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Editorial

Dear members of EUROSAI:

2005 sees the XV Anniversary of our Organisation, created in Madrid (Spain) in November 1990 in order to promote professional cooperation and the exchange of information and documentation among its members, along with studying aspects related to the auditing of public funds and unification of terminology in the field.

Even though it was the last Regional Organisation of INTOSAI to be constituted, it nevertheless has its seeds in the actual origins of that body. However, it was necessary to wait until the VIII INCOSAI, which took place in Madrid in 1974, so that the first effective step could be taken towards its creation; and it took a further fifteen years to culminate the process of drawing up its Statutes and adoption of the formal decision of establishment (XIII INCOSAI, Berlin, Germany, 1989).

During the course of its fifteen years of existence, EUROSAI, which was founded with thirty members and now has forty-seven members, has reached maturity. It has carried out an intense work encouraging technical exchanges, promoting cooperation by means of establishing of Working Groups on Environmental Audit and on Information Technology; and by means of the establishment and strengthening of relationships among members themselves, with other International Organisations of Supreme Audit Institutions (especially with OLACEFS and EURORAI) and with other Institutions having similar objectives, such as the Contact Committee of Presidents of Supreme Audit Institutions (SAIs) of the European Union, SIGMA and IDI.

EUROSAI is also making special human and financial efforts in the field of training. With the aim of strengthening it and making it more effective, the V Congress asked the EUROSAI Training Committee, under the mandate of the Governing Board, to design a common Training Strategy (identifying priorities and studying possible execution and financial means) and an Operating Plan for its implementation.

Also, in this year 2005, our Organisation will be holding its VI Congress (Bonn, Germany) which will be tackling a topic as interesting as the audit of revenues; aspects such as the analysis of the role of the SAI during the course of the budgetary process as far as those revenues are concerned; the study of the diverse systems and scopes on which their mandate covers; the examination of the procedures and regulations for carrying it out; as well as the identification of possible areas in which cooperation can be implemented, both at internal level as among the diverse SAIs, for improving the effectiveness of audits. These are the issues that will be discussed during the Congress, which will thus be a fruitful meeting point for debate, exchange of information and examination of particular cases where SAIs can become enriched at both the individual and collective level with their respective experiences.

The efforts made and the achievements obtained by our Organisation during these fifteen years in encouraging technical cooperation and delving into the study of matters of common interest are obvious. The solvency of its activity, aimed at approaching the performance strategies, and at programming and sharing experiences that facilitate the harmonisation of procedures and audit standards and which make the audit network more effective, is evident. All this is done with complete respect for the independence of SAIs and their own specific natures.

However, we should not forget that the consolidation and development of organisations requires a constant process of construction, revision and updating, which demands a common effort. There also needs to be a human, material and financial commitment that allows this to be put into practice with the maximum effectiveness and extent, strengthening its effects, for which we still have a long way to go.

I would not like to conclude these words without expressing my most sincere gratitude to the authors who have generously made the publication of this new issue of the EUROSAI Magazine possible, and at the same time I offer this forum to those who wish to contribute to this common work that is only possible with the support of all.

Ubaldo Nieto de Alba

Chairman of the Spanish Court of Audit,
Secretary General of EUROSAI



Eurosai News

MINUTES OF THE XXVII MEETING OF THE GOVERNING BOARD OF EUROSAI

Rome (Italy) – 28 October 2003

The Governing Board of EUROSAI held its XXVII meeting in Rome (Italy) on 28 October 2003, with the attendance of the members, observers and guests listed in Appendix I, and chaired by Mr Sergey Vadimovich Stepashin, President of the Chamber of Accounts of the Russian Federation and President of EUROSAI.

Mr Staderini, President of the SAI of Italy, welcomed attendants and devoted a few words in order to recall the meeting of the Governing Board hosted by his SAI in 1993 and the successes that had been achieved by EUROSAI since then up to the present moment. He stressed the importance of cooperation and, as a current symbol of this, he highlighted the draft of the European Constitution which was being discussed in Rome itself at that moment. He thanked the Italian Minister of Foreign Affairs for making the headquarters of his Institution available for holding this meeting of the Governing Board.

The Vice-Secretary General of the Italian Ministry of Foreign Affairs then took the floor on behalf of the Minister, making a speech of welcome in which he highlighted the commitment of the SAIs regarding the achieving of a more efficient use of public resources, and of their value in that they contribute towards protecting citizens and to guiding and supporting the Administrations.

Mr Stepashin, President of EUROSAI, thanked the SAI of Italy for the organisation of the XXVII meeting of the Governing Board of the Organisation and pronounced a few opening words highlighting the great contribution it made to the foundation and development of EUROSAI and the important role it is playing within the framework of cooperation among the SAIs. In recognition of this contribution, the I EUROSAI Congress which was held in Madrid in 1990 elected the President of Italian Court of Audit Mr Giuseppe Carbone as the first President of EUROSAI.

He then went on to conduct a brief review of the major EUROSAI activities undertaken since the V Congress held in Moscow in May 2003.

In conclusion, he invited participants to stand in honour of memory of Dr. Lubomír Voleník who passed away at his post in June 2003.

1. Approval of the agenda of the XXVII meeting

The agenda of the XXVII meeting was approved under the proposed terms. The SAI of the United Kingdom requested that the presentation of item 7 be postponed to the afternoon session.

2. Approval of the minutes of the XXV and XXVI meetings

The minutes of the XXV and XXVI meetings (27 and 31 May 2002, Moscow) received their final approval and will be sent to all members of the Organisation by the Secretariat General of EUROSAI.

3. Report on the activities of EUROSAI in the period 2002-2003 and information on the terms of producing the EUROSAI Magazine

After thanking Mr Staderini for his hospitality and devoting some words to the memory of Dr. Voleník, Mr Nieto de Alba, President of the Court of Audit of Spain and Secretary General of EUROSAI, presented the report from the Organisation containing its main activities during the period 2002-2003, and he reported on those which, to date, are planned for the remainder of 2003 and 2004. At the instance of the Training Committee he provided the results of the questionnaire that had been circulated by the



Secretariat General with the aim of learning the degree of satisfaction on the content and form of producing the EUROSAI Magazine. He conveyed the favourable response received with regard to this, highlighting its role as an instrument for the exchange of knowledge and experiences and he emphasised the suggestions for the future made by the members of EUROSAI. He also reported on the economic study conducted by the Secretariat General on the costs that would be entailed by the publication of two issues of the Magazine a year in place of one.

There were no comments on the report, neither from members nor from the observers of the meeting of Governing Board.

4. Presentation of the Accounts, the Financial Report and the Auditors Report relating to the accounting year 2002

Mr Nieto de Alba, Secretary General of EUROSAI, presented the accounts and the Financial Report relating to the accounting year 2002, together with the Report from the Auditors of EUROSAI. He pointed out that a positive opinion has been issued on the accounts of the Organisation kept by the Secretariat General and just a recom-

mendation has been made to the Governing Board on a formal aspect, relating to the carrying out of the adjustment in the balance of the accumulated budget which appears in section II.3 of the Financial Report for 2002 for a sum of 1,194.42 euros, since that balance does not coincide at 31 December with the sum of own funds appearing in the balance sheet on that date.

The President of EUROSAI submitted the said recommendation of the Auditors to the consideration of the Governing Board, and it was authorised. The Secretariat of the Organisation was empowered to make that adjustment. There was no other comment in this regard from members or from the observers of the meeting of Governing Board.

5. Information on the results of the II EUROSAI-EURORAI Conference

Mr Otbo, President of the SAI of Denmark, reported on the results of the II EUROSAI-EURORAI Conference which, under the theme of "Cooperation in the auditing of the health sector", was held in Copenhagen (Denmark) on 5 and 6 June 2003. After devoting some words to Dr. Voleník, he highlighted the considerable participation in the event, which facilitated



Group Photograph of the XXVII EUROSAI Governing Board Meeting

the exchange of experiences and the discovery of new possibilities of cooperation, and he presented the conclusions of it. He also reported on the forthcoming organisation by the Audit Commission for England and Wales, in cooperation with Audit Scotland (Scotland's public sector audit institution), of a Conference on a smaller scale on cooperation among SAIs and Regional Audit Institutions, to which representatives of EUROSAI and EURORAI will probably be invited.

The President of the EUROSAI congratulated Mr Otbo on the organisation of the II EUROSAI-EURORAI Event and requested further information on the Conference that had been announced. Mr Otbo stated that he did not at the moment have any further details though it will surely be held in 2005 in Scotland and to which the SAI of Denmark will be invited.

The President of EUROSAI also asked the SAI of the United Kingdom if it could provide further details on the Conference. Mr Bedwell, of the SAI of the United Kingdom, said that he does not have any other details since the matter is in the hands of the Audit Commission.



6

6. Information relating to the preparation of the VI EUROSAI Congress

Mr Engels, President of the SAI of Germany, provided information on the preparations (place, organisation, logo) which that institution is undertaking as host of the VI EUROSAI Congress, to be held in Bonn, Germany, from 30 May to 2 June 2005. He formally proposed the Theme and three Sub-Themes of the Congress along with the creation of Working Groups for the preparation of each of them; he furthermore suggested that those which have traditionally taken part in other Congresses should participate as observers, taking into account article 6 of the EUROSAI Statutes. He suggested not holding the Pre-Congressional Seminar on this occasion since no candidates had been found for housing it and it was not considered necessary on account of the theme that had been chosen, and a proposal for a resolution in that regard was put to the Governing Board.

The President of EUROSAI thanked Mr Engels for his explanations and submitted the points that had been stated on the Congress and the proposal of a resolution from the said President to the decision of the Governing Board. Members and observers of the Committee declared their conformity with all the details and approved the proposed resolution that had been presented.

7. Advance information on the organisation of the III EUROSAI-OLACEFS Conference

Mr Sinclair (SAI of the United Kingdom) supplied information on the organisation of the III EUROSAI-OLACEFS Conference to be held in London on 11 to 14 May 2004, under the title "Auditing in the 21st century". In it, special attention is going to be paid to two Sub-themes, "The experiences of SAIs in matters of e-government" and "Training and equipping of auditors for performing their duties in the modern state"; updated information will also be provided on the training activities developed and the strategy being followed by the two Regional Organisations. Mr Sinclair distributed a provisional programme and announced the creation of a web site where all the information relating to the event will be stored.

8. Information on the activities of the EUROSAI Training Committee. Presentation of the results of the preliminary study on the Organisation's Training Strategy

The Presidents of the SAIs who co-chair the EUROSAI Training Committee, France and Spain, gave a presentation of the actions of that Committee and the activities carried out, along with the preliminary study made by it with the aim of designing a common Training Strategy, as they had been asked to do by the V Congress of the Organisation.

Mr Logerot, First President of the SAI of France, provided general information on the training activities of EUROSAI, placing special emphasis on the priority given by the V EUROSAI Congress to that kind of action. He recalled the successes obtained

by the Training Events organised in 2002 and 2003 and referred to the cooperation of EUROSAI with IDI in the execution of the Long-Term Regional Training Plan (LTRTP): he recalled the latent risks which had to be considered when programming the training and highlighted the commitments which, in his opinion, were decisive for the construction of a common strategy for EUROSAI. He pointed out that synergies need to be created among the various training initiatives. Mr Perron (SAI of France) then presented a situation report on the training strategy of EUROSAI in which he recalled the origins of the Training Committee; he set out the results of the preliminary study on the common Training Strategy of the Organisation carried out by it, making reference to the priorities that had been identified and to the ways and means of action for tackling them; and he suggested possible fields for the preparation of a future operational plan of action. He proposed to the Governing Board to prolong the mandate granted to the Training Committee by the V Congress for probing into the common training strategy.

Mr Nieto, President of the SAI of Spain, supplied more detailed data on some of the recent activities carried out by the EUROSAI Training Committee. He made special reference to its organisational and financial support for the training activities of IDI, particularly for Phase II of the LTRTP; the development of cooperation with EURORAI as a way of increasing the efficiency of territorially concurrent controls, highlighting the areas in which preferences have been displayed for putting this into practice; collaboration with universities by means of various formulas, not as an aim in itself but instead as a horizontal activity to be borne in mind in any training action; promoting the use of computing tools in order to favour training, whether this be as an instrument for training in itself or as a means of communication and exchange of information; and also the role of the EUROSAI Magazine and the Newsletter in the promotion of the above, promoting the exchange of experiences and information and the study on technical subjects. He placed special emphasis on the need to put into practice real cooperation with added value.

The President of EUROSAI submitted to the Governing Board the said situation

report on the training strategy and the preliminary study carried out by the Training Committee, along with the proposal to extend the mandate conferred on the latter in relation to the former with the aim of probing further into it and preparing a draft operating plan for the future. The Governing Board approved the proposal.

9. Information on the results of the II Training Event

After excusing the attendance of the President of his Institution, Mr Halász, SAI of Hungary presented the results of the Training Event on "Value For Money Auditing" which was organised in Budapest from 18 to 20 September 2003, with the collaboration of the SAI of the United Kingdom. The Event, which was attended by 54 participants coming from 28 member SAIs of EUROSAI and representatives of the Training Committee of the Organisation and of IDI, set out the latest methodological developments in the field and exchanged experiences on the study of various specific cases in France, Hungary, Portugal and the United Kingdom. A debating session permitted an encouragement of participation and enriched the content of the Event. Attendants assessed the Event highly, from both the technical and the organisational perspectives, constituting a good example of cooperation among members of the Training Committee. Mr Halász thanked the SAI of the United Kingdom for the considerable support it has rendered.

10. Information on EUROSAI-IDI cooperation

Mr Borge, Director General of IDI, presented the Governing Board with a report on cooperation by IDI with EUROSAI, containing the results and perspectives of the collaboration that commenced three years ago within the framework of the Long-Term Regional Training Programme (LTRTP) aimed at the countries of Central, Eastern and South-Eastern Europe. He reported on the successful conclusion of Phase I of the Programme, aimed at the SAIs of candidate countries for membership of the European Union, supplying data on the various actions concluded with it: a workshop on training



techniques in Cracow (Poland) in April 2002, a meeting on the design of training in Oslo (Norway) in July 2002, and two regional audit workshops (RAW) in Tallinn (Estonia) in September 2002 and in Nicosia (Cyprus) in February 2003. He also set out the plans of IDI for developing Phase II of the LTRTP, commenced in 2003 and targeted at countries of Eastern Europe and the Balkans. This phase will be held in English and Russian languages jointly. He declared that the foundations of this phase were established in the Strategic Planning Workshop held in Zagreb (Croatia) in November 2002. Future actions were announced in the development of the LTRTP; among others, a planning meeting in Oslo (Norway) in November 2003 and a Development Workshop in Sofia (Bulgaria) between April and June 2004. He also reported on the cooperation of IDI with various Working Groups and Committees of INTOSAI, such as Environmental Audit and Public Debt.

Mr Stepashin, the President of EUROSAI, congratulated the Director General of IDI on the successful conclusion of Phase I of LTRTP and the good start of Phase II devoted to countries of Eastern Europe and the Balkans as well as some countries of Central Asia. He expressed his strong support for the IDI decision to hold Phase II in two languages, English and Russian, and to invite participants from Central Asia. He also confirmed the readiness of his SAI to assist in the implementation of LTRTP and proposed to the IDI General Secretary to consider the possibility of holding seminars for countries of Eastern Europe and Central Asia on Public Debt similar to those organised by IDI for OLACEFS.

11. Proposal for granting of a financial contribution to IDI for the development of Phase II of the LTRTP

The Secretary General of EUROSAI presented the Governing Board with the application for financial aid from IDI for the development of Phase II of the LTRTP, for a total sum of 110,000 euros, charged to the EUROSAI Budget for 2002-2005, and with a payment periodicity of 40,000 euros in 2003 and 2004, and 30,000 euros in 2005. He reported that this application abides by the requisites contained in arti-

cles 5.2 and 14.3 of the EUROSAI Rules of Procedure and the Criteria and Rules for the granting of subsidies for the financing of training events approved by the V Congress of the Organisation, having been favourably reported on by the Training Committee in its meeting held in Lisbon from 20 to 22 January 2003 in terms of its suitability, amount and periodicity of payment. He also submitted to the Governing Board the additional proposal presented for the purpose by the President of the SAI of Austria, Mr Fiedler, establishing a mechanism whereby IDI would render accounts to the Governing Board via the Secretariat General, with regard to the use made of the economic contribution, with each yearly payment having to be spent prior to 30 June of the following year.

The President of EUROSAI submitted to the Governing Board the application for financing from IDI, which was approved with the addition of the justification mechanism suggested by Mr Fiedler. Mr Borge expressed his gratitude for the contribution on behalf of IDI.

12. Information on the IT tools of EUROSAI

Ms Sorensen, of the SAI of Denmark, made a presentation on electronic format of the new design prepared by that Institution for the EUROSAI web site. She stated that the page is visited each day by around a thousand people for between 5 and 7 minutes, with the English version being the one that is consulted most. She conducted a review of the various sections of the site in its new design: introduction and welcome, organisation, Training Committee (with a link to the specific page for training), Working Groups (with links to the respective pages), material and documentation, educational organisations related to topics of interest for EUROSAI, publications, links to addresses and timetable. She pointed out that the site has only been designed in terms of its structure, and the contents were yet to be fitted. She warned that there still remained various points to discuss, such as the way of getting the information to reach the Secretariat of EUROSAI so that the site can be updated, and the languages to use in each section of it, given that translation expenses are very high.



Ms Stuiveling, President of the SAI of the Netherlands thanked Ms Sorensen and the SAI of Denmark for the work done in relation to the new design of the web site.

13. Information on the activities of the EUROSAI Working Group on Environmental Audit

Mr Sekula, President of the SAI of Poland, provided information on the main activities of the Environmental Audit Working Group that have been carried out since the V EUROSAI Congress. First of all, he highlighted the structural modifications that have taken place inside the Group, particularly the increase in the number of members, which has risen to 34 due to the incorporation of six new SAIs, and also the appointment of a sub-coordinator (SAI of the Russian Federation). He pointed out that this Working Group is fully involved in the initiatives of the corresponding Group of INTOSAI, with several of its members having taken part in the meeting held in April 2002 and participated in drawing up the guidelines with methodological suggestions for environmental audits; in fact, the VIII meeting of the INTOSAI Working Group was held in Warsaw (Poland) in June 2003. He stated that activities have been carried out in accordance with the Strategy of the Group for the period 2002-2005 (approved in Paris in 2002 and presented to the V Congress), and which have basically been materialised in exchanges of information and training activities; in particular, he mentioned the II European Seminar on International Environmental Auditing, on joint audits in the field of marine protection, held in October 2002 in Golawice (Poland); the III Environmental Audit Seminar, on waste, planned to be held in The Hague (Netherlands) in December 2003, where projects for 2004 will also be the object of discussion; the participation of some members of the Working Group in a pilot audit project developed by IDI and the INTOSAI Working Group. Various environmental audits are being conducted on the main themes recommended by the EUROSAI Working Group: waste from ships, protection of waters and of the Carpathian Mountains, and the execution of the provisions of the Convention on Protection of the Marine Environment of the Baltic Sea.

The President of EUROSAI expressed his gratitude for the information and congratulated the Working Group on its activities.

14. Information on the activities of the EUROSAI Working Group on Information Technologies

Ms Stuiveling, President of the SAI of the Netherlands, presented a report on the activities of the Working Group on Information Technologies, made up of 24 members, ten of which also belong to the corresponding Working Group of INTOSAI; which permits them to exchange information. She set out the activities that are underway, "e-Government and supply of electronic services", "Computing self-assessment" and "Inventory of Training Courses on Information Technologies" (acting in collaboration with the EUROSAI Training Committee). She announced projects which the Group has in view: "The auditing of International Norms and Agreements", which has the aim of examining the possibilities of using treaties as a basis for joint activities; and "The management of electronic files". She announced that the II meeting of the Working Group would be held in Bern (Switzerland) on 29 and 30 March 2004 and the III in the spring of 2005. The Group will be supplying information in this regard to the VI EUROSAI Congress, bearing in mind that the value of information technologies is clear not just for technical experts but also for top management.

The President of EUROSAI expressed his gratitude for the information and congratulated the Working Group on its activities.

15. Presentation of the proposal to hold a Conference of SAIs on their jurisdictional function, within the scope of EUROSAI

Mr de Sousa, President of the SAI of Portugal, suggested the organisation of a Conference of SAIs within the framework of EUROSAI on the theme "Jurisdictional function of the SAIs". This Seminar would be of interest not just for Audit Institutions having competencies of this kind but also



for those which follow the model of National Audit Office, in such a way that they can learn of the development of this competency and the results and performances obtained. In an initial stage, the Conference could be organised among SAIs with a jurisdictional function, with the conclusions being passed on to all the others; in a second stage, a specific aspect in this regard could be chosen and be related to the theme chosen for the VII EUROSAI Congress in 2008, with a pre-congressional seminar being organised on it; at a later stage, a broader Conference could be held in order to analyse the models and assess the possibilities of being exported.

Mr Nieto de Alba, Secretary General of EUROSAI, highlighted the value of the jurisdictional function in that it permitted accounting responsibilities to be demanded that could be deduced from the execution of controls over legality, efficiency and economy, reinforcing the effectiveness of auditing. He offered the SAI of Portugal the collaboration of the Secretariat for making a joint study of this initiative in depth and selecting possible themes of common interest.

Mr Staderini, President of the SAI of Italy, emphasised the important role of the jurisdictional function for providing efficacy for control and highlighted the interest that there could be in the three main models of accounting jurisdiction that exist: restitutory, sanctioning and that one that includes all cases of damages caused to the Public Administration when there exists blame.

Mr Sekula, President of the SAI of Poland, and Mr Logerot, President of the SAI of France, declared their support for the proposal from the SAI of Portugal; to which the Governing Board added its approval.

The President of the SAI of Portugal and the Secretary General of EUROSAI were asked to study the possibilities.

16. Presentation of a proposal for the publication of a Book on the “Present and Future Situation of Independent Control in Europe”

Mr Stepashin, President of EUROSAI, proposed to the Governing Board the preparation of a book on the “Present and Future

Situation of Independent Control in Europe”. It will contain contributions from all the Presidents of member SAIs of EUROSAI, which will have to be accompanied by a curriculum vitae and a photograph of them. The contribution will have to concern the history and current situation of each SAI, changes that have taken place since the creation of EUROSAI in 1990, the prospects and challenges for the development of financial control by SAI, and containing proposals for the development of international cooperation among the SAIs of Europe. The SAI of the Russian Federation offered to compile the contributions, which will have to be sent to it at the beginning of June 2004, and the book will be produced in English, to be presented on the occasion of the VI EUROSAI Congress in 2005.

Mr Wiklicky, SAI of Austria, asked whether the financing of the book is to be borne by the SAI of the Russian Federation or by the EUROSAI Budget. The President of the Organisation stated that its SAI will take charge of this.

Mr Otbo, President of the SAI of Denmark, highlighted the interest in the proposal and declared his support for it, to which the other members of the Governing Board added their approval.

The President of EUROSAI announced that he will be sending the Secretary General a letter addressed to all members of the Organisation requesting contributions for the publication, so that it can be circulated. The Secretary General accepted the task.

17. Proposal from the SAI of Poland to host the VII EUROSAI Congress in 2008

Mr Stepashin, President of EUROSAI, announced that the SAI of Poland has submitted a proposal to the Governing Board to organise the VII EUROSAI Congress in 2008, once agreement has been reached with the SAI of Portugal which could also be interested in presenting its candidacy.

Mr Sekula, President of the SAI of Poland, took the floor in order to formally present his proposal, after thanking the presentation made by the President of EUROSAI and the courtesy of Mr de Sousa, President of the SAI de Portugal, in granting him the option.



Mr de Sousa clarified that, in the Moscow Congress, he merely intended to remind people that, in the organisation of the Congresses, it was necessary to maintain the criteria of territorial balance and balance in the nature of the institution (National Audit Office / Court of Audit) provided for in the Statutes of EUROSAI. He clarified that he did not thereby intend to present the candidacy of the SAI of Portugal and he was very grateful to Mr Sekula for his offer.

The Governing Board agreed to support the candidacy of the SAI of Poland for organising the VII EUROSAI Congress, which will be decided in the VI Congress to be held in Bonn, Germany, in 2005.

18. Date and place of the forthcoming meeting of the Governing Board of EUROSAI

The President of EUROSAI announced that, following consultations made with the Presidency and Secretariat of the Organisation, the SAI of Lithuania offered to organise the forthcoming meeting of the Governing Board.

Mr Liaucius, President of the SAI of Lithuania, took the floor in order to formally propose his Institution for organising the 2004 meeting of the Governing Board, which would be held in Vilnius, Lithuania, during the third week of September.

Mr Wiklicky, SAI of Austria, reminded people that on 10 to 16 October 2004 the XVIII INCOSAI is going to be held in Budapest (Hungary), so it would be advisable to bring forward the meeting of the Governing Board of EUROSAI.

Mr Liaucius suggesting moving the meeting of the Governing Board to the second week of September, specifically, on the date 7 September.

Mr Nieto de Alba, Secretary General of EUROSAI, stated that a date so close to the summer vacation period could make it difficult to prepare and distribute the documentation, and he therefore asked for the documentation to be sent to the Secretariat as early as possible so that it could be duly translated, if necessary, and distributed in advance.

The Governing Board approved the holding of its forthcoming meeting in Vilnius on 7 September 2004.

19. New members of EUROSAI: transfer of status of member of EUROSAI to the Riksrevisionen of Sweden and application for membership from the SAI of Kazakhstan

Mr Nieto de Alba, Secretary General of EUROSAI, presented, for confirmation by the Governing Board of EUROSAI, the request for transfer of status of member of EUROSAI from the Riksrevisionverket to the Riksrevisionen, SAI of Sweden since 1 July 2003. The Governing Board was then presented with the application to join the Organisation from the SAI of Kazakhstan, stating that, having been analysed by the Secretariat General, the requisites set down by article 3 of the Statutes for doing so were considered to be met.

The Governing Board confirmed the transfer of status of member on the new SAI of Sweden without making any observations.

Regarding the application presented by the SAI of Kazakhstan, Mr Logerot, President of the SAI of France, questioned its status as a SAI of a European State, which would prevent it from entering EUROSAI. He proposed deciding on this admission in the 2004 meeting of the Governing Board, once the matter had been studied at a more leisurely pace.

Mr Nieto de Alba stated that the Secretariat of EUROSAI has made consultations in this regard and he has been informed that this country belongs to the European Regional Offices of various United Nations Organisations such as UNESCO, World Health Organisation, United Nations Economic Commission, United Nations Environmental Programme, and the Organisation for Security and Cooperation in Europe. This opinion has also been checked with the Diplomatic Representation Office of the Spanish Ministry of Foreign Affairs which has confirmed this status. Moreover, the Secretary General added that EUROSAI is an Organisation directed towards promoting cooperation and the exchange of experiences among SAIs, therefore its own philosophy leads



to the adopting of a broad criterion for the admission of members within strict compliance of legality. This criterion was backed by the President of EUROSAI.

Mr Stepashin submitted to the Governing Board the application for membership of EUROSAI from the SAI of Kazakhstan, which was approved by it. The President of EUROSAI and Mr Otbo, President of the SAI of Denmark, welcomed the Rik-srevisionen and the new member of the Organisation.

The Secretary General was asked to notify the adopted decisions to the concerned SAIs.

