALBANIA | 24 MALTA |
| 2 AUSTRIA | 25 MOLDAVIA |
| 3 BELARUS | 26 MONACO |
| 4 BELGIUM | 27 NORWAY |
| 5 BULGARIA | 28 POLAND |
| 6 CYPRUS | 29 PORTUGAL |
| 7 CZECH REPUBLIC | 30 ROMANIA |
| 8 DENMARK | 31 RUSSIAN FEDERATION |
| 9 ESTONIA | 32 SLOVAK REPUBLIC |
| 10 EUROPEAN COURT OF
AUDITORS | 33 SLOVENIA |
| 11 FINLAND | 34 SPAIN |
| 12 FRANCE | 35 SWEDEN |
| 13 GEORGIA | 36 SWITZERLAND |
| 14 GERMANY | 37 THE NETHERLANDS |
| 15 GREECE | 38 TURKEY |
| 16 HUNGARY | 39 UNITED KINGDOM |
| 17 ICELAND | |
| 18 IRELAND | |
| 19 ITALY | |
| 20 LATVIA | |
| 21 LIECHTENSTEIN | |
| 22 LITHUANIA | |
| 23 LUXEMBOURG | |

CROATIA: In October 1995 the Secretariat received an application from Croatia for EUROSAI membership. This was reviewed at the XII Governing Board meeting in February 1996. The Croatian SAI was granted membership (the minutes of this meeting are subject to approval at the next Governing Board meeting).

EUROSAI ACTIVITIES

After the Second Congress, which was held in Stockholm (Sweden) on 14-17 June 1993, EUROSAI organised the following activities:

Meetings of the Governing Board:

These meetings were held in Palermo (Italy) in 1993, Velence (Hungary) in 1994, Warsaw (Poland) in 1995 and Östersund (Sweden) in 1996.

Seminars:

* On the *Audit of Privatization*, held in Warsaw (Poland) on 10-12 May, 1995.

* On *Relations between the Audit Office, the Jurisdiction, the Internal Audit and the Media*, held in Neptun (Romania) from 4-7 September, 1995.

Liaison activities with members organised by the Secretariat:

* The publication and distribution of amendments to the EUROSAI Statutes. These amendments were made at the Second Congress.

* Rules regulating the new SAIs joining the organisation were distributed to all EUROSAI members.

* Information stored on the database, concerning the legislation and documentation of each individual country, was distributed to all members.

* Visit to the INTOSAI Secretariat General in August 1995.

* Distribution of issue no. 1 of the *EUROSAI* magazine, containing information about EUROSAI for the period 1993-94.

* Drafting the third issue of the *EUROSAI* magazine, with information on developments in 1995.



EUROSAI Seminar on the Audit of Privatisation held in Warsaw (Poland) in May 1995.

Eurosai News

THE NEW PRESIDENT OF THE EUROPEAN COURT OF AUDITORS

Following the expiry of Mr André Middelhoek's term of office as President of the European Court of Auditors, Mr Bernhard Friedmann, the German Member of the Court, was elected as the Court's new President on 18 January, 1996. His appointment took effect on that date and expires on 17 January, 1999.

Mr Friedmann was born in Ottersweier (Germany) on 8 April 1932. He is a Doctor in Economics (Dr.rer.pol.) and graduate of the University and the School of Economics and Administration of Fribourg-im-Breisgau.

Mr Friedmann became a member of the European Court of Auditors on 21 December, 1989 and, between January 1990 and January 1994, was responsible for the audit of the European Coal and Steel Community (ECSC), loans and borrowings and interest subsidies, as well as European Community aid to the countries of

Central and Eastern Europe and the independent states of the former Soviet Union. In February 1994 Mr Friedmann became the senior member of the structural aid audit group, with special responsibility for the audit of the regional sector, integrated Mediterranean programmes and the transport infrastructure element of the cohesion fund.

Before joining the European Court of Auditors, Mr Friedmann held various offices at the German federal administration and in the industrial sector, between 1960 and 1976. He became a member of the Bundestag in 1976, where he was appointed to the budgetary committee and the audit committee and became chairman of the latter in 1982. In 1985 he was also appointed chairman of the military expenditure approval committee.

Mr Friedmann has been an honorary professor at Fribourg-im-Breisgau University since May, 1995.



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Professor Dr. Bernhard Friedmann, recently elected President of the European Court of Auditors.

NEW MEMBERS OF THE EUROPEAN COURT OF AUDITORS

At the beginning of 1996, the European Court of Auditors welcomed four new members from France, Greece, Luxembourg and the Netherlands, namely Mr Jean-François Bernicot, Mrs Kalliopi Nikollau, Mr François Colling and Mr Maarten Engwirda.

Mr Bernicot joined the French Court of Accounts as an auditor in 1987 after a career in the Ministry of Defence and the Ministry of Transport and the Sea. He was a senior counsellor before being appointed Deputy Secretary General with responsibility for the budget, personnel and international and European relations in 1994.

Mrs Nikollau is a Doctor of Economics and was a senior research fellow at the Centre for Economic Research (KEPE). She was a Member of the European Parliament and of several committees, including the committee on budgets and the committee on budgetary control from 1981 to 1984. Since 1993 she has served as an ambassador, as Greece's Permanent Representative to the OECD. Mrs Nikollau is the first woman to become a Member of the European Court of Auditors.

Mr Colling, an electronics engineer, spent most of his working career at ARBED (Acieries Réunies de Burbach-Eich-Dommeldange). He was a Member of the Parliament of Luxembourg from 1979 to 1995 and also a Member of the Budget and Finance Committee which he has chaired for the last five years.

Mr Engwirda has been a Member of the Dutch Court of Audit since 1990. He was previously Chairman of the D66 Group of the Second Chamber of the Dutch Parliament and Chairman of the State Expenditure Committee of the same Chamber. Mr Engwirda was a Member of the European Parliament from 1972 to 1973.

The mandates of the British and Austrian Members, Mr Wiggins and Mr Weber, were renewed by their

respective governments, after their term of office as members of the Court expired last December.

A few months earlier, in May 1995, the procedure for nominating a new Danish Member of the Court to replace Mr Ole Warberg was initiated. In choosing Mr Jorgen Mohr, Denmark decided to send to the European Court of Auditors the most senior official from its national audit institution, where Mr Mohr has been the Danish Auditor General since 1985. As such, he has represented his country at international level at meetings involving co-operation between the Supreme Audit Institutions, in particular INTOSAI, EUROSAI and the EC.



The headquarters of the European Court of Auditors in Luxembourg.

THE EUROPEAN COURT OF AUDITORS PRESENTS ITS 1994 ANNUAL REPORT AND FIRST STATEMENT OF ASSURANCE

Mr Middelhoek, the President of the European Court, presented the 1994 Annual Report together with a Statement of Assurance in the form of a Special Report to the European Parliament in Strasbourg on 14 November 1995.

The annual report

In many respects the Annual Report resembles previous reports - the general criticisms of the management and execution of the budget remain the same, although their detail has changed - but the report does not contain its traditional chapter on financial audit, which has been superseded by the Statement of Assurance (SOA).

The observations published in the Annual Report are essentially about sound financial management and, in his speech, the president highlighted the areas of particular concern:

- Member State inspection and approval of producer organisations, which play a major role in the management of the market for fresh and processed fruit and vegetables, were found to be very weak.
- The irregularities encountered in the audit of regional fund programmes underline the improvements still needed in order to ensure the legality and regularity of structural fund operations.
- Social fund operations continued to be adversely affected by imprecise eligibility criteria, insufficient verification and unreliable certification of expenditure by national authorities.
- The LIFE programme and its predecessors call for careful project selection in pursuit of agreed Community environmental objectives.

- The continuance of problems with the monitoring and supervising of contracts by the Commission is demonstrated both in the "human capital and mobility programme" (which is part of the third framework programme for Community research) and in PHARE and TACIS, where the management capacity of the Commission, both in Brussels and on the spot, should be strengthened.

Most of the chapters in the annual report describe how expenditure has failed to achieve policy objectives. As in previous years, significant weaknesses in mechanisms for planning, approving, monitoring, controlling and evaluating Community actions were again identified. The examples given illustrate the continuing need for better performance by the management which administers and controls the collection and utilization of budgetary resources at both Commission and Member State levels.



The Statement of Assurance

As a consequence of the Maastricht Treaty, the Court is obliged to produce an annual SOA concerning the reliability of the accounts and the legality and regularity of the underlying transactions. In order to do this it has adopted a statistical sampling technique which allows it to draw conclusions about the whole range of transactions on the basis of the results obtained from examining a relatively small number of commitments, payments and receipts.

The audit was planned and carried out using audit procedures which are consistent with the "generally accepted

The European Court of Auditors is obliged to produce an annual SOA concerning the reliability of the accounts.



auditing standards”, as recommended by the International Organization of Supreme Audit Institutions (INTOSAI). There were, however, a number of areas where the Court was unable to give an opinion because it was unable to obtain the necessary audit information - equivalent to some 14% of total payments.

The Court concludes that the accounts accurately reflect the revenue and expenditure of the Union. Whilst they are deemed to be reliable, the Court would like to see more information included, such as the gross cost of EAGGF expenditure which is currently recorded net of levies, etc.

The Court’s examination of the revenue entered in the accounts as traditional own resources did not reveal any

significant errors; however it was not possible for the Court to give an assurance that all chargeable imports had actually been declared. Moreover, the macroeconomic statistics which underlie GNP contributions and largely determine the VAT element of Community receipts are not susceptible to verification by the Court.

The underlying payment transactions examined by the Court caused the greatest concern. Errors of 254 Mio ECU, which have a direct impact on the budget, were detected. When extrapolated using the method described in the report, 4% of the total payments budget is probably at stake. Given this level of error the Court has not been able to give a positive assurance as to the legality/regularity of these underlying transactions.

A EUROPEAN COURT OF AUDITORS ENLARGED TO 15 MEMBERS



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Following Austria, Sweden and Finland’s “yes” to the European Union, 1995 opened on a new European Community of 15 Member States. In the case of the European Court of Auditors, this enlargement saw the arrival of three new Members, namely Mr Jan Karlsson (Sweden), Mr Aunus Salmi (Finland) and Mr Hubert Weber (Austria).

After his term of office as Secretary of State at the Ministry of Finance from 1985 to 1988, Mr Karlsson acted as the personal representative of the Swedish Prime Minister during the joint review of Nordic co-operation, from 1991 to 1992, with a view to Sweden’s entry into the EEA and the EU. He was appointed a Member of the European Court of Auditors soon after his appointment to the post of Director General of the Swedish Foreign Office.

Mr Salmi is a chartered accountant and has been the Statutory Auditor of several publicly-quoted companies. He has considerable experience of auditing at international level. In 1994 he was

appointed to the Board of the auditing firm for which he had been working since 1973. Since 1990 he has also been Chairman of the Franco-Finnish Chamber of Commerce.

Mr Weber was Director General of the Austrian National Audit Institution, where he started his career in 1970. For a time he was in charge of the directorate for the organisation of budgetary affairs and staff, and was subsequently put in charge of the directorate for the auditing of state-owned companies. With effect from 1975, he assisted the President of the Austrian NAI with his responsibilities as Secretary General of Intosai, a body with which he is fully familiar. In addition, he is a member of the editorial committee of the Intosai Journal.

As provided for in the Treaty on European Union, the Council consulted the European Parliament about these three appointments. On 7 February 1995, the Parliament’s budgetary control committee held a public hearing of the three candidates presented by the

1995 opened on a new European Community of 15 Member States.

authorities of their respective Member States. In a closed-door session, the committee voted in favour of each of the three candidates by a large majority. However, the budgetary control committee felt it necessary to point out to the Member States and to the Council, particularly in view of the forthcoming renewals of appointments, that it considered the absence of a

female Member of the Court of Auditors to be unjustifiable.

At the plenary session of the European Parliament held on 17 February 1995, the Members approved these three appointments almost unanimously, by voting massively in favour of the report drawn up by Mrs Theato on behalf of the budgetary control committee.

SPECIAL REPORTS ON THE URBAN ENVIRONMENT AND THE FINANCIAL COHESION INSTRUMENT

Apart from its annual report on the financial year 1993, the European Court of Auditors published two special reports which aroused the interest of both the European Parliament and the news media: the first was on the urban environment and was adopted in December 1994, whilst the second was on the financial cohesion instrument and this was adopted in January 1995.