20. Any other business

20.1. *Information on the Strategic Planning Working Group of INTOSAI*

Mr Sinclair, SAI of the United Kingdom, informed the Governing Board of the results of the activities of the Working Group on Strategic Planning of INTOSAI, chaired by the GAO of the United States of America and in which the SAI of the United Kingdom participates as EUROSAI's representative, and he announced a forthcoming meeting for December 2003. He stated that in April 2004 the Strategic Plan will be sent to all SAIs so that they can make any comments as they see fit, in such a way that they can be taken into account in the draft presented to the Governing Board of INTOSAI and to the XVIII INCOSAI to be held in Budapest, Hungary, in October 2004. He gave a brief description of the three Strategic Objectives contained in the draft along with the organisational modifications that are proposed (within the Fourth Objective). He requested the Secretary General of EUROSAI to distribute the document among members of the Organisation, once it has been received from the chair of the Working Group, so that any observations considered appropriate can be made.

Mr Wiklicky, SAI of Austria, stated the concerns in his SAI, as Secretariat General of INTOSAI, regarding the danger that the Plan could entail under its current terms of creating a two-speed Organisation, as well as the increases in the costs and organisational non-definitions that could arise.

Mr Logerot, President of the SAI of France, stated that he saw difficulties in the timetable of consultations planned by the Working Group since he considered there was not enough time for making those consultations, analysing the project by the members of EUROSAI and examining their observations in advance of the INTOSAI Congress of 2004. Seeing how the Plan would imply a modification to the INTO-SAI Statutes, it would have to be discussed in advance by the members of EUROSAI.

The Secretary General of EUROSAI confirmed that he will distribute the draft document once it has been sent to him, though he has not yet received it. He suggested that it be discussed in the forthcoming meeting of the Governing Board.

20.2. *Information on the INTOSAI Working Group on Laundering of Capital*

Mr Sinclair, SAI of the United Kingdom, provided information on the activities of the INTOSAI Working Group on Laundering of Capital, created in the last INTOSAI Congress and in which one representative from each Regional Group takes part (the SAI of the United Kingdom does so for EUROSAI). The first meeting of the Group took place in Moscow from 24 to 26 September 2003, chaired by the Comptroller General of Peru. In it, two conceptual bases were agreed for study, the nature of laundering money and the role of the SAIs in identifying and promoting good practices as well as exchanging information on the subject. The Group agreed on a work plan for promoting cooperation between INTOSAI and its Regional Organisations, which will be distributed among members of EUROSAI via the Secretariat General. He announced a new meeting of the Working Group, to be hosted by the SAI of the United States in April 2004.

20.3. *Discussion, within the scope of INTOSAI, on the interaction between national and supranational control institutions*

Mr Stepashin, President of EUROSAI, highlighted the importance of relations between national and supranational control



institutions. He handed the floor to Mr Afanasiev, SAI of the Russian Federation, who, after stressing the interest in the theme, stated that it is especially useful regarding the debate on the draft European Constitution. He noted that the next INTOSAI Congress to be held in Budapest in October 2004 would discuss cooperation among SAIs (Theme I) and also between SAIs and auditing institutions of regional and local levels (Theme II). Within the framework of forthcoming discussions it would be appropriate to consider also cooperation between national and supra-national auditing organisations. He ex-

pressed the intention of the SAI of the Russian Federation to send its observation on the subject-in-question to the working group established to prepare theme discussions at the INTOSAI Congress. The Governing Board took a note of that statement.

Mr Stepashin, President of EUROSAI, thanked Mr Staderini, President of the SAI of Italy and host, as well as his collaborators; the Secretary General of EUROSAI; all members and observers of the Governing Board; and also guest SAIs invited to participate. He declared the annual meeting of the Governing Board for 2003 to be closed and adjourned the session.

CONCLUSIONS OF THE III EUROSAI-OLACEFS CONFERENCE

London (United Kingdom), 11-14 May 2004

1. Conclusions on SAI's experience of e-government

This is a complex subject requiring complex solutions. The role of SAIs in this area continues to develop. SAIs can be a positive catalyst for change by creating confidence and maintaining a constructive approach. E-Government provides the ca-

capacity to fight corruption by making government more transparent and open and encouraging communication and exchange of information. E-Government is most of all about people.

It is an enabler of change rather than an end in itself. In summary, e-government is a continuing journey which started some time ago but still has far to go. E-Government



13



Group photograph of the III EUROSAI-OLACEFS Conference

goals need to be realistic and achievable but at the same time aspirational; challenging and capable of delivering real benefits.

E-government is not just about technology but involves change management, which is inherently risky. It needs to be about services that citizens need and want to use and also needs to take account of “back-office” support functions. IT should provide cost effective and efficient solutions and not simply be superimposed on existing inefficient systems.

E-government creates ‘an informed buyer’. Government Departments and Agencies need to look closely at how they interact with private sector suppliers, in particular those with global operations. Such organisations require access to high-level project management skills to ensure they are capable of managing these relationships carefully.

E-Government initiatives should have a clear statement of the expected benefits to the citizen and ensure cost efficient delivery. Accessibility and convenience for the public are of key importance but the cost should not be ignored. A careful balance needs to be maintained. The critical path for a successful project needs to be identified and carefully managed to minimise cost and maximise efficiency. The role of SAIs in e-government is essential. SAIs need to identify appropriate audit criteria and standards and they need to share knowledge and experience. SAIs should work through existing INTOSAI committees and regional organisations. A great deal of work is already underway and SAIs should be encouraged to build on these initiatives.

SAIs can be a major positive catalyst for change but they too need the skills and capacities within their organisations to keep up to date with new developments.

This will require staff training and development.

New audit thinking is required. SAIs need to develop their audit approach across the whole range of their audit activities to cope with the new demands and complexities of e-Government. Enhancements will be needed on initial risk assessment and audit planning through to the actual delivery of audit reports on e-Government issues.

2. Conclusions on training and equipping the state auditors for their role

A clear mandate and objectives are essential. It is important to have clear vision, effective leadership, professional staff with a wide range of skills and knowledge and an ability to identify and harness best practice in their audit methods and management processes.

There must be effective ways of hiring new staff, rigorous and professional induction training supplemented by supervised work experience, a commitment to continuing professional, and management development.

The processes adopted need themselves to be flexible and reflect best practices.

They need to facilitate audit products of appropriate quality delivered to time and at acceptable cost. Technology is only an enabler. If SAIs are to use it well, they must have a clear view of the outcomes they are seeking to achieve. The conclusions and issues identified in Theme 1 discussions apply equally to SAIs. While technology creates opportunities to improve performance it also creates the challenge of training staff to use it.



CONCLUSIONS OF THE IX MEETING OF THE EUROSAI TRAINING COMMITTEE

Copenhagen (Denmark), 24-25 November 2003

The EUROSAI Training Committee (ETC), consisting, according to the decision made in Madrid on 16 February 2000 by the Governing Board, of 8 members, namely Spain and France for the presidency, Portugal, United Kingdom, Czech Republic, Germany, Poland and Denmark, held a meeting in Copenhagen (Denmark) on 24 and 25 November 2003. Following the decision made by the Governing Board in Copenhagen on 7 March 2002, the SAI of Lithuania attended this meeting as an observer. Due to the agenda, representatives of IDI, SIGMA-OECD, the European Court of Auditors, the SAIs of Hungary, Netherlands, and of the EUROSAI presidency (SAI of the Russian Federation) were also invited to attend this meeting.

Mr Yvan Pedersen and Mrs Lisbeth Soerensen welcomed participants on behalf of Mr Henrik Otbo, president of the Rigsrevisionen.

1. Adoption of the conclusions of the Pultusk ETC meeting and adoption of the draft agenda

The draft conclusions of the Pultusk ETC meeting were adopted, with a slight change (last § page 4 deleted). The draft agenda of the Copenhagen meeting was adopted, with the two following additions under miscellaneous:

- information on the EUROSAI magazine (SAI of Spain) ;
- information on the 3rd EUROSAI/OLACEFS Seminar to be held in London in 2004 (SAI of UK).

2. Training Strategy : presentation of the results of the questionnaire and decisions made during the EUROSAI Governing Board meeting in Rome

Mr Perron, representative of the SAI of France, reminded participants of the main

results of the questionnaire presented, and of the decisions made, during the EUROSAI Governing Board meeting in Rome on 28 October 2003. The mandate of the ETC to carry out the Training Strategy was prolonged for two years as far as the EUROSAI Congress to be held in 2005. The ETC was entitled to build an operational plan on six agreed objectives and to explore further issues which gained less consensus.

3.1. Building operational plan – objective 1 : delivering training through seminars, events

Mr Perron, representative of the SAI of France, introduced the point, presenting overall comments on answers to the questionnaire on this objective, and the list of priority topics selected by EUROSAI members. He underlined that i) some topics were of great interest for all European SAIs, ii) others were prioritised only in some sub-regional areas, iii) and some of them concerned also the scope of other working and regional groups.

A general discussion followed. Participants provided information on related initiatives developed in different circles on some topics mentioned in the priority list (taxation and customs, performance auditing, fight against fraud and corruption, environmental auditing, use of IT in auditing, etc.). The discussion also concerned the format of the seminars, the necessity to involve IDI Training specialists as much as possible, and the issue of opening seminars to all EUROSAI members or to limit attendance for some topics according to needs expressed in sub-regional groups.

Finally, the following decisions were made:

- As a principle, the format of the Training Events would be of a “workshop” style, limited to 30-40 participants, in order to keep them lively and to avoid excessive organisational costs, with the possibility of duplicating them when necessary.



– IDI Training Specialists should be invited to take part in these Training Events as much as possible.

– All Training Events will remain open to all EUROSAI members, whatever the topic dealt with.

– The topics chosen for EUROSAI Training Events for the three years to come are the following:

- 2004: “Audit of Taxation and Customs” hosted by the SAI of Poland in relation with the preparation of the EUROSAI Congress in 2005 ;

- 2005: “The Fight against Fraud and Corruption” (host still to be confirmed) ;

- 2006: “Audit of Public Procurement” hosted by the SAI of Denmark.

The content and approach on each topic will be refined by the hosting SAI.

– Other seminars or workshops may be organised under different banners, using the results of the questionnaire. For instance, the following initiatives are under way:

- A Performance Auditing Workshop may be hosted in 2004 by the SAI of the Czech Republic within the network of acceding and candidate countries SAIs;

- A Workshop on Audit of Information System may be hosted in 2004 by the SAI of Portugal under the banner of the EUROSAI Working Group on Information Technology chaired by the SAI of Netherlands;

- A Workshop on Biodiversity may be hosted in 2004 by the SAI of Bulgaria under the banner of the EUROSAI Working Group on Environmental Auditing chaired by the SAI of Poland.

3.2. Building operational plan – objective 2 : supporting EUROSAI – IDI activities

Mrs Geagea made a short presentation on the current stage and next steps of the EUROSAI Long Term Regional Training Programme (LTRTP).

After the successful completion of Phase I, devoted to SAIs of the candidate countries, Phase II started at the end of 2002 with the Strategic Planning Workshop held in Zagreb (Croatia). In addition

to SAIs from the Balkan and eastern “non-candidate” countries, Phase II will be open to 6 Russian speaking Central Asia countries. After preparation in 2003 (translation of course materials, selection of participants, recruitment of a Russian speaking assistant, etc.), training activities will take place from Spring 2004 to Autumn 2005, delivered in English and Russian. Each language group selected “performance auditing” as a topic for the main eight-day course, and a two-day fraud module. Both will be prepared by participants, and delivered during the final regional audit workshops. Training specialists from Phase I (Latvia and Poland) will be involved in the instructional team. The first training activity (Course Design and Development Workshop) will be held in Bulgaria between April 26 and June 4 2004. The Norwegian Government will fund Phase II, with the exception of a 110,000 Euro grant approved by EUROSAI Governing Board during its last meeting in October 2003.

Mrs de la Fuente, representative of the SAI of Spain and of the EUROSAI Secretariat, informed participants of the Resolution adopted by the Governing Board concerning the grant of a financial contribution of 110,000 euros to IDI to be charged to the Budget of EUROSAI 2003-2005, for the financing of the LTRTP EUROSAI/IDI Phase II; an amount that will be paid in the following way: 40,000 euros a year in 2003 and 2004, and 30,000 euros in 2005: The aid granted by EUROSAI represents 7% of the total cost of the LTRTP and around 65% of the total amount foreseen in the EUROSAI Budget for aids and subsidies.

Participants underlined the importance to use as much as possible the IDI Training specialists in the various events organised by EUROSAI on a regional basis.

3.3. Building operational plan – objective 3 : supporting needs of working and regional groups

3.3.1. EUROSAI Working group on Information Technology

Mr Mantelaers, representative of the SAI of the Netherlands, presented, on behalf of the chairmanship of this Working Group, the current composition of this Group, created during the Moscow Con-



gress in May 2002 (24 European SAIs, including all ETC members), the mission and the five projects defined during its first meeting in The Hague in October 2002. These projects include Training in the IT area. To assess needs and explore how to meet them, a questionnaire was sent to the WG, and a first inventory of the possible supply of IT training was made. This preliminary work showed that IT Training is really needed, while the supply is limited. On the other hand, the ETC questionnaire showed that i) supporting WGs is one of the ETC objectives, ii) IT is one of the "top ten" priority topics and iii) IT auditing is one of the two major areas of interest when it comes to WG activities. Therefore, cooperation and support between the ETC and the IT WG seem logical and necessary.

During the discussion, participants underlined the consistency of the answers to both questionnaires (ETC and IT WG ones), and the need to develop synergy and links between the ETC and the IT WG.

As a first step in this cooperation, the SAI of Portugal kindly proposed to host a small-scale workshop for the IT WG members during the last quarter of 2004. The precise topic of this workshop will be refined, in relation with the SAI of Portugal, during the 2nd meeting of the WG to be held in Bern on March 2004.

3.3.2. EUROSAI Working Group on Environmental Auditing

Mr Jezierski, representative of the SAI of Poland, made a presentation of the current and forthcoming activities of the EUROSAI Working Group on environmental auditing. Now consisting of 33 members, the Working Group is very active, both for initiating cooperative audits among its members, as well as for exchanging experiences during plenary meetings or specific seminars. In 2003, in addition to the organisation in Warsaw of the VIII meeting of the INTOSAI Working Group on environmental auditing, many audit activities were scheduled (audit of the Black Sea convention, audit of the Basel convention, a joint unique report on MARPOL convention developed by the Dutch SAI with contributions from each participating SAI). On the training side, the Dutch colleagues will welcome a WG Seminar on

waste management auditing in The Hague in December 2003. The Workplan for 2004 will be discussed with the sub-coordinators during this meeting and approved during the IX meeting of the Group to be held in Bulgaria in 2004. The topic for the Training Seminar considered in 2004 could be Auditing the Biodiversity.

During the discussion, participants underlined the dynamism and effectiveness of this group, and the great interest of its works for all EUROSAI members, demonstrated by the answers to the questionnaire. Moreover, links have already been created between this WG and IDI, and the use of Training specialists during seminars of this WG should be further considered.

3.4. Building operational plan – objective 4 : expand the use of Websites

Mrs Soerensen, representative of the SAI of Denmark, made a presentation of the layout of the EUROSAI website, prepared by the SAI of Denmark in consultation with the SAIs of France and Spain, and already presented to EUROSAI Governing Board during its last meeting in Rome, October 2003.

Mrs de la Fuente, representative of the SAI of Spain and responsible for the Office of the EUROSAI Secretariat (body in charge of the maintenance and update of the web page) raised several issues in relation to the EUROSAI web page: content of the information included on it and moment to be provided, languages to be used for each kind of information, provision of information to update the page, harmonisation of the information provided concerning national issues.

During the discussion, participants underlined the following points :

- Putting the minutes of EUROSAI Governing Board meetings on the website is an issue for the Governing Board and the ETC may not take any decision in this respect.

- It should be indicated somewhere that while general material and information are translated into each of the EUROSAI official languages, documents related to Working and Technical Groups are available in English only.



– When it comes to the page referred to as “international organisations and educational institutions”, providing a single long list of universities without any hint of the domain and specialities dealt with may not be very useful. Information should be more thorough in order to facilitate research. Each SAI offering links with universities should therefore indicate the relevant domain(s) and working area(s) related to government auditing. In addition, new headlines could be added to this page, such as “other institutions” and “search engines”, following a suggestion made by R. Maggs, representative of the SAI of UK.

– Each Working Group will remain responsible for the features and content of its website, linked to the EUROSAI general website. However, a minimum harmonisation of the presentation would be desirable, in order to clearly identify any WG as a EUROSAI WG. The layout of the Training website will be revised and improved by the French SAI in close cooperation with Danish and Spanish colleagues.

– The SAIs of France, Germany, the Russian Federation, Spain and the UK offered to revise the translation of the layout in their language. The SAI of Germany also offered to revise the German translations of the documents that the EUROSAI General Secretariat might decide to publish on the website.

– The SAIs of Spain and the Russian Federation will provide some introductory words (to the page with photos of the Russian and Spanish presidents).

The general layout with minor adjustments will be available in July 2004, for the next ETC meeting.

3.5. Building operational plan – objective 5 : expand the cooperation with RAIs

Mr Pedersen, representative of the SAI of Denmark, reminded participants of the conclusions of the 2nd EUROSAI-EURORAI Conference held in Copenhagen on 5-6 June 2003 on the theme of Health Care. On the other hand, the answers to the questionnaire showed i) a clear interest from a wide majority of SAIs to carry on with cooperation between SAIs and RAIs and ii) they suggested some possible topics for new seminars.

Mr Pedersen indicated that the Audit Commission of the UK expressed its readi-

ness to organise in 2004, with the support of the Danish SAI, a small-scale workshop (around 30 to 40 participants), held in English, on a common professional theme, such as the role of SAIs and RAIs in auditing funds reimbursement from national to regional level (topic still to be confirmed).

3.6. Building operational plan – objective 6 : expand the cooperation with universities

Mrs Lopes, representative of the SAI of Portugal, introduced the discussion, explaining that, in her view, cooperation with universities should not be considered as a separate goal, but rather as a transversal activity which should be kept in mind while trying to achieve the objectives set down in the operational plan (for instance, in expanding the use of websites, delivering training through seminars, expanding the cooperation with RAIs, etc.).

During the discussion, Mr Maggs, representative of the SAI of UK, indicated that cooperation with universities is also considered as an activity, not as a goal in itself, in the draft INTOSAI Strategic Plan currently under way.

Participants agreed that cooperation with universities should not be considered as a specific goal, but rather as a transverse activity to be remembered when achieving any training-related objective.

4.1. Exploring other issues : Key training available on Internet

Mr Perron, representative of the SAI of France, reminded participants of the results of the questionnaire on this issue, showing, on one hand, great interest, but, on the other hand, many difficulties to be overcome (little supply, language barriers, means and costs).

During the discussion, participants also highlighted the interest and the difficulties of distance learning. IDI indicated that it is in an exploring phase in the area of e-learning. Developing such techniques may become a lot more expensive than one might imagine at first glance: in addition to the design of the course itself, procedures for checking and then testing knowledge understanding have to be designed, with the underlying infrastructure and



staff. N. Treen, representative from SIGMA, indicated that distance learning has been experimented by the World Bank in the audit area, as well as by the IAA for certified internal audit qualification.

IDI will share its experience on e-learning with participants during the next ETC meeting.

4.2. Exploring other issues : Guidelines for managing Training within SAIs

Mr Perron, representative of the SAI of France, reminded participants of the results of the questionnaire on this issue, showing both an interest from a majority of SAIs and some concerns from others which consider “managing training” to be a part of the own competence of each SAI. Therefore, the proposal to provide some guidance has to be reconciled with the concern for independence.

During the discussion, Mr Bedwell, representative of the SAI of the UK, mentioned existing documents already issued throughout the SAI community, such as “Training Programmes for NAOs”, circulated during the XV INTOSAI Congress in Cairo in 1995, “Suggested Guidelines for Trainers”, circulated by IDI during the XVII INTOSAI Congress in Seoul in 2001. The SAI of Germany offered to make available to all EUROSAI members a document titled “Guidance on Continued Training at the Bundesrechnungshof and its Regional Audit Offices”. IDI expressed its readiness to offer its practical experience in this area. Mr Shelyuto, representative of the SAI of the Russian Federation, indicated that such training guidelines could be extremely useful for some newly established SAIs.

Those participants having such material on “training guidance” available will circulate it, in electronic format, to all ETC participants before their next meeting. The ETC will then consider whether to make this information available to all EUROSAI members, and if so, how.

4.3. Exploring other issues : Certified European public auditor qualification

Mr Perron, representative of the SAI of France, reminded participants of the re-

sults of the questionnaire on this issue, showing a lack of consensus on the idea of an agreed qualification scheme for basic training of public auditors, and a wide range of comments (from approval to objection) on the idea of a certified public auditor post-university qualification.

During the discussion, Mr Bedwell, representative of the SAI of UK, reminded participants of the presentation he made at the last meeting of the ETC (Pultusk, Poland, June 2003) on the training programmes for public sector qualifications in accountancy and audit proposed by the UK Chartered Institute of Public Finance and Accountancy (CIPFA). Nick Treen, representative from SIGMA, confirmed the professionalism and high quality of this programme. Mr Shelyuto, representative of the SAI of the Russian Federation, wondered about the cost and working language of the courses. Mr Bedwell reminded participants that detailed information on the cost of the programmes was available from CIPFA. Regarding languages, all courses are designed to be conducted in local languages rather than English, and on the basis of syllabuses derived from local law. Mr Perron underlined that the ETC should not move too quickly on this issue, which did not enjoy full consensus within EUROSAI, and the feeling should not be created at this stage that any private partner is being given priority.

As a result of the discussion, it was decided to invite Mr Hepworth, chairman of CIPFA, to present its training and qualification programme during the next ETC meeting. This presentation does not imply any commitment from the ETC, and should be followed, as much as possible, by presentations on proposed training programmes for public sector auditors coming from other bodies.

5.1. Miscellaneous : Information on EUROSAI magazine

Mrs de la Fuente, representative of the SAI of Spain, informed participants that, at the request of the ETC, the EUROSAI General Secretariat had presented to the Governing Board the results of the questionnaire on the format and content of the EUROSAI magazine, which had already been presented to ETC members at the meeting held in Madrid in July 2002.



Mrs de la Fuente reminded participants of the general positive view expressed on the magazine and emphasised the main values pointed out in the answers. She also explained that the main suggestion made in the answers was to publish the magazine twice a year instead of once a year, in order to make it more dynamic. On this point the ETC agreed that it would be convenient to decide on the issue depending on the volume of articles received by the General Secretariat. According to the economic study made by the General Secretariat, the cost of an additional magazine would remain under acceptable limits for the budget; though any change in the current periodicity should be submitted to the EUROSAI Governing Board.

ETC members were kindly requested to contribute actively to the magazine by sending articles and providing information on news or events taking place under the scope of EUROSAI, and to express their views on improving its format and content. Mrs de la Fuente also mentioned the usefulness of appointing a person in each SAI to act as contact person on EUROSAI magazine issues.

5.2. Miscellaneous : Information on the 3rd EUROSAI-OLACEFS Seminar in London

Mr Bedwell, representative of the SAI of the UK, made a presentation of the 3rd EUROSAI-OLACEFS Seminar on "Audit in the 21st Century" to be held in London between 11 to 14 May 2004, and distributed the draft programme and other information documents to participants. The deadline for sending the contributions to the sub-themes chairmen is no later than 27 February 2004. An invitation letter will be sent in December 2003 and registration will be possible on the following dedicated website www.nao.gov.uk/3eos.

6. Date and place of the next meeting

The SAI of Lithuania kindly proposed to host the next ETC meeting, on 5 and 6 July 2004 in Vilnius.



CONCLUSIONS OF THE X MEETING OF THE EUROSAI TRAINING COMMITTEE Vilnius (Lithuania), 7-8 July 2004

The EUROSAI Training Committee (ETC) consisting, according to the decision made in Madrid on 16 February 2000 by the Governing Board, of 8 members, namely Spain and France for the presidency, Portugal, United Kingdom, Czech Republic, Germany, Poland and Denmark, held a meeting in Vilnius (Lithuania) on 7 and 8 July 2004. Following the decision made by the Governing Board in Copenhagen on 7 March 2002, the SAI of Lithuania attended this meeting as an observer. Due to the agenda, representatives of the Chartered Institute of Public Finance and Accountancy (CIPFA), INTO-SAI Development Initiative (IDI), SIGMA, the European Court of Auditors (ECA) and the SAI of Hungary were also invited to attend this meeting. The representative of the EUROSAI Presidency

(SAI of the Russian Federation) excused attendance. The representative of SIGMA could not attend the meeting for sudden reasons.

Mr Philippe Milhat, representative of the SAI of France, welcomed participants on behalf of the co-presidency and thanked the SAI of Lithuania for hosting this meeting.

1. Adoption of the conclusions of the Copenhagen ETC meeting and adoption of the draft agenda

The final draft version of the conclusions of the ETC meeting held in Copenhagen on 24 and 25 November 2003 were adopted without any change.

The draft agenda of the Vilnius meeting was adopted with just a change to the order of presentation, with item 3.1 coming before item 2.

3.1. Exploring other issues: Certified European Public Auditor qualification

Mr Noel Hepworth gave an introduction to the Chartered Institute of Public Finance and Accountancy (CIPFA).

The CIPFA was established in 1885, it has a Royal Charter and is a UK registered charity specialised in training staff in public sector financial management and audit for public sector bodies. CIPFA is also a member of IFAC and of the Fédération des experts comptables européens (FEE).

Mr Hepworth showed what a professional qualification adds and the high interest of accountancy for the public auditor who is interested in stewardship, value for money, risk and the way it is managed, and therefore in the overall corporate governance arrangements.

He then presented various alternatives for developing accountancy and audit training by means of short courses to emphasise particular work-based and specialist requirements, by means of university degrees including postgraduate degrees and by means of professional accountancy training. The programme of this training specifically requires adapting the syllabus and training materials to local circumstances. He insisted on professionalism, which implies ethics, public interest and adherence to international standards.

Mr Hepworth declared the CIPFA to be the appropriate UK body for establishing a Certified European Public Auditor qualification. The CIPFA currently provides a bilateral international qualification training measure with Slovenia, supported by the World Bank and other aid agencies. Therefore, the CIPFA could provide an international certificate and diploma qualification based on distance learning adapted to the needs of each country, capable of being translated into local languages. The scheme needs local university support.

The CIPFA offers to establish a joint working party with EUROSAI for agreeing on a professional level of qualification,

syllabus and work experience. EUROSAI members should identify academic partners. Funding sources could be explored both by EUROSAI and CIPFA.

Ms Francisca Schmitz, representative of the SAI of Germany, wondered how the CIPFA would be able to adapt the training to local circumstances, considering the diversity of administrative systems and institutions. She was surprised that the proposed training emphasises the practical aspects of auditing due to this diversity.

Mr Hepworth replied there were no difficulties here because the CIPFA supplies a common platform of knowledge adapted to the individual demands of the organisation. However, the CIPFA depends on the support of the SAI that wishes to apply the CIPFA's training scheme. To do this, the SAI must in particular conduct some preliminary research in order to make sure that its country's laws are compatible with the programme that the CIPFA offers.

Mr Miskinis, representative of the SAI of Lithuania, asked what languages will be used for training and testing. He commented that if there is going to be a translation from English to national languages, then the level of requirements will be almost as different as they are now when national certifying systems are used.

Mr Hepworth replied that it is expected that national languages could be used. In relation to the level of competence, he explained that the CIPFA will use a rigid system of quality control. Up to 20% of tests could be fully translated if necessary.

2.1. Training Strategy : Introduction and reminder

Mr Milhat, representative of the SAI of France, conducted a review of the background of the ETC; how it was created in 2000 and the first steps taken in order to promote the holding of training events, to cooperate with IDI and to constitute a training web page as part of the EUROSAI web site. He recalled the main questions raised by the ETC in relation to the promotion of training activities, the procedures to make it effective and the possible



ways for funding them. He recalled the mandate given to the ETC by the V Congress of EUROSAI (2002) for carrying out a preliminary study for designing a common Training Strategy for EUROSAI and the main results of the questionnaire presented and the decisions made during the EUROSAI Governing Board meeting in Rome on 28 October 2003. The mandate of the ETC for carrying out the Training Strategy was extended for two years up to the next EUROSAI Congress, to be held in Bonn (Germany) in 2005. The ETC was entitled to build an operational plan on the six agreed objectives and to explore further issues which gained less consensus.

2.2. Training Strategy: Update on the information provided on ETC activities

Ms de la Fuente, representative of the SAI of Spain, supplied participants with information on the current activities of the ETC that had been provided by its co-chair on the occasion of different meetings; in particular, at the European Union Contact Committee meeting (Prague, December 2003), the III Conference EUROSAI-OLACEFS (May, 2004) and the European Union Liaison Officers meeting (May, 2004). The information included a general approach to the ETC and the update of its activities. Under this second item, information was provided on the EUROSAI support to IDI training activities, the cooperation with EURORAI and Universities, the development of the use of IT to the benefit of training and on the role of EUROSAI publications (Magazine and Newsletter) concerning training. Further questions for the implementation and promotion of a fruitful training process were also discussed, such as the importance of strengthening the training policies of each SAI at the internal level and of exchanging training material, the possible interest of drafting a common guide for planning and programming training by the SAIs, as well as the consideration of cooperation as a key piece for strengthening the quality and intensity of training policy at the individual level (in each SAI) and at the level of EUROSAI.

Mr Miskinis, representative of the SAI of Lithuania, made a presentation on the

need for checking the adequacy of training strategies. He discussed some experiences and topics of common interest on the issue, concluding that awareness of the real suitability of the training policy is the first step towards improving its efficiency. He pointed out the importance for training strategy to be designed taking into account the needs of the organisation (specific objectives, level of staff competence, self-assessment arrangements, resources available) and the steps to be followed for programming it and for putting it in practice, following a day-to-day operational mode. He also exchanged thoughts about the necessity of revising the training strategies and on the importance of taking into account the experiences of others for learning and applying them to one's own systems with the necessary adaptations.

3.2. Exploring other issues : Key training available on the Internet

Mr Milhat, representative of the SAI of France, reminded participants of the results of the questionnaire on this issue. It showed the great interest of the EUROSAI SAIs on it but the point was also raised that it involved certain difficulties to be overcome (few supplies, language barriers, means and costs).

Mr Jezierski, representative of the SAI of Poland, asked about the real possibilities of e-learning.

Mr Milhat replied that at the moment it was an item to be studied and he stressed the difficulties in performing it.

Ms Kristensen, representative of IDI, explained their pilot experience in the area of e-learning. At the moment, IDI is taking its first step in a cooperation programme with OLACEFS on performance audit addressed to a group of between 40 and 60 junior staff. It is organised under the scope of OLACEFS and is financed by IDI. During the last OLACEFS Assembly, IDI asked for partners to participate in this pilot experience. Good results are expected from it though right now it is too early to know what these are. Additional information on the implementation of the programme will be provided in a forthcoming meeting of the ETC.



3.3. Exploring other issues: Guidelines for managing training within SAI.- Exchange of ideas on national training strategies

Ms de la Fuente, representative of the SAI of Spain, reminded participants of the results of the questionnaire on this issue, stressing the importance of respecting the independence of each SAI for planning and programming its training strategy as well as the interest in exchanging information and experiences in order to help strengthen the internal training strategies. She invited participants to provide information on the training strategy of their Audit Institution. She also kindly requested IDI to share their experiences in relation to the design of its training strategy.

Representatives of all the participant Audit Institutions made a brief review of their respective internal training strategies, explaining the process of planning in the short and long term, the goals pursued, the main topics selected for training (special attention is paid to courses on foreign languages), availability of training material, projects to be dealt with, cooperation carried out with other entities like universities and Governmental Departments, and the combination of in-house and external training at the Audit Institutions.

During the discussion, Mr Bedwell, representative of the SAI of the UK, mentioned already existing documents such as "Training Programmes for NAOs", circulated during the XV INTOSAI Congress in Cairo in 1995, and "Suggested Guidelines for Trainers", circulated by IDI during the XVII INTOSAI Congress in Seoul in 2001.

Representatives of some SAIs (German, British and Portuguese SAIs) offered to provide the co-chair of the ETC with their training guidelines or plans for information, which would be delivered if so wished. Also, IDI reminded participants of the availability of its general guidelines for trainers on its web page, which could be used a supplement to the strategies of SAIs. The ETC will consider making this information available to all EUROSAI members and how to do it.

Ms de la Fuente pointed out that it would be advisable to make progress on considering the appropriateness of drafting some training guides and she proposed

a brainstorming session at the forthcoming meeting of the ETC in order to exchange ideas on the next steps to be taken, the possible problems that can be raised and their possible solutions, and the desirable goals to be attained.

4.1. Building operational plan – objective 1 : delivering training through seminars, events

Ms de la Fuente, representative of the SAI of Spain, introduced this item and made some general comments. She referred to the seminars planned to take place in 2004 under the direct scope of EUROSAI and handed the floor to the representatives of the hosting SAIs.

Mr Jezierski, representative of the SAI of Poland, provided details on the preparation of a Seminar on "Tax and Custom duties Audit", to take place in Golawice (Poland), on 4 and 5 November, divided in four working sessions. All the EUROSAI members SAIs will be invited to send a representative. He explained the practical details of the organisation and the work carried out, and the meeting held in February 2004 by a preparatory working group formed by the SAIs of Poland, Germany, Czech Republic and Russian Federation as well as the ECA, with the attendance of the French SAI in representation of the ETC co-chair. The seminar materials will be available on-line from the web page of the Polish SAI.

Ms de la Fuente informed participants, on behalf of the SAI of the Russian Federation, that it will not be possible for them to organise a Seminar on "Fight against fraud" as was their intention. She asked if anybody else could take this initiative in 2005.

IDI informed that a seminar on the issue has been already held by AFROSAI in 2004 and that ASOSAI will organise another one in early 2005, so that some material could be already available on it.

Ms Soerensen, representative of the SAI of Denmark, announced the availability of the Danish SAI to host the planned Seminar on "Audit of Public Procurement" in 2005.

Ms de la Fuente thanked representatives of the aforementioned SAIs for offer-



ing to host seminars and events in the framework of EUROSAI. She reminded participants of the principles agreed by the ETC in relation to organising this kind of training activities, concerning keeping them open to all the EUROSAI members and seeking to limit the number of participants in order to make activities fruitful and lively and avoid excessive organisational costs, with the possibility of duplicating activities when necessary.

4.2. Building operational plan – objective 2 : supporting EUROSAI – IDI activities

Ms Geagea, representative of IDI, made a presentation on the current stage and next steps of the EUROSAI Long Term Regional Training Programme (LTRTP). She commented that, after the successful completion of Phase I devoted to SAIs of candidate countries, Phase II started at the end of 2002 with the Strategic Planning Workshop held in Zagreb (Croatia). In addition to SAIs from the Balkan and eastern “non-candidate” countries, Phase II is opened to six Russian-speaking Central Asia countries. After preparation in 2003 (translation of course materials, selection of participants, recruitment of a Russian speaking assistant, etc.), training activities are taking place from Spring 2004 to Autumn 2005, delivered in English and Russian. She reminded participants that the Norwegian Government is funding Phase II, with the exception of a 110,000 Euro grant approved by the EUROSAI Governing Board during its meeting in October 2003. She also explained the successful results reached at the moment but also the difficulties encountered in carrying out the Programme.

Ms Schmitz, representative of the SAI of Germany, asked about the forecast of new training projects by IDI once the LTRTP is finished. She pointed out the importance of EUROSAI obtaining added value from cooperation between EUROSAI and IDI. In this context, she stressed that EUROSAI allocates about 60% of its budget to supporting IDI. She also pointed out that the LTRTP is largely aimed at members of ASOSAI and AFROSAI. However, those organisations’ own contribution to the programme was not clear.

Ms Kristensen, representative of IDI, answered that there were no concrete projects yet but she gave assurances that they will inform EUROSAI of them as soon as they have more detailed perspectives. She kindly requested EUROSAI to continue to support its activities.

Ms de la Fuente, representative of the SAI of Spain, reminded participants that the financial support for IDI from the EUROSAI budget will be finished once the next budget is approved at the forthcoming Congress.

Mr Bedwell, representative of the SAI of the United Kingdom, reminded participants that the ETC had submitted to the V Congress, through the Governing Board, alternative proposals to increase EUROSAI members’ subscriptions by either 50% or 100% in order to fund increased training activities within the Region. The V Congress adopted a 50% increase for these purposes. He felt that the ETC might want to consider recommending to the Governing Board, at some time, an additional increase in subscriptions in order to cover any proposed expansion of the EUROSAI Training Programme.

Ms Schmitz replied that she did not consider a new proposal to increase the budget to be advisable, which meant also increasing the contributions from SAIs.

Mr Bedwell asked the representative of the SAI of Spain, in her capacity as representative of the EUROSAI Secretariat, to present the next ETC meeting with financial information on the total amount of the EUROSAI budget, the contributions paid, the total amount devoted to finance training and the percentage that it represents over incomes received.

Ms de la Fuente gave assurances that she would present the requested information at the next meeting. She pointed out that, once the priorities to develop a common Training Strategy for EUROSAI had been already identified, it was time to design the operational plan for putting it into practice, so that it could be presented to the VI Congress as part of the mandate received from the V Congress. She therefore suggested preparing a questionnaire to be circulated among all the members of EUROSAI so that the next steps to be taken could be identified.



Ms Schmitz offered the SAI of Germany to prepare an initial draft questionnaire.

Ms de la Fuente offered the help of the SAI of Spain to draw up the initial draft, in its dual condition of co-chair of the ETC and EUROSAI Secretariat.

It was agreed that a draft questionnaire will be presented to the ETC at the next meeting for commenting on and approval, if appropriate, and then to circulate it to the members of EUROSAI. An executive summary of the answers will be presented to the VI Congress.

4.3. Building operational plan – objective 3 : supporting needs of working and regional groups

Ms Fonseca, representative of the SAI of Portugal, provided participants with information on a Seminar on “SAIs in the control of IT” to be organised by the Portuguese SAI in Lisbon on 13 and 14 October 2004, in cooperation with the EUROSAI Working Group on IT. She explained that the Seminar will be held on two occasions, with the second one being held in Vilnius (Lithuania) in 2005. The first one was planned for around 44 participants, representatives of the SAIs members of the IT Working Group and the ETC. Representatives of the IT Working Group of INTOSAI and OLACEFS will be also invited to this Seminar. She highlighted the fact that it would be advisable if an outside expert from ISACA could participate in the Seminar and provide technical information on IT systems. She pointed out that the Portuguese SAI will ask for a financial aid of 3,550 euro to the EUROSAI Governing Board for funding the expenses derived from the attendance of the above-mentioned expert. She asked for the support of the ETC for providing a favourable report to the Governing Board in relation to that request.

Ms de la Fuente, representative of the Spanish SAI and of the EUROSAI Secretariat, reminded participants of the requirements for requesting financial aid from the EUROSAI budget. She submitted the request of the Portuguese SAI to the consideration of the ETC.

After discussing the issue the ETC agreed to support that request, emphasising the fact that each request of financial

support for training activities should be carefully considered by the ETC one by one, and not become an automatic process.

Ms Eisnerova, representative of the SAI of the Czech Republic, provided some information about the Seminar on “Performance Audit” to be organised by the Czech SAI in cooperation with the Working Group of Audit Manuals. It will take place from 1 to 4 September 2004, with the attendance of around 40 participants from EUROSAI Audit Institutions and SIGMA. Ten speakers have been invited to the event and twelve papers will be presented.

Ms de la Fuente thanked the representatives of the above-mentioned SAIs for hosting seminars in the framework of EUROSAI.

4.4. Building operational plan – objective 4 : expand the use of Web Sites

Mr Sorensen, representative of the SAI of Denmark, made a presentation of the layout of the EUROSAI website, prepared by the SAI of Denmark in consultation with the SAIs of France and Spain, and already presented to the EUROSAI Governing Board during its meeting in Rome, in October 2003. She announced that an amended version will be available for a forthcoming meeting of the ETC so that comments can be received from its members before presenting it to the VI EUROSAI Congress.

Ms de la Fuente, representative of the SAI of Spain and of the EUROSAI Secretariat, reminded participants of several issues in relation to the EUROSAI web page that had been already raised at the previous meeting of the ETC (Copenhagen, November 2003) concerning the content of the information included in it and the moment to be provided; the languages to be used for each kind of information; the provision of information to update the page, the necessary harmonisation of the information provided concerning national issues; and the request to the EUROSAI Working Groups, the ETC as a whole and the SAIs responsible for organising events to provide information for the web page. She also suggested new items to be included in the web page (list of Presidents of



member SAIs of EUROSAI and person responsible for organisational issues in each of them, list of members of the Governing Board, and information about bodies cooperating with EUROSAI). She requested SAIs providing information on events held to keep the linked web pages updated.

4.5. Building operational plan – objective 5 : expand the cooperation with RAIs

Mr Ostergard, representative of the SAI of Denmark, provided available information on a Conference to be organised in 2004 by the Audit Commission of England and Wales, in cooperation with Audit Scotland (Scotland's public sector audit Institution), to which representatives of EUROSAI and EURORAI will probably be invited. He confirmed the intention of holding it in English under the format of a two-day small-scale workshop (around 20 participants), on a common professional theme still to be confirmed which involves cooperation between SAIs and Regional Audit Institutions. He pointed out that additional information would be provided as soon as it is available.



26

5.1. Miscellaneous : Information on the results of the III EUROSAI-OLACEFS meeting

Mr Bedwell, representative of the SAI of the United Kingdom, provided information on the III EUROSAI-OLACEFS meeting held in London from 11 to 14 May 2004, under the Principle Theme "Audit in the 21st Century" and the two Sub-themes, "The experiences of SAIs and eGovernment" and "Training and equipping modern state auditors for their role". A hundred delegates from 37 SAIs (27 EUROSAI, 10 OLACEFS), the ECA, IDI and the International Journal of Government Auditing attended the Seminar, where wide-ranging issues were debated concerning the impact of technological developments of SAIs. He also commented on the conclusions for each Sub-Theme and announced the hosting Institution for the next EUROSAI-OLACEFS meeting, which will take place in Peru in 2005. Information on the seminar, discussion papers, programme and conclusions are

available on the web site www.nao.gsi.gov.uk/3eos.

5.2. Miscellaneous : Information on EUROSAI magazine

Ms de la Fuente, representative of the SAI of Spain and the EUROSAI Secretariat, informed participants of the preparation of issue No. 11 of the EUROSAI Magazine: reminders for contributions made by the EUROSAI Secretariat, contributions received up to the moment, information on events held to be included in it and the two topics that will be the object of special comment in that issue due to their being held in 2005 (the XV Anniversary of EUROSAI and the organisation of the VI Congress). She reminded people that the deadline for sending contributions is 15 October 2004. She also gave information about the Newsletter published and delivered up to July 2004 (issues 28 to 30); issue 31 will be published in November. She reminded participants of requests made in the previous meeting of the ETC encouraging the presentation of contributions and the provision of information and news to be published. She said that the Magazine is open to any comments that could help to improve it. She stresses the idea of interest in appointing a person in each SAI to act as contact person for EUROSAI magazine issues.

6. Date and place of the next meeting

Mr Bedwell, representative of the SAI of the United Kingdom, kindly proposed to check the possibility of hosting the next ETC meeting (November 2004) in London.

Ms Malatinszky, representative of the SAI of Hungary, kindly offered to check the possibility of organising the first one of 2005.

Ms de la Fuente, representative of the SAI of Spain, reminded people that it would be advisable for the first meeting of 2005 to take place before the VI Congress, in order to prepare the reports to be presented to its approval. She suggested to hold it no later than March 2005.

Ms de la Fuente, representative of the SAI of Spain, thanked the representatives of the SAI of Lithuania for hosting the X ETC meeting and for all the attention paid to participants and congratulated

ed them for the excellent organisation developed. She also thanked participants for attending the meeting and for their contributions to it. She then closed the meeting.

SUMMARY OF THE DECISIONS OF THE XXVIII MEETING OF THE GOVERNING BOARD OF EUROSAI

Vilnius (Lithuania), 7 September 2004

On 7 September 2004, the Governing Board of EUROSAI held its XXVIII meeting in Vilnius (Lithuania). The minutes of the meeting will be submitted to the Board in its forthcoming meeting, to be held in Bonn (Germany) on 30 May 2005, and will afterwards be distributed to all EUROSAI members as agreed by the Committee. Nevertheless, it is considered to be of interest to provide some preliminary information on their main results.

1. The *minutes* of the previous meeting were approved and the Secretary General presented the *report on EUROSAI activities 2003-2004*, the *accounts and the financial report relating to the year 2003*, and

also the *report drawn up by the EUROSAI auditors* for the same period.

2. Information was provided on various *events* held as well as on others that are pending. Also, an account was given of the activities developed by the Working Groups:

- The SAI of the United Kingdom reported on the results of the III EUROSAI-OLACEFS Conference, on the subject of "Auditing in the 21st century", which took place in London from 11 to 14 May 2004.

- The SAI of Germany brought the meeting up to date on preparations for the VI EUROSAI Congress (Bonn 2005), pre-



Group Photograph of the XXVIII Meeting of the EUROSAI Governing Board

sending the rules of procedure to be followed in it and commenting on the activities undertaken by Working Groups set up for preparing each of the Sub-themes of the Congress.

- The Presidencies of the EUROS AI Working Groups on “Environmental Audit” and “Information Technologies” presented their activities reports. The IT Group circulated an initial draft of the Executive Summary of the report “e-Government from the Perspective of Auditing”.

- Information was provided on the INTOSAI Working Group on “Strategic Planning”.

3. On *training matters*, the co-presidency of the EUROS AI Training Committee presented a report on activities along with the most relevant agreements taken by it in relation to the design of the common Training Strategy of the Organisation and the Operating Programme for putting it into practice, which is being prepared on instructions from the V EUROS AI Congress.

The Governing Board approved the granting of a subsidy to the SAI of Portugal for holding a training event on “The Role of SAIs in the Control of Information Technologies” in Lisbon on the 13 and 14 October 2004.

The SAI of Norway presented a report on EUROS AI-IDI cooperation, fundamentally focused on the Long-Term Regional Training Programme (LTRTP), Phase II of which is being partially financed by the EUROS AI budget for 2003-2005. Equally,

IDI rendered its account on part of the subsidy received in 2003, following the procedure established when it was granted.

4. The SAIs of the Russian Federation and Portugal, respectively, brought members of the Governing Board up to date on the progress of the initiatives approved in the previous meeting, relating to the preparation of a book on “*The Current and Future Situation of Independent External Control in Europe*” (to be published coinciding with the VI Congress of the Organisation) and the holding of a Conference on the jurisdictional function of SAIs in the scope of EUROS AI (possibly as part of the VII Congress).

5. The SAI of Hungary presented information on the *XVIII INTOSAI Congress* (Budapest, 11 to 16 October 2004). The SAI of the Russian Federation, for its part, supplied details on the meeting of the *Regional Group of EUROS AI* held on the occasion of that event.

6. The SAIs of Hungary and Poland presented the Governing Board with the “*Guidelines on Audit Quality*”, approved in March 2004 by the Contact Committee of the Presidents of the SAIs of Central and Eastern Europe, Cyprus, Malta and Turkey and the European Court of Auditors.

7. Finally, the SAIs of Denmark and Poland provided information on the results of the institutional cooperation maintained within the framework of the *Conference of Presidents of the SAIs of Nordic Countries and of the Visegrad*, respectively.



THE NEW WEBSITE FOR EUROS AI¹. IT IS JUST AROUND THE CORNER

Some time ago, the EUROS AI Training Committee (ETC) decided to make a new layout and a new structure for the EUROS AI website – and now it is just around the corner. Layout as well as structure has

been reconsidered in order to meet the needs of visitors and to create a site where audit-related information easily may be found. The new site will be able to be visited after the EUROS AI Congress in 2005.

¹ By Lisbeth Sørensen. Supreme Audit Institution of Denmark.

Adapting the site to the focus area of the visitors

In order to get an impression of the visitors to the site, we examined by means of a web trend report how many visitors the site had, how long they stayed on the site, and what pages in particular they visited. This made it possible to adapt the website according to the focus area of the visitors. Even though most of the pages visited were in English, the new website has been maintained in all the five official EUROSAI languages, in order to accommodate as many interests as possible.

What is new on the site?

In some ways the website is similar to the old one – for instance the way you enter the site. This has been kept in order to deal with the five languages equally – on the front page we have added the possibility of “advertising” of for instance a forthcoming event in EUROSAI. This will make new visitors immediately aware of forthcoming initiatives within EUROSAI.

Some of the new things that may be found on the site are for instance: “About us”, this item will give a brief description of the history and members of EUROSAI and places the regional group in the context of INTOSAI. We have also included an introduction from the President of the Governing Board and the Secretary General, respectively, the Russian and the Spanish President – Mr. Sergey Stepashin and Sr. Ubaldo Nieto de Alba.

What takes place in EUROSAI?

A new calendar will allow visitors to plan their EUROSAI events with consideration to already planned events and it will give an impression of what happens in the near future within EUROSAI – all in one place. Another new item is “Conferences” where it is possible to find the relevant conference material from the various conferences. There will usually be a link between the EUROSAI website and the host of the conference. An example, which may be seen on the site, is the EUROSAI-OLACEFS conference which was held in London 2004.



Are archives available?

Materials and documents were originally intended to be a sort of EUROSAI archive where available material from various events, seminars, congresses that have been held during the past years could be studied. However, not all information is available electronically, but we include it wherever possible so you can find many different documents from various seminars on the site.

EUROSAI working groups

The working groups of EUROSAI are of course still to be found on the site, so that the work of the working groups may be followed and communicated to an even larger group of people.

- the EUROSAI Training Committee
- the EUROSAI Environmental working group
- The EUROSAI IT working group

All three groups have individual sites hosted by the French, Polish and Dutch Supreme Audit Institutions, respectively.

Place your question in a newsgroup

Close to the bottom of the page we find the Newsgroup. The Newsgroup is a forum where discussions may emerge between two or more Supreme Audit Institutions: for instance “Does anyone know the system Teammate?” or “Have you carried out any VFM examinations on waiting times in the hospital sector?” Any audit related questions is welcomed in the forum where auditors and other interested parties may ask fellow colleagues about audit related matters. It is unrestricted, cost free and may be used by everyone. This way infor-



mation may be shared to the benefit of all visitors to the site. I hope that many visitors will use it.

Long-standing information

We have of course also included the traditional long-standing information from the previous EUROSAI website, for instance, information about the Congress, the Governing Board, and the Secretariat. This long-standing information is essential as a basis for understanding EUROSAI and its activities. At the very top of the site we have the Newsletters, the Magazines, Links and addresses, just as in the old website, so that everybody can read both the Newsletters and the Magazines online at their convenience.

It is yours – use it

It is our hope that you will use the www.eurosai.org even more frequently, and that you will let us know whether you find it useful. New ideas and areas of improvement will be more than welcomed as we strive to do better for you.

The EUROSAI training committee (ETC) consists of:

- Spain
- France
- Portugal
- United Kingdom
- Czech Republic
- Germany
- Poland
- Denmark



30

EUROSAI ACTIVITIES IN 2004

• **III MEETING FOR THE PREPARATION OF THE VI EUROSAI CONGRESS**, Bonn (Germany), 20 January 2004

• **II MEETING OF THE EUROSAI IT WORKING GROUP**, Bern (Switzerland), 29 to 30 March 2004

• **III EUROSAI-OLACEFS CONFERENCE**, London (United Kingdom), 11 to 14 May 2004

• **X MEETING OF EUROSAI TRAINING COMMITTEE**, Vilnius (Lithuania), 7 to 8 July 2004

• **EUROSAI WORKSHOP ON “PERFORMANCE AUDIT”**, Prague (Czech Republic), 1 to 3 September 2004

• **XXVIII MEETING OF THE GOVERNING BOARD OF EUROSAI**, Vilnius (Lithuania), 7 September 2004

• **MEETING OF THE REGIONAL GROUP OF EUROSAI ON THE OCCASION OF THE XVIII INCOSAI**, Budapest (Hungary), 13 October 2004

• **EUROSAI TRAINING SEMINAR ON “SAIs IN CONTROL OF IT”**, Lisbon (Portugal), 13 to 14 October 2004

• **III MEETING OF THE EUROSAI WORKING GROUP ON ENVIRONMENTAL AUDIT AND ENVIRONMENTAL SEMINAR**, Sofia (Bulgaria), 2 to 5 November 2004

• **TRAINING EVENT ON “AUDIT OF TAXES AND CUSTOMS DUTIES”**, Golowice (Poland), 4 to 5 November 2004

• **XI MEETING OF EUROSAI TRAINING COMMITTEE**, London (United Kingdom), 22 to 23 November 2004

ADVANCE FOR THE EUROSAI AGENDA 2005

• **MEETING FOR THE UPDATING AND NEW DESIGN OF THE EUROSAI WEB PAGE**, Copenhagen (Denmark), 17 January 2005.

• **III MEETING OF THE EUROSAI WORKING GROUP ON IT**, Nicosia (Cyprus), 6 to 8 February 2005.

• **IV MEETING FOR THE PREPARATION OF THE VI EUROSAI CONGRESS** Bonn (Germany), 11 February 2005.

• **XII MEETING OF THE EUROSAI TRAINING COMMITTEE**, Prague (Czech Republic), 14 and 15 March 2005.

• **XXIX MEETING OF THE GOVERNING BOARD OF EUROSAI**, Bonn (Germany), 30 May 2005.

• **VI EUROSAI CONGRESS**, Bonn (Germany), 30 May to 2 June 2005.

• **XXX MEETING OF THE GOVERNING BOARD OF EUROSAI**, Bonn (Germany), 2 June 2005.

• **TRAINING SEMINAR ON “AUDIT OF PUBLIC PROCUREMENT”**, Copenhagen (Denmark) 13 and 14 October 2005.

• **EUROSAI TRAINING SEMINAR ON “SAIs IN CONTROL OF IT”** (2nd edition), Vilnius (Lithuania), 2005.

NEWS ON EUROSAI MEMBERS



31

• SPANISH COURT OF AUDIT AND EUROSAI SECRETARIAT

Mr. Ubaldo Nieto de Alba was appointed President of the Spanish Court of Audit for a new three-year period by the King of Spain, on 25 November 2004.

He will continue carrying out the position of General Secretary of EUROSAI, by virtue of Article 13 of the Statutes of EUROSAI,

• SUPREME AUDIT INSTITUTION OF AUSTRIA AND INTOSAI GENERAL SECRETARIAT

On 1 July 2004, the National Council appointed Dr. Josef Moser as President of the Supreme Audit Institution of Austria for a twelve-year period. He will also carry out the position of General Secretary of INTOSAI, according to the Statutes.

• SUPREME AUDIT INSTITUTION OF BOSNIA HERZEGOVINA

Mr. M. Segó was appointed General Auditor of Bosnia Herzegovina's Supreme Audit Institution by the President for a five-year period in 2004.

• SUPREME AUDIT INSTITUTION OF SLOVENIA

Mr. I. Soltes was appointed President of the Supreme Audit Institution of Slovenia for a nine-year period in June 2004.

• SUPREME AUDIT INSTITUTION OF GEORGIA

Mr. Z. Soselia was appointed President of the Supreme Audit Institution of Georgia for a five-year period in June 2004.