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Regarding the urban environment, the Court was obliged to audit measures managed by the European Commission's environment departments (DG XI) as well as pilot projects co-financed by the European Regional Development Fund (ERDF), the RECITE programme - which is also financed by the ERDF - and a series of programmes involving training, research, transport and energy as well as the cultural field. In doing so, the Court came across a series of problems: the absence of precise frameworks for the measures to be implemented, a lack of precision and, in some cases, a lack of selection criteria for certain pilot projects, inadequate planning, and a lack of originality or loopholes in the follow-up to the programmes. Consequently, the Court recommends improved definition of objectives and specific implementation measures. It encourages attempts to seek new initiatives, the success of which, once demonstrated, could be repeated elsewhere. In order to do that, and guarantee the interaction of the projects, more effective co-operation

and much stricter follow-up of the projects will be necessary.

Historically, the financial cohesion instrument came before the creation of the cohesion fund, which was intended to finance projects in the field of the environment and trans-European networks (transport infrastructure). The Council approved the setting-up of this instrument, on a temporary basis, in order to finance projects in Ireland, Greece, Portugal and Spain. Total expenditure under the cohesion fund and the financial instrument between 1993 and 1999 should amount to 15,000 Mio ECU (at 1992 prices). By auditing the expenditure executed and the commitments entered into within the framework of the financial instrument, and by singling out the problems that are affecting its implementation, the European Court of Auditors hopes to enable the Commission and the Member States to ensure that the deficiencies and inadequacies identified by the Court do not recur in future in the context of the cohesion fund.

In the Court's view, management of the financial cohesion instrument suffers from problems of co-ordination, both within the Commission and between the Commission and the beneficiary Member States. The multiplication of decision-taking structures within the Commission makes optimum use of Community appropriations which are difficult to achieve. For example, some projects financed by the financial

cohesion instrument are also assisted by the structural funds, or by other sources of Community finance.

The Court further criticises the choice of certain projects (over-modest when compared with the financial instrument's intention to concentrate on large-scale initiatives, especially in the framework of the trans-European networks) and points to serious shortcomings in the follow-up of measures. In its conclusions, the Court recommends that the objectives pursued

by the cohesion fund should be clearly quantified, that a detailed cost/benefit analysis should be made for each project, and that the costs should be carefully analysed and the stages in each project clearly identified. Finally, it suggests that projects financed by the cohesion fund and by other structural instruments should be co-ordinated so as to optimise the contribution of all the European Union measures to promote the economic and social development of Greece, Ireland, Portugal and Spain.

THE 1996 INTERGOVERNMENTAL CONFERENCE

Since its creation in 1958, the European Community has evolved in accordance with the different stages which have marked its construction. The latest of these stages, the Maastricht Treaty (1993), brought the Twelve (and from 1 January 1995, the Fifteen) a little closer to economic and monetary union. However, Europe has not stood still and the Community system is due for a thorough revision in 1996.

Furthermore, in preparation for the 1996 Intergovernmental Conference (IGC), and in keeping with the other European institutions, the Court of Auditors has drafted a report on the functioning of the Treaty on European Union. The report draws attention to the shortcomings, imperfections and loopholes which should be remedied in the current system for managing and auditing Community funds, and proposes amendments to the provisions of the Treaty which are deemed essential for the Court's work to be effective.

Since the Maastricht Treaty, the Court of Auditors has been given an additional task: to provide the European Parliament and the Council with a statement of assurance concerning the reliability of the accounts and the legality and regularity of the underlying operations (SOA). In order to carry out

the large number of checks needed to accomplish these tasks, in particular where the SOA is concerned, the Court requires sufficient resources to have the Court of Justice establish and assert the Court's rights and prerogatives in this connection. These resources are also justified by the need for measures to combat fraud. The fact is that the Court's role in the prevention and detection of supposed fraud is far from negligible and its effectiveness in this area is contingent upon the resources at its disposal and its right to have access to all of the requisite information on expenditure and revenue.

The Court of Auditors also insisted in its report that it should be given mention in Article E of the Treaty on European Union and that it should be recognised as the Court of Auditors of the European Union.

In order best to defend all of its priorities and although it was not part of the reflection group which is preparing the 1996 Conference, the Court of Auditors will pay close attention to the work of this group and will be prepared to make any contribution which would make it possible to improve the scrutiny of the Community's finances.

The Court of Auditors has drafted a report on the functioning of the Treaty on European Union in preparation for the Conference.



STABEX

At the end of April 1995, the European Court of Auditors adopted its second special report for that year. This latter concerns the STABEX system, one of the main financial instruments provided for by the Lomé Conventions to assist the ACP (Africa, Caribbean and Pacific) countries, which stabilises the export revenue of these countries in respect of 49 agricultural products, including coffee and cocoa.

The Court studied the effects of the amendments introduced by the new Convention covering the 1991-1993 period. Although it detected progress in

terms of greater control over mobilised funds, the Court also raised a number of basic questions which are still to be resolved, including the inadequacy of resources and the lack of consistency between the aims pursued by STABEX and those of the other financial instruments of the European Development Fund (EDF). Lastly, the Court believed that a review of the provisions in force must be envisaged so as to make eligibility for Stabex transfers contingent not only upon losses of export earnings sustained by an ACP State but also upon satisfactory use of the resources granted.

WELCOME TO THE NEW LIAISON OFFICERS



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Following the accession to the Union of Sweden, Austria and Finland, the European Court of Auditors received a visit on 23-24 March 1995 from the liaison officers of these three countries: Mrs Gertrude Schlicker (Austria), Mr Esa Tammelin (Finland) and Mr Göran Steen (Sweden). The liaison officers were informed of the Court's working methods and relations with the other European institutions. The aim of this initial meeting was to encourage future co-operation in establishing regular and effective relations between the European Court of Auditors and the National Audit Institutions (NAIs) of the new Member States. The three representatives of the aforementioned NAIs also participated in the meeting of the liaison officers of the National

Audit Institutions on 23-24 May 1995 in Copenhagen.

The second annual meeting of liaison officers was held on 19-20 September 1995 in Luxembourg, with a view to preparing the items to be discussed by the Contact Committee of Presidents of the Supreme Audit Institutions of the European Union.

The meeting of the Contact Committee of Presidents was held on 21-22 November 1995 in Perugia (Italy). The main items discussed were the Statement of Assurance and different reports on VAT audits, the application of articles 92 and 93 of the EEC Treaty, Audit Standards, experiences in joint audits and the certification of accounts in FEOGA-guarantee.

Characteristics of the European Supreme Audit Institutions: the Supreme Audit Office, Czech Republic

By LUBOMÍR VOLENÍK

President of the Supreme Audit Office of the Czech Republic

The existence of the new Supreme Audit Office has been enshrined directly within the Constitution of the Czech Republic and, in contrast to the past, its status is conceived in an entirely new way. The SAO performs its functions independently, and is dependent neither on the legislative power nor on the executive power.

Establishment, status and competencies

The Czech Supreme Audit Office (SAO) was set up on 1 July, 1993, after the Czech Republic became a separate independent state. The existence of the SAO has been enshrined directly within the Constitution of the Czech Republic and, in contrast to the past, its status is conceived in an entirely new way. The SAO performs its functions independently, and is dependent neither on the legislative power (parliament) nor on the executive power (government). The Constitution of the Czech Republic, in addition to legislative, executive and judicial powers and other constitutional elements, defines the status of the SAO in a separate chapter, as an independent body, with the provisions that:

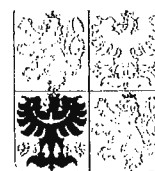
- it shall audit the management of state property,
- its President and Vice-President shall be appointed by the President of the Republic by proposal of the Chamber of Deputies, for a nine-year term,
- its status, jurisdiction and organisational structure shall be defined by law.

Act No. 166/93 on the Supreme Audit Office is based on these principles and came into effect as of 1 July, 1993. On

the basis of this law, SAO audits and reviews the management of state property and financial resources collected under the law, e.g. health and social insurance. It also audits the revenue and expenditure items of the state budget, e.g. payment of taxes by all liable persons, and their correct calculation and collection by the revenue authorities. The auditing function of the SAO does not apply to the Security Information Service or the Czech National Bank which is responsible for the stability of the currency, and whose independent status is also provided for in the Constitution.

The collective principle has been adopted for the work of the SAO. For this reason, decisions concerning the planning and results of the auditing activity of the SAO are taken by its collective organs; depending on the importance and nature of audits, these are either the whole 17-member College or three- to five-member senates. The College consists of the President, the Vice-President and 15 members of the SAO. The members of the SAO are elected by the Chamber of Deputies of the Parliament of the Czech Republic; their term of office is uninterrupted until they reach the age of 65, and their status is comparable to the status of Members of Parliament.

The Constitution of the Czech Republic defines the status of the SAO as an independent body.



Work of the SAO

The main mission of the SAO is to ensure economical management of taxpayers' resources, resources collected under law, and State property. The SAO determines primarily whether State and other entities manage the State property and resources entrusted to them effectively and economically, and whether, in doing so, they act in accordance with legal regulations. On the basis of the results of its auditing activity, the SAO prepares and submits to the Chamber of Deputies, by set dates, its qualified statement to the report on the implementation of the State budget and on the final budgetary statement. The SAO proceeds in a similar manner, performing audits on the use of resources provided to the Czech Republic from abroad, and auditing resources for which the State has assumed guarantees. The issue and amortization of government securities and the placement of government orders is also subject to audit.

The jurisdiction of the SAO has been extended to include audits of financial management of the political parties. It is the task of the SAO to ascertain annually whether the political parties have submitted their annual financial reports by the end of March. In the event that the SAO finds that a report is incomplete, or that it contains untrue statements, or that no report has been submitted, it informs the Chamber of Deputies. The Chamber of Deputies may then direct the SAO to check whether the political party which received contributions from the state kept its books properly, refrained from engaging in business activity and achieved its receipts in accordance with the law.

The basis of SAO activity is the planning of auditing activities, based on suggestions by the President, Vice-President and SAO Members. Suggestions ensue from own auditing activities as well as from the Chamber of Deputies, its bodies and the Government of the Czech Republic.

The procedure for carrying out audits is described in the audit rules which are a

part of the Act and define the internal relationships within the SAO, among its organs, members and auditors in charge of conducting specific audits, as well as relationships with audited persons. Audits are performed by SAO members and auditors on the basis of written warrants.

All audits are preceded by adequate preparation which is one of the indispensable prerequisites for their qualified execution. On the basis of evaluation of collected data and items of information, programs of audits are devised and audit groups formed. Audits may be performed only by auditors whose objectivity, with regard to the purpose of the audit and the audited persons, is guaranteed. During audits, auditors must ascertain the true state of affairs, prove it with the appropriate documents, compare the ascertained state with the set criteria, and determine which legal regulations were contravened. Auditors have access to all parts of buildings and to all documents and other papers; they are obliged to respect the legitimate interests and rights of the audited persons. They must keep all ascertained facts confidential. The obligation of audited persons is to co-operate during audits, and provide the necessary technical facilities.

Audit protocols are issued on the audits performed. They include a description of ascertained facts and specify defects and legal regulations that have been contravened. Audited persons may file objections in writing, and state the grounds for them. Heads of audit groups are empowered to take decisions on objections. In the event that the objections are turned down by the head of the group, the audited person may file an appeal with a SAO member, senate or College, which then decide on the objections and further procedure.

The organizational structure and personnel of the SAO

The organs of the SAO are the President of the Office, the Vice-President of the Office, the College of

The jurisdiction of the SAO has been extended to include audits of financial management of the political parties.



the Office, the senates of the Office and the Disciplinary Chamber of the Office.

The SAO is headed by the President who directs it, acts on its behalf, presides over the College and the Disciplinary Chamber, and co-ordinates the work of the organs of the SAO. The Vice-President acts as the Director's proxy in his absence, to the full extent of his powers. He also acts for the President in specific cases on the basis of the latter's authorization. Members of the SAO are simultaneously members of the College. They direct auditing activity and draw up audit conclusions. They take part in the work of the College and of the senates of the SAO, submit suggestions for drafting plans of audit activities and submit proposals to the Disciplinary Chamber for the institution of disciplinary proceedings. Its senior officers include chief directors of sections, directors of bureaux, heads of departments and heads of secretariats. Senior officers direct the organizational units of which they are in charge. Auditors carry out audits on the basis of written warrants issued by a member of the College. Their superiors in the course of audits are heads of audit groups who are appointed by members of the SAO. The President sets up his advisory organs: the commission to consider appeals against decisions to impose fines, the damage commission, the methodological council, and staff for defence affairs and crisis situations. SAO staff total 500 employees.