• SUPREME AUDIT INSTITUTION OF BELGIUM

Mr. F. Vanstapel was appointed First President of the Supreme Audit Institution of Belgium in July 2004 by the Chamber of Representatives for a six-year period.

• SUPREME AUDIT INSTITUTION OF FRANCE

Mr. P. Séguin was appointed First President of the Supreme Audit Institution of France by the Council of Ministers in July 2004.

• **SUPREME AUDIT INSTITUTION OF ALBANIA**

Mr. Robert Çeku was appointed Chairman of State Supreme Audit Institution of Albania by Parliament on 28 October 2004.

• **SUPREME AUDIT INSTITUTION OF MONACO**

Mr. J. Charrier was appointed President of the Supreme Audit Institution of Monaco for a six-year period in November 2004.

• **SUPREME AUDIT INSTITUTION OF MOLDAVIA**

Mr. A. Popescu was appointed President of the Supreme Audit Institution of Moldova by Parliament in December 2004.

• **SUPREME AUDIT INSTITUTION OF LATVIA**

Mr. Inguna Sudraba was appointed General Auditor of the Supreme Audit Institution of Latvia in January 2005.

• **EUROPEAN COURT OF AUDITORS**

Mr. H. Weber was appointed President of the European Court of Auditors for a three-year period in January 2005.

• **SUPREME AUDIT INSTITUTION OF LITHUANIA**

Ms R. Budbergyte was appointed Auditor General of the Supreme Audit Institution of Lithuania by the Parliament for a five-year period from February 2005.



European Union

NEW MEMBERS JOIN THE EUROPEAN COURT OF AUDITORS

On 1 May 2004, 10 new Member States joined the European Union, bringing the total number to 25. On the basis of proposals from the national governments of the 10 new Member States, and in consultation with the European Parliament, the European Council appointed, as of 7 May 2004, the following Members of the European Court of Auditors for a renewable period of six years: Mr Jan Kinšt (Czech Republic), Ms Kersti Kaljulaid (Estonia), Mr Igors Ludboržs (Latvia), Ms Irena Petruškevičienė (Lithuania), Mr Gejza Halász (Hungary), Mr Jacek Uczkiewicz (Poland), Mr Josef Bonnici (Malta), Mr Vojko Anton Antončič (Slovenia) and Mr Julius Molnar (Slovakia). On 7 June 2004, the nine new Court Members gave a solemn undertaking regarding their independence before the EU Court of Justice, as provided for in the EU treaties. On 2 November 2004, Mr Kikis Kazamias, the Cypriot Member of the ECA, was appointed by the European Council after consultation with the European Parliament.

In view of enlargement, the Court has revised its organisational structure and decision-making procedures. An Administrative Committee has been set up to handle administrative matters requiring a Court decision. This committee operates alongside the four vertical audit groups and CEAD, the horizontal audit group.



Members of the European Court of Auditors

There is now increased flexibility in the programming and implementation of the vertical audit groups' tasks. Although Members continue to perform their roles within their respective audit groups and the College as a whole, they are no longer allocated to specific fields of policy. Instead, they are responsible as *Membre rapporteur* for individual audit tasks entrusted to them by their audit group.

Each vertical audit group draws up its annual work programme in accordance with guidelines laid down by the College. The tasks are then entrusted to audit teams within the audit division, under the responsibility of the *Membre rapporteur*.

A Dean is appointed to each group by the Members of the group for renewable two-year terms. The Deans coordinate group tasks and may assume related audit responsibilities.



2003 ANNUAL REPORT

The European Court of Auditors published its Annual Report on the implementation of the 2003 EU budget on the 16 November 2004

The Court of Auditors is of the opinion that the 2003 consolidated accounts of the European Communities faithfully reflect the revenue and expenditure and the financial situation of the Communities at the

year-end, except for one observation related to the recording of the operations concerning the sundry debtors. The Court notes that the modernisation of the accounting system, due to be operational for the 2005 financial year, still requires considerable efforts before being ready for full implementation. As in previous years, the Court considers that the operations un-

derlying the consolidated accounts are, as a whole, legal and regular in the case of revenue, commitments and administrative expenditure. The Court notes the progress made as regards the reform of the Commission's internal control system and its positive impact on the legality and regularity of the Commission's internal management of expenditure. However, in the area of shared or decentralised management, and indirect centralised management, where operations are materially subject to errors, a greater effort must be made to apply the supervisory systems and controls in an effective manner so as to improve the handling of the attendant risks.

In the case of agricultural expenditure, payments were materially affected by errors due to the shortcomings in the supervisory systems and controls. The Integrated Administrative and Control System (IACS), covering approximately 58% of agricultural expenditure, is satisfactorily implemented, although the quality of the on-site inspections should be improved. The other expenditure not covered by IACS presents a higher risk, as it is subject to less effective controls: There are problems in the areas of expenditure where aid is paid according to quantities produced (olive oil, cotton, tobacco and dried fodder), rural development, export refunds and intervention storage. The process for certifying the agricultural paying agencies' accounts is satisfactory, but the Court is concerned that the financial clearance decision is still pending for 43% of expenditure declared for 2003, and for the accounts of 29 paying agencies in respect of 2001 and 2002.

As regards structural measures, owing to weaknesses in the supervisory systems and controls at the Member State level, payments to beneficiaries were affected by the same type and frequency of errors as in previous years. Progress in closing the 1994-1999 programmes remains limited, largely due to the submission by Member States of inadequately supported final claims. In spite of the reinforcement of the regulatory requirements, the Court's audit confirmed the same type of problems for the 2000-2006 intervention period. The Commission should require Member States to make improvements in the systems and use the possibility to suspend payments in cases of serious systems weaknesses.

For internal policies, the improvements made by the Commission in 2003 are not yet sufficient to avoid errors in payments to final beneficiaries, mainly due to over-declaration of costs. Shortcomings were identified in the European Refugee Fund in the field of freedom, security and justice and in the 6th Framework Programme for Research. In particular, the rules governing the research framework programmes should be revised.

In the case of external actions, the Court's audit revealed only a few errors at the Commission's headquarters and Delegations. However, weaknesses in the internal controls, together with a relatively large number of errors, were detected both at the level of the project implementing organisations and at the projects themselves. It is essential that in the framework of management decentralisation the tools needed to supervise and control systems and expenditure become effectively operational.

In respect of pre-accession strategy, in spite of the improvements noted, there are still shortcomings in the audits carried out by the Commission as well as in the internal control systems in the candidate countries, which result in errors and greater risks affecting legality and regularity in the 2003 payments.

In the area of administrative expenditure, considerable efforts have been made by the EU institutions to adapt their supervisory and control systems to the requirements of the new Financial Regulation. Nevertheless, most of the institutions had not achieved all the required changes. The Court's audit did not reveal any significant problems affecting the legality and regularity of the transactions examined.

Account being taken of the limited scope of the audit, the Court found that the EU revenue - traditional own resources, VAT and GNI - were being correctly calculated by the Commission and entered into the Communities' accounts. Further progress is, however, required to eliminate the risks to the accuracy of the data communicated by the Member States.

The European Development Funds' accounts were found to be reliable, except for problems such as the accounting of advance payments and the Stabex funds. In terms of legality and regularity of transactions, the effect of the Commission's internal control



standards is limited, because they will not apply to the Commission's Delegations until the end of 2004. However, the Court found that the supervisory systems and controls in the Delegations and the ACP states were generally well designed, although their implementation could be improved. Taken as a whole, the transactions were found to be legal and regular.

Action taken by the Commission on under-spending resulted in the surplus of revenue over expenditure amounting to €5.5 billion. While still large in absolute terms, this represents a fall compared with 2002 (€7.4 billion) and 2001 (€15.0 billion). Repeated under-spending creates a challenge for the EU's budgetary management through its effect on the increasing level of outstanding commitments – expenditure legally committed but not yet made. At the end of 2003, these outstand-



Annual Report concerning the financial year 2003

ing commitments represented five years' worth of payments, which is worse than at the same point in the previous financial perspective period. It is contradictory to increase the budget each year when there is not the ability to absorb the resources within the timescale foreseen.

SPECIAL REPORTS PUBLISHED IN 2004



35

The European Court of Auditors published the following Special Reports in 2004:

1/2004 on the management of indirect RTD actions under the 5th Framework Programme (FP5) for Research and Technological Development (1998 to 2002)

The Court's audit found significant organisational problems and delays in setting up the programme, beginning with the late adoption of the Decision by the Council and Parliament. The procedures and administrative practices for selecting indirect RTD actions, combined with the intermittent flow of the project deliverables required by the model contracts, led to an uneven workload at the Commission. The resulting bottlenecks were not conducive to efficient operation of the management system and contributed to administrative delays and deficiencies in internal controls. The Commission did not develop a common or integrated IT system for proposal, contract and project management under FP5. Tests of a sample of contracts for indirect RTD actions showed that internal controls had not always operated effec-

tively. Testing of the legality and regularity of cost claim-based payments for FP5 indirect RTD actions at beneficiary level revealed a significant incidence of errors, mainly due to an over-declaration of costs by final beneficiaries.

2/2004 on management of the Special Accession Programme for Agriculture and Rural Development (SAPARD)

The Court found that management was of mixed quality. There were substantial delays in getting SAPARD under way, caused by a failure on the part of the Commission to plan sufficiently early and by cumbersome administrative procedures in the beneficiary states. Consequently, budgets were systematically over-estimated and large proportions of available funds remained unused. In the first four years of implementation, only €323 million (14.8 %) of the available budget of €2,183 million was paid to final beneficiaries, more than half of that in the last quarter of 2003. As a consequence of the delays and implementation problems, the main objectives of the programme were not achieved in the pre-accession period.

Key implementation problems were that potential beneficiaries lacked own resources, had difficulties in obtaining credit and were faced with cumbersome administrative procedures. As a result SAPARD favoured the financially stronger and better organised beneficiaries with sufficient capital or access to loans. This was a major handicap for the smaller farms and firms which required the greatest efforts to meet standards, modernise and increase efficiency.

3/2004 on the recovery of irregular payments under the Common Agricultural Policy

The Court's audit found that Member States provide information about irregularities as required, but with varying degrees of lateness. There are also discrepancies between the data supplied by Member States and the figures in the Commission's database on reported irregularities, which is neither complete nor accurate.

At the end of 2002 irregular payments reported since 1971 totalled € 3.1 billion. Of this sum, € 537 million had been recovered from beneficiaries and € 252 million written off as a loss either to the Community budget or the budget of the Member State concerned. The remaining 75 % of reported irregular payments were still 'pending', neither recovered nor written off. Over half of reported irregular payments relate to intervention in markets: expenditure in the fruit and vegetable sector and on export refunds.

In its report, the Court recommends that the Commission should consider changes in the arrangements for the reporting, recovery and write-off of irregular CAP payments, to remedy the shortcomings found, and in the division of responsibilities between OLAF and the Directorate-General for Agriculture.

4/2004 on the programming of the Community Initiative concerning trans-European cooperation - Interreg III

The Court concluded that the criteria for assessing the Community Initiative Programmes (CIPs) were insufficiently prepared by the Commission. The desired improvements have not always been made to the CIPs. Adoption of the programmes was delayed, with the result that the coop-

eration process was interrupted and the available appropriations were under-utilised. The CIPs were prepared in the context of a consultation process. However, some obstacles to cooperation remain: there are no genuinely shared implementation structures and, while financial resources cannot be assigned by Member States at CIP level, they are at global Community Initiative (CI) level. For the current period (2000-2006) of the Interreg CI, the Court recommended that the systems of impact indicators applied to each CIP be simplified and improved. The project selection criteria should be strengthened so as to enhance the added value of projects. If the Community Initiative is renewed after 2006, the Commission should launch a study to ascertain which problems are border related.

5/2004 on the audit of PHARE support to prepare candidate countries for managing the Structural Funds

The Court concluded that although the Commission started to use the PHARE programme early to help prepare Candidate Countries for managing the Structural Funds, at the time of accession the impact was more limited than forecast. This was partly due to the inexperience and insufficient institutional development in the Candidate Countries. The Court noted that most beneficiary states allocated somewhat less than the target figure of 35 % of their national programmes to the economic and social cohesion programmes, which were intended to play an important role in preparing them for managing the European Regional Development Fund (ERDF) and the European Social Fund (ESF), mainly due to insufficient absorption capacity and competing priorities. The effectiveness of institution-building projects for preparing for the ERDF and ESF was generally reduced by frequent transfers of responsibility for regional development between ministries in Candidate Countries. The Court recommended that institution-building in the area of Structural Fund management should continue to be supported in the new Member States after accession, and a clear strategy be put in place to identify the various steps that still need to be taken to prepare the current and future Candidate Countries for managing the Structural Funds.



6/2004 on the organisation of the System for Identification and Registration of Bovine Animals

The Court found that the System for the Identification and Registration of Bovine Animals, which was set up more than two years after the target date of 31 December 1999, showed significant weaknesses. There are no guarantees that the passports of animals traded between Member States are monitored, there is no exchange of data between national databases, there are delays in updating the databases and the level of reliability of the information contained in them is often unsatisfactory. The main finding is that the identification and registration system does not guarantee the traceability of intra-Community or extra-Community cattle movements, although these movements involve approximately 3 million head per year, i.e. 4 % of the Community herd. No provision has been made for exchanges of data between Member States on movements of animals between them, and the data format varies from one Member State to another. The Court's report sets out various recommendations, such as the need to improve the legislative framework and give the Commission adequate means to take on a guiding role in the system. The rules governing management of the national databases should also be standardised, quality indicators should be drawn up, a format defined for the exchange of data between the national databases and a system implemented to certify the quality of information in the national databases. Other recommendations concern on-the-spot checks, penalties and the cross-checks which must be carried out before premiums are paid.

7/2004 on the audit of the common organisation of the market in raw tobacco

In its audit the Court concluded that the process by which the Commission drew up its proposals for the 1998 reform of the raw tobacco market was based on unreliable data and its market analysis was inadequate. The measures adopted were largely inappropriate from the outset and proved to be ineffective in many areas. The Court also found that the measures introduced did not achieve anticipated significant improvements in farmers' income

from tobacco cultivation or in terms of market balance. The value of crops was also jeopardised by anti-competitive behaviour in the form of price agreements in the three largest raw tobacco producer states. There were numerous instances of Member States failing to carry out the checks required by the regulations and the verification of key controls and the pursuit of corrections through the Clearance of Accounts process should have been extended. The Commission's monitoring was unsatisfactory and the evaluation of the Common Market Organisation (CMO) was delayed. The Court recommended that the Commission should pursue its investigations of anti-competitive behaviour in Member States and, where necessary, take appropriate action. Member States' failures to carry out the checks required by the regulations should also be pursued and corrections made.

8/2004 on the Commission's management and supervision of the measures to control foot-and-mouth disease and of the related expenditure

The Court found that before the 2001 crisis the Commission did not properly evaluate the arrangements for prevention and control of the disease and taking into account changes in risk factors. During the crisis the Commission rapidly took the necessary emergency measures, such as notification of the disease to the Member States, surveillance and slaughter of sheep which had been imported from the United Kingdom before the crisis began, and the closure of markets. However, the way in which the Community financing system was applied during the crisis led to inconsistencies. After the crisis many shortcomings were remedied; nevertheless, the financial framework has not been revised and a number of Community measures such as farm supervision, disease notification and speed in culling are still inadequate. The Court recommended that the Commission should carry out regular evaluation of the prevention and control arrangements outside crisis periods, increase supervision of their implementation as well as clarifying the financial framework applicable to animal disease epidemics, while reducing as far as possible the financial risk to the Community budget.



INFORMATION ON THE MEETING OF THE WORKING GROUP ON STRUCTURAL FUNDS¹

Bratislava (Slovakia), 20-21 September 2004

The meeting of the Working Group on Structural Funds was held in Bratislava, Slovakia on 20 and 21 September 2004. The Slovak Supreme Audit Office was honoured to host this meeting and appreciated this opportunity as the “youngest” member of this working group. Participants – representatives of the SAIs of Denmark, Finland, Germany, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom, Slovakia and the ECA (with observer status) – discussed and approved the draft Report on the Parallel Audit of the Management and Control Systems for Assistance Granted under the Structural Funds, drawn up by the Working Group.

The initial idea, and the basis for this valuable output, was born in 2000. The Contact Committee of the Heads of the Supreme Audit Institutions of the EU Member States and the European Court of Auditors (the Contact Committee) established a Working Group to carry out an exploratory survey of EU structural funds. Subsequently the Contact Committee agreed that the Working Group should conduct a parallel audit on the application of the Structural Funds regulations, to en-

sure that all Member States establish appropriate audit trails for transaction and implement independent checks on 5% of transactions. The results of the audit would be used not only by the then Member States, but also by the new Member States in developing their own management and control systems.

In order to undertake this work, the Working Group developed an Audit Plan, to be used by SAIs in carrying out their respective national audits. Each SAI has worked to this common format and produced their respective Country Report. The Working Group has then worked together to produce this combined report summarising the key findings and recommendations from those Country Reports.

The activity and output of the working group, sharing experience, exchanging opinions, and making efforts to disseminate the conclusions and knowledge that have been gained, is an excellent example of how to carry out multinational cooperation and mutual support, and to increase the effectiveness of the audit of the supreme audit institutions.



38

¹ Information provided by Maria Kysucka, Head of EU Funds Audit Department, Supreme Audit Office of the Slovak Republic.

INFORMATION ON THE MEETING OF THE CONTACT COMMITTEE OF THE HEADS OF THE SUPREME AUDIT INSTITUTIONS (SAIs) OF THE EUROPEAN UNION, ACCEDING COUNTRIES AND THE EUROPEAN COURT OF AUDITORS (ECA)¹

Prague (Czech Republic), 9-10 December 2003

Effective cooperation between the SAIs and the ECA is essential for improving financial management of EU funds in

the enlarged European Union. The ECA, the SAIs of the EU Member States, and Acceding and Candidate Countries have

¹ Information provided by Marie Eisnerová, Supreme Audit Office, Czech Republic.

been cooperating closely since 1997 in different ways and at all levels. This process has resulted in intensified exchange of audit-related information in terms of methodology, professional training and some progress in carrying out joint/parallel audits on the use of EU funds. Some SAIs from the EU Member States also take an active role in cooperating with the SAIs of Candidate Countries.

While the ECA and the Member States SAIs have been meeting regularly once a year since 1978, the SAIs of Accessing and Candidate Countries have held separate meetings with the ECA, starting in 1998 in Warsaw.

The Contact Committee meeting of December 2003, organised by the Supreme Audit Office of the Czech Republic, can be considered as a milestone in mutual cooperation and it was symbolic that it was held in Prague - the city which is said to be the heart and at the crossroads of Europe. For the first time in history, the meeting brought together both the Heads of the Supreme Audit Institutions of the 15 current Member States of the European Union and the Presidents of the 10 Accessing Countries around the same table. In addition, the Presidents of the SAIs of Bulgaria, Romania and Turkey, as

well as the representatives of the INTO-SAI Development Initiative (IDI), EURO-SAI and SIGMA were invited to attend the second day of the meeting as observers. The meeting was co-chaired by the Czech Supreme Audit Office and the National Audit Office of the United Kingdom.

The Acting Head of the Supreme Audit Office of the Czech Republic, Mr Dušan Tešnar, first welcomed the participants and stressed the historic nature of this Contact Committee meeting. He also paid homage to the memory of the former President of the Czech Supreme Audit Office, Mr Lubomír Voleník, who passed away suddenly in June 2003.

The Agenda covered the following main topics:

Working Group on the protection of the Communities' financial interests

The Contact Committee adopted a final report in which the Working Group aimed to identify the statutory framework in each EU Member State to protect the financial interests of the Communities, the structure of the authority set up for this purpose and its remit and to analyse the powers, remit and specific activities per-



Group photograph of the participants in the Contact Committee Meeting

formed by the SAIs to protect the financial interests of the Communities. The report *inter alia* concluded that, although the SAIs have no direct competence in the field of criminal law protection, they could still play an important role in preventing, detecting and deterring fraud, corruption and money laundering while carrying out their tasks. It was recommended to include the protection of the Communities' financial interests in the list of topics for possible cooperation between EU SAIs and to consider the report in the prospective national assurance-based reviews of the EU SAIs. The Contact Committee agreed to deliver the report, for information, to the EUROSAI members.

Development of the framework for cooperation between the SAIs of the EU Member States and the European Court of Auditors

The Contact Committee adopted eight guiding principles for enhanced cooperation between SAIs and ECA. In general, the guiding principles indicate why cooperation is indispensable, they lay down the basic rules of cooperation in a spirit of openness and mutual trust, and they set out the conditions for cooperation to be effective. The Contact Committee agreed on new areas for cooperation: Financial Management of EU funds, Public Procurement and Agriculture. Working Groups and Taskforces were created to explore the possibilities of cooperation in the above-mentioned areas, asking each one to report on progress and results in 2004. The Contact Committee also asked the VAT Group to draft an activity report at its 2004 meeting.

Future arrangements for meetings of the Contact Committee and the Liaison Officers

On the basis of results of a detailed questionnaire showing the position of all 15 EU SAIs on this matter, the Contact Committee discussed the future arrangements for meetings of the Contact Committee and the Liaison Officers after the incorporation of the new member states in May 2004. Several possibilities were proposed concerning the structures for the functioning of the Contact Committee and

the languages to be used in its meetings. In the light of the diversity of opinions, the Liaison Officers were asked to consider the various options and to analyse the rationale for each option as well as the possible consequences.

The position of the ECA in the draft European Constitution

The Contact Committee debated the possible consequences of the change in the status of the ECA proposed in the draft Treaty establishing a Constitution for Europe. The Heads of the SAIs of Member States and Acceding Countries agreed that the ECA, as the institution entrusted with external audit of the European Union's finances, should not be accorded a lower status than the institutions it audits, but it should maintain its present position in the institutional framework of the EU. In this respect, the Contact Committee adopted a resolution, which was together with the cover letter sent to the President and Members of the Intergovernmental Conference and to the relevant EU institutions.

Information on the activities of the **Working Group on Structural Funds** and on the **membership and organisation of the European Court of Auditors after enlargement** were also given at the Contact Committee meeting.

Exchange of information on activities relating to the audit of the Community funds

The ECA presented the DAS approach for the period 2002-2004 and reported on the monitoring elements. The new approach is based on evaluations derived from four information sources: the supervisory and control systems; the test of transactions; the relevant findings of other auditors and the annual activity reports and declarations by the EC Directors-General.

The main features of the ECA Annual Report for 2002 were also presented by the ECA. Most significant was the observation concerning the sharp fall of the budget surplus compared with 2001. Regarding the DAS it was informed that, while the accounts were reliable, the Commission's accounting system continued to display some inadequacies. Significant progress



had been made in connection with the general reform of the Commission, where the smooth functioning of the system will depend on the Commission's ability to implement the measures and reforms introduced in the new Financial Regulations.

Some information was also provided in relation to the following items:

- **Meeting of the Heads of SAIs of the Acceding Countries**, held in Krakow on 21-23 May 2003;

- Overview of the **Joint Working Group on Audit Activities**;

- Update on recent training activities of the **EUROSAI Training Committee** and the **INTOSAI Development Initiative (IDI)**;

- Update on recent activities of **SIGMA**;

- Update on recent activities of the **INTOSAI Auditing Standards Committee**

and **Report on the Draft Guidelines on Audit Quality**.

The Contact Committee decided to continue the activity of the current working groups and committees.

Prague is not only a geographical heart of Europe, but also a place where for centuries different nations were mixing and different cultures were merging. That's why it is always difficult to choose from a wide variety of cultural events and venues. Finally, we decided to combine the **social programme** with a modest celebration of the **10th anniversary of the establishment of the Czech Supreme Audit Office** - by organising a concert of classical music by the well-known Stamic Quartet in the Greg Hall of the Municipal House followed by a Gala Dinner in the French Restaurant of the Municipal House. Judging by their responses, all participants of the 2003 Contact Committee meeting seemed to enjoy the evening.

CONCLUSIONS OF THE MEETING OF THE HEADS OF SUPREME AUDIT INSTITUTIONS OF CENTRAL AND EASTERN EUROPEAN COUNTRIES, CYPRUS, MALTA, TURKEY AND THE EUROPEAN COURT OF AUDITORS

Riga (Latvia), March 31-April 1, 2004

In December 2002 in Bucharest, Romania, the Presidents of the Supreme Audit Institutions decided that the next meeting of the Heads of the Supreme Audit Institutions of Central and Eastern European countries, Cyprus, Malta and Turkey would take place in Riga, Latvia. The meeting was organised and hosted by the State Audit Office of Latvia in close cooperation with the European Court of Auditors.

The meeting was attended by 67 delegates. Among them were 15 Heads from the Central and Eastern European countries, Cyprus, Malta and Turkey Supreme Audit Institutions, as well as the Member of the European Commission, Dr. M. Schreyer, colleagues from the ECA, EU SAI's. The EU Contact Committee was represented by the UK NAO.

Members from the INTOSAI Internal Control Standards Committee, INTOSAI Auditing Standards Committee, INTOSAI - IDI Organisation, EUROSAI Training Committee and SIGMA were invited to attend this meeting.

Mr. Raits Černajs, Auditor General of Latvia, welcomed participants and congratulated colleagues from candidate states on their forthcoming accession to the European Union. Welcoming addresses by the **President of Latvia, H.E. Vaira Vīķe-Freiberga, and Speaker of the Saeima of Latvia, Ms. Ingrida Ūdre**, were delivered.

Dr. Michael Schreyer in her address thanked the ECA on behalf of the European Commission for the work they have done to prepare the enlargement.



The opening address of **Juan Manuel Fabra Vallés, President of the European Court of Auditors**, was delivered by **Mr. Maarten B. Engwirda, Member of the European Court of Auditors**.

Adoption of Agenda. The Agenda of the meeting was adopted.

The minutes of the previous meeting (Bucharest 12-14, December 2002) were adopted.

Mr. Raits ČernaĶs, Auditor General of Latvia, **presented a report** on the major aspects in the development of Latvian Audit Office in cooperation with Supreme Audit Institutions of other Central and Eastern European countries, Cyprus, Malta, Turkey and the ECA.

During the meeting the following topics were discussed: Guidelines on Audit Quality, Internal Control Systems, Joint Audit Activities, Audit Manuals, Training Activities, and SIGMA's future activities.



Group photograph of the participants of the meeting

2. Guidelines on Audit Quality

Regarding the Guidelines on Audit Quality: the decision to prepare these Guidelines was taken at the Bucharest meeting in 2002. The Liaison Officers from Malta, Hungary and Poland began the preparation of the Guidelines. A group of experts from the French Cour de Comptes and SIGMA provided the necessary assistance.

Mr. Joseph G. Galea, Auditor General of Malta, presented the first two sections of the Guidelines on Audit Quality.

Mr. Mirosław Sekula, President of the Supreme Chamber of Control of Poland, briefed the audience on Section 3 of the Guidelines concerning Quality Assurance.

Dr. Árpád Kovács, President of the Supreme Audit Institution of Hungary, introduced section 4 of the Guidelines covering quality management at the institutional level.

3. Discussions on Guidelines on Audit Quality

Mr. Maarten B. Engwirda evaluated the report on Quality Guidelines as being a

very thorough and high-quality report from which the SAIs of the present member states can learn a lot. It deserves to be proposed for putting to be put on the agenda of the Court and to be sent also to the Contact Committee of the Presidents of the SAIs of the European Union for discussion.

Sir John Bourn thanked colleagues for preparing an excellent report summing up the whole system of quality review.

Mr. Maarten B. Engwirda shared the experience of the ECA having established in the past 2 or 3 years the practice of quality reviews by outsiders from the London School of Economics, the Free University of Brussels, and the University of Cologne.