Reports issued by the SAO

On the basis of audit protocols and relevant documents, audit results are summarized and evaluated in the form of audit conclusions. Audit conclusions are prepared by SAO members responsible for the conduct of audits, in co-operation with the appropriate co-ordinating or regional departments. They are approved by the College or the senate, after an internal amendment procedure.

The SAO President passes on all approved audit conclusions without delay to the Chamber of Deputies, the

Government of the Czech Republic and, upon request, to ministries. They are also published in the SAO Bulletin. Audit protocols and other data pertaining to the approved audit conclusions are made available by SAO, on request, to the Chamber of Deputies, its bodies and the Government of the Czech Republic. In the event that during audit activities SAO discovers facts that indicate a criminal offence or contravention of legal regulations, it notifies the appropriate authorities. Notifications of suspected criminal offences are lodged by the SAO President with the state prosecutor, the investigations' authority or the police.

Summary results of the auditing and other activities of the Supreme Audit Office are evaluated in annual reports published in the SAO Bulletin. The annual reports contain, in particular, evaluations of the plan and structure of audit activities, completed and on-going audits, the financial effect of audits, other SAO activities and contacts with the public and publishing activity. The SAO Bulletin is published quarterly and, apart from the approved audit conclusions and annual reports, it also contains the program of audit activity for the budgetary year; the first issue of the Bulletin also contains the procedural rules of the College and the senates, and other SAO documents.

Educational activities of the SAO

SAO auditors should be persons of high professional standards, committed to permanent improvement within their profession and to the acquisition of knowledge of new legal regulations. The SAO has its own training facilities for programs, courses and educational seminars, and has capacity for 70 in its various classes. The nature of the educational work is determined by the fact that the field of audit is not a university subject. It is a typical interdisciplinary vocation, requiring qualifications predominantly in jurisprudence and economics. Staff members receive initial training and take part in courses that enable them to

Audit conclusions are prepared by SAO members responsible for the conduct of audits, in co-operation with the appropriate coordinating or regional departments.



acquire the necessary knowledge; subject to need, various forms of selective education are also available, as well as regular advance training. It is envisaged that a form of postgraduate studies will be introduced in the Czech Republic; a combination of economic and legal subjects would supplement the still non-existent university education suitable for auditors.

International co-operation of the SAO

The Czech Republic is making great efforts to commence active participation in all structures of international co-operation. The Supreme Audit Office, as a newly-established institution in the constitutional system of the Czech Republic, joined the program of international co-operation of the supreme audit institutions immediately

after it began to function, in 1993. It is a member of the international organization of audit institutions, INTOSAI, and of the European regional organization, EUROSAI. The purpose of international co-operation is to further international exchange of experience in the field of economic auditing, exchange of information concerning legislation and methodology of auditing, development of relations between national and international institutions, and participation in projects of joint auditing activity. Wider relations between supreme audit institutions, exchanges of experience and information, enrich and raise the standard of auditing activity. The SAO is taking an active part in organizing international seminars. It is interested in co-operation with audit institutions in all countries, with the international institutions, INTOSAI and EUROSAI, as well as on bilateral levels.

Wider relations between supreme audit institutions, exchanges of experience and information enrich and raise the standard of auditing activity.



SAI - Unity in Diversity

By Professor Dr. IOAN BOGDAN
President of the Court of Audit of Romania

The highest agencies of financial control of the State play a major role in observing and respecting citizens' fundamental rights and in establishing a new social relationship in observance of the law, in consolidation with the State of Law and of democracy.

The highest agencies of financial control of the State play a major role in observing and respecting citizens' fundamental rights (arising from the creation and utilization of public financial resources) and in establishing a new social relationship in observance of the law, in consolidation with the State of Law and of democracy.

In accordance with these objectives, any action for improving the SAI's

activity has a rapid and direct impact on all the above-mentioned fields, and is in the major interests of society.

Thus, familiarisation with the structure's underlying rules, together with the working procedures of each SAI, can provide us with a valuable source of inspiration for achieving real and adequate reform in this field, as in all other fields of socio-economic activity.

We are of the belief that a theme such as this, by virtue of its importance and bearings, should be the object of a special seminar. The conclusions of such a seminar should be reflected in a book, to be presented at the EUROSAI and INTOSAI congresses, which would provide all SAIs with a valuable source of inspiration.

In line with this proposal, we do not envisage interference of any kind in other SAI attributions. Each party would have the autonomy and right to adopt, or otherwise, organizational structures or procedures from another SAI.

Bearing in mind the importance of these issues, during the preparations for the seminar held from 2-4 September, 1995 in Bucharest, we raised some questions in the questionnaire "The relations between SAI and Parliament, Internal Control, Jurisdiction and Media". We are now taking this opportunity to make the following appeal to all SAIs:

- we would ask you to answer all the questions in the questionnaire at your earliest convenience, and to return it to us;
- jointly, we should endeavour to provide all SAIs with the concrete conclusions of this seminar, since they represent a valuable source of information.

We list some items which are established by law, and have different structures and procedures from one SAI to another:

- whether or not the SAI is entitled to perform preventive financial control;
- the existence or non-existence of a Jurisdictional Court in SAI;
- whether the SAI is entitled to carry out full control, selective control, or no control at all, in the privatization process;
- whether, by law, the SAI does or does not have autonomy for setting up its control programme, for

choosing the objective to control and implementing its conclusions;

- different procedures in the relationship with internal control;
- different methods of recruiting, selecting and appointing SAI managers;
- different procedures in the relationship between SAI and Parliament;
- different procedures in editing, publishing and carrying out SAI reports;
- different ways of setting up an information system and SAI data base management;
- different forms of territorial SAI organization, etc.

We believe that no stronger arguments are necessary for demonstrating the utility of these issues for debate, which will prove to be of great value to all SAI members. We greatly appreciate the interest that many of you have shown in one of our most recent books on Romanian SAI history and legislation. This book is particularly interesting, since it offers the reader a basis for comparison.

We consider that this dialogue about methods of organization, structures and procedures of SAI, should be profound and permanent, bearing in mind the continual changes and growth in SAI activity, and the major impact it has upon reform.

The Romanian Court of Audit has had access to a great deal of information about the ways in which many foreign SAIs deal with these issues, and is prepared to become more deeply involved in organizational activities aimed at the mutual exchange of information with other SAIs.

Allow us to express our thanks to the Board of EUROSAI for their constant help, and for the very high level of co-operation that has been established between us.

This dialogue about methods of organization, structures and procedures of SAI, should be profound and permanent.



External Audit of the United Nations

By EGBERT KALTENBACH

Counsellor-Member of the German Federal Court of Audit

Audit work in a body composed of auditors from three different continents who have audit responsibilities for a multitude of varying agencies worldwide poses a formidable challenge. All those engaged in UN audits need to have a large degree of willingness to learn, patience, sensitivity, flexibility, and readiness for compromise to tackle the audit issues that involve different languages and audit traditions, differing ways of thinking, and differing audit techniques

The United Nations (UN) and its specialized agencies spend an annual amount of nearly US\$ 8 billion on operations, programs and projects. They employ more than 50,000 staff and a large number of consultants. The UN budget even exceeds the budgets of some of its member states. Funding covers a wide array of activities ranging from the sharply risen expenditures on peace-keeping activities to development aid, research and drug control, not to mention administrative costs. In addition to ordinary contributions, which are assessed in accordance with the economic strength of its more than 180 member states, the UN increasingly relies on voluntary contributions, especially from its more wealthy member states.

Within the UN family, there are manifold financial interrelations among the individual organizations and bodies, above all in connection with the wide variety of projects funded jointly by several UN organizations.

The UN Board of Auditors

In the face of increased challenges to be met by the UN on the one hand and tightly stretched resources on the other hand, UN financial management and accounting need to be submitted to thorough examination by its external auditing bodies. The specialized agencies each have their own external auditor appointed by the respective governing body. Those organizations include: the Food and Agricultural

Organization (FAO), the International Labour Organization (ILO), the World Health Organization (WHO), the International Maritime Organization (IMO), the World Food Program (WFP), the United Nations Industrial Development Organization (UNIDO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Civil Aviation Organization (ICAO), and the International Atomic Energy Agency (IAEA). External audit of the UN, its trust funds, special funds, subsidiary agencies, peace-keeping and special missions is incumbent on the UN Board of Auditors. The Board comprises the heads of audit of three UN member states elected by the UN General



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The German Federal Court of Audit.

Assembly. The members serve on the Board for a three-year term. Their term is renewable. By tradition, one of the Board members belongs to a western donor country. In the past, this group of countries has been represented by Canada, Belgium, France and, from 1989 through 1992, Germany. The developing countries i.e. Colombia, Pakistan, Bangladesh and the Philippines have been represented. Currently, the Auditors General of Ghana, India and the United Kingdom sit on the Board.

Status and tasks of the Board

The Board is fully independent in the audit work for which it has responsibility. However, the Board is expected to pay heed to audit requests made by the General Assembly and its Fifth Committee dealing with administrative and budgetary issues. The Board's mandate covers regularity, compliance and performance audit of UN accounts and financial management. Each Board member is assigned audit responsibility for some UN organizations with the UN Financial Regulations and Rules providing for a regular rotation of audit assignments. The major organizations and agencies audited by the Board include:

- the UN General Secretariat in New York and the UN Offices at Geneva and Vienna
- the UN Regional Economic Commissions
- the UN Joint Staff Pension Fund
- the UN Peace-Keeping and Special Missions
- the UN Development Program
- the UN Fund for Population Activities
- the UN High Commissioner for Refugees
- the UN Children's Fund
- the UN Environment Program
- the UN Relief and Works Agency for Palestine Refugees in the Middle East

— the International Trade Center

Planning and conduct of UN audit

Each Board member is represented by a Director of External Audit in New York. These permanent representatives plan and co-ordinate audit work and prepare the Board's decisions. They are assisted by the Board's secretariat.

Audit missions are carried out by staff of the national audit institutions of the Board members. During the two major periods of field work in spring and fall each year, more than a hundred auditors work on international audits worldwide. During Germany's three-year term, the German audit staff participated in audit visits at UN locations in over 30 countries. To reach a sound judgement on UN financial management, it is necessary to carry out field work in the countries in which the UN field offices operate. Talks with responsible officials at UN locations often reveal audit evidence that would not have been disclosed if audit had been limited to examining documentation at headquarters. To carry out their audit work, the Board members also rely on external consultants, such as audit companies.

Reporting

Any audit work undertaken remains patchwork without adequate reporting. In the course of the financial year, the Board submits management letters about significant audit findings to the heads of the audited organizations and agencies so that they can address the problems stated and comment on the Board's findings.

The Board reports to the General Assembly at the end of each UN organization's annual or biennial budget period. The reports consist of two distinctive parts, one of them dealing with the financial statements, and the other with the financial management of the audited organization. To facilitate comparative study and evaluation, the make-up of the reports is uniform. Recently, the external auditors of the

UN financial management and accounting need to be submitted to thorough examination by its external auditing bodies.



UN specialized agencies have also begun to adopt the Board's reporting format. The uniform reporting structure within the UN common system helps facilitate the work of the representatives of the UN member states on the UN governing bodies.

In 1991, for the first time the Board presented special reports to the General Assembly in the course of the budget period. Special reporting focuses on financial management issues and provides the UN governing bodies with pertinent information in a timely manner.

Performance audit

As at the national level, the emphasis of UN audit work and reporting is subject to continuous change. Whereas traditionally, the attitude prevailed that the major focus of external audit should be placed on the assessment of regularity and compliance of accounting, currently emphasis is increasingly shifted to performance issues. Audit work that would have been misunderstood some years ago as exerting undue influence on policy makers is now considered a welcome initiative to enhance efficiency on the basis of audit experience. Such a change of attitude has become apparent not only at Board level, but also at the audited agencies and among the representatives of UN member states in the UN governing bodies. Since performance issues have become legitimate subjects for examination and reporting, the Board has begun to enter a field where the UN Joint Inspection Unit may also become active.