4. Internal Control systems (PIFC Expert Group)

Ms. Lidija Pernar, State Audit Officer of Croatia, gave an outline of the report and reflected on the main results: the main conclusions with respect to the legal framework and role of Internal control systems (defined in the majority of countries, based on professional standards, mandates and professional ethics established, etc.); the role of SAIs in assessment



of ICSSs, relationships between SAIs and Internal Audit Units (IAUs), recent changes in cooperation with IAUs, measures foreseen in the future.

On behalf of the expert group, **Ms. Pernar** expressed a hope that the lessons learned from the Report will not be forgotten, but will provide a basis for further discussions, seminars and workshops towards the improvement of the framework of public auditors work in general.

Mr. Ignace Desomer, Executive of the INTOSAI Internal Control Standards Committee and Member of the Belgian Court of Audit, focused on the activities of the Internal Control Standards Committee. The Internal Control Standards Committee is now in the process of updating the guidelines for Internal Control Standards and the Committee is looking forward to working together with the Working group on Audit Manuals.

5. Joint Working Group on Audit Activities

Was presented by **Sir John Bourn** (UK NAO) and **Dr. Árpád Kovács** (Hungarian SAI). The Good Cooperation Practice Guide for Audit Activities, which has been prepared by the Audit Activities task force, was presented at the meeting. The Practice Guide contains experiences gained by the SAIs in the Candidate countries and the EU. **Mr. Nick Treen** (SIGMA) evaluated the paper as excellent and educating.

6. News from INTOSAI Auditing Standards Committee

Mr. Anders Hjertstrand informed the meeting that performance audit guidelines have been prepared by the INTOSAI Auditing Standards Committee and are being translated in all INTOSAI languages and they will be available on the INTOSAI website. The work of developing financial audit guidelines is being carried out in the next project 5. A working group consisting of 10 countries has been set up to support the Committee.

INTOSAI needs more experts. Additional funding is requested from the World Bank as SAIs can fund their own operations only.

7. Report of the "Audit Manuals" working group

Mr. Maarten B. Engwirda introduced the report of the working group on audit manuals giving a short history of the working group created in Sofia in December 2000.

The Audit Manuals working group prepared the Activity Report for the year 2003, which contains background and objectives, as well as the implementation of the workshops and results of the workshops, future perspectives and conclusions and recommendations.

Mr. Dieter Boeckem informed that the working group launched 3 workshops; on IT systems, risk assessment in the planning phase, and audit sampling. There is great interest in continuing this activity. Topics of interest have been identified and listed in the order of priority, and 6 SAIs have offered to host a future workshop.

The main conclusion is that this significant project should continue in 2004 and 2005.

8. Report on EUROSAT Training activities

Mr. Guy Berger recalled the 4-year history of the EUROSAT Training Committee. At present the Training Committee is on its way to becoming fully operational with a clearly confirmed mission and strategy. Its objectives include: implementing the 2nd phase of EUROSAT-IDI programme, defining training events for the next three years and creating an entirely new website. **Mr. Guy Berger** expressed thanks to all those who took an active part in developing the Training Committee, especially members of the Committee, IDI, the Norwegian government, SIGMA, the European Court of Auditors, and the numerous SAIs that welcomed and still are welcoming these activities.

9. Report of the INTOSAI/IDI activities

Mr. Bjarne Mørk-Eidem, Auditor General of Norway, reported further progress in the IDI's activities particularly



in relation to the EUROSAI/IDI Long Term Regional Training Programme (LTRTP).

10. Presentation by the Turkish delegation

Mr. Mehmet Damar, President of the Turkish Court of Accounts, delivered an address. He stressed that Europeans must make sure that a reunited Europe provides opportunities for generations to follow.

11. Report on SIGMA's future activities

Mr. Nick Treen from SIGMA/OECD informed that the main aim of SIGMA still remains that of complementing the EU support for Institutional Building, focusing on public administration reform and financial management. SIGMA will support continuing SAI activities and encourage their participation in joint activities.

12. Adoption of the Resolutions

During the meeting the following were adopted: Resolution on Audit Activities, Resolution on Guidelines on Audit Quality, Resolution on Internal Control Systems and Resolution on Future Framework of Cooperation.

Resolution on "Audit Activities" defined the Working Group mandate of the Audit Activities as follows: contribute to, promote and facilitate effective cooperation, continue to deliver the objectives of the working group in the most effective and efficient way and consider how to use and disseminate the Good Cooperation Practice Guide to best long term effect. The Resolution requests the Working Group to provide a further update for the 2004 Contact Committee meeting and for other SAIs involved on the progress and results.

In the **Resolution on "Guidelines on Audit Quality"**, the Presidents of the SAIs recommend that a SAI should have in place effective audit quality policies, practices and procedures to ensure that its audit work is carried out at a high level, to ensure that all its audit work and reports

are based on reliable and appropriate evidence, to recognise that ensuring audit quality is an on-going process that should be given high priority, be monitored and updated as necessary, and to consider the "Guidelines on Audit Quality" as useful source material when it comes to updating its own guidelines on audit quality.

The Resolution recommended to transmit the Guidelines to the Contact Committee of SAIs of EU Member States; the EU-RORAI General Secretariat; the INTOSAI General Secretariat.

The Guidelines on Audit Quality have been transmitted to the above-mentioned institutions.

In the **Resolution on the Report on "Internal Control Systems"** the Presidents of the SAIs agree to distribute the report to a wide audience and in particular to the internal audit units in their countries and European Commission, to invite SIGMA to consider organising a workshop of representatives from internal audit units and the SAIs to discuss principles of cooperation between them, and to invite the INTOSAI Internal Control Standards Committee to take the report into consideration for its future work.

The **Resolution on "Future Framework of Cooperation"** concerns the continuation of the Cooperation Model. The Resolution stresses that cooperation with candidate SAIs and close-to Candidate Countries should continue and invite the colleagues from the Contact Committee to assist in developing a paper for presentation to the 2004 Contact Committee and agree to continue the activities of the Audit Manuals Working Group with support from SIGMA and other cooperation partners.

During the Riga meeting a letter of support for further SIGMA activities was prepared at the initiative of the Polish and Czech SAIs. SIGMA's know-how should be available to be used in the future both by the current and prospective candidate countries, as well as by other European Countries SAIs.

Finally, **Mr. Raits Černaļs** closed the meeting, acknowledging that significant work has been done in preparing the enlargement, and stressed the importance of future activities, based on the four adopted Resolutions.



VI EUROSAI Congress in Bonn

Supreme Audit Institution of Germany

The VI EUROSAI Congress in Bonn will commence on 30 May 2005. It will be hosted by the German SAI, the Bundesrechnungshof. For four days, the heads of 47 European Supreme Audit Institutions (SAI) with their delegations will hold discussions, adopt resolutions, make new contacts and refresh old ones.

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The Congress date roughly coincides with the 15th anniversary of the first initiative launched for the establishment of EUROSAI, which will be duly commemorated. Perhaps some Congress participants have been in our 'business' long enough to have witnessed the first step towards establishing the European regional working group of INTOSAI, EUROSAI, an initiative taken by SAIs from Western and Eastern Europe during the XIII INCOSAI in Berlin – five months before the collapse of the Berlin Wall. The 24 SAIs that went about establishing this new forum for closer co-operation also had a political gesture in mind. EUROSAI was officially founded in Madrid in 1990, when the first EUROSAI Congress was held.

The VI EUROSAI will discuss the theme "*Audit of Public Revenues*", with the three following sub-themes:

- Sub-theme I: *The significance of public revenues for public financial managers and for the Legislature's budget authority.*
- Sub-theme II: *The role of the SAI in the budgetary cycle.*
- Sub-theme III: *Audit of public revenues: Audit approaches and audit impact.*

Each of the three sub-themes is prepared by a working group made up of several EUROSAI Members. Each working

group is led by a rapporteur. The following SAIs have been so kind as to assume the rapporteur functions: Netherlands (Sub-theme I), United Kingdom (Sub-theme II) and Poland (Sub-theme III). Other SAIs who have kindly provided their support by joining the preparatory working groups are, for Sub-theme I: Austria, Lithuania and Portugal, Sub-theme II: Denmark, Russia, Spain and the European Court of Auditors, for Sub-theme III: France, Romania and Germany. Following intensive discussions, the working groups submitted principal papers on their respective sub-themes which were sent to all EUROSAI Members in June. On the basis of these principal papers and the attached questionnaires, the Members of EUROSAI produced country papers on the three sub-themes the contents of which are now being summarised to provide a basis for discussion and for preparing conclusions and recommendations.

For the purpose of informing the Congress participants, making the Congress documents available to them and enabling them to register electronically, the Bundesrechnungshof has set up a website which has been accessible since the middle of June 2004. It can be accessed under www.eurosai-2005.de. The principal papers and the country papers on the three sub-themes can be downloaded. Furthermore, the website furnishes information on the Congress Programme and the agendas of the sessions, and also on the formal requirements for entering Germany, suggestions about ways to travel to the venue and about the likely weather conditions in Bonn, which, while unfortunately beyond our influence, will not fail to have some bearing on the success of the Congress. But - whether rain or shine: all delegates may look forward to a warm welcome in Bonn!

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45

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Challenges faced by the EUROSAI working group on environmental auditing [WGEA] viewed from the perspective of the Supreme Chamber of Control of Poland [NIK] as EUROSAI WGEA coordinator

EWA BORKOWSKA-DOMAŃSKA

Audit specialist

Department of Environmental, Agriculture and Spatial Management Secretariat of the EUROSAI Working Group on Environmental Auditing (WGEA) Coordinator

In 2004 five years have elapsed since the EUROSAI WGEA was established at the EUROSAI Paris Congress. In that period of time the number of European SAIs directly involved in environmental auditing, or interested in exchanging information and experiences in this field, has sharply increased.



46

Openness in presenting environmental audits' results, manifest at the WGEA Seminars, reflects a common understanding of the role to be played by the EU SAIs in performance of tasks towards environment protection and sustainable development in today's Europe. Disclosing and highlighting on the international arena irregularities in the sphere of enforcement of binding environmental regulations, including those governing implementation of International Agreements and Conventions and performance of ensuing tasks, can significantly contribute to taking the necessary remedial steps by Governments of particular states.

At present the EUROSAI WGEA is faced with the important task of developing WGEA Strategy for 2005 - 2007. This is a special period for countries, in the light of the necessity to meet commitments ensuing from the Action Plan adopted at the Johannesburg Earth Summit in 2002, as well as in the context of the 2004 EU enlargement and new members' striving to meet the environmental requirements set forth by the old *EU 15*.

The Strategy is to be adopted at the approaching III WGEA Members' Meeting, scheduled to take place at the beginning of November 2004 in Sofia (Bulgaria). The primary objective of the 2005 - 2007 EU-

ROSAI WGEA activity, outlined in the draft of the above mentioned document, is strengthening cooperation among the SAIs in order to improve

- implementation of actions aimed at environment protection in Europe;
- effectiveness of using public resources to provide for environment protection and sustainable development on the European Continent.

Draft strategy stresses the WGEA's intention to continue focusing on concurrent (or parallel), joint, and coordinated audits of implementation of environmental tasks and policies, as well as observance of provisions of international Conventions dealing with environment protection.

It is necessary to add that among the proposed subjects of possible audits of environment protection, recently tabled by the SAIs, new problem areas have emerged in connection with radioactivity. Findings of the questionnaire circulated in 2004 by the SCC to study the SAIs - EUROSAI WGEA-members' preferred subjects and formats of future bilateral cooperation in environmental auditing (titled *Learning by Doing*) confirmed interest in this area among 20% of the SAIs.

At present the challenge faced by the EUROSAI WGEA is establishing close

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cooperation with international environmental agencies. The aim of this cooperation should be:

- obtaining by the WGEA information on important environmental problems which require taking up environmental audits in Europe or in European regions;
- assuring a broader publicizing of findings from concurrent audits taken up by the WGEA in the international arena, which will strengthen pressure towards a more effective implementation of audit recommendations.

A turning point in cooperation between the SAIs and international organizations in the area of environmental auditing was the Earth Summit in Johannesburg, followed by XI Session of UN Committee for Sustainable Development, in the course of which the SAI of Canada as the President of the INTOSAI WGEA presented the role to be played by the SAIs in actions taken to facilitate implementation of commitments assumed at the Earth Summit. The European SAIs can and should become actively involved in all actions pursued in this area under the INTOSAI WGEA, without at the same time shirking from taking initiatives of their own.

Cooperation between the EUROSAI WGEA and other international organizations found expression in inviting their representatives to participate in thematic seminars held by the group. For example, in the Seminar dealing with auditing management of water resources, which took place in Poland in 2002, top representatives of the HELCOM and OSPAR Conventions took part. In the Seminar dealing with waste management held in the Netherlands a UNEP representative participated. While representatives of the Secretariat of the Convention on Biodiversity, and EU DG XI have been invited to participate in this year's November Sofia Seminar.

Inviting representatives of international organizations to participate in WGEA Seminars constituted the first step towards establishing a closer cooperation. At the moment we intend to develop a long term strategy for cooperation with the UNEP and other international bodies active in environment protection, also outside the UN structures (for example, with the EU Environment Agency and DG XI).

In connection with EU enlargement, which has already become a fact, new auditing areas emerge for new EU members; they include, among others, problems connected with harmonization with EU requirements (including implementation of the so-called transition periods), or use made of EU resources to fund environment protection.

At the stage of pre-accession negotiations, transitory periods for adaptation were defined for Poland to gain time and implement costly infrastructural investments designed to cover, among others, construction and modernization of waste deposit areas, or building pipeline systems with sewage treatment plants in towns with populations exceeding 2 thousand inhabitants. Failure to perform those tasks will expose our country to financial sanctions. In this situation auditing implementation of negotiation commitments in the sphere of environment protection becomes a valid challenge for the SCC in the coming years. Similar challenges are undoubtedly faced by the SAIs of other new EU member states.

Another challenge for the SAIs - WGEA members is cooperation in audits on use of EU resources allocated to fund environment protection with due regard for exchange of experiences ensuing from auditing the use of pre-accession funds by EU-applicant countries. For example, the EU has allocated the amount of nearly 1.3 bln EURO under the ISPA Program for Poland to fund environmental undertakings between 2000 and 2006. This is a considerable amount of money which should be used in a timely, effectively and purposeful manner. The situation is constantly monitored by the SCC, which in 2002 carried out, among others, an audit of Government administration's activity towards acquiring and using EU financial resources. The audit disclosed that Government administration was not always properly prepared for acquiring and using financial resources allocated under the ISPA Fund and made available to Poland since the beginning of 2002. In the environmental sector delays were disclosed that had occurred at all stages of the ISPA Program implementation, which from the onset impaired the use of the allocated resources. At present the SCC has initiated another audit to study correctness of functioning of the Cohesion Fund (i.e., the

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fund into which the ISPA was converted following the EU enlargement in 2004).

Both audit findings and experiences collected by particular SAIs in the course of

studying the above problem area can and should be presented on the EUROSAI - WGEA forum. These issues might also become subjects of international parallel audits.

Ambitious and challenging IDI/EUROSAI Long Term Training Programme Phase II

JAYNE TOTTY, KARIN KULLER and JURI TOMILOV – Project Team
IDI EUROSAI LTTP (Long Term Training Programme)

“Today marks an important milestone, not just for EUROSAI, but for the IDI as well. One of the IDI’s ambitions has been to see a truly global network of Training Specialists. We could now look at a map of the world and know that in each corner where SAIs are striving to help nations to manage their economies more efficiently and effectively, they are supported in their work by members of the IDI’s worldwide community of Training Specialists.”

Else Karin Kristensen, Deputy Director General of the IDI. Speech at the ITW Closing ceremony, 24 September 2004.



48

EUROSAI can now say “welcome”, or should we say “dobro pozhalovat”, to 34 new IDI Training Specialists. The ink is barely dry on their certificates and diplomas, having just returned from the closing ceremony of the Instructional Techniques Workshop in Vilnius, Lithuania. They are part of the second phase of the Long Term Training Programme (LTTP) in EUROSAI, and it is the first time that such a programme has been delivered simultaneously in two languages, Russian and English.

Phase II Planning

Phase II of the LTTP started with a Strategic Planning Workshop (SPW) in Croatia, in November 2002. Two important decisions were taken at this meeting, firstly to hold the rest of the LTTP jointly in English and Russian and secondly that the training specialists develop an eight-day course on Performance Auditing. These decisions were the starting point for

the planning of the second phase of the programme and presented a significant new challenge for the IDI.

LTTP is team work

So the first question for the IDI was “how is this going to work?” The solution was to create a winning team who could rise to the challenge by bringing the right experience, subject matter expertise and linguistic abilities into the mix. In practical terms, this has meant that the classroom instruction elements of the workshops were delivered by an English-speaking lead instructor, with simultaneous translation into Russian. The workshops were co-facilitated in Russian by a Latvian training specialist from the LTTP Phase I and an Azerbaijani training specialist from ASOSAI, both of them Russian and English-speaking. Subject matter experts came from Russia and Canada and also included a performance audit expert from Poland, who is

Phase II of the LTTP started with a Strategic Planning Workshop (SPW) in Croatia, in November 2002.

also an IDI Training Specialist from Phase I. The IDI staff was also bolstered by the addition of a Russian-speaking programme co-ordinator.

The instructional team met for a three-day planning meeting in Oslo in November 2003 to work through the logistics and milestones for the programme.

The POSAW - a pilot workshop for Phase II

For the first time in preparing for an IDI train-the-trainers programme, candidate selection was handled through a Participant Orientation and Skills Assessment Workshop (POSAW). This took place over several days in February 2004 in Moscow, Russia. The decision to hold a POSAW was based on lessons learned from previous deliveries of train-the-trainers programmes, both in EUROSAI and other INTOSAI regions.

The SAIs that were invited to take part in Phase II were asked to send up to three candidates to the POSAW. That would then make it possible to select the most suitable individual(s) from each Supreme Audit Institution (SAI). Over the course of the workshop the candidates were given an overview of the LTTP, they were interviewed on an individual basis and also undertook group activities.

As well as providing assurance of the language abilities of participants, the other POSAW activities gave the opportunity to assess them against certain criteria. These criteria included the team working characteristics of each participant, their communication style, presentation skills, attitude, assumptions about training and motivators. The POSAW also gave participants the opportunity to recognise whether or not they were suited to the training role that they had been nominated for.

As a result of the success of the POSAW in EUROSAI, the IDI is now using it as a model as part of the LTTP in AFROSAI-F and OLACEFS.

The POSAW resulted in the selection of 32 individuals from 18 countries. 23 were Russian-speaking and 9 English-speaking. These people have all gone on to participate in the Course Design and Development Workshop and Instructional

Techniques Workshop and at the end of September 2004 became IDI Training Specialists.

As mentioned, there are 34 graduates from Phase II. The extra two in the final graduating group of 34 were Lithuanians who had only partially completed their training in Phase I. Phase II of the programme enabled them to complete their training as part of the English-speaking group. However, a great advantage of their joining this group was that they were also Russian-speakers. Having bilingual links within the group formed an important part of building personal relationships amongst the training specialists, especially during social activities.

Course Design and Development Workshop (CDDW)

“The workshop has united us.”

The six week CDDW, which is the longest phase of the train-the-trainers programme, was held in Sofia, Bulgaria from 26 April to 4 June 2004. The goal of the CDDW is to teach the essentials of training needs analysis, course design, course development and training evaluation, and to provide participants with an opportunity to put into practice, in a classroom environment, what they have learned, thereby acquiring the skills necessary to be proficient course designers and developers.

The CDDW in Phase II consisted of two elements:

Firstly, a practical, two-week, Classroom Instruction Segment covered task analysis, course design, course development and the evaluation strategy within the framework of the Systematic Approach to Training. During this segment of the workshop, the central focus was on developing and strengthening course design and development skills in a formalised, classroom environment. Participants practised their new skills by developing a two-day training course to meet a local SAI need.

The second segment was a four-week Practicum that required participants to design and develop the eight-day performance auditing workshop identified during the SPW as being a regional need. Unlike the

The instructional team met for a three-day planning meeting in Oslo in November 2003 to work through the logistics and milestones for the programme.

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first two-week segment, which was more formalised and structured, the Practicum put participants into an environment that might resemble their own working environment. Participants operated as teams that made most, if not all, decisions regarding production schedules and quality control. By the end of the workshop, participants produced the eight-day course on Performance Auditing, in both English and Russian, for eventual delivery to SAIs in the region.

Of course there were significant challenges on a practical level, the most obvious one being language. Simultaneous interpretation was used for the classroom instruction segment, with consecutive interpretation being the chosen method of communication for the practicum phase. The biggest impact of this was the effect on time, with all discussions within the group taking much longer than in a monolingual workshop.

Many participants had little exposure to performance auditing, so the other major challenge for participants was that they had to get to grips with many new concepts in a very short amount of time in order to participate in the practicum phase of the event. The IDI had translated reference materials from previous courses in advance of the CDDW. However, reference materials on performance auditing in Russian were more limited, so interaction with the subject matter experts played a critical role in the development of the course materials.

Feedback after the CDDW was very positive and one thing that people felt very strongly was a sense of community. The participants were asked *“Do you feel that the CDDW has had a positive impact towards building a communication network between the participating countries?”* The feedback to this question was resoundingly positive; all participants felt good about this opportunity to make connections with fellow professionals and people from other countries and cultures. To quote directly from one of the participants:

“It is one of the top achievements.” ... the “CDDW is a great chance and a very useful event for the region. Globalists may use it as an example to promote their policies”.

From another participant. *“The workshop has united us.”*

Instructional Techniques Workshop (ITW)

“ITW has convinced me that training is an art that needs lifelong learning.”

The Instructional Techniques Workshop took place in Vilnius, Lithuania, from 6-24 September. During the ITW, participants learned the essentials of adult interactive instructional and facilitating techniques. These include presentation skills, group discussion skills, group dynamics and the management of the learning process. They field-tested the materials of the performance audit workshop developed during the CDDW. Having taken on board lessons learned from the CDDW, simultaneous interpretation was used throughout the course.

“ITW has convinced me that training is an art that needs lifelong learning. You have to polish your skills again and again. The workshop gave me extensive knowledge and skills of facilitating. I’ll try to follow “20 Habits of Successful Facilitator” in the future!”

Kambar Omarov, participant, SAI of Kazakhstan

“Courses in any topic can be successfully delivered using the tools we were given at the ITW.”

Natalia Alexandreanu, SAI of Moldova

Remaining activities in the programme

The next activity of the LTTP is a preparatory session in which selected graduates from both the Russian and English-speaking groups finalise the eight-day performance audit courses. This event will take place in late November 2004 in Estonia. Again the IDI will bring together both Russian and English speakers. However, although the two language groups will make use of shared facilities and resources, they will now proceed to work independently on a course in each language. It was envisaged that despite working in two separate teams, meeting in the same venue offers a chance to share resources and to continue the co-operation and support amongst the training specialists that has been established during the earlier parts of the programme.

The biggest impact of this was the effect on time, with all discussions within the group taking much longer than in a monolingual workshop.

The next activity of the LTTP is a preparatory session in which selected graduates from both the Russian and English-speaking groups finalise the eight-day performance audit courses. This event will take place in late November 2004 in Estonia.



The IDI is also planning to run two Regional Audit Workshops for audit practitioners from the participating countries, scheduled for Spring 2005, side-by-side. There are obvious gains in terms of efficiency and economy to do it this way, and auditors participating in these events will be offered the chance to meet with a wider group of people from across Europe and Central Asia. Language is, of course, an issue, but plans will be made to bring the two groups together for key opening, closing and social events in order to offer networking opportunities. The IDI's experience is that people will transcend the language barriers and really benefit from this opportunity.

The Regional Audit Workshop will compose the eight-day performance audit workshop plus a two-day fraud module. The workshop is intended as an introduction to performance audit and fraud detection for auditors from participating SAIs, and the course will be delivered by selected training specialists.

"LTTP has the potential to radically change the practice of training in our SAI."

Gennadi Shakh, participant, SAI of Ukraine

"Integration of international practice and experience exchange is the most significant impact of the programme for all participating countries."

Nematulla Karimov, SAI of Uzbekistan



Participants from Macedonia, Bosnia & Herzegovina, Armenia, Kazakhstan and Croatia take a photo opportunity in the classroom.

"To my mind, the establishment of a pool of training specialists in the region is the greatest impact of the programme for the EUROSAI community."

Nikolai Chernev, participant, SAI of Bulgaria

Funding
<p>A significant contribution (10%) was made by EUROSAI to the funding of this programme. The EUROSAI Governing Board decided at its 27th meeting in Italy in October 2003 to provide a grant of 110,000 Euros to the EUROSAI/IDI LTTP Phase II project. The programme is mainly funded by the Norwegian Ministry of Foreign Affairs (90%), strong supporters of the work of the IDI. In addition, a number of SAIs has contributed with their "in-kind" expertise and by hosting programme's events.</p>
Participating Countries
<p>Afghanistan, Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyzstan, Lithuania*, Macedonia, Moldova, Mongolia, Russia, Tajikistan, Ukraine, Uzbekistan</p> <p>The countries participating from Central Asia are primarily Russian-speaking countries and have therefore been unable to participate in previous ASOSAI programmes, which are all delivered in English. The decision to cross regional boundaries for the first time in an LTTP programme was taken by the IDI in co-operation with EUROSAI as a practical mechanism for including countries that might otherwise have had little opportunity to take part in an LTTP.</p>

For more information on this programme please contact us at the IDI:

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The IDI's experience is that people will transcend the language barriers and really benefit from this opportunity.



* Completion of training from Phase I.

National security insufficiently safeguarded. An audit of the Schengen Visa System, 2003

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National security and the safety of civilians has always been and continues to be an important issue for the Netherlands Court of Audit. Several audits have been made focusing on security. One such audit, prompted by increased consideration of the connection between visas and terrorism following the attacks of 11 September 2001, examined the system of visa issuance. According to the Minister of Foreign Affairs, proper control of the entry of aliens into the Netherlands is important as it constitutes entry into the Schengen area.

Introduction

National security and the safety of civilians has always been and continues to be an important issue for the Netherlands Court of Audit. Several audits have been made focusing on security. One such audit, prompted by increased consideration of the connection between visas and terrorism following the attacks of 11 September 2001, examined the system of visa issuance. According to the Minister of Foreign Affairs, proper control of the entry of aliens into the Netherlands is important as it constitutes entry into the Schengen area¹. The Netherlands Court of Audit investigated the Schengen visa system between September 2002 and May 2003.

This article focuses on this performance audit of the Schengen visa system. Attention is paid to visa issuance, the audit method employed and its results.

Visa chain

Persons from certain, currently 133, countries must apply for a visa to enter the Netherlands². Provided certain conditions are satisfied, the visa entitles the bearer to enter the Schengen area. The main legal

bases for visa applications are the Schengen Agreement, the Schengen Convention and related regulations.

The Schengen Agreement was signed in 1985. Its aim was the gradual abolition of controls at internal frontiers allowing goods, services and persons to move freely between participating nations. The Convention implementing the Schengen Agreement came into force on 26 March 1995 in conjunction with the Common Consular Instruction on visa procedures. To prevent aliens from committing crime or acts of terrorism, jeopardising political relations, and entering the Schengen area illegally, nationals of a great many countries are subject to a visa requirement. In 2002 the Netherlands received over 400,000 applications for a Schengen visa. The vast majority (95%) were submitted to Dutch embassies and consulates in countries whose citizens require visas; the balance were submitted to the Royal Military Police or the Ports Police at the border.

Travellers subject to a visa requirement are processed as follows:

- an application for a visa is submitted;
- the visa application is approved or rejected;

The main legal bases for visa applications are the Schengen Agreement, the Schengen Convention and related regulations.

The Schengen Agreement was signed in 1985.

¹ House of Representatives, 2001–2002, 27 925, no. 49, page 11.

² A list of states whose nationals require a visa is included in the Common Consular Instruction (GVI), P/DIV (2000) 2000-9 version 2, pp. 6-8.



- if approved, legal entry into the Netherlands;

- stay in the Netherlands for the permitted period;
- timely departure from the Netherlands.

The Netherlands Court of Audit refers to these steps in the administrative process and treatment of visa applicants as the “visa chain”.

There are a great many links in this “visa chain”. As far as the Netherlands is concerned, the main partners are:

- the missions and policy departments of the Ministry of Foreign Affairs;
- the Immigration and Naturalisation Service and the Visa Service of the Ministry of Justice;
- the Aliens Police;
- the Royal Military Police; and
- the Ports Police.

These partners are jointly responsible for ensuring that the entire system functions well, from the issuance of visas to the monitoring of visa holders during their stay and checking that they leave the country promptly upon visa expiration.

Accountability for the visa system is shared between the Minister of Foreign Affairs and the Minister for Immigration and Integration. The former is responsible for assessing and deciding on visa applications. The latter is responsible for monitoring entry, stay and departure. The various partners operate under the authority of these ministers on the basis of delegated tasks.

Audit method

From the point of view of security, efficiency and diligence (to applicants as well as partner agencies), it is important that the visa system functions properly. This also facilitates visits for business, cultural, sporting and academic purposes. The Netherlands Court of Audit accordingly carried out an investigation to establish whether the system contributes adequately to reducing security risks and illegal immigration to the Netherlands. The investigation touched only briefly on other objectives, focusing primarily on the 90-day Schengen visa. The audit concentrated on risks rather than opportunities.

The investigation sought answers to the following questions:

- What is the relationship between the visa system, national security and the illegal entry of aliens?
- What are the risks to the Netherlands as part of the Schengen area and what policy information do the ministers have on those risks?
- Are the design and functioning of European and national legislation regarding the admission, stay and departure of aliens adequate?
- Are the resources (people, information systems, etc.) employed adequate?

The audit extensively analysed the Schengen rules and criteria as well as how these were implemented in national legislation.

Interviews were held with all visa chain partners and related services such as the ministries of Internal Affairs and of Defence, the National Ombudsman of the Netherlands and the Aliens System Coordination Project. Additionally, the visa process within four departments of the Aliens Police and the Royal Military Police was surveyed. Our audit included the examination of various records and applications.

Finally, ten Dutch missions abroad were visited and the Court of Audit observed the process of visa issuance at these missions.

A large number of files at the Ministries of Foreign Affairs and of Justice as well as at the Dutch missions were examined. These files concerned nations, themes and individual visa applicants. These latter files were selected at random.

The Court of Audit followed the progress of each of thirty applicants examined per mission through the entire visa chain (from application through to leaving the Schengen area). Thirty individual files from the Immigration and Naturalisation Service were also randomly selected and analysed. These individual applications were also tracked from application to departure from the Schengen area including every action by visa chain partners.

The individual files as a whole are considered representative of visa applicants and the procedures employed by the services involved.

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The most important challenge of the audit was the breadth of the scope of the Schengen Agreement. Because a Schengen visa permits entry into all signatory nations and the national context of the visa application procedure differs in each participant nation, many foreigners choose to apply for a visa from the nation most likely to issue one³.

It was therefore necessary to compare the Dutch process of visa issuance with procedures employed by other Schengen nations, yet the Netherlands Court of Audit has no power to audit the visa chain of these nations.

To obtain insight into how Schengen rules are implemented in other nations the Netherlands Court of Audit requested each of the Dutch missions abroad surveyed to contact two missions of other Schengen nations and request information about their procedures. In total eighteen missions⁴ from other Schengen nations were contacted. Interviews were held with each, documents studied, and at some missions procedures were observed.



Audit Results

The Dutch procedure for Schengen visas is not functioning adequately. A much tighter, more transparent, streamlined and harmonised approach is called for to remedy the lack of consistency in processing applications and issuing visas (primarily by Dutch missions abroad), and the almost total absence of information on visa holders' entry and sporadic monitoring of their stay and departure. At present the system does not sufficiently minimise threats to security or the risk of visa holders remaining illegally in the Netherlands or the Schengen area after their visas expire. Nor is it clear to what extent other interests (e.g. business, cultural, sporting and academic contacts) are actually being served.

The Court of Audit bases this primary determination on the following subsidiary conclusions:

Rules have been drawn up within the framework of Schengen on the assessment of applications for Schengen visas. They

are formulated in such a way as to permit different interpretations by individual Schengen nations.

Schengen rules are also inadequately implemented in the Netherlands. The Netherlands has not yet enacted national legislation implementing the Schengen rules and criteria. Visa system partners in the Netherlands and abroad interpret the statutory requirements and implementation agreements differently.

An important example of this are the grounds for refusing a visa application.

The grounds on which an application for a Schengen visa can be refused are laid down in the Schengen Convention. One of them is "the threat to public order", with "public order" being broadly formulated.

Listed in the Dutch registration system of the Ministry of Foreign Affairs as grounds for refusal, The Court of Audit found that "threat to public order, national security or international relations of one of the parties to the Agreement" was used 74 times in 2002 (i.e. in 0.2% of the 37,000 refused applications).

The Ministry of Foreign Affairs reported that it was very difficult for missions to carry out adequate checks on possible terrorists for they are well organised and more than capable of satisfying the visa criteria, either legally or otherwise. Visits could be made, for example, to front companies. The systems currently in place provide too little protection from such practices.

Alert function of the Visa Information System

In February 2003 the Court of Audit tested the Visa Information System at a Dutch mission abroad and found that the Schengen Information System did not even flag Osama Bin Laden's name. According to the Ministry of Justice and the Ministry of Foreign Affairs, Osama Bin Laden is on a visa action list issued by the European Union that was sent to the missions (30 May 2002). None of the ten missions surveyed reported that they had received or were using the list.

The most important challenge of the audit was the breadth of the scope of the Schengen Agreement.

The Dutch procedure for Schengen visas is not functioning adequately.

Schengen rules are also inadequately implemented in the Netherlands.

³ This is called 'visa shopping'.

⁴ One mission concerned Paramaribo. Except for the French, Paramaribo hosts no other Schengen missions.

The legal protection of visa applicants varies considerably among Schengen nations. In many the burden of proof lies with the visa applicant. In the Netherlands it is the visa issuer who must provide valid reasons for refusing a visa application. As a result it is more difficult for the Netherlands to refuse a visa than other Schengen nations. Applicants to the Netherlands who are refused visas enjoy significant legal protection under the General Administrative Law Act.

This fact, combined with the latitude of interpretation permitted by the Schengen Convention, means that legislation does not provide sufficient protection against possible threats to security and illegal immigration.

The differences in legal protection amongst Schengen nations sometimes results in a considerable difference in refusal rates between Schengen missions in the same nation. Figure 1 provides an indication of these.

The legal protection of visa applicants varies considerably among Schengen nations.

Figure 1. Differences between Schengen missions in 2002

Mission	Refusal rate	Number of applications
Beijing Netherlands	5%	10314
Beijing Belgium	Unknown	7 894
Beijing Germany	8%	89 282
Colombo Netherlands	13%	3 793
Colombo France	27%	1 907
Colombo Norway	40%	820
Istanbul Netherlands	8%	14 336
Istanbul Germany	15%	97 150
Istanbul Sweden	10%	3 000
Cairo Netherlands	12%	5 656
Cairo Belgium	25%	4 083
Cairo Germany	12%	37 500
Kiev Netherlands	12%	13 649
Kiev Greece	7%	12 087
Kiev Italy	5%	28 273
London Netherlands	11%	16 198
London Belgium	3%	12 500
London Germany*	1%	21 000
New Delhi Netherlands	9%	6 733
New Delhi Belgium	8%	2 000
New Delhi Germany	25%	27 000
Paramaribo Netherlands**	12%	21 629
Rabat Netherlands	17%	16 972
Rabat Italy	50%	5 000
Rabat Spain	20%	22 000
Teheran Netherlands	8%	11 318
Teheran Austria	9%	5 801
Teheran Italy	18%	11 277

Note: Figures for the Dutch missions are reported by the Ministry of Foreign Affairs. Figures for the foreign Schengen missions visited are based on interviews with the relevant missions in the Netherlands and the Dutch missions in the relevant country.

* The refusal rate is so low because the German Embassy, in contrast to other Schengen missions in London, deals with complete applications only. Incomplete applications are not dealt with and are thus not recognised as "refused".

** In Paramaribo, the Court of Audit did not visit any other Schengen embassies. The only other Schengen embassy in Surinam is the French.



Information and registration systems used in the Netherlands are inadequate at every step of the visa system. It is therefore impossible to design a structured monitoring regime to minimise risks relating to the entry, stay and departure of visa holders. In only about 6% of cases is it actually established that a visa holder leaves the country when their visas expires (approximately 17,000 of 330,000 visa holders).

The Court of Audit found that structural international cooperation and information exchange between the actors in the various Schengen nations responsible for visas and border control is also far from optimal.

Given the system's shortcomings, the Court of Audit favours an approach whereby an independent actor, such as the Aliens System Coordination Project (PCV), is given the task of optimising cooperation and information exchange between the various partners. The Court of Audit notes that not all major partners are currently involved in the development of the new computerised information system. It also seems that the deadline will not be met and that some partners doubt other partners' readiness to work together.

Recommendations

Based on the results of the audit, the Netherlands Court of Audit recommends that national legislation should be drawn up and agreements made within the framework of Schengen based on the Common Consular Instruction. With applicants numbering 400,000 a year, clear and workable criteria are essential. Amendments are also needed to make it easier to refuse visa applications. The Court of Audit also recommends improving organisational procedures so that a structured monitoring regime can be put in place to minimise risks. To this end, uniform agreements need to be made within Schengen.

Better cooperation is also needed between Schengen partners. The Netherlands have taken over the presidency of the European Union for the second half of 2004. During this period Dutch foreign missions

chair local Schengen talks. In countries whose nationals require visas, the Court of Audit recommends that Dutch authorities instruct missions on how to structure these talks and exploit the scope for more streamlining, harmonisation and information exchange.

The Ministers of Foreign Affairs and of Justice have agreed to these recommendations.

Conclusion

All partners of the visa chain reacted positively to the audit of visa issuance. The broader focus on the visa process in which the applicant is tracked through the entire system was very much appreciated. The audit provided insight into the entire visa procedure and how partner processes are influenced by each other. Auditing the visa chain identified the accountability of the minister of Foreign Affairs and the minister of Justice, as well as those parts where accountability is not clearly specified.

The audit also revealed the importance of the international context. Adequate functioning of the visa chain depends not only on adequate organisation in the Netherlands, but also on adequate organisation of the visa application process in all other Schengen nations. By comparing the process in the Netherlands to that of other countries, a discussion on the visa application process with Schengen partners can be initiated. This may be the only way by which the effectiveness of the visa chain can be improved.

Nowadays, our society is becoming more and more influenced by international / Schengen regulations. The Netherlands Court of Audit learned that the National Audit Office also performed an audit on visa issuance. The Court of Audit met with the National Audit Office to discuss the methods used and their results.

The international context calls for audits that reflect this context and underline the need for and value of closer cooperation between SAIs in this field.

Based on the results of the audit, the Netherlands Court of Audit recommends that national legislation should be drawn up and agreements made within the framework of Schengen based on the Common Consular Instruction.

The audit also revealed the importance of the international context. Adequate functioning of the visa chain depends not only on adequate organisation in the Netherlands, but also on adequate organisation of the visa application process in all other Schengen nations.



Computerisation of Control Activity as a tool to increase the efficiency of State Control

PROF. ANATOLY TOZIK

Chairman of the Committee of State Control of the Republic of Belarus

Being the supreme body of the financial control of the country, the Committee of State Control of the Republic of Belarus (hereinafter referred to as the Committee) exercises state control over the implementation of the republican budget, use of state property, execution of Laws, Acts of President of the Republic of Belarus, of the Parliament of the Republic of Belarus, of the Government and other state authorities regulating state property relations, economic, financial and fiscal relations.

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An analysis of processes and phenomena taking place in the financial and economic sphere of the country takes significant place in the control body work. The basic purpose of such analytical work is to draw up concrete proposals on rational and effective application of budget funds, use of state property, and also to take appropriate measures on elimination of reasons of revealed infringements.

It is impossible to meet complex, many-sided and scale challenges of the state control without effective interaction of the Committee and state run public authorities. Therefore the Committee places high emphasis on strengthening of cooperation with all structures of public authority. The practice shows that the joint work of the supreme body of financial control and public authorities can bring to more substantial results when modern information technologies are actively used. In its turn, these technologies allow to optimize both process of preparation and procedure of control activities.

First of all, the computerisation of control activity should promote efficiency of a preliminary, operative and successive control over implementation of the republican budget, a control over purposeful and effective draft on public funds, a control over an observance of the budget, financial, tax and fiscal legislation, and also it should increase the efficiency and quality of information-analytical work.

Creation of a subsystem "Currency exchange regulation" within the Committee, which was placed in operation in 2001, was the first step of implementation and use of modern information technologies at the Committee's work. As a result of information exchange between the Committee, the State Customs Committee, the National Bank, the Ministry of Trade and the Revenue Ministry, a unique database is created. It allows carrying out an analysis of foreign trade activity of enterprises by means of software. This database allows an analysis of basic documents, accompanying bargains fulfilment, and a list of exported and imported goods. Besides, this database enables to reveal the signs of infringements of statutory acts, governed the foreign-economic activity, more effectively.

At present time a subsystem "Currency exchange regulation" allows reception of information on total export and import of goods, on payments made, and also on commodities exchange regarding the subject of managing, state authority, region, and the country as a whole.

Implementation of the information subsystem "Currency exchange regulation"

At the present time a subsystem "Currency exchange regulation" allows reception of information on total export and import of goods, on payments made, and also on commodities exchange regarding the subject of managing, state authority, region, and the country as a whole.



has preventive influence upon increase of a discipline level of subjects of economical activity when effecting foreign trade transactions, what, in its turn, increases currency earnings for the country.

The possibility to enter data on prices of imported primary commodities, componentry and goods existing at foreign market into the information database is under consideration now. Such information will allow to estimate the efficiency of laying in supplies of imported goods (services), and also to carry out exported goods (services).

An automated integrated information system known as "Budgetary control" is being developed and implemented with the aim of increasing effectiveness of control over the republican budget performance, draft on funds of state off-budget funds and state special budget funds. The creation of this system is included in the State program on computerisation of the Republic of Belarus "Electronic Belarus".

The first stage of the automated integrated information system "Budgetary control" was developed and exploited in 2003. This system allows analysis of the information on the republican budget performance, on draft on funds of state off-budget funds and state special budget funds. The automated integrated information system "Budgetary control" is planned to be implemented in 2005.

Incoming information from some public bodies on the republican budget performance, state off-budget funds and state special budget funds, based on the source documents, is now being gathered by the Committee.

Due to the creation of this system, the employees of the Committee will have the opportunity to get and analyse information about income, coming in the republican budget, in automatic mode in the context of taxpayers, information about financing of main distributors of budgetary funds in the context of items of calculation of costs, and also about issued, paid, past-due budget loans. Now employees of the SAI may work with approved and adjusted (on any date and in any context) budget revenue and expenditure and budget deficit, and also with the source documents upon which changes in budget revenue and expenditure are made.

The effectiveness of the state control system requires exact coordination of all its structures. Therefore creation of a uniform telecommunicational environment of audit bodies with the use of modern achievements in the sphere of automation and computerisation can be one of the priorities. Stage-by-stage building, development and commissioning of the computer-based information system on basis of informational and analytical models is urgent for us, as well as application of methods of procession and analysis of financial information (stored in the database) and documents integrated over the corporate environment.

So far, 12 subsystems are included in the integrated information system of the Committee and they cover the main directions of its activity.

Today the automated information system of the Committee supports information and analytical processes of data-handling procedures in order to solve the tasks facing the Committee more effectively. At the same time the important task is the information security of cooperating subjects, the development and application of effective means and methods of protection within a uniform information space providing protection of the legal and physical persons rights.

The creation of such a telecommunication environment supposes use of uniform classification systems and data processing, effective use of information resources in various spheres of activity, creation of corporate networks of interaction and information interchange and use of the appropriate databases and databanks etc.

The Committee of State Control of the Republic of Belarus actively works with foreign colleagues in the field of implementation of information technologies in control practice and if necessary uses their experience in the IT-sphere.

There is no doubt that the computerisation of public bodies on the basis of advanced information technologies opens new prospects for qualitative increase of efficient use of public funds. The creation of a uniform information space of state financial control, and also use of informational-simulating systems by audit bodies to analyze and assess of conformity of accepted decisions with the purposes and

An automated integrated information system known as "Budgetary control" is being developed and implemented.

The first stage of the automated integrated information system "Budgetary control" was developed and exploited in 2003.

So far, 12 subsystems are included in the integrated information system of the Committee and they cover the main directions of its activity.



tasks of socio-economic development of a society may contribute to the effectiveness increase of control over the application of public funds.

The policy of the Republic of Belarus in the sphere of computerisation is aimed at the formation and use of information resources, stimulation of development and elaboration of modern information tech-

nologies, and also at the effective regulation of relations in IT-sphere through investment, tax and budget practice.

In conclusion I would like to note, that the Committee of State Control, participating in the processes of computerisation in Belarus, considers computerisation as one of the important tools for increasing state financial control efficiency.

Audit Collaboration between the European Court of Auditors and the Polish Supreme Chamber of Control - Some Remarks from Practical Experience

DR. KRZYSZTOF ZALEGA

Chief Specialist of the State Audit, Polish Supreme Chamber of Control



59

In June and September 2003 a mission of the European Court of Auditors visited Poland. The aim of the mission was to audit the implementation of the Sapard Program in Poland and to discover whether sound and proper management of the Program is assured on different levels of its implementation.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author and do not necessarily represent the views of Polish Supreme Chamber of Control.

In June and September 2003 a mission of European Court of Auditors visited Poland. The aim of the mission was to audit the implementation of the Sapard Program in Poland and to discover whether sound and proper management of the Program is assured on different levels of its implementation. The audit included the examination of management and control procedures in the National Fund (Ministry of Finance), in the Headquarters and Regional Offices of the Sapard Agency and on-the-spot visits to the Final Beneficiaries.

The Polish Supreme Chamber of Control (SCC) delegated altogether four audi-

tors, among them the author of this text, to assist the ECA teams in their audit work. The first, theoretical contact of the delegated auditors with the issue of such collaboration brought about two basic conclusions.

First and foremost, there are no regulatory frames, on the side of SCC, for such collaboration. Therefore the delegated auditors got confused asking themselves questions about what they are allowed to do and what they are prohibited by law from doing. It become nothing and are prohibited from doing anything. The range of actions to be performed by a SCC auditor is clearly defined by law. Moreover, it is strictly confined. For that reason each Polish auditor, from the beginning of his work in SCC to his retirement, is taught, reminded, reprimanded, etc. that while performing an audit he is allowed to move only in the area defined by law. *The Act on*

the Supreme Chamber of Control of 1994 enumerates all possible and legal actions to be taken by an auditor. It specifies his duties and rights in his audit work. And this law says nothing about the participation of the SCC auditors in an audit carried out by other Supreme Audit Institutions than SCC. In other words it says nothing about working of a Polish SCC auditor for a foreign SAI, in this case for ECA. According to article 248 of *the Treaty Establishing the European Community* the audit of ECA shall be carried out in liaison with national audit bodies. But this law applies to Member States not to Candidate Countries. This problem was solved in such a way that the delegated auditors did not collaborate with, assist, help etc. the ECA auditors, but formally "just accompanied" them in their work.

The second deduction was that there are substantial differences in audit approach and methodology. For instance, the ECA audit programme along with its questionnaires contains mainly tables with some short, precise, and general rather than detailed audit questions. The auditor is then expected to find an answer to the problem defined in a question. This approach must be confronted with the SCC practice of 40-60 page audit programmes including dozens of questions supported by hundreds of sub-questions. This way it confines the auditor's initiative because he is primarily concentrated on answering each question of the programme.

The problem of considerable differences between ECA and SCC in the audit approach applies to differences in audit performance and reporting standards. While carrying out audit the ECA auditor is asking questions and taking down the answers, or making copies of documents including data and information. And that is that. These are his audit findings, that will be the base for his report. According to the Polish law on SCC, which defines the audit procedure, the auditor must taken down answers or obtain copies of documents, and then he needs from the side of the auditee written confirmation (in the form of

his signature) that this evidence is true and original. This is not the end. After having built his report it must be confirmed as well. The ECA case proves very strong status of the ECA auditor in the audit process. But it requires an open recruitment process ensuring reliable, trustworthy, professional auditors whose words are precise, true and objective. This makes the ECA auditor's findings unquestionable and is conducive to building real prestige and respect for the auditor.

The very assistance in the ECA audit brought observations concerning the audit process organisation and time management. The ECA auditors came to Poland perfectly prepared, in terms of their knowledge about the issues to be audited, including many details. Therefore, a larger part of their audit looked just like verification of this knowledge. Such practice makes it possible to carry out audit of such vast and complex topics as in the case of the Sapard Program within 2-3 weeks instead of 2-3 months. It requires an auditor to spend a considerable amount of time on desk work - obtaining and reviewing many documents concerning the audit topics, before he enters the institution to be audited.

The conclusions resulting from this audit experience are as follows. In the case of the legal basis for such grassroots level collaboration, prompt changes in the appropriate law on SCC are indispensable or we shall do nothing till the accession (1 May 2004). Future co-operation between these two institutions calls for necessary steps to be taken, mainly on the side of SCC, but however the initiative may come from ECA as well. In order to ensure the same high audit standards more training for SCC auditors in the area of audit approach, audit documenting and reporting, is necessary. More mutual contacts at the grassroots level, which means more mutual audits performed together and more exchange of staff, are welcome. This will for sure result in greater efficiency, better effectiveness and superior status of the SCC audits.

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Experience of the State Audit Office of the Republic of Croatia in relation to creating a business model

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NEDILJKA ROGOŠIĆ, Head of Department
State Audit Office of Croatia

The State Audit Office in the Republic of Croatia was founded nine years ago. It has been organized and operational in a similar way to state audit offices in countries of European Union. With regard to social changes in its environment, the State Audit Office has undertaken different activities to adjust to those challenges. From the above mentioned reasons the strategic plan as well as business model has been established, and roles and procedures have been defined. In this article we will present them as a part of the experience we have gathered in the State Audit office.

1. Introduction

The Republic of Croatia has set the strategy of joining the European Union as one of its basic international political objectives, which implies that the State Audit Office (hereinafter referred to as the Office) has also to comply and adjust its mode and rules of work with the standards and best practice of the European Union.

The first activity related to it was self-evaluation of the Office, implemented during 2000/2001. After that the Office initiated the external independent evaluation of its work, which was carried out during 2002, with the purpose of obtaining an independent assessment and recommendations for possible changes and improvements in the further work of the Office for maximum compliance with international standards and the best European practice.

The last and hardest step was to direct resources on making, and then on the beginning of implementation of strategic plan within the foreseen business model. The purpose of that activity is strengthening the Office in the sense of an increase in

independence, efficiency and quality of work, having as a final objective the strengthening of the financial control system in the Republic of Croatia as well as of overall public responsibility.

2. The strategic plan making

Strategic planning is a process comprising establishment of the mission, setting of objectives, determination of values, and determination, implementation and calculation of strategy¹.

The result of strategic planning is the *strategic plan*. This is a vision of the Office which guides the employees, attracts new personnel and enables the better and more efficient performing of audits. The strategic plan is made by management at the highest management level and it is a base for the creation of operative plans and action plans.

2.1. Implementation of the strategic plan

The process of strategy implementation is a phase in which the planned values have to become reality.

Strategic planning is a process comprising establishment of the mission, setting of objectives, determination of values, and determination, implementation and calculation of strategy.



¹ **Strategy** comprises the long-term and short-term strategic plans. Bodies audited, projects and public investments to be audited, the time and duration of audit of each particular body, the audit teams and the size of a particular auditor's team are determined by the strategy. It is also necessary to establish the need for an improvement in the skills of auditors, the need for the use of services of external specialists, to determine the

In order to achieve implementation of the strategic plan successfully, it is necessary for all members of the management board who make key decisions to be familiar with the set vision, mission, objectives and the chosen strategy. The management board has to develop and explain the assumptions that are important for making plans and decisions to everyone in the decision-making chains, and it has to give instructions for creation of plans and decision-making in compliance with these assumptions. The organisational structure needs to be adjusted to the strategic plan. It is necessary to determine that tactical and operative plans and decisions should reflect the basic objectives and strategies and contribute to their fulfilment. The employees need to be made familiar with the basic guidelines of the strategic plan and the conditions must be created which will enable the achievement of the strategic plan.

Following the recommendations mentioned, the management board may choose various approaches to implementation of the strategic plan (partial or integral approach).

The mode of implementation which has been chosen by the Office is divided into three phases as follows:

A. The phase of preparation and creation: begun with studying the report on self-evaluation of the Office and the SIGMA report (October/November 2002). After observation of the present position, the creation of the strategic plan was initiated according to the set development requirements and the creation of the strategic plan for the future (May 2003).

B. The phase of implementation: begun in May 2003 and will conclude by December 2007. Simultaneously with the beginning of implementation of the strategic plan there is also its ongoing control, and it will end on the day of completion of application of the Plan.

The Phases of implementation are as follows:

1st phase: Determination of the right moment for beginning the implementation of the strategic plan,

2nd phase: Determination of how to assure the collective support of all who participate in strategy implementation,

3rd phase: Determination of the organisational structure – choice of style of management, forming appropriate organisational units, determination of relationship between the organisational units, forming certain working places, placement of the information system and the system of control of fulfilment of the strategy, determination of the management system (Who assumes responsibility for what? Who has authority over whom? Who reports to whom?)

Determining the information and control system means determining what information about the effect of an organisational unit or an individual must be given to whom and when, determining from whom a response to such information is required, how such persons are authorised to respond and what authorisations they have in the development of the resources of their organisation,

4th phase: Designing the organisation. This comprises: apportionment of the whole task among organisational units, working places, object and purpose, determination of human and material resources needed and determination of information flows,

5th phase: Determination of procedures, rules and budgets,

6th phase: Determination of mode of control.

C. The phase of systematic analysis: on the basis of follow-up of the tasks performed as referred to in phases 1 and 2, which will continue throughout 2007, and will also comprise the creation of the Plan for the following five-year period.

In order to achieve implementation of the strategic plan successfully, it is necessary for all members of the management board who make key decisions to be familiar with the set vision, mission, objectives and the chosen strategy.



methods of collecting data and documentation regarding the bodies audited prior to the creation of the annual audit plan (particularly data on projects and public works), and finally to determine whether the existing organisational structure and human and material resources permit the achievement of the strategic plans or whether changes and additional resources are needed.

The Determination of SAO's strategy therefore considered the determination of performance measures, management standards, performance measuring and evaluation, and control of the strategic management process.

3. Business model of The State Audit Office

A business model is a document used as a basis for the identification of business processes of the Office and its operational units.

The assumption for the construction of a business model is contained in the fact that the internal organisation of operational units must be a result of business operations and processes related to that operational unit. Tasks and activities to be undertaken for the performance of operations and processes define the flow of information and technology needed. Organisation, information and technology are key elements for the definition of human resources.

The business model proceeds from **the organisational chart presenting the structure of the Office** and is defined for:

- a) State Audit Office as an entity → **basic business model**
- b) each department → **business model of the departments depending on what they are in charge of (department for auditing of state budget and its beneficiaries, department for the budget auditing of local government and self-government units, etc.)**
- c) each regional office.