Cross-sectional audit

As numerous audit teams appointed by the Board members conduct separate audit exercises in widely differing circumstances at a multitude of UN locations, close co-ordination is necessary. To help co-ordinate audit activities and increase the comparability of audit findings, the Board has embarked on cross-sectional

audits. Thus the Board introduced a type of audit in the UN arena that has already proved effective at national level. In the audit period 1990-1991, horizontal issues included internal control, trust funds and inventory management. Based on uniform audit tools, audit teams carried out examinations simultaneously at various UN organizations. Apart from agency-related audit findings, significant findings on system-wide deficiencies and shortcomings were generated. The audit findings produced enabled the Board to compare the quality of the work of different UN agencies. Uniform reporting helped increase overall audit efficiency.

The impact of cross-sectional audit work could be further enhanced if the UN specialized agencies were also covered. However, contrary to the Joint Inspection Unit's mandate, these are beyond the Board's remit. As a result, UN-wide audits could only be carried out on a voluntary basis after reaching an agreement with the UN specialized agencies' external auditors. To achieve this would be a challenging task for the Panel of External Auditors of the UN, its Specialized Agencies and the International Atomic Energy Agency.

Treatment of audit findings by the UN governing bodies

First of all, the Board's reports are discussed at length by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) consisting of 16 financial experts of various UN member governments. Board representatives participate in the deliberations to provide testimony to the Committee. The ACABQ submits the Board's reports together with its own report to the General Assembly's Fifth Committee. The chairman of the Board participates in the Fifth Committee debates. During preparation of the Fifth Committee sessions and drafting of the resolution to be recommended to the General Assembly, Board representatives liaise with interested Committee members. The Board acknowledged the fact that

In 1991, for the first time the Board presented special reports to the General Assembly in the course of the budget period.



extensive reporting to the General Assembly is not enough. In addition to written reports, oral testimony and further evidence is necessary to alert UN governing bodies to the problems found and ensure that swift corrective action can be taken. Thus, there is a close intertwine between the functions of UN external audit and policy-making. The Board is primarily concerned with generating objective and sound information on UN financial management to be provided to the representatives of both donor and recipient countries who have an essential interest in the economy, efficiency and effectiveness with which UN funds are handled. Such pertinent information includes follow-up reporting on the extent to which the UN agencies have implemented the General Assembly's resolutions.

Proposals for Reform of UN Audit

The Board of Auditors has always made efforts to enhance the quality of audit work and of the audit findings generated. It has pioneered a number of innovations with a view to achieving improvements in UN audit. These achievements include the establishment of a working committee of the Board, the Audit Operations Committee (AOC) composed of the three representatives of the Board members and the head of the Board's secretariat. This committee plans and co-ordinates audit missions, drafts the reports and helps prepare the Board's decisions. The introduction of a comprehensive audit manual has also helped improve the quality of UN audit. Much of the work was contributed by the staff of the Canadian Office of the Auditor General. Recent improvements also include increased audit emphasis on performance, cross-sectional audits, harmonization of the reporting format, submission of special reports and increased co-operation with the UN governing bodies. However, further options for upgrading the UN audit process have been perceived, options that are beyond the power of the Board but require political decisions of the General Assembly and of the other governing bodies.

Generally Accepted Accounting Principles for the UN

Examinations into UN issues by external auditors and the UN governing bodies are impeded by the absence of generally accepted accounting principles. There are wide variations among budgetary and accounting principles of the different UN organizations. As a result, visibility and comparability is lacking. The Panel of External Auditors and the General Assembly agree that uniform accounting principles are of pivotal importance. The UN agencies, it is hoped, will also acknowledge the benefit and urgency of setting up common principles.

Strengthening the Internal Audit System

The external audit bodies need to rely on efficient internal audit of the organizations under examination. A cross-sectional audit revealed the need to improve the structure and staffing of UN internal audit. To fulfil their function effectively, internal auditors should no longer be assigned any operational functions.

Tenure of Office of the Board Members

As a result of the three-year term of the Board members, new Board members are often elected in the midst of a biennial budget period. This creates an impediment to the continuity of audit work and the risk of ineffective audit exercises. For the sake of continuity and effectiveness of audit work, it would be preferable to extend the term of office of the Board members to six years and to ensure that the budget periods and terms of the Board members coincide.

On the other hand, it seems appropriate to restrict the maximum period in office of external auditors. Under applicable regulations, the members of the Board of Auditors and the external auditors of the UN specialized agencies may be re-elected. There is no limit to extensions. Uninterrupted terms of office of 15, 20

The introduction of a comprehensive audit manual has also helped improve the quality of UN audit.



or even more years are no exceptions. As a result, UN external audit tends to be marked by the audit philosophy, practices and procedures of certain member states. There is also a risk that audit may become too much of a routine business in the course of the years and there may be the risk of auditors developing a bias in favour of auditees. Therefore, a limitation of the term of office would be preferable, adopting a principle that is valid for heads of supreme audit institutions of many UN member countries and has proven effective there (USA 15 years, Germany 12 years, Canada 10 years, Mexico 2x8 years). A more regular change of Board members and external auditors would be of benefit to the UN common system, which encompasses a community of states with widely varying administrative traditions. Such rotation would also enrich the activity of the UN external audit bodies. Like other important functions of the UN system, external audit should not be the domain of some countries only, but should be shared among a greater number of UN member states.

As a result of three years' membership on the UN Board of Auditors, Germany's Federal Court of Audit has transmitted to the Federal Government the above set of proposals for structural improvements in the UN accounting and auditing system.

The federal government of Germany has taken up these proposals and pursues these objectives at the political level in co-operation with other UN member states. Apart from proposals

for reform/improvement of the current audit system, more far-reaching changes of UN audit are also being discussed, such as establishing the post of a UN Auditor General and transforming the Board into a body whose task would be to review the Auditor General's work.

Co-operation on the Board

Audit work in a body composed of auditors from three different continents who have audit responsibilities for a multitude of varying agencies worldwide poses a formidable challenge. All those engaged in UN audits need to have a large degree of willingness to learn, patience, sensitivity, flexibility, and readiness for compromise to tackle the audit issues that involve different languages and audit traditions, differing ways of thinking, and differing audit techniques. Sometimes, it takes time before isolated audit findings generated are fit to be incorporated into a joint report that is finally endorsed by all Board members. But still co-operative work on the Board is worth its while, since it inspires and enriches the auditors' thinking, opens up new perspectives and engenders new initiatives and ideas. In the view of the German auditors involved in UN audit work, it is a definite advantage - rather than a drawback - that auditors from different audit systems join forces to further the goals and audit capacity of the UN external audit system.

All those engaged in UN audits need to have a large degree of willingness to learn, patience, sensitivity, flexibility, and readiness for compromise to tackle the audit issues that involve different languages and audit traditions.



Environmental Auditing in the Public Sector

By DAVID DEWAR

Formerly an Assistant Auditor General, National Audit Office, United Kingdom

Extending over a wide range of activities, many public sector programmes and projects are carried out on a large scale and involve massive resources. So they often have major environmental impacts and consequences which run well beyond the departments directly involved. Obvious examples arise in such fields as road-building and other capital works, public transport, procurement, armed forces training, sewage and waste disposal, environmental health, forestry, tourism and various programmes for economic, industrial and social development.

Environmental auditing is a broad church. It has been around for some time, but in many ways it is still in a state of flux and development. The nature and scope of the work can be defined in various ways; different kinds of bodies and individual skills are involved; terms of reference for examinations may differ; approaches and techniques are continuing to emerge; and there are different ways of reporting the results and encouraging change and improvement.

These variations and uncertainties, combined with some inherent difficulties - for example from subjectivity and in quantification of environmental impacts - mean that it is easy to get bogged down when starting out in this field or trying to develop a coherent programme of audits. The important thing to do is to review the opportunities, select a suitable subject or project - probably quite small - and make a start. Edmund Burke pointed out that it is a great mistake to do nothing simply because you can only do a little; and this applies to environmental auditing as well as to the pursuit of environmental protection itself.

The purpose of this session is:

- to identify the particular importance of environmental auditing in the public sector;
- to review some potential areas for examination;

- to consider how best to tackle them and report results.

Why is the public sector important?

Responsibility for environmental protection and sustainable development lies with both the private and public sectors, separately and/or in partnership. But public sector bodies - in both central and local government - have key roles and responsibilities. These range from specific statutory requirements to more general pressures to set a good example. The 1990 government White Paper "This Common Inheritance" (Cm 1200) sets out clear, high-level commitments on a wide range of environmental issues, backed up by detailed proposals and initiatives.

Some main areas of public sector environmental responsibilities are:

- dealing with environmental consequences of the government's own operations and activities;
- legislation, both national and international;
- regulation, licensing, inspection and enforcement;
- taxation and economic and financial incentives;
- sponsorship and grants;

Responsibility for environmental protection and sustainable development lies with both the private and public sectors, separately and/or in partnership.



- research and advice and publicity;
- emergency services

As well as extending over this wide range of activities, many public sector programmes and projects are carried out on a large scale and involve massive resources. So they often have major environmental impacts and consequences which run well beyond the departments directly involved. Obvious examples arise in such fields as road-building and other capital works, public transport, procurement, armed forces training, sewage and waste disposal, environmental health, forestry, tourism and various programmes for economic, industrial and social development.

A further factor which adds an extra dimension to environmental auditing in the public sector is the requirement of public accountability. Departments and others spending public funds and resources are rightly required to be answerable to Parliament and the public for their performance - including environmental performance.

Accountability is pursued in a number of ways, including publication of relevant information in departmental annual and other reports. It is also pursued through published reports on environmental issues presented to Parliament by the National Audit Office for follow-up by the Committee of Public Accounts. It would be wrong to claim that public accountability on environmental issues is well established across the board, since there is still some way to go and several areas for improvement; but the standards of openness and analysis expected, and delivered in practice, are comparable with or ahead of many areas in the private sector.

For example, nearly 300 pages of environmental objectives and commitments in "This Common Inheritance" were updated in 1991 by a further 200 pages of information on progress and results against the earlier targets, reporting on some 400 individual initiatives. Further progress reports are planned. There is growing disclosure and analysis in annual reports by individual departments with

wide-ranging environmental responsibilities - such as the Department of the Environment and associated bodies like the Pollution Inspectorate and the National Rivers Authority, and the Department of Transport. And environmental issues in a number of the areas listed in paragraph five above have been covered in National Audit Office examinations and published reports, or are being pursued in current studies (see Annex).

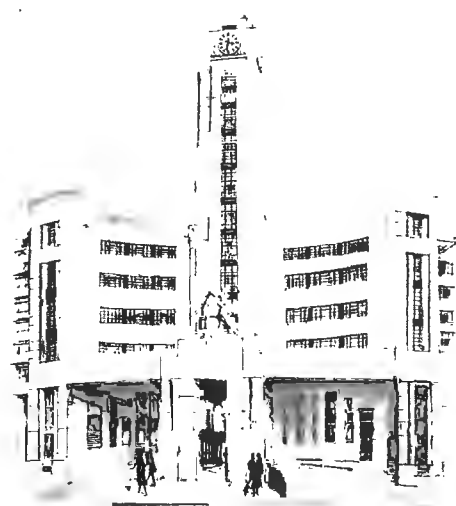
It is important to recognise that, in public sector operations no less than in the private sector, environmental protection is rarely if ever pursued in isolation or as an absolute good. The aim is to secure sustainable development in an appropriate balance with economic growth. Sometimes environmental and economic benefits go hand in hand, for example in reducing waste and improving energy efficiency. But there are conflicts. Decisions on environmental issues and priorities and the allocation of funds have to be taken in the harsh real world of finite resources and competing interests; higher costs of environmental protection may threaten viability or involve trade-offs; more demanding requirements may mean higher prices or less choice or both. Nor do the hard choices necessarily polarise between the environment and growth, since pursuing one kind of environmental benefit may threaten another. A village bypass may bring welcome relief from traffic and noise but mean running a road through a local beauty spot or a site of special scientific interest. Green winners can mean green losers.

Identifying potential areas for examination

The potential areas examination noted in paragraph five above are obviously very broad, and as well as problems of scale they may often (for example, on motorways and trunk road building) involve activities with a wide geographical spread and long timescales. In such circumstances, environmental audit cannot sensibly be

Sometimes environmental and economic benefits go hand in hand, for example in reducing waste and improving energy efficiency.