3.1. Description of the business model

The description of the business model of the Office and its operational units contains the information about:

- a) clients,

- b) products,
- c) mode of delivery,
- d) what is necessary for efficient operational performance of the operational unit and
- e) description of operations according to products.

The business model is developed in the above mentioned order, separately for the Office and separately for its operational units.

3.2. Clients

First of all, it is necessary to define who the clients are and **who** the State Audit Office and the operational unit are **working for** (not who with).

Separately defined clients are those of:

- a) the State Audit Office,
- b) each department,
- c) each regional office.

Clients may be:

internal – other operational parts of the Office.

external – clients from the business area the Office and each department or regional office (parliament, audit subjects, public prosecutor’s office etc.) are operating in.

3.3. Products

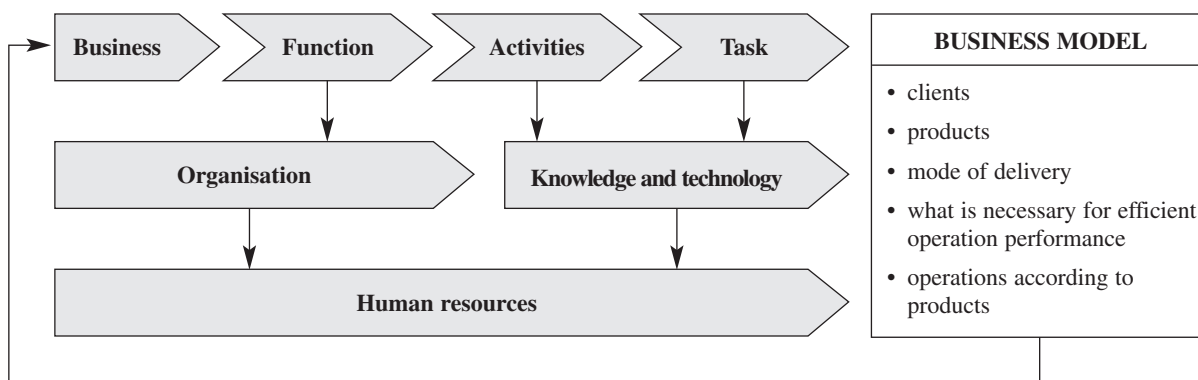
In order to determine a product, it is necessary to determine **what** the Office is

A business model is a document used as a basis for the identification of business processes of the Office and its operational units.

First of all, it is necessary to define who the clients are and who the State Audit Office and the operational unit are working for (not who with).



Figure 1. The basic business model



doing, and what the operational units are doing for their clients.

The basic product of the Office, its departments and regional offices is – **auditing**.

According to that, in order to determine the basic product, it is necessary to determine which type of audit and how many audits the Office is performing, what type of audit and how many audits are performed by each department and what type of audit and how many audits are performed by each regional office.

3.4. Mode of delivery

The Office and its organisational units and regional offices are delivering their product in form of – a report, as:

- an annual report of the Office,
- a report issued for a period of six months by the Office,
- special reports of each department, and special reports of each regional office.

3.5. What is needed for efficient operation performance?

In order to perform efficient operations, produce high-quality products, have satisfied clients (external and internal), above all, very good product knowledge and clear distinction of audit type and goal determination of each audit being performed is required, as well as being familiar with the working methodology, the methodology of the process and procedures, working instructions and legal regulations.

3.6. Operations according to products – operations related to audit performance

This part of the strategy comprises all operations that need to be performed by the Office, each department and each regional office in order to realise particular products. These operations are related to clients and mode of delivery.

After having determined the client, product and mode of delivery, the operational process of each individual department and each individual regional office needs to be determined, taking into consideration their mutual relationships.

4. Business process

A **business process** is based on the defined business model. It consists of a number of activities (phases) which, when interrelated, produce a final result and form the essential product of the office – auditing.

The advantages of organisation directed to processes are in the first place related to management, because they enable:

- management of process efficiency on the level of each operational unit,
- standardisation in business process development,
- easier management of dispersed activities taking place in regional offices,
- argued process improvement,
- standardisation of the required staff profile,
- identification of activities in the process generating needless consumption of time and expenses and
- establishment of the basis for the calculation of the unit-based price per product.

4.1. How do we record business processes?

Business process records proceed with the construction of a business model.

In the course of a business model construction, operational units recognize their product and major activities for the establishment of that product.

For all these activities it is necessary to establish:

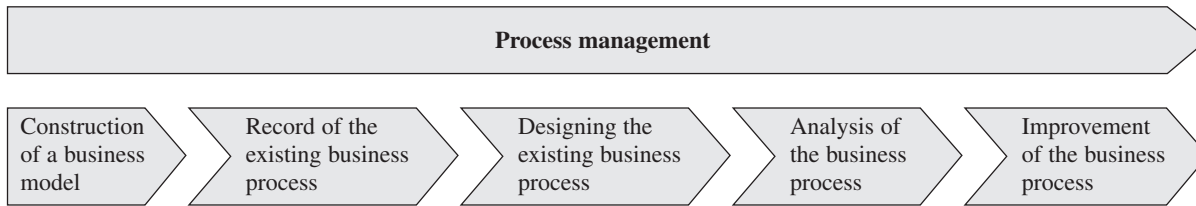
- in detail the way these activities and the working method develop,
- a separation between operational units, if necessary,
- rules concerning activities performance,

In order to determine a product, it is necessary to determine what the Office is doing, and what the operational units are doing for their clients.

A business process is based on the defined business model. It consists of a number of activities (phases) which, when interrelated, produce a final result and form the essential product of the office – auditing.



Figure 2. Process management



- the responsibility of participants,
- technology utilisation and required documentation and
- outgoing documentation.

In this connection, it is necessary to be concerned with legal and internal regulations.

4.2. *How can the existing situation be recorded? Who by?*

In the course of the business process record, the following questions need to be answered:

1. What initiates an operating process:
 - clients – in what way (in person, in writing, by electronic means, by law....)?
 - communication with external institutions?
 - data from another business process?
2. When is the process temporally performed?
3. Which phases does the process consist of?
4. Which actions (steps, activities) does each phase of the business process consist of?
5. Which order are these actions taking within the process?
6. Which and what kind of cause-and-effect connection does exist between activities and events?
7. What documentation is required for the performance of particular actions of the business process?
8. Where is each step of the business process and the process as a whole being performed?

9. How is communication within the process (data processing, email, fax, mail) and between process performers working?

10. Which tools do participants use while working on that process or while performing activities?

11. What is the result of each phase of the business process and the process as a whole:

- documents, floppy discs, cards, reports?

- data serving as an entrance into another business process?

- a product?

12. What is the minimum/maximum average duration of:

- each action?

- each phase of the process?

- the process as a whole?

13. How many participants do on the average participate in the performance of the process?

Communication and responsibility of operational parts for particular parts of the business process between sectors is defined **by designing and documenting the business process.**

Business process documentation enables participants of the business process to become precisely aware of their duties and authorities.

Process documentation standardizes employees' behaviour. If employees follow established working procedures, their activities will be performed in the same way, based on the same assumptions and in approximately the same time.

When the process becomes unambiguously documented, its analysis can proceed and possibilities of improvement can be viewed.



Communication and responsibility of operational parts for particular parts of the business process between sectors is defined by designing and documenting the business process.

4.3. Types of business processes

Three essential types of business are defined in the State Audit Office, as follows:

- management processes,
- support processes and
- major processes – directed towards the fulfilment of client needs.

In order to complete business processes successfully, working procedures are established with detailed description of actions that need to be performed.

4.4. Working procedures

Working procedure is a textual document with the description of business processes, **whereby** it contains as a rule the following essential topics:

1. Introduction,
2. Reasons for establishment of procedures,
3. Organisational components participating in the business process,
4. Work places of business process performers,

5. Description of the business process – precisely stated working methodology, precisely stated, specified and described activities, detailed course of activities performance, interrelated connection of activities, operational units participating in the performance of particular activities, mutual communication and

6. Final and transitional provisions.

Working procedures of the Office are incorporated in the document known as **Audit Manual for State Auditors** and other reference books and internal documents of the Office.

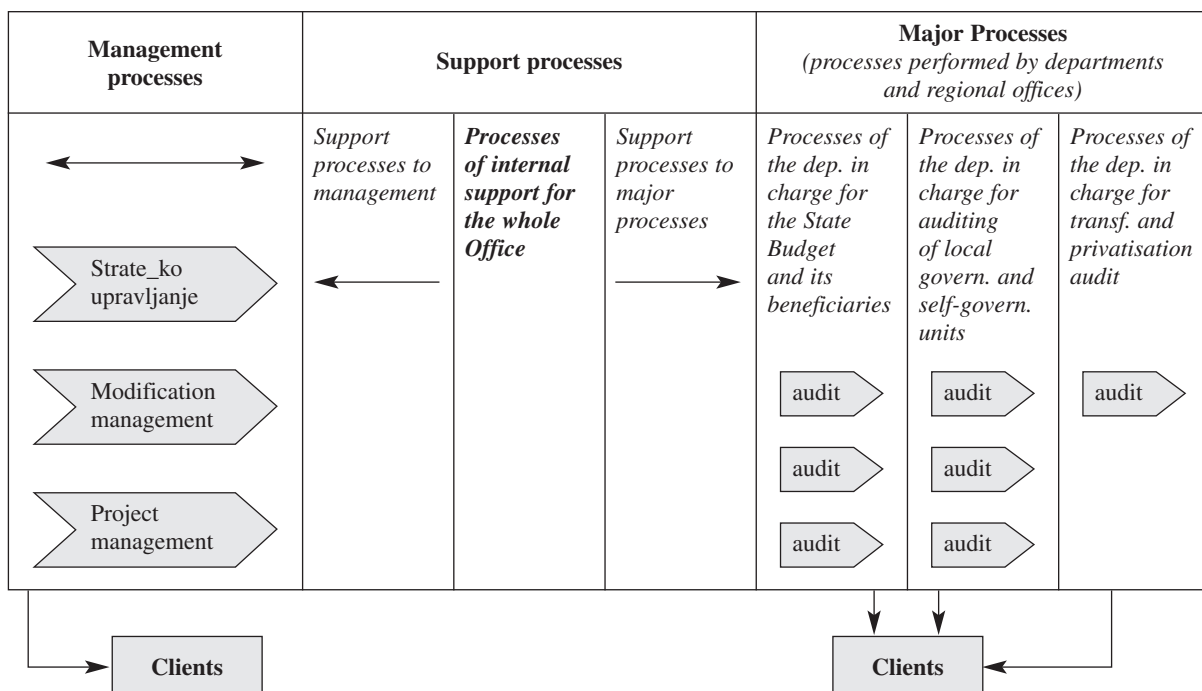
5. Conclusion

A Clear determination of the mission, strategic goals and strategy itself is the basic condition for successful realisation of the line of activities due to which any institution or company is established. The rules and procedures that should be available to every employee define how and in which way, when and by means of which human and material resources this is to be realised. These are the documents according to which the implementation control of the chosen strategy, and all other activities undertaken in con-

Working procedures of the Office are incorporated in the document known as Audit Manual for State Auditors.



Figure 3. Architecture of the SAO's business processes



nection with this, is carried out, and certain omissions or requirements to change or supplement some of the procedures or rules due to newly created circumstances are noticed. The State Audit Of-

fice believes that a well-defined approach will need overall to better functioning as well as to a constant improvement in the quality of audits and overall Office efficiency.

The role of the Portuguese Court of Auditors in the prevention of corruption

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As corruption is an important phenomenon at the level of abusive use of public powers, and, by its very nature, difficult to identify, quantify and prove, the prevention and dissuasion measures take on special importance. It is recognised at this level that the action taken by auditing institutions may play a relevant role.

1. Introduction

Identifying what type and degree of intervention the Supreme Audit Institutions (SAI) should adopt concerning situations of corruption is a much debated question, both within each one of institutions as well as externally, namely at international conferences (see documental references at the end of this document, and as an explanatory note, the number of events at which this theme was discussed).

As corruption is an important phenomenon at the level of abusive use of public powers, and, by its very nature, difficult to identify, quantify and prove, the prevention and dissuasion measures take on special importance. It is recognised at this level that the action taken by auditing institutions may play a relevant role.

As regards the Portuguese Court of Auditors this issue once again emerged due to the recent evaluation of the Portuguese State, carried out by the Group of States Against Corruption (GRECO) of the Council of Europe.

2. Evaluation report of the Group of States Against Corruption (GRECO)

At the end of 2002, Portugal was evaluated by GRECO, with the objective of verifying the existence, reliability and efficiency of the mechanisms for prevention of and fighting against corruption and its alignment with the international recommendations on the subject.

The respective report was approved by the GRECO Plenary in July 2003 and contained an evaluation of the situation verified and a set of recommendations which Portugal should implement, reporting back to GRECO by the end of 2004.

Generally speaking, a favourable evaluation was issued on the efforts made in Portugal towards reinforcing measures for prevention of and fighting against corruption. It was considered that Portugal has firmly answered the challenge made by this phenomenon, whose existence is recognised although it cannot be quantified.

This report states that the Portuguese authorities have a good degree of speciali-



It was considered that Portugal has firmly answered the challenge made by this phenomenon, whose existence is recognised although it cannot be quantified.

¹ With the valuable contribution of Ms. Márcia Vala and Mr. António Silva, both Audit Managers in the Portuguese Court of Auditors.

sation and competence, at both judicial and administrative levels, for tackling these problems. However, the following recommendations are made:

- The improvement of inter-departmental coordination, namely in the definition and implementation of strategies for fighting against complex forms of crime, including corruption, and in the integration and inter-connection of information and of the existing databases.

- The reinforcement of human resources and material available to the police, the Public Prosecutor, the judges and the internal control bodies.

- The revision of the procedural rules applicable to the criminal investigation process, in order to reduce possible delays.

- The creation in the courts of sections specialized in economic and financial crimes or, at least, the adoption of measures to specialize judges in this area or to reinforce the panel of experts to whom they may have recourse.

- The reinforcement of control and supervising mechanisms of the integrity of civil servants in areas at special risk to corruption, namely the police.

- The reinforcement of the conscience of civil servants relative to the legal obligation of reporting crimes, namely corruption.

- The reinforcement of the role of internal control bodies in the control of corruption risks.

- The adoption of concrete guidelines on the legislation on immunity.

The report in question includes quite positive references to the relevancy of the activities carried out by the Portuguese Court of Auditors in the prevention of situations of corruption.

In particular, it refers to its perception regarding the role it can develop in this matter, the attention dedicated to areas considered to be at risk in matters of corruption, as is the case in public tenders and the granting of subsidies, the positive effect of its links with the internal control bodies and with the Public Prosecutor, and also the aligning of its activity with INTO-SAI recommendations.

One of the recommendations directed to the Portuguese State advises that the

Court of Auditors be, due to its competence and specialization, linked to structures for coordination and definition of global strategies for the fight against corruption.

3. The action of Supreme Audit Institutions (SAI) in the prevention of corruption

Situations of corruption are defined as those where someone illegally and abusively uses powers or the civil service in exchange for advantages for himself or others, namely receiving monies or other benefits.

It is generally considered that the fight against corruption is not the main objective of the activities of the Supreme Audit Institutions but it is also recognised that these institutions cannot be excluded from this fight.

From the outset, trading favours can be the cause of serious financial losses to public bodies and, on the other hand, citizens can, as a result of decisions motivated by reasons outside the public interest, be seriously harmed in the public service to which they are entitled. In both cases, the defence of interests at stake is included in the SAI mission and constitutes one of the reasons for its existence.

It is also widely known that the effective performance of the audit function contributes to the reduction of the risk of occurring situations of corruption.

This is because corruption is favoured in environments of little transparency, poor competition, a high degree of discretion and low accountability, conditions which are directly countered by the activity of the auditing body.

In fact, it is known that the activity of the SAI:

- Ensures the principles of regular rendering of accounts and accountability;

- Contributes to the integrity and credibility of the financial information produced by the various bodies subject to its control;

- Promotes transparency of operations, making the activities of public bodies or their agents more visible;

It is also widely known that the effective performance of the audit function contributes to the reduction of the risk of occurring situations of corruption.



- Monitors the foundation and usefulness of actions, reducing the arbitrary nature of the application of decisions and acts of law;

- Gives public notice of violations of the principles of legality, accountability and economy, efficiency and effectiveness;

- Dissuades possible abuses or diversion of public funds;

- Contributes to the strengthening of institutions and their systems of control, information and management, thus reducing the scope for illegal activities.

On the other hand, this activity promotes a higher standard of behaviour, respectful of the ethical principles of public service, and can also give attention to and possibly uncover and denounce suspicions of corruption.

The SAI's belonging to INTOSAI (their international organisation), while aware that they are not specifically or directly responsible for prosecuting acts of corruption, are also aware of the possibilities their activities offer in reducing the windows of corruption opportunities. In the 1998 Congress, in Montevideo, a set of recommendations for the reinforcement of the SAI's role in the prevention of and fight against corruption was approved. These recommendations were as follows:

- To guarantee and reinforce an adequate level of financial and operative independence of the SAI and the breadth of audit coverage;

- To evaluate more actively the efficiency and effectiveness of financial and internal control systems and to aggressively follow up in SAI's recommendations;

- To focus control in areas where risks of fraud and corruption are higher;

- To ensure greater accessibility to and publication of their reports;

- To reinforce cooperation and the exchange of information with other national and international bodies fighting corruption;

- To intensify the exchange of experiences in this matter with other SAI;

- To encourage the establishment of personnel management procedures for the

public service which helps select, retain and motivate competent and honest employees;

- To encourage the establishment of guidance for financial disclosure by public servants and to monitor its compliance under the auditing process;

- To promote higher standards of ethical behaviour based on codes of conduct.

- To establish transparent means for receiving and dealing with denunciations of irregularities.

Having analysed several reports from various SAI in relation to situations of corruption, we verified that their general objective is the analysis of control systems in order to identify the weaknesses which allow the occurrence and non-detection of existing situations of corruption, the insufficiencies in supervision, the measures taken at various levels for the correction of those weaknesses and insufficiencies and the recommendation of improvements to be introduced, all in order to avoid the repetition of identical situations.

Out of the recommendations included in those reports, we would like to point out the improvement and supervision of the effective functioning of the internal control systems, the adoption of rotation measures and special attention to the behaviour of personnel exposed to situations of high risk of bribery, the approval of codes of ethics and conduct and the adoption of measures to guarantee these are known and observed, the adoption of rules on the accepting of offers and on conflicts of interest and the necessity to act in order to guarantee the recuperation of public funds corresponding to losses verified.

4. Procedure of the Portuguese Court of Auditors

As regards the procedure of the Portuguese Court of Auditors, and bearing in mind the general guidelines we have just referred to, within the context of its action and habitual control procedures, various aspects were identified which contribute to the prevention of situations of corruption, and conform to the aforementioned INTOSAI recommendations.

These are namely:

This activity promotes a higher standard of behaviour, respectful of the ethical principles of public service, and can uncover and denounce suspicions of corruption.



- Law no. 98/97 of 26 August, which includes the activity of the Court of Auditors, establishes, at the end of no. 2 of article 11, that this body seeks to “...divulge the information necessary to avoid and curb waste, illegality, fraud and corruption relative to public monies and assets, both national and european”;

- There are guarantees and practices adequate to the independence of the work carried out by the Court, and non-limitation of the ambit of its powers of intervention and the publication of the respective results;

- All denunciations received by the Court (even anonymous ones) are subject to analysis and consideration under the framework of the audits in which they can be inserted, some of them having already determined the programming of specific audits;

- Some of the areas identified by INTOSAI as being at higher risk of corruption have been worked on, namely awards in public procurement and execution of public works or acquisitions, the granting of subsidies, collection of taxes and the recruitment and management of staff. An intensification of control may be considered in other areas, for example, the recuperation of fiscal debts and the control, evaluation and alienation of property;

- As recommended in the *Court of Auditors Auditing and Procedure Manual*, the Court generally adopts in its audits the method of evaluation of internal control systems.

In the development of audits, the auditor from the Portuguese Court of Auditors should, also in accordance with the internationally accepted auditing standards, make an assessment of the administrative and financial information workflows and the key points of control, verifying that these are sufficient to ensure the reliability of the records, thus enabling the detection of the existence or not of significant errors and irregularities.

The extraction, description, confirmation and evaluation of the existing circuits allow the auditor to ascertain if the system is reliable or not, both in its conception and its functioning, and determines the focusing of research on risk areas.

Thus the auditor is attentive to situations of weakness in internal control, the

adherence or not to the principles of delegation and segregation of functions, the organisation of key sectors of the body audited, the insufficiencies in matters of regularity of bookkeeping, unusual transactions, unjustified expenses, wastefulness and the institution or not of disciplinary actions and criminal reports relative to the irregularities detected.

Amongst the main points of the audit reports of the Court of Auditors and of the findings on the report about the General State Account are the recommendations towards improving the situations observed, namely under the ambit of internal control. Supervision of the observance of these recommendations is frequently provided for.

On the other hand, the Court of Auditors has the competency for prior inspection of the legality of contracts of significant financial relevance, being able to prevent their implementation. It also has jurisdictional powers of application of sanctions to those responsible for financial infractions.

The work of the auditor includes providing proof of irregularities detected, which can have eventual consequences of, among others, sanctioning by way of criminal and/or financial liability.

The Public Prosecutor is responsible for proceedings in civil, criminal or financial actions. For this purpose, the audit reports of the Court of Auditors are provided to this office under the terms established by law.

The following are some of the results which have contributed tangibly to the prevention of situations of corruption and, exceptionally, the reporting of these:

a) Audits

In various audits carried out, namely on decentralised and local authority organisations, it was found that the internal control system was structured in a very empirical manner, based on unwritten routines and with limited supervision of directors and employees, without points of control, not guaranteeing the degree of efficiency and security considered adequate to the organisation controlled. This led to the formulation of recommendations for its improvement.

The auditor should, make an assessment of the administrative and financial information workflows and the key points of control.



The study of the selected areas shown the necessity for the broadening of some aspects linked, for example, with the relationships between Municipalities and external bodies (e.g. local football clubs) and the management and use of Permanent Funds on the part of executive Presidents.

The irregularities detected in audits involved, for example:

- Monies spent on items outside the purposes for which they were provided, without justifying documentation or without supply;
- Direct contract adjustments out of the exceptional situations in which they are legally allowed;
- The non-observance of stipulated legal procedures;
- Significant diversion of costs throughout the implementation phases of construction works;
- The violation of rules applicable to recruitment, selection and management of staff, as well as of the general principles and guarantees which should be obeyed;
- The admission of staff without the necessary legal requirements;
- The accumulation of functions and the payment of assistance for costs and overtime beyond the required legal limits.

The implementation of the recommendations formulated and the sanctioning of some of the irregularities detected contributed certainly to the structuring of management control systems better prepared for preventing fraud and abuse and for reducing risks of bribery and corruption.

b) *A priori Contract Audit*

The essential objective of preventive auditing carried out by the Court of Auditors on contracts with a value greater than €310 330 is to foresee possible irregularities and to build up an educational function with the services involved.

It applies to the legality of the expenses and the contract, and takes into account the respective budget coverage and the observance of other financial regulations, the compliance with the legal requirements relative to the procedures for selecting of proposals and the basis for adjudication, the

verification of the requirements for competence and suitability of the companies with whom the public body will contract, and the legality of the contract clauses.

The irregularities most frequently detected under the ambit of prior inspection are the following:

- Non-compliance with the regulations relative to competency to authorise expenses;
- Insufficient funds for the commitment entered into;
- Non-existence of the necessary authorisation for taking on future commitments;
- Unjustified resort to credit;
- Resorting to direct adjustments without legal foundation;
- Insufficient publication of notices on the opening of the tender;
- Non-observance of the legal deadlines for the presentation of tenders;
- Omission, incorrect indication or contradictions as to the requirements and the factors of evaluation of tenders;
- Insufficient foundation of the adjudication;
- Beginning of work without prior affixation of the respective base cost;
- Awarding for a considerably higher price than the base cost;
- Reduction of guarantee limits, without foundation;
- Non-provision of formula for price revision;
- Qualification such as “extra work” of work not within the respective legal concept.

Assiduous and prior control of the type of situations mentioned above reduces the risk of occurrence of situations of corruption which, in the area in question, are normally verified in favour of certain service providers, especially in the adjudication phase.

c) *Responsibility Processes*

Besides the observations and recommendations included in the audit reports and the impossibility of executing con-

The essential objective of preventive auditing is to foresee possible irregularities and to build up an educational function with the services involved.



tracts considered as illegal during prior inspection, the Court of Auditors also notified the Public Prosecutor of infringements detected. In some cases this led to the introduction of proceedings to determine criminal liabilities, in the appropriate courts, or financial liabilities, in the Court of Auditors.

In cases of financial liability, the proceedings provided for the application of fines to those responsible for the infringements or the recuperation of the monies improperly spent.

5 Conclusion

The principal effect of the controls developed by the Portuguese Court of Auditors with regard to situations of corruption is of an essentially preventive nature, as is the case in other Supreme Audit Institutions and as is appropriate to its mission.

It is situated at the level of safeguarding and making effective principles such as transparency, integrity, legality, competition, sound management, accountability and prevalence of the public interest, in which environment it is more difficult for corruption to develop, thus reducing the risks of its occurrence.

The requirements and procedures to be observed in the development of the work of inspection and audit will permit, in some cases, the reporting of suspect situations and the directing of these to the appropriate authorities.

Such reports are made in the exercise of a legal duty consecrated in articles 386 of the Penal Code and 242 of the Penal Procedure Code and are facilitated by the existence of permanent representation of the Public Prosecutor at the Court of Auditors.

The mechanisms of effecting financial liabilities, available to the Public Prosecutor and the Court of Auditors allow the repayment of public funds corresponding to the losses verified, as is also recommended internationally.

However, the favourable evaluation made by GRECO and the fact that large parts of the INTOSAI recommendations in this matter are reflected in the activity developed do not signify that there is no room

for improvement in the action that the Court of Auditors may have in this matter.

Thus, it may equate itself with the identification of other areas of risk to be worked on, the development of specific risk indicators, the increase of supervisory activities in the implementation of recommendations, the reinforcement of cooperation and the exchange of information with other national and international bodies for the prevention of and fight against corruption, namely under the ambit pointed to by GRECO or in the framework of cooperation with internal audit bodies, the intensification of activities of reinforcement and control of standards of ethics and conduct and the record of interests and more relevant handling of denunciations received, in this way continuing to honour the recognition obtained as to the quality of intervention of the Court of Auditors in this area.

Lisbon, September 2003

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In cases of financial liability, the proceedings provided for the application of fines to those responsible for the infringements or the recuperation of the monies improperly spent.

The principal effect of the controls developed with regard to situations of corruption is of an essentially preventive nature.



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Role, Duties, Resource Regulation and Audit System of Local Governments in Hungary

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With the transition to parliamentary democracy and market economy the public task of co-ordinating and manage the operation of communities was given to local governments, replacing the former system of local councils. With a decentralisation of central government resources and properties necessary for the local government tasks, and their funding, 3103 local governments were established in 1990. (At present there are 3187). The majority of local governments are operated at community level. In addition, county governments, which played key role in the old funding system, have also remained.

Establishment and Role of Local Governments

With the transition to parliamentary democracy and market economy the public task of co-ordinating and manage the operation of communities was given to lo-

cal governments, replacing the former system of local councils. With a decentralisation of central government resources and properties necessary for the local government tasks, and their funding, 3103 local governments were established in 1990. (At present there are 3187). The majority



of local governments are operated at community level¹. In addition, county governments, which played key role in the old funding system, have also remained.