THE NATIONAL AUDIT OFFICE HEADQUARTERS

carried out on a comprehensive or across-the-board basis; individual projects or defined aspects of the work have to be selected for in depth examination. There are plenty of opportunities, of course, but the best results do not come simply from dipping into subjects at random; to provide continuing impact and added value there needs to be method and purpose in identifying the right subjects and timing. Work needs to concentrate on more fundamental areas rather than following the latest fashion; and the focus should be on strengthening on-going systems and controls, not just tabling individual examples of bad practice.

Selection also depends on the nature and status of the examination itself and those conducting it. Environmental audit may be carried out as a specific consultancy exercise, with the work being commissioned directly by the organisation itself; and in this case the scope and objectives of the work, the terms of reference, and the reporting lines may be laid down in advance, or certainly will depend on the client's approval. In other cases it may be an internal audit carried out by a team from within the organisation, sometimes bringing together different disciplines and/or with outside specialist support. Deciding on the subject and scope of the work may then

involve more analysis of environmental risks and opportunities by the team. More independent audits, or impact assessments, may be called for under UK or EEC legislation.

In some cases (as in the work of the National Audit Office) environmental examinations may be carried out externally and completely independently under separate legislation; and here the auditors themselves are responsible for the basic analysis, the identification of suitable subjects, determining the scope of the work, deciding on the approach and methods and staffing, and delivering findings and recommendations in a published report.

Many factors have to be taken into account in identifying and selecting suitable subjects for environmental audits. They include:

- size and range of existing activities and new developments and their potential environmental impact;
- relevant legislation and other requirements;
- the organisation's environmental aims and objectives (stated or implied);
- stakeholder interests and concerns;
- previous audits in this or related fields;
- other examinations or reviews in hand or proposed;
- availability of required skills and expertise;
- accountability and reporting requirements;
- prospects for positive, constructive results and added value.

Today's general level of environmental awareness means that a number of possible subjects for audit almost select themselves. Many of these are in the relatively straightforward areas of environmental "good housekeeping", though even here there are some pitfalls. Typical subjects might include energy saving, reducing waste, disposal and recovery and recycling, reviewing transport needs, and purchasing



policies. Examinations in these areas can be conducted at various levels and with different scopes and terms of reference, depending on the available levels of expertise. Well conducted examinations, properly followed through, are likely to produce significant savings and improvements, individually or in aggregate, in many organisations.

But there is always a risk that concern for environmental protection may be tacked on to the organisation's main activities, or seen as a more or less cosmetic extra rather than being built into mainstream management, at all staff levels. On a broader front, therefore, environmental audits provide the opportunity for encouraging a more structured approach by moving into such areas as:

- establishing coherent overall environmental aims and objectives;
- following these through into considered policies and plans and programmes of action;
- arrangements for communicating objectives, policies, plans and targets through different levels of the organisation, with full staff participation and feedback;
- liaison with appropriate stakeholders;
- systems for risk assessment, standard setting, monitoring and enforcement;
- clear allocation of environmental responsibilities and powers, and associated review and reporting arrangements;
- incorporation of environmental factors into investment appraisals, cost benefit analyses, and other economic evaluations;
- progress with integrating environmental facts and figures into main financial and management information and reporting systems;
- reviewing pollution safeguards and prevention measures, response capability and emergency procedures and damage compensation provisions;

- disclosure and public accountability arrangements;
- scope and effectiveness of staff environmental training programmes;
- research and development on environmental issues, internal and external;
- possible participation in wider ranging environmental activities, including sponsorship and other forms of support to outside ecological interest groups.

The aim of a rolling programme of environmental audits selected from these various possibilities would be to combine individual, practical and hard-nosed examinations of main operational activities with examinations designed to establish - and test out in practice - an underpinning framework of planning and management systems and controls. This would be a progressive exercise, giving priority to areas with prospects for prompt and effective action as well as developing all-round strengths in the longer term. Working in this way depends, of course, on the environmental attitudes and commitment of the organisation being examined.

Tackling selected audits and reporting results

In practice, a good deal of the work necessary for delivering effective environmental audits will - hopefully - already have been identified in working through the stages summarised in the earlier paragraphs of this paper. There is often no clear dividing line between reviewing broad areas of activity, focusing on more identifiable programmes and projects, deciding on overall study scope and objectives, consulting and taking into account the views of the organisation being audited, and finally planning the detailed work. And in many ways preparing the way for an effective environmental audit is little different from what needs to be done for any other kind of independent examination, whilst recognising any special factors such as the risk of

Preparing the way for an effective environmental audit is little different from what needs to be done for any other kind of independent examination.



subjectivity and the difficulties in quantification, and perhaps special sensitivities on disclosure. Key factors include:

- concentrating on areas or subjects of highest environmental risk and materiality;
- taking into account potential conflicts and different stakeholders;
- clear study objectives, with appropriate balance between environmental issues and wider economic and operational factors;
- study team equipped with appropriate expertise and experience in the different skills required, with any necessary outside support;
- approach and key elements of work discussed fully and frankly in advance with the organisation concerned, and wherever possible, carried out with their active support and assistance;
- initial analysis explored and fleshed out in brief preliminary study, to set tasks and priorities for main fieldwork;
- directed towards clear and positive findings, leading to constructive advice and recommendations for improving key systems and controls;
- reflected in reports which are well-evidenced, accurate, fair and

balanced in both content and presentation;

- linked with arrangements for follow-up to ensure prompt and effective action.

Although this overall approach may be similar across a wide range of potential examinations, and there are a number of fairly standard methods of tackling at least the more straightforward environmental activities, it is important to recognise that environmental issues and priorities may shift and change in different circumstances and within different organisations. Environmental audits therefore come in all shapes and sizes; often they are bespoke rather than “off the peg” exercises. In some cases they may be free-standing and confined strictly to environmental issues; in others they may deal with environmental aspects arising from or linked with other activities which are the main focus of the audit. And as well as being tailored to the organisation concerned, they also reflect the characteristics, expertise and strengths of the body carrying them out.

Finally, a re-emphasis of the point made at the start of this paper. Environmental audits have, of course, to be approached with care. But they are eminently do-able, internally as well as externally. Don't stand transfixed in front of the most obviously difficult areas: choose the right subject and start.

Environmental audits come in all shapes and sizes.



AREAS COVERED BY NATIONAL AUDIT OFFICE REPORTS ON ENVIRONMENTAL ISSUES

(some reports cover issues in more than one area)

Government operations and activities	Published/Current
Forestry Commission	1985/1987/1993
The Urban Programme	1985
Urban Development Corporations	1988/1993
Derelict Land Grant	1988
Road Planning	1989
Energy Efficiency	1989
Advisory Services to Agriculture	1991
Coastal Defences in England	1992
Management and Control of Army Training Lands	1992
Overseas Aid: Water and the Environment	1992
Protecting and Managing England's Heritage Property	1992
English Nature	Current
Environmental Factors in Road Planning and Design	Current
River Pollution from Farms	Current
Land and Property for Roads (Blight)	Current



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Regulation, licensing, inspection and enforcement

Control and Monitoring of Pollution: Review of Pollution Inspectorate	1991
Buildings and the Environment	Current

Sponsorship and grants

Derelict Land Grant	1988
Protecting and Managing England's Heritage Property	1992
English Nature	Current

Research and advice and publicity

Buildings and the Environment	Current
Environmental Factors in Road Planning and Design	Current

Emergency Services

Oil and Chemical Pollution at Sea	1991
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NB: Some of these studies are direct environmental audits; others cover environmental factors in conjunction with wider operational issues.

The Establishment of the State Control Service as a Supreme Audit Institution for Democratic Reform in the Republic of Albania

By BLERIM CELA

Chairman of the State Control Service of Albania

Government auditing, as a very important part of management, had to support and respond to the needs of the new democratic Albanian Government during the transition period towards the market economy, providing proper management and good governance of public funds and property.

Within the framework of the deep political, economic and social transformation that took place after the Communist regime collapsed once and for all, and in the aftermath of the overall victory of the democratic political forces in March 1992, during the first pluralist elections in Albania, it was absolutely indispensable radically to alter the form and content of government auditing systems, by establishing a Supreme Audit Institution in accordance with International Auditing Standards.

Moreover, the whole of the government auditing system had to be reorganised and its basic legal framework modified along the lines of international auditing community practice, as a response to the new political, economic and social environment created in Albania during the implementation of economic reform towards market economy.

Government auditing, as a very important part of management, had to support and respond to the needs of the new democratic Albanian Government during the transition period towards the market economy, providing proper management and good governance of public funds and property.

In the course of market economy transformations, the former government auditing system was unable to fulfil its

functions. The state auditing bodies had been established and carried out their activity in accordance with the party State directives and interests, and had no legal mandate.

The history of governmental auditing development in Albania can be identified in three main periods:

- The Supreme Audit Institution was established in Albania for the first time in 1925. It was called the National Higher Financial Council, and it continued its activity until 1943. Its legal mandate was established by the National Constitution of that time and its organisational and operational functions were regulated by a specific law.
- In 1943, after a short interruption in government auditing activity as a result of the Second World War, when the Communist regime was installed in Albania, different auditing bodies were set up and carried out their activities on the basis of government regulations and Communist party directives that had full and overall control.

Until May 1992 the government auditing system in Albania was organised on two different levels:

The State Control Service has the power to conduct audits on regularity, efficiency, probity and effectiveness involving financial funds.



- a) The State Control Commission was part of the Council of Ministers (Executive branch of the Government) and reported directly to the Government.
- b) The Ministry of Finance, through the Department of Auditing, was in charge of state control regarding financial matters, for the whole country at large.

The main duties of the State Control Commission were to inspect and control the observance of government ordinances and regulations by various government bodies and their employees. It did not carry out financial auditing, and merely had inspection and supervisory functions. Its dependence on the government at that time prevented it from accomplishing its functions effectively.

The Ministry of Finance, through the Department of Auditing, was responsible for conducting audit work and for supervising and exercising guidance of the state audit bodies throughout the country in matters involving financial auditing. At that time state audit bodies were not independent of the government, and their activity was based on various regulations promulgated by the Council of Ministers. These governmental auditing bodies were not permitted to carry out audits on many government issues because of so-called government secrecy. By way of an example, expenditure incurred by former Communist leaders and officials was not audited at all for some 50 years. Other areas in which the audit bodies had no power to act, were state budgetary funds, treasury funds, defence and security activities, etc.

During Communist occupation, the government auditing bodies were a tool in the hands of the state party, and they were only authorised to audit activities that had no impact on party state interest.

Thus, despite their attempts, the government auditing bodies in Albania during that period were unable to conduct regular audits on a number of governmental activities and bodies.

Their conclusions and recommendations were generally not enforced by the auditees.

In analysing the activity of governmental auditing in Albania as a whole and taking into consideration the role of Supreme Audit Institutions in a democratic country such as Albania, we reached the conclusion that the governmental auditing system in Albania had to be totally reorganised on the basis of International Auditing Standards and Principles.

In order to be able to implement this very important goal, we scrutinised and analysed the auditing experience of many Supreme Audit Institutions, members of INTOSAI and EUROSAI.

In August 1992 the Albanian Parliament passed the new law establishing the State Control Service as the Supreme Audit Institution of Albania. This law provided for the dismantling of the previous government auditing system and established a new system in its place. Its statutory regulations are provided by the National Constitution and its functions and organisation regulated by specific law. The SAI established in Albania today performs its functions in accordance with international principles and standards.

The National Constitution and specific law give the State Control Service the following mandates:

- Full independence from the executive branch of the government in terms of financial, organizational and functional independence.
- The Chairman of the State Control Service has the undisputed right to report directly to Parliament, as the highest authority exercising full right of control on behalf of the public.
- Appointment and dismissal of the Chairman and his deputies by the Parliament.
- The Chairman of the State Control Service has the authority to appoint and to dismiss office staff.

The SAI established in Albania today performs its functions in accordance with international principles and standards.



- The Chairman of the State Control Service and its staff have full access to all government activities and information, however confidential they may be.
- The right of the Chairman of SAI to decide at his own discretion on the scope and extent of the audit work to be performed by the State Control Service.
- The remuneration (salaries) of the Chairman and his deputies are defined by Parliament, while the salaries and payment of office staff are defined by the Chairman of the State Control Service, within budgetary allocated funds.

In the professional auditing literature published today, many experts in this field consider that the independence of SAIs is hard to achieve; however, in practice we can say that the SCS of Albania has achieved this goal already, despite the difficulties we encountered.

Almost all SCS auditing work is self-initiated and is conducted in observance of the Constitution and other legislation. The State Control Service has the power to audit public funds allocated through the state budget to government departments, local government and state-owned enterprises, as well as Albanian representative bodies abroad. This is very important, since in a democratic country the public wish to know and to be informed how public funds are being used and how government officials are performing their duties.

The State Control Service is not part of the juridical branch of the government.

It has the power to request various public bodies to invalidate a particular law or regulation when it contravenes the Constitution or any other legislation, and to give recommendations on how to improve it. This applies only to financial issues.

The State Control Service has the power to impose fines on the persons responsible in the event of infringement of the law. The State Control Service reports annually to the Parliament on its main findings throughout the year.

On the basis of its specific law, the State Control Service has the power to conduct audits on regularity, efficiency, probity and effectiveness involving financial funds. Apart from the financial audits, top priority is given to performance audits based on advanced international auditing practice. Increased emphasis has been given to these audits because of their importance to the public and to Parliament in providing better accountability of how the public funds are being spent.

The development of auditing standards, the publication of the Code of Ethics for government auditors, engagement in performance audits as well as computer audits, according to international practice, are all very important achievements by Albania's SCS. The State Control Service of Albania is a monocratic body, headed and represented by the Chairman, who has the power to carry out its duties independently, and is directly responsible for his performance to the Parliament and Constitution. The State Control Service headquarters comprises six departments, and has 11 regional offices throughout the districts. There are 260 employees, of whom 160 are auditors and evaluators from various different professions, such as accountancy, law, economists, etc.

Total quality improvement of the auditing activity carried out by our office in its day-to-day work constitutes its main objective, in response to public accountability requirements. With international auditing experience as a landmark, we look forward with optimism to better performance and to brave achievements in the near future.

The State Control Service has the power to impose fines on the persons responsible in the event of infringement of the law.



The Influence of the German Federal Court of Audit on Policy Decisions

By Dr. HEDDA CZASCHE-MESEKE
President of the German Federal Court of Audit

This article illustrates the way in which the German Federal Court of Audit's statutory function of advising the German Federal Government and Parliament provides scope for influencing policy decisions.

The advisory role of the German Federal Court of Audit is set forth in section 88, paragraph 2, sentence 1 of the German Federal Budget Code, which reads as follows:

“On the basis of its audit findings, the German Federal Court of Audit may advise the two Houses of Parliament, the Federal Government and individual federal ministries.”

If we take a closer look at this wording, it becomes clear that the legal provision it embodies confers an optional function on the German SAI. The German Federal Court of Audit is under no obligation to provide advice, but it may do so of its own accord or at the request of the authorities specified in this provision. By giving the German Federal Court of Audit the power but not the duty to advise, the Legislature has respected the SAI's independence guaranteed by the Constitution.

At the same time, the optional character of the advisory function underlines the fact that priority is given to the traditional audit functions.

In practice, advice on request to Parliament accounts for the major part of advisory work. The German Federal Court of Audit seeks to comply with such requests to the extent compatible with the proper performance of the audit function. In fact, the respect owed to Parliament demands that the SAI should make any reasonable effort to accede to such requests.

Section 88, paragraph 2, of the Federal Budget Code provides that the German Federal Court of Audit is to give its

advice “on the basis of its audit findings”. This does not mean, however, that the audit findings used as a basis for giving advice must be strictly and narrowly related to the subject on which advice is tendered or sought. In fact, it is not only possible but even desirable that various audit findings are combined, supplemented and evaluated so as to constitute an aggregate body of evidence to support advisory work on a particular issue. This is typified by cases where advice is given on organisational questions. In such cases, it will often be possible to apply to other government departments, or even government-wide, the lessons learnt in one unit or branch of the public administration, concerning such issues as mismanagement, devolution, procedures, etc.

While section 88, paragraph 2, of the Federal Budget Code does not say anything about the timeliness of advice, this is nevertheless an important aspect. As a matter of fact, advice is proactive in nature, addressing issues to be decided now or in the future. This means that advice needs to be given in a timely manner to be used as an input in the decision-making process. To ensure that, the SAI must be kept informed of impending decisions. For this purpose, the German Federal Court of Audit receives draft legislation, documents relating to meetings and also submissions to the Cabinet.

When we shift our attention away from these rather technical issues, we face the essential question as to the extent which the SAI's advisory work can have and where its limits lie.

In practice, advice on request to Parliament accounts for the major part of advisory work.



To answer this question, some wider considerations are required as to the SAI's status within the structure of government. In Germany, the SAI is not assigned to any of the three classical branches of governments. By virtue of its audit function and the judicial independence of its Members guaranteed by the Constitution, the SAI is an institution *sui generis*, complementary to the legislative, executive and judicial branches of government, an independent body with duties and powers of its own. This role, set apart from the three traditional branches of government, gives rise again and again to the question about the scope of the SAI's responsibilities and, consequently, the extent of its audit mandate.

The core of the issue is the definition of the boundary between - on the one hand - the admissible audit of government operations and the giving of advice under criteria of regularity and performance and - on the other hand - policymaking which is the executive domain of the Government and Parliament.

In this field, the German Federal Court of Audit exercises restraint and, to make this clear, always inserts the following clause at the beginning of its annual Observations:

“Political evaluations and policy decisions are not subject to an appraisal by the German Federal Court of Audit. However, audit findings which have a bearing on the rationale for policy decisions or on the impact of such decisions, may be seen as justifying a review by the appropriate bodies. Where this is the case, the German Federal Court of Audit thinks it necessary to report on such issues.”

This boundary between the German Federal Court of Audit's auditing and advisory role and the policymaking function and, hence, the way in which the German SAI carries out its mandate, cannot be easily deduced from the existing constitutional and legal provisions. Permanent interpretation of the relevant legal provisions by the German Federal Court of Audit is required to define this

borderline. By excluding policy decisions and political evaluations from its audit, the German Federal Court of Audit takes note of the fact that, in a democracy, policy decisions reflect basic values shared by society and are often the result of compromises between antagonistic political groups and opinions. It is not the job of government auditors to judge the merits of political values and interests. Doing so would infringe their own and their organisation's status as personally and professionally independent advisers to Parliament and the Government. The primary goal of government auditing is to gather sound evidence on facts and figures.

What, then, are the repercussions of the German Federal Court of Audit's self-restraint in the evaluation of policy decisions? What is the approach to be taken to audit and advisory work?

In general terms, one might certainly agree that all the means and tools used to achieve predetermined policy objectives are subject to the SAI's examination and evaluation. Hence, it is the German Federal Court of Audit's task to ascertain whether the methods used by the executive branch of government, in order to accomplish a given policy objective, satisfy the regularity and performance standards applicable to government action.

I would like to give some examples in order to illustrate the scope of our SAI's advisory work and its interface with political decision-making.

The German Federal Court of Audit will not judge the merits of the basic political tenets underlying the policy decisions to grant development aid, child benefit or income support. By their very nature, such basic policy decisions cannot be subject to audit or advisory work under the criteria of performance and regularity to be applied by the SAI. Nevertheless, taking development aid as an example, the SAI will surely be entitled to criticise certain projects, if, based on the evidence generated by audit, there is no assurance that funds appropriated for the projects are used efficiently and effectively. Such criticism would object

The primary goal of government auditing is to gather sound evidence on facts and figures.



to the use of the appropriated funds in specific circumstances without, however, questioning the policy objective underlying the development aid.

But let us take this one step further. Could the SAI suggest to Parliament and the Government that they should reconsider their appropriations for development aid if there were reliable audit evidence to support the assumption that the number of useful and viable aid projects was not sufficient to ensure an efficient use of the funds appropriated for development aid? I have deliberately chosen this fictitious example because here the SAI could interfere with a policy objective. This objective is to set aside a certain amount or proportion of budget funds for development aid, without having established specific economic needs. With this, we have already come to the point where statements made by the German Federal Court of Audit impinge on policy objectives. However, in the above fictitious case, I hold that the SAI would be entitled to question the overall amount budgeted for development aid and to suggest appropriate cuts.

I would like to quote another example in order to illustrate the scope of policy advice by the SAI.

In the wake of German unification, the Federal Government has given high priority to the policy objective of promoting economic development in the new federal states with a view to achieving a basic uniformity of living conditions throughout Germany. Various programmes are used to accomplish this objective. One of them is the relocation of federal agencies from Western to Eastern Germany. It is up to the political authorities to decide which agencies should be relocated where. In this example, it is obvious and beyond dispute that all government operations and transactions undertaken to implement such relocation decisions are subject to the German Federal Court of Audit's audit and advisory authority. The issues involved in the implementation of relocation decisions are regularity, compliance and

performance, which are fully covered by the German Federal Court of Audit's audit mandate.

But how should the German Federal Court of Audit proceed, if the audit of the relocation of a federal government agency generated evidence that:

- in terms of performance or value for money, waiving the relocation would be the best option, or that
- better value for money could be obtained by opting for a new location other than the one originally selected.

This example, too, gives rise to the question of where "genuine" policymaking starts and where, therefore, the German Federal Court of Audit's audit authority stops.

In its advisory role, the German Federal Court of Audit could certainly point up the impact of this policy decision, e.g. in a cost-benefit study. It also could point out that a certain place chosen for relocation could imply lesser value for money or a higher cost of relocation. However, the appraisal of this evidence and the final decision about relocation and the choice of the new place would remain with the political authorities who might wish to take other considerations and interests into account. Provided that such a political evaluation and policy decision did not appear to be entirely without merit, and that some rationale were stated, e.g. the objective of improving the infrastructure in a given area, the German Federal Court of Audit would have to accept it as a policy decision.

If an overall conclusion can be drawn from the foregoing examples, it can perhaps be put in the following words:

One task of government auditing must be to use its criteria of regularity and performance for putting policy decisions on a sounder footing where their underlying rationale is concerned. In this endeavour, it is not for the German Federal Court of Audit to evaluate or criticise the core of policy decisions from the auditor's technical point of view. Nevertheless, policy decisions need to be based on a sound

The question is where «genuine» policymaking starts and where, therefore, the German Federal Court of Audit's audit authority stops.



rationale, last but not least because, in most cases, they imply spending decisions, and the funds needed have to be provided by the taxpayer. In their role as policy advisers, audit institutions should therefore be determined advocates of rationality and visibility in the policymaking process. Consequently, we feel bound to make our best efforts to provide policymakers with sound evidence on which to base their decisions. If we compare two alternative routes for a planned railway line and find that one of the two routes will result in better value for money, it is our job to point this out. If the final policy decision deviates from our advice, we can certainly expect that good reasons for this decision will be shown, arguing e.g. that the route chosen will help to eliminate regional economic imbalances.

Our self-restraint in audit and advisory work is motivated by the fact that, if we evaluated policy decisions, the German Federal Court of Audit would be drawn into controversies about political tenets and conflicts of interest. The scope of the audit institutions' mandate is comprehensive and without gaps but limited by the two basic audit criteria: These are (i) regularity (and compliance), and (ii) performance. While the latter criterion may sometimes be difficult to apply to specific cases, it admits at least a clear theoretical definition. The validity of this criterion is demonstrated by the fact that, as a rule, the German Federal Court of Audit's annual observations (its annual audit report) are unanimously endorsed by the Bundestag. If the German Federal Court of Audit departed from this sound criterion and presumed to judge the "correctness" of policy decisions, it would quickly get caught in political crossfire and lose credibility.

In its advisory function, the German SAI makes suggestions for proactive decisions based on audit findings. This function enables it to influence the policymaking process. The increase in the German Federal Court of Audit's advisory work for Parliament and the Government is a clear sign of its transformation from a mere audit

institution to a think tank producing prospective suggestions.

More than 40 reports, testimonies and letters from the German Federal Court of Audit addressed during the last two years to the Appropriations Committee, the Committee on the *Treuhandanstalt* (privatisation agency for East German business assets) and to committee rapporteurs, deal with such diverse issues as:

- the allocation of the cost of research for devising a nuclear waste disposal system;
- the contribution to be made by the federal states towards consumer education on nutrition;
- the staffing of the Federal Employment Services;
- the federal programme for economic co-operation in the German-Polish border area.