Local governments manage public funds and property, and constitute along with local minority self-government a sub-system ("sector") of public finances. Through their financial transactions they are financially interrelated with the whole system of public finances, especially with the central budget as a consequence of central subsidies and other central budget interrelations. Local governments are interrelated with the other sectors of public finances too (Social Security, Separate Funds).

The **total expense of the local government sector** of public finances amounted to HUF² 2.500 billion in 2003, according to **GFS**. This sum represents 12 % of the Hungarian GDP.

The possible spending by local governments is constrained by the revenue they can raise and then mostly use discretionarily. The outlay of expenditures is set by the local government councils on the basis of their own objectives, taking into consideration both the statutory requirements, obligations, and the processes launched and determined by the decisions of the previous years.

Tasks of local governments

Local government tasks are defined in the Acts dealing with local governments, with the authority of different institutions, and the operation of economic sectors. Tasks of different sorts and nature are to be performed at local self-governments and county governments. The public services rendered by local self-governments aim to satisfy basic needs, and, in addition, they must also provide for the performance of

local public administration tasks. However, the county governments are liable for performing all remaining tasks under public services, since local self-governments (specially those of villages and smaller towns) are not capable of doing this due to their size, financial capacities and professional competence.

According to the Local Governments Act both kinds of local government can also take over from one another public tasks that are of the same sort.

In comparison with European countries the engagement of Hungarian local governments in public task performance is high. In fact, with the fundamental change of the political system a number of public services funded formerly by the central budget were outsourced to local governments. In addition, a growing number of local government tasks is being set continuously in the fields of social care, health and public administration³ by the central government and the legislative. This also contributes to the increase in local government activities. The exaggerated decentralisation of public task performance is indicated by the huge number of autonomous budgetary institutions under the local governments. (Despite the decrease their number amounts to more than 13,000. As the real value of the resources available for them is constant for several years, a professional and efficient task performance is only possible by the partnership of local governments. However, the changes made in this respect are not sufficient, despite the improvements made on the recommendations of the SAO's audits in the system of incentives. The huge number, the extreme partition and non-appropriate utilisation of local government institutions, and the taking over of tasks beyond the local capabilities, not to mention the deficiencies in financial manage-

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The exaggerated decentralisation of public task performance is indicated by the huge number of autonomous budgetary institutions under the local governments.

¹ A key feature of the distribution of Hungarian population by communities is the fact that the majority (65 %) of the 10,243 million residents are living in the capital city or other towns of different sizes (in 279 communities altogether). Another 30.5 % of the population are living in small communities (2824 altogether) with less than 5000 residents, and finally 4.5 % of population in bigger communities (but not towns) with more than 5000 residents.

² 1 € equals to about 250 HUF (September 2004).

³ Most of the tasks the local governments were charged with pertain to social care, however there are also many new additional local government tasks in the field of environmental protection and waste management. Without granting human resources necessary for the performance, local governments were burdened with different tasks (some traffic policing activities, development of deed registration offices, construction-related public administration tasks).



ment, all contribute to the huge number of local governments short of resources.

The process of building self-governments is not regarded as ended. The institution system has been undergoing unusual changes since the mid' 90's; the crucial interim station was the adoption of the Regional Development Act. This Act is of special importance from the viewpoint of Hungary's EU-accession, because it contributed to the establishment of an institution network allowing the obtainment of different EU-subsidies. The Act defined the small regions as basic units for regional development, and set also the objective to establish, with adjustment to EU-regulation, the public administration powers specific for the level of small regions. 168 small regions have been established on the national territory, more than half of them count as potential beneficiaries on account of their social and economic conditions. Small region development councils are to be set up in the near future, which have to fulfil not only the duties of regional development but public administration tasks as well.

Resource regulation of local governments

Resources due to local governments are regulated in the Annual Budget Act, basically in two ways: by means of central subsidies and grants, and through assigning to local governments a part of the central revenues from the personal income tax. Such resources amount to about half of the local government revenues. The bulk of the resources from central government are either grants and subsidies unconditionally due to the local governments as such, or "ratio-based" financial contributions to the performance of compulsory tasks. 40 % of the personal income tax collected is assigned by the central government to the local government sector in the following way: 10 % remains at the community, where it was collected, the other 30 % serves as ratio-based contributions and also as means to reduce differences in revenues among different local governments. The weight of other assigned revenues (motor vehicle tax, revenues from duties and fees) is small (2 %).

Own revenues constitute an essential part of the local government financial system. At first they played secondary role, but nowadays their importance is rather on the rise. The most significant item among them is the revenue from local taxes. The increasing importance of own revenues (running revenues, capital revenues, revenues for accumulation) is reflected by their growing share (20 % in 1991, 33 % in 2003) in local government sector total revenue.

Audit of local governments

Both the executive and the legislative power operate their respective control systems on the activities of local governments. In case of the executive power, according to the regulation, county public administration offices are charged with the enforcement of legality. In addition, the ex-ante control (built into processes) of the financial interrelations of local governments with central budget became the task of the Public Finance Office in 2002. After the reorganisation of this office, the task was conferred on the Hungarian State Treasury and its local units.

Legal background of external audits, the organisation of local government audit

Due to the management of central resources which play a fundamental role in funding local governments, it is especially important to have an independent external audit, which provides the Parliament with information on how the local government sector have utilised the available resources. According to the Constitution, the State Audit Office performs audits on the financial management of local governments by considerations of expediency, effectiveness and legality. According to the provisions of the Local Governments Act - and in compliance with the constitutional provisions - the State Audit Office audits the financial management of local governments. In addition, the effective Public Finances Act stipulates that the State Audit Office is in charge of auditing public finances and, as a part of it, the local governments as well, in accordance with the duties laid down in the State Audit Office Act. The

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Public Finances Act also stipulates that the audit activity on local self-governments is to be performed by the SAO, and with special regard to the regularity of the utilisation of ratio-based central contributions, targeted and labelled subsidies, and other financial supports given by any different subsystem of public finances to the local government sector.

Almost half (150 people) of the SAO workforce active in auditing jobs is working in the professional field of local government audit. Within local government management they conduct audits on 3187 local governments of different sizes, 1300 minority self-governments, and 13000 institutions subordinated to local governments. The network of the SAO's local government auditors is aligned to the public administration structures of the country, thus branch offices are working in the 19 counties and the capital city with 6-10 auditors in each, dependent on the number of local governments and their subordinated institutions, and the sum of the financial support to be audited.

In the audit system of local governments the **financial audit** fills a particular part. In the sense of the statutory provisions in effect, the SAO as an organ of external audit is not liable to certify the financial statements of communities. The Local Governments Act defines the scope of communities, where councils are liable to have their financial statements audited by independent accountants. About 700 communities financial statements have to be certified annually by accountants. Such audit reports are posted in every year by the mayors to the SAO, and their information content contributes to the audit work of the SAO.

Internal oversight, control and audit

Another aspect of scrutinising the operation and finance of the local government sector is oversight and internal audit, which is performed by the local governments concerning their respective institutions, and also the internal control, which is put in place at business processes. The internal audit of the mayor's office as an institution with autonomous financial management, and that of the subordinated institutions are carried out by the council.

One should see all these activities in the context of the responsibility the local governments and their executives bear for the operation of the institutions under their management, and for the organisation of the above accountability activities.

Major fields of the SAO's local government audits

The Acts defining tasks for the local government audit activity of the SAO are like frameworks, issue they do not include detailed provisions on audit-related requirements, with the exception of those on financial support, contributions from the central budget, taxation activities and duties office activities. The SAO is responsible for taking a position on the Budget Bill each year and for auditing the country's final accounts as well. As there is no legal provision in the SAO Act on the frequency of auditing the financial support from the central budget, the SAO has established a practice for auditing the regularity of claiming and using central support due to local governments for the performance of certain public tasks: a selection of local governments is subjected to this audit, which is realised in frame of auditing the final accounts. Thus, the SAO scrutinised the central financial contributions and support with the financial audit approach as part of the audit of the final accounts for 2003. Audits of this kind constitute 30-35 % of the audits considering the local government sector.

Summing up the results of local government audits, the National Assembly, in conformity with the SAO's strategy, laid down in its 2003 Resolution that the SAO should audit each local government in an election cycle (four years). In this regard, priority has been given to the audit of such local governments, whose operation, due to the extent of the budget and assets, bears considerable risks. Consequently, the SAO performs comprehensive audits on the financial management of 300 local governments, which are of the following types: town government, county government, local government of the capital city and capital city districts.

In frame of the **comprehensive audits** the organisation and planning of local government task performance and financial

In the audit system of local governments the financial audit fills a particular part. In the sense of the statutory provisions in effect, the SAO as an organ of external audit is not liable to certify the financial statements of communities.

The SAO scrutinised the central financial contributions and support with the financial audit approach as part of the audit of the final accounts for 2003.



management, the lawfulness and regularity of implementing financial management are being scrutinised. In addition, the expediency and effectiveness have to be evaluated as well considering the utilisation of the resources made available to local governments. Another priority task of the audit is to detect the factors jeopardising financial equilibrium, along with their underlying reasons. Through the elimination of the factors and reasons in question, the situation of resource shortage and bankruptcy can be avoided.

Comprehensive audits of the SAO focus on the regularity requirements, as well on the way of performing the tasks of administration and public service, and on the enforcement of efficiency and effectiveness requirements. 40 % of the SAO's local government audit capacity is used for comprehensive audits, which are aimed at about 400 local governments annually. Besides the lawfulness of financial management, the focus of the comprehensive audits is being deserted more and more on local government task performance and its organisation, the examination of efficiency in task performance, and the detection of casual interrelations between resources and the changes in assets.

The selection of further audit tasks depends on the discretionary decision of the SAO. Such **audit activities are mainly regularity and performance audits that focus on the performance of different widely provided services by local governments** (health and social care system, education, production infrastructure). Another area of the SAO's discretionary audits is the implementation of some high-priority legislation (the Acts on public procurement, regional development, regional planning).

Making use of the audit results, publicity

The carrying out of the recommendations of external audit reports is the task, on one hand, of the National Assembly, and on the other hand, of the councils, boards of local governments. As a consequence of the SAO's reports and recommendations numerous amendments were made in legislation, which concern the Local Governments Act, the Public Finances Act, and the Acts regulating the operation of different sectors of the economy. Practical execution of the Acts listed was also affected by the legal changes. Regulation and regime of local government financial management have improved. However, according to the present legal regulation, the audited entities are not liable either to make remarks or to take action, and this gives the SAO a lot of trouble. Nor is there any statutory requirement stating that the SAO's audit report on a given local government should be submitted to the council (board) of the local government in question and discussed.

The drafting of an order of procedures on how to put into practice the points and recommendations of audits is still pending. An early legal enactment of such provisions is inevitable from the view of enhancing the efficiency of the resources used for audit activity.

The SAO makes wide use of the possibility of publicity; the general public is informed about the SAO's audits on press conferences, through the medium of the press, respectively from publications. The audit reports are disseminated to reference libraries, universities, and research institutes. Reports prepared for the National Assembly are available on the SAO's web-site.

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The auditor in focus – IT Audit Support Software in government audit

The Swedish National Audit Office (SNAO)

Riksrevisionen – The Swedish National Audit Office (SNAO) – provides an audit environment that puts the auditor in focus through the support of IT software for use off-site as well as in the office.

Background

Constant demands on increased efficiency and productivity

The demands on most Supreme Audit Institutions in the world are changing and increasing. The public sector operations that are subject to SAI audits are becoming increasingly complex – legislation, Parliamentary and Governmental demands on central government bodies as well as demands for reports all increase, while available resources often are scarce.

There is usually no lack of information about public sector activities. Rather the contrary. Government bodies – governments, government agencies, government-owned companies and other wholly-owned or partly-owned organisations – produce vast quantities of information about their activities. Political parties and other interested parties pay close attention to the activities of government and produce, in their turn, a wide variety of information on governmental activities. This often leads to a situation in which Parliaments, the citizens and the media express demands on the audit to verify the information – determining what is correct and relevant. The auditors are expected to be the ever-present white knights in an unpleasant world of information and disinformation.

Where audit institutions are concerned, this constitutes a challenge, not least since their resources are also scarce. In other words, the audit institutions shall audit larger and more complex operations than before, with higher speed and better quality. This increase in demands can be met in several ways, but fundamentally it is a question of auditors – people who need to

extend and deepen their knowledge and who must work methodically with their duties.

In the government audit, within the framework of our annual audits of government agencies, government-owned companies and other organisations, we have decided that one way to meet these challenges within SNAO is through *highly developed IT support for the auditors*.

The Swedish public administration model

In an international perspective, the Swedish ministries are very small, often with around 200 employees. Parliament and the Government steer the operations of the government agencies through legislation and through special decisions of the government, all of which are, in principle, written documents. When the agencies have received their directives and the funds for their operations, they shall execute decisions within the framework of these written documents. There are some 270 central government agencies – some extremely large, others relatively small – and, in addition, there are regional and local agencies under the central agencies. This is the case, in principle, for all central government operations – the legal system, defence, the labour market, social insurance, environmental controls and so on. In addition there are parliamentary agencies, such as the central bank and the parliamentary ombudsmen. All the central agencies are obliged to make reports to the Government and they must all submit an annual report, including a financial statement, to the Government within one and a half months after the end of the fiscal year. The audit shall examine and express an opinion on all these annual re-

The public sector operations that are subject to SAI audits are becoming increasingly complex.



ports, as well as on the annual reports of certain government-owned companies and other organisations.

The concept

IT support requires a long-term approach, a sustainable strategy and financial resources. Developments in this area tend to take place in stages. Below we describe the actual situation and the process that has led to the development of certain IT support software. It applies specifically to our organisation, but nonetheless probably has general validity.

IT systems for administrative duties – and this includes audit – often have their point of departure in the needs of the organisation. The management of the organisation needs to make sure that the organisation and its staff are doing what management expects of them. The term “users” is often heard in attempts to specify system requirements, but in this context the users are regarded as a collective mass and the needs of management still carry most weight. The consequence of this is often that IT systems are too complex, uninteresting and sometimes even redundant for individual members of staff.

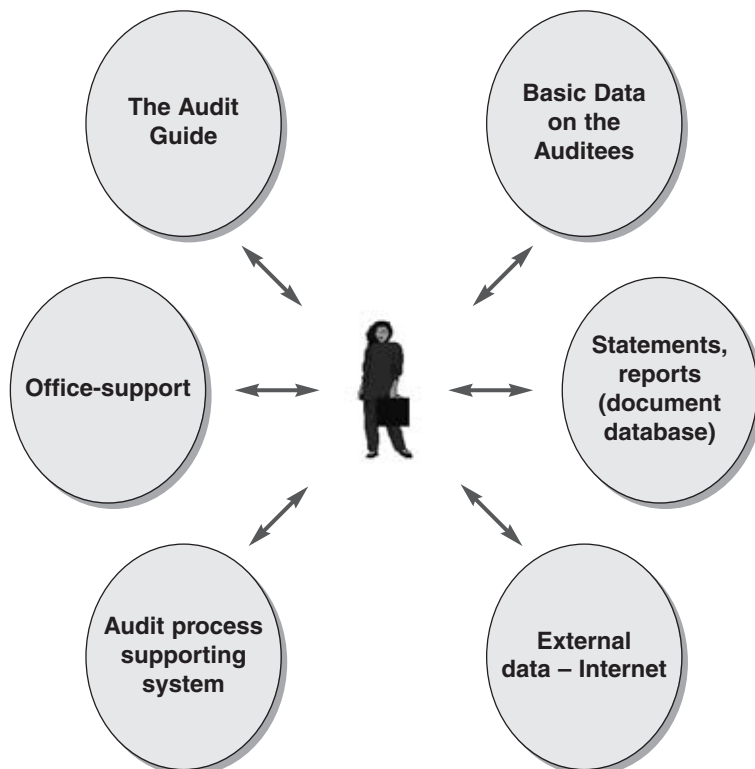
Our point of departure has been to focus specifically on the individual auditor and to try to give prominence to the information needs of individual auditors. “The auditor in focus” has been, and still is, our motto for the development work. This can possibly seem trivial but, in practice, it is of considerable importance for the content of the IT support and for the forms for its development. The fact of not having the management as point of departure but instead the individual auditor’s need for access to information in his or hers daily work, also increases the possibilities for the management to receive relevant information to base its steering and regular follow-up on. The relation between the two is important as a matter of principle and is generally applicable.

The auditor’s need for information

We started in the year 2000 by drawing up a picture of what we wanted to achieve in a 3-5 year period and we called this our dream picture:

The basic idea was to provide the individual auditor with information in six separate areas. The auditor would have access to information no matter where he or she

IT support requires a long-term approach, a sustainable strategy and financial resources. Developments in this area tend to take place in stages.



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was – in the office, at the auditee, at home, travelling in the country or on an international assignment.

- The audit guide would be available in the computer either downloaded on the hard disk or through connection with the central network.

- The auditor would also have access to central information on auditees.

- All reports, i.e. audit reports, reports and memoranda would be stored in such a way that all members of staff could always have access to them.

- Stable support for regular office routines would be available. This would include word processing, spreadsheets, e-mail, travel administration, presentations and so on.

- The auditor would also have access to external sources of information, either via a special connection to other organisations or via the Internet. It has subsequently proved to be the case that the Internet meets all essential needs of information.

- Furthermore the auditor needs access to modern and practical analytical tools and, in the long term, IT support that naturally follows the individual stages in the audit process.

Keeping track of the auditees

We have found reason to build up a special register of all auditees which includes the following data:

- Organisation's name, address and other basic information.

- Auditor in charge and participating auditors.

- The basic requirements for accounting and reporting that apply to the organisation (for example exemption from general rules).

- Names of contact persons in the organisation.

The register also contains all reports on each organisation over the last few years. With the aid of the register it is a simple procedure to search for documents in the database. This system is the point of departure for the audit process and the system for the audit process is fed from this

system.

Communication and accessibility

A central feature of our development philosophy is, as mentioned above, that the auditor is in focus. One point of departure of our work is that the auditors often travel and visit the auditees. The auditors should therefore, as far as possible, have access to information, regardless of where they happen to be at any point in time. In consideration of the extensive amount of travel they undertake, it can often also be effective for auditors to work while travelling, at hotels, and from home at certain times.

As a result, this has led SNAO to take the following measures:

- All auditors now have their own portable computers. The auditors normally only have one computer at their disposal. To facilitate the work at their own workplace, the portable computers can be docked to the network and connected to separate screens and keyboards. Docking in this way also permits automatic synchronisation of programs and files (SNAO uses Windows XP Professional), updating of virus programs, etc.

- The computers have an inbuilt modem and can be connected to the SNAO network via a telephone link using Citrix or, when available, directly via broadband connections. A large number of SNAO employees have access to broadband in their homes which is often used to connect to the SNAO network.

- All auditors have a mobile telephone at their individual disposal and thus have full accessibility via the telephone. Occasionally the auditors also transfer data to and from their PCs via their mobile telephones. However, today this is not yet a general possibility for all due to the low speed of data transmission and the relatively high cost of calls for transferring data via the mobile telephone. This is, however an interesting perspective for the future along with the wider spread of 3G.

The process

We identified the need to have a system that supports the entire audit process fo-

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cusing on the audit trail and functions for regular documentation review and supervision. The SNAO at an early stage carried out tests of a complete tool, developed and made commercially available by one of the large global private accounting firms. In brief the result of the test was that the system proved to have a high degree of functionality in the above-mentioned respects, but it was not adapted to our audit environment. We made the assessment that considerable inputs would be necessary to include the parameters that are relevant for the audit of government bodies in Sweden.

The defined aim of the project was to provide the following results:

- A specification of requirements that makes procurement possible.
- A plan for implementation.

In the first phase of the project, a survey of the present situation was made. The project produced basic data on the audit process and made a survey of existing tools both inside and outside of the SNAO. Also a need analysis was made.

The result of the analysis was that an audit tool would make it possible to:

- Create electronic files with good accessibility.
- Increase efficiency and improve quality through uniformity and integration.
- Ensure observance of the phases of the audit process.
- Improve the utilisation of resources.
- Increase the attractiveness of SNAO as an employer through the use of modern tools as part of the audit process.

Objective

The objective was to, fully or partly, take a system into operation in the year 2002, which was designed to lead to the following results:

- To support and contribute to the use of a uniform audit methodology according to the audit guide
- To contribute towards creating both better quality as well as efficiency in the audit work and to serve as an instrument in further developing of quality

- To ensure the possibility for auditors on different levels in the SNAO to review, supervise and monitor the audit processes

- To be an effective support in the audit process through automatisisation and to simplify routine work

- To act as an intermediary of information within and between audit teams and be accessible for all departments and functions within the SNAO

- To support a high portability and accessibility in office as well as in field.

In parallel with this, work has been done on improving accessibility to the SNAO network with the aim of achieving a greater degree of geographical independence, i.e. the auditor shall be able to work with the IT support regardless of his/her location.

The present situation

In June 2003, we implemented the new Audit Support Software System. It has been developed in-house and designed to meet our special criteria as a Supreme Audit Institution. Systems engineering and programming have been carried out by purchased suppliers that have been part of a project led by the SNAO. Version 1.0 was in production from the beginning of 2003 and the new version 2.0 was recently implemented including new and enhanced capability as well as functions. It is a Microsoft DOT.NET application using standard SQL-servers and the fact that it uses the existing platform have decreased the developing cost considerably. 80% of the utilisation is based on an already existing infrastructure.

In implementing the Audit Support Software System we have reached the last stage in the “dream” set up to put the auditor in the centre and creating the necessary tools to be efficient in the financial audit process. For the 2003 audits the system was defined as a supporting tool, meaning that the manual files were still the official documentation of the audit work. After implementing the new version 2.0 and after introducing a planned electronic archive in 2005, it is our intention to announce the electronically accessible files as the official audit documentation.

In June 2003, we implemented the new Audit Support Software System. It has been developed in-house and designed to meet our special criteria as a Supreme Audit Institution.



It is our opinion that introduction of this last step of providing the auditor sufficient audit tools have increased the efficiency of the financial audit departments in SNAO.

Functions

The System contains the following basic functions:

- Support for regular documentation,
- Support for creating audit programmes for different processes or items in the financial statements,
- Database with audit steps for creation of audit programmes,
- Support for audit planning, review, supervision and monitor
- Support for automatic creation of reports from work papers (write-only ones),
- Use of different statuses for documents,
- Creation of notes between team members,
- Linking of references between work papers

The System is developed using Microsoft standard products and all working papers is created in Word or Excel. Files in other formats can be imported and read. The system is fed with information in many different ways;

- Created within the System (Word, Excel)
- Imported as document (Only Word and Excel can be edited within the System, other formats can be imported but must be edited outside the System)
- Information of staff and auditee (information from the database for keeping track of auditees),
- Supporting documents are centrally updated; the audit guide, accounting regulations, general accounting recommendations etc.

All information is stored centrally on a server and synchronisation to a local computer is made in three different ways:

- Through the network when the auditor is connected to the network in his/hers office

- Through the Internet when the auditor is travelling to the auditees

- Locally within the audit team using USB memory, diskettes or hubs

The last option is created to make it easier to share audit information between the team members when carrying out audit work in the field.

When synchronising, the auditor can chose to make a full synchronise (all assignments), one assignment or separate files for one or several items in the statements.

There are comprehensive search facilities built into the system. The auditor can search for a lot of different information including type of document, document with different status, documents relating to different types of audits etc.

In May 2004 the System was ready to be transferred from the set-up development project to a newly created administrative system in the organisation.

It was earlier planned that a new version 3.0 would be introduced in May 2005. We have decided to postpone the 3.0 version in order to consolidate the use of the existing version as well as creating opportunities to coordinate with the development of other software within the SNAO.

Future developments

Even if the introduction of a new version has been postponed, there is a need for adjustments as well as additional functionality. The major activities currently taking place are:

- Creation of secure electronic archives. In order to have the electronic files being the official documentation of audit work, we have to ensure the proper handling of files.

- Parliament and the Government steer the operations of the agencies through special decisions of the government. These are established on a yearly basis and together with the funds are of great importance for the auditors. Discussions are held with the Swedish National Financial Management Authority, responsible for the IT-system used for registration of all directives (the system is called HERMES). The aim of these discussions is to create a pos-



sibility to electronically transfer all directives into the System and have them filed under respective auditee.

- Some investigations in order to enhance the administration of new auditees and termination of old ones as well as changes of staff within the teams.

- Enhanced functions for (central) administration of the system.

As mentioned before, The Swedish National Financial Management Authority manages the HERMES, a system for directives as well as for the agencies to report the utilisation of funds. If information can be retrieved from HERMES in the future, the System can be updated not only with directives but also with funds made

available for the agencies and the actual utilisation for each period.

Together with the use of IDEA as a tool for analyses, it will provide the Swedish National Audit Office with sufficient information for carrying out audits with high portability.

The point of departure for the project set by the SNAO, particularly the “auditor in focus” has led to a great involvement by the users in the development work, followed by high costs, but also it has led to a high degree of acceptance among the auditors.

What appeared to be a trivial point of departure at first, proved to be not quite so trivial after all.

New good practice guidance in tackling external fraud developed by the National Audit Office and Her Majesty’s Treasury of the United Kingdom

CRAIG ADAMS Audit Principal
National Audit Office of the United Kingdom

In April 2004, the National Audit Office and Her Majesty’s Treasury of the United Kingdom launched good practice guidance in tackling external fraud at a joint conference. The guidance is a useful source of reference for public sector managers. It shows how a number of government departments in the United Kingdom are tackling external fraud.

1. Huge amounts of public money are lost each year through external fraud in the United Kingdom. External fraud refers to fraud by third parties (such as businesses, individuals, organised crime groups and contractors) which defraud government organisations. Losses from external fraud can arise from a wide variety of fraudulent practices. They range from individuals

making a small gain to organised criminals carrying out premeditated systematic attacks for large sums of money. Examples of the diversity of external frauds against the public sector are shown in Figure 1. The public have the right to expect public bodies to safeguard public funds and to tackle those committing frauds. A failure to combat external fraud effectively can



undermine the reputation, integrity and professionalism of an organisation. Consequently, public confidence in the public sector may be damaged.

Figure 1: The diversity of external frauds against the public sector

- Businesses which operate in the shadow economy and do not declare their activity or pay Corporation tax, Income tax, Value Added Tax, or National Insurance Contributions;
- People or businesses which submit false or multiple applications for grants;
- Contractors which claim payment for work they have not carried out;
- People who claim state benefits to which they are not entitled by concealing their employment income, or lying about their personal circumstances.



Purpose of the guide

2. The guide demonstrates and explains good practices in place in tackling external fraud. It includes checklists to enable the reader to assess their organisation's current practices against good practice. The guide is also a useful source of reference with an extensive bibliography that brings together sources of helpful information and provides links to where these are available on websites.

Development of the guide

3. The National Audit Office and Her Majesty's Treasury developed the guide jointly to bring together good practices in tackling external fraud that had been identified through their work and that of the Committee of Public Accounts. They sought contributions from a number of government departments and agencies and convened an expert panel of specialists to provide advice.

4. Examples of recent United Kingdom National Audit Office reports on fraud are shown in Figure 2:

Figure 2: Examples of reports the United Kingdom National Audit Office has published on fraud against government departments

HM Customs and Excise: Tackling VAT fraud HC357 Session 2003-04

http://www.nao.org.uk/publications/nao_reports/03-04/0304357es.pdf

Tackling Fraud against the Inland Revenue, HC 429 2002-2003

http://www.nao.org.uk/publications/nao_reports/02-03/0203429.pdf

Department for Work and Pensions: Tackling Benefit Fraud, HC 393 2002-2003

http://www.nao