These examples show that the German Federal Court of Audit's advice to Parliament and parliamentary committees is not restricted to federal budget matters. Once again, the timing of the advice given is an important factor to be considered. Especially in those cases where the German Federal Court of Audit tenders advice of its own accord, it must make sure to get the timing right in order to provide a meaningful input into the decision-making process. In the recent past, we have done so (and I believe, successfully) e.g. in connection with the planning of a large airport for the Berlin/Brandenburg region. We pointed out that there was reason to doubt the validity of some of the planning data and demanded a comprehensive project appraisal under the criterion of value for money. Similarly, we provided input for decision-making about the upgrading of the German railway network.

Where government audit focuses on large-scale public sector operations and transactions, appraises them under performance or value for money criteria, and reports up-to-date findings, it is most likely to increase audit impact, to trigger discussions about

We feel bound to make our best efforts to provide policymakers with sound evidence on which to base their decisions.



alternative policy options and, ultimately, to influence policy decisions taken. Even if the SAI exercises self-restraint to a reasonable degree, it is not likely to escape accusations that it has overstepped the bounds of its mandate or that it has encroached upon the functions of Parliament and the Government.

This can be illustrated by an example from the recent past, concerning the "Eurofighter" military procurement project. Since the approval in principle of the project which is being pursued jointly by Italy, Spain, the United Kingdom and Germany, the German Federal Court of Audit has conducted a concurrent audit of the project in co-operation with the SAIs of the other participating nations. We issued several reports to inform the Bundestag's Appropriations Committee of our findings. The last report to the Appropriations Committee was issued late last year. Despite its being classified, the contents of the report were leaked to the media and thus became known to the public. This

triggered a fierce political controversy. Both the Defence Minister and the Chairman of the Appropriations Committee accused the German Federal Court of Audit of having encroached upon policymaking. This reproach was made although the report dealt objectively with technical and financial issues and refrained from any evaluation of defence policy.

As a whole, the provision on the advisory function of the German Federal Court of Audit set forth in section 88, paragraph 2 of the German Federal Budget Code has stood the practice test. With very few exceptions, the exercise of our advisory mandate has not become an issue of contention. We think that its advantage lies in the opportunity given to the SAI to provide a timely advisory input into the process going on at the policymaking level. In turn, Parliament, the Government and individual ministries can draw on the impartial expertise of the SAI in order to put their decisions on a sound footing and enhance public sector performance.



The Court of Audit and the Control of Municipalities

By Dr. FRANZ FIEDLER

President of the Austrian Supreme Audit Institution

We can safely say that the Court of Audit values and indeed supports the existence of other supervisory bodies, and sees them not as competition, but as a useful complement to its own activities, recognising them as partners in accomplishing its tasks, in safeguarding the interests of the taxpayer, a challenge to which it is impossible to allocate sufficient resources.

The Court of Audit's auditing powers over *Gemeinden* (municipalities) which, according to constitutional law, are territorial entities with the right to self-government, were first introduced with

the re-enactment of the Federal Constitutional Law (Bundes-Verfassungsgesetz, B-VG) of 1929. The Court has, however, had auditing powers over the financial management

of federal government (i.e. the nation as a whole or State as a unit) since 1920, and over the financial management of individual *Länder* (i.e. constituent states) since 1925. The term “financial management” is being used here to mean “any behaviour, which has financial consequences”, as expressed in rulings of the Supreme Constitutional Court.

These auditing powers, enjoyed by the Court of Audit in its capacity as the organ of the *Landtag* (parliament of a land) (article 122 paragraph 1 B-VG) of the corresponding *Land* in which the municipality is located, are, in principle, restricted to municipalities with at least 20,000 inhabitants, which are known as *Großgemeinden* (art. 127a B-VG), on which the Court of Audit is free to carry out audits on its own initiative at any time.

The municipalities concerned are the following (listed in alphabetical order):

Amstetten	Leonding
Baden	Linz
Bregenz	Mödling
Dornbirn	Salzburg
Feldkirch	St Pölten
Graz	Steyr
Innsbruck	Traun
Kapfenberg	Vienna Neustadt
Klagenfurt	Villach
Klosterneuburg	Wels
Krems	Wolfsberg
Leoben	

Furthermore, in the same context, the federal capital Vienna should also be mentioned, as, although the capital, it is at the same time a *Land*, and is treated as such for the purposes of auditing (§16 of the Court of Audit Act or *Rechnungshofgesetz, RHG*).

On the other hand, the Court of Audit is only authorised to undertake audits of municipalities with fewer than 20,000 inhabitants when called upon to do so by the corresponding *Land* government (article 127a paragraph 7 B-VG). Such audit requests are extremely uncommon.

Furthermore, the Court of Audit has the authority to undertake audits on the financial management of *Gemeindeverbänden*, which are

associations of municipalities created to cater for specific tasks that fall within their own sphere of operations (article 116a paragraph 1 B-VG), on its own initiative and at any time. It may even do so when these associations group together municipalities with a total of fewer than 20,000 inhabitants. For the review of such municipality associations, by analogy, the provisions on auditing municipalities are applied (article 127a paragraph 8 B-VG).

Auditing powers on municipalities include:

- the overall financial management of municipalities and
- that of their foundations, funds and institutions (article 127a paragraph 1 B-VG);
- the financial management of their undertakings (article 127a paragraph 3 B-VG);
- the financial management of statutory corporations or any other legal entity outside the administration which enjoys municipal funding (§ 18 paragraph 3 of the RHG).

Jurisdictional conflicts

In the event that a local authority disputes the audit jurisdiction of the court of audit, the decision is taken by the Supreme Constitutional Court, either through a petition by the Court of Audit or by the competent *Land* government (article 126a B-VG).

A local authority has no powers to bring a petition to determine jurisdiction before the Supreme Constitutional Court. However, it does have the status of a party to the suit in the actual proceedings before the Supreme Constitutional Court.

Audit aims

The Federal Constitutional Law sets forth the audit aims of the Court of Audit. These are the same for auditing in the areas of federal government, *Länder* and municipalities, and must be

The most important areas in municipal audits are the municipal administration, municipal enterprises, municipal projects and municipally-owned public hospitals.



applied to (article 127 a paragraph 1 B-VG):

- numerical accuracy,
- compliance with existing provisions,
- economy,
- efficiency,
- and system-based usefulness.

In reviewing numerical accuracy, the purpose is auditing in the classic sense of the term. This was the historical starting point for the auditing powers of the Court of Audit.

When evaluating compliance with existing provisions, the intention is to check the legality of the actions pertaining to financial management (generally administrative actions) of the bodies audited.

The criterion of economy serves to minimise expenditure or avoid unnecessary costs.

Similarly, efficiency refers to achieving the best possible relationship between expenditure and costs.

Finally, system-based usefulness refers to the optimisation of the performance of tasks for which the bodies audited are responsible. This is easier to evaluate in undertakings which are clearly profit-oriented than it is in public administration. Although the latter has definite tasks to perform, it is not always driven by a profit-motive.

It is not infrequent for the Court of Audit to establish that audit aims are mutually conflicting. It can arise, for example, that an administrative action which fully complies with existing provisions, is nonetheless extremely inefficient. In a case like this, it would be out of order for the Court of Audit to reproach the audited body for breaching the efficiency precept. It would be equally unsatisfactory, however, to lose sight of the auditing aim of efficiency in view of the fact that legality was being observed. The fact is that the reason for the inefficient administrative action lies, in this case, with a failure on the part of the legislator. It is only correct that this should then be pointed out by the Court of Audit, since, according to the text of

the constitution, the audit aim of compliance is not more important than, but equally important to, efficiency. In the light of such clashes between these two audit aims, the Court of Audit is therefore obliged to demonstrate the intrinsic inefficiency involved in the legal provisions being applied.

Auditing resources

The resources available to the Court of Audit for auditing include, first and foremost, inspection on site, followed by the collection of written or verbal information from the audited body, handing over of account books, supporting accounting material and other aids, such as business documents, correspondence, and similar objects, as well as by calling in experts.

Specific features of auditing municipalities

In the majority of cases, the initiative to carry out an audit comes from the Court of Audit itself. The governments of the *Länder* do, however, also have the possibility of calling in the Court of Audit to carry out an audit on municipalities with fewer than 20,000 inhabitants. The Court of Audit may not carry out such audits on its own initiative, in other words, without being called in to do so, since the lower threshold of its auditing jurisdiction in the municipal area only involves municipalities with a minimum of 20,000 inhabitants. It is, however, extremely rare for the governments of the *Länder* to call the Court in to carry out an audit on a municipality with fewer than 20,000 inhabitants.

It is worth noting that no *Landtag* has the right to commission the Court of Audit to review either municipalities or associations of municipalities in their corresponding *Land*. To this extent, the right of the *Landtag* (the legislative power) is subordinated to that of the *Land* government (the executive power).

The most important areas in municipal audits are as follows:

System-based usefulness refers to the optimisation of the performance of tasks for which the bodies audited are responsible.



- municipal administration
- municipal enterprises
- municipal projects
- public hospitals.

There are about 40 auditors involved in the auditing of municipalities (and associations of municipalities). In view of the limited supply of auditors, the audit interval in municipal audits stands at about seven years, and the figure for municipal associations is even higher.

Such municipal audits usually last between four and seven weeks, with the time span in each case depending on the size of the municipality or the importance of the institution concerned.

The major audit areas in municipal administration are as follows:

- the municipality's financial situation, which includes:
 - the regularity of its administration,
 - financial developments of the last few years,
 - financing structure (own resources, borrowed funds),
 - debt status and debt trends
- the organisational structure and operational organisation of the municipal administration
- personnel administration
- investment projects (e.g. building projects)
- promotional administration and management thereof (especially economic and social promotion)
- the awarding of public contracts
- collection of taxes
- use of data processing systems.

In recent times, in particular since its embodiment in constitutional law in 1984, environmental protection has been added to the list as a new auditing area. In this context, the Court of Audit's attention focuses in particular on whether laws passed to protect the environment are being observed or whether failure to do so is penalised.

Here, special importance is accorded to the coordination of the different administrative bodies or of the administration with the management of enterprise posing a threat to the environment.

In recent years, the auditing activities of the Court of Audit have increasingly taken on board environmentally significant issues. The Court also takes pains to reveal potential solutions wherever deficiencies are detected. In so doing, it has to tackle the actual (or frequently only apparent) contradiction between ecology and economy and, if need be, indicate any conflicting aims which may exist between these two audit goals.

The Court of Audit must notify the mayor of the result of its financial management evaluation. The latter then has up to three months to express his/her view and to notify the Court of the steps taken in response to the result of the audit. In turn, the Court of Audit must notify both the government of the appropriate *Land* and the federal government of the mayor's opinion and its own response (article 127a paragraph 5 B-VG).

Moreover, in the case of municipalities with at least 20,000 inhabitants, the mayor is legally bound to send preliminary budgets and balance sheets to the Court of Audit every year (article 127a paragraph 2 B-VG). This enables the Court to gain an overview of the financial situation of municipalities, which is important in audit planning.

Court of Audit reports

By 31 December every year, the Court of Audit must compile a report for the municipal council on its activities in the municipal area in the course of the past year. This activity report provides a summary of abridged audit communications together with the opinions of the mayor and the responses of the Court of Audit (article 127a paragraph 6 B-VG).

In contrast to the areas of federal government and government of the *Länder*, it is not required by law to

Environmental protection has been added to the list as a new auditing area.



compile additional reports (known as "Observation Reports") at any other time during the year for municipalities or associations of municipalities.

The Court's reports are dealt with by the municipal councils, which may or may not take heed of them, although the general tendency is for them to do so. Municipal councils do not have the right to demand that the President of the Court of Audit be present during the deliberation on Court of Audit reports. Court audit officials are very rarely invited to municipal council meetings where Court of Audit reports are being discussed. Furthermore, the Court of Audit must also submit the same reports on municipal audits to the *Landtag* concerned, where it is also formally dealt with and voted on. After the Court of Audit reports have been submitted to the municipal council they must, by law, be published (article 127a paragraph 6 last clause B-VG).



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The influence of Court of Audit activities

A frequent complaint is that, as far as its most important task is concerned (its reporting on financial management evaluations), the Court of Audit attains very few results and the deficiencies which it brings to light often continue to exist for decades afterwards, without this having any consequences whatsoever for the body audited.

At the heart of such criticism lies the fact that the Court of Audit has no executive power, and therefore has to limit itself to pointing out deficiencies and submitting recommendations. It is not therefore in a position to compel, against the will of the audited body, the enforcement of its recommendations. It is consequently often dubbed a "knight without a sword".

However, the sweeping statement that labels the activities of the Court of Audit ineffective is not correct and does not correspond at all to the situation in practice. In fact, possibilities do exist for the Court to enforce its viewpoint both at different stages and at various levels.

The easiest way for the Court to achieve this is if it is able to convince the audited body of the correctness of its findings and recommendations as early as the inspection stage of its operations. This represents the easiest method because, in such cases, it is often possible for the audited body to depart from administrative practices which it had been in the habit of using, but which are criticised by the Court, without losing face, and to do so before the matter is brought to light in a Court of Audit report and becomes known to the general public. It is not uncommon for the Court even to forego inclusion of such deficiencies in its reports if it manages to remedy these quickly by agreement with the audited body.

In the event that the Court of Audit is unable to get its recommendations implemented in the course of the inspection, there is a chance that it will see its wishes complied with in the course of the opinion procedures through the mayor to whom it addresses the audit communications.

Should the Court again fail to achieve the desired result through these means, it may still hope for positive reactions when its reports are dealt with by the municipal councils. We should not forget, however, that the party's political interests represented by councillors play a major role here, whereas the Court of Audit has to gear its recommendations to the prescribed audit aims of compliance, economy, efficiency and system-basis, and it cannot be taken as granted that these will always match up with political interests, whatever their colour.

In spite of this, experience shows that it is not uncommon for the Court of Audit to manage to gain acknowledgement and bring its point of view to bear in the course of the negotiations on its reports in the municipal councils. A prerequisite for this occurring is that, as in any other discussion about its recommendations, it hits upon better factual arguments and that it remains objective in its criticism. Only then can the Court of Audit trust in its ability to develop its powers of persuasion, which

really represent its only effective weapon in defending its point of view.

Auditing transparency

One of the essential aids to support the Court in the implementation of its recommendations is the publication of its reports in the mass media. There is certainly truth in the recurrent assertion that “without the public at large, any other form of control is meaningless”. The fact that the Court of Audit’s reports are published is therefore a requirement in a modern democracy and corresponds to the mature citizen’s need for information, thereby ensuring transparent auditing for the citizen and taxpayer. The constitution takes this into account in requiring the reports of the Court of Audit to be published once they have been submitted to the municipal councils.

If, by publishing its reports, the Court of Audit manages to arouse an interest in taxpayers as to how their taxes are being used and turn the process of the formation of public opinion in its favour, public pressure will then be exerted on those who are politically accountable, thus leading to the necessary action being taken. This is the opportunity provided through transparency in financial control, the importance of which cannot be overestimated.

Preventive effect of the Court of Audit

Finally, it should not be forgotten that the mere fact that the Court of Audit exists in itself, together with its potential intervention anywhere in the country, accounts for a considerable preventive effect, since every institution which comes under the audit jurisdiction of the Court has to reckon with the possibility of a surprise inspection. Without this very healthy form of deterrence in actions involving public funds, the effects of the Court of Audit would remain only very limited. As it has only about 330 members of staff, it is obviously not possible for the Court to bring its powers to bear in all

of its auditing areas both nationally, regionally and in municipalities or associations of municipalities, where there are some 750,000 public servants, at very frequent intervals. More than a few bodies which come under its auditing jurisdiction, have, as yet, never been audited by the Court.

We can therefore assume that theoretically contraventions of legal, economic, efficient and system-based administrative behaviour may be nipped in the bud in view of the potential intervention of the Court of Audit. This renders the effect of the Court of Audit incalculable in the truest sense of the word.

The relationship between the Court of Audit and other financial supervisory institutions for municipalities

In parallel to the control exercised by the Court of Audit in Austria, there are also other municipal supervisory bodies, whether these be external controls at regional level, such as that of the local government supervisory authority for which the executive is responsible or - in certain *Länder* - the *Land* Court of Audit, or whether these be local internal institutions, such as the Auditing Committee of the municipal council or the Local Control Office. This may raise the question of whether these institutions could be seen as -possibly onerous or superfluous- competition to the Court of Audit itself. In fact, the opposite is true.

The Court of Audit welcomes any useful, additional financial control, since, in view of its own limited staff numbers, it is not in a position to be present at every municipal audit itself. It is therefore to its benefit that its activities are supported by other supervisory bodies.

Moreover, it should also not be overlooked that these other supervisory bodies have an advantage over the Court of Audit, in that they are considerably closer to the municipalities being examined than it is itself. Consequently they have more



inside knowledge to enable them to detect any grievances which arise considerably more quickly, and also are generally able to react to these at once, whereas the Court of Audit would either have to disrupt its auditing programme or even stop or interrupt audits it had already begun elsewhere.

On the other hand, it would also be incorrect to draw the conclusion that the regional or local supervisory bodies could render the Court of Audit superfluous at local level, since in comparison to the other financial controls at local level, the advantage for the Court of Audit is that it:

- is the only state financial supervisory institution which has experience of auditing right across Austria and can hence draw comparisons which go beyond the boundaries of an individual *Land* or municipality. The

experience it has gained nationwide can then be conveyed to other *Länder* and municipalities;

- has no proximity to the municipalities being examined and is therefore able to be completely impartial;
- enjoys far more autonomy than any other financial supervisory body anywhere in Austria.

To sum up, we can safely say that the Court of Audit values and indeed supports the existence of other supervisory bodies, and sees them not as competition, but as a useful complement to its own activities, recognising them as partners in accomplishing its tasks, in safeguarding the interests of the taxpayer, a challenge to which (as experience has unfortunately shown only too often) it is impossible to allocate sufficient resources.

The Court of Audit values and indeed supports the existence of other supervisory bodies.



Addresses of EUROSAI Members

State Control Service
Bulevardi Deshmoret e Kombit
Tirana
Albania
Tel: 355 42 32491, 429
Fax: 355 42 32491

Rechnungshof
Dampfschiffstr. 2
A-1033 Wien
Austria
Tel: 43171171 - 8456
Fax: 4317129425

Control Chamber
Ul. Krasnoarmeykaya 4/45
Minsk 220016
Belarus
Tel: 70172 278844 - 272671
Fax: 70172 276229

Cour des Comptes
2, Rue de la Régence
1000 Bruxelles
Belgium
Tel: 3225169211
Fax: 3225169622

State Financial Control
102 Rakovski Str.
1040 Sofia
Bulgaria
Tel: 3592880391
Fax: 3592801148

Audit Office of the Republic
12, Vyzantiou Str.
Nicosia 152
Cyprus
Tel: 3572302231
Fax: 3572368153

Supreme Audit Office
Jankovcova 63
170 04 Praha 7
Czech Republic
Tel: 42 2 8726206 - 42 2 8726536
Fax: 42 2 66710671

Rigsrevisionen
St. Kongsgade 45
1264 København K
Denmark
Tel: 4533928400
Fax: 4533110415

The State Audit Office of Estonia
Narva Mnt. 4
EE0100 Tallinn
Estonia

Tel: 372 6 400700 - 400721
Fax: 372 6312764

European Court of Auditors
12, Rue Alcide de Gasperi
L-1615 Luxembourg
Luxembourg
Tel: 35243981
Fax: 3524398430

State Audit Office
Annankatu 44
00100 Helsinki
Finland
Tel: 3580228541
Fax: 358022854250

Cour des Comptes
13, Rue Cambon
75100 Paris Rp
France
Tel: 33142989500
Fax: 33142600159

Chamber of Control of the
Republic of Georgia
P. Agmashenebeli Ave, 103
Tbilisi 380064
Georgia
Tel: 995 32 957130
Fax: 49 5151 8633

Bundesrechnungshof
Berliner Strasse 51
60311 Frankfurt
Germany
Tel: 4969 2176 - 2150 - 2157
Fax: 4969 21762470

Supreme Court of Audit of Greece
34, Patission Str.
106 82 Athens
Greece
Tel: 3013810211 / 3013840129
Fax: 3013800526

State Audit Office
Apaczai Csere Janos Utea 10
1052 Budapest
Hungary
Tel: 361 1188799
Fax: 361 1384710

Ríkisendurskodun
Skulagata 57
150 Reykjavik
Iceland
Tel: 3545614121
Fax: 3545624546

Office of the Comptroller and Auditor General
Dublin Castle
Dublin 2
Ireland
Tel: 3531 6793122
Fax: 3531 6793288

Corte dei Conti
Via Baiamonti 25
00195 Roma
Italy
Tel: 39638762477
Fax: 39632657030

The State Audit Office
Republic of Latvia
26 Valdemara Street, Riga,
Lv-1937
Latvia
Tel: 371 (2) 286489
Fax: 371 (2) 283466

Landesverwaltung des
Fürstentums Liechtenstein
Stabsstelle Finanzen
FL-9490 Vaduz
Liechtenstein
Tel: 4175 2366110
Fax: 4175 2366430

State Control of the Republic of Lithuania
Pamenkalnio 27
2669 Vilnius
Lithuania
Tel: 370 2621646
Fax: 370 2625092

Chambre des Comptes
2, Av. Monterey
L-2163 Luxembourg
Luxembourg
Tel: 352474456 - 1
Fax: 352474456 - 242

Audit Office
Notre Dame Revelin
Floriana
Malta
Tel: 356 224013
Fax: 356 220708

Curtea de Conturi
A Republicii Moldova
Or. Chisinau, 277033
B-Rd Stefan Cel Mare, 105
Moldavia
Tel: 373 (2) 23 36 39
Fax: 373 (2) 23 35 35

Contrôle Général des Dépenses
Ministère d'Etat - Place de La Visitation
B.P. 522
Monaco Mc 98000
Monaco
Tel: 3393158237
Fax: 3393154081

Riksrevisjonen
P. O. Box 8130 Dep
N-0032 Oslo
Norway
Tel: 4722242002
Fax: 4722242128

Supreme Chamber of Control
Skrytka Pocztowa P-14
Po Box-14
00-950 Warsaw
Poland
Tel: 4822251523 / 257479
Fax: 4822251523

Tribunal de Contas
Av. Barbosa du Bocage, 61
1094 Lisboa Codex
Portugal
Tel: 35117972863
Fax: 35117970984

Court of Audit of Romania
22-24, Lev Tolstoi St.
Sect. 1, Bucarest
Romania
Tel: 40 1 2101377
Fax: 40 1 2101364 - 401 2102687

Accounts Chamber of the
Russian Federation
Okhotniy Ryad, Bld.1
103265 Moscu
Russian Federation
Tel: 70 95 292 64 46
Fax: 70 95 292 68 09

Supreme Audit Office
of the Slovak Republic
Priemyselna Ul 2
824 73 Bratislava 26
Slovak Republic
Tel: 42 7 214 189 - 213 128 - 213 465
Fax: 42 7 213 005

Court of Audit
of the Republic of Slovenia
61000 Ljubljana, Prezihova 4
Slovenia
Tel: 386 61 178 5803
Fax: 386 61 178 5891

Tribunal de Cuentas
Fuencarral 81
28004 Madrid
Spain
Tel: 34-1-4478701
Fax: 34-15933894

Riksrevisionsverket
Drottningatan, 89
S-104 30 Stockholm
Sweden
Tel: 4686904000
Fax: 4686904123

Contrôle Fédéral des Finances
de la Confédération Suisse
Monbijoustrasse 51A
3003 Bern
Switzerland
Tel: 41313231111
Fax: 41313231100

Algemene Rekenkamer
Lange Voorhout 8
NL 2500 Ea Gravenhage
The Netherlands
Tel: 31703424344
Fax: 31703424130

Turkish Court of Accounts
Sayistay Baskanligi
06100 Ankara
Turkey
Tel: 90 312 311 2328
Fax: 903123106545

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1 9SP
United Kingdom
Tel: 441717987000
Fax: 441717987466

State Audit Office
Tkalciceva 19
Hr - 10000 Zagreb
Croatia
Tel: 385 1 45 54 268
Fax: 385 1 45 54 270

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Organización de las Entidades Fiscalizadoras Superiores de Europa.
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Europäische Organisation der Obersten Rechnungskontrollbehörden
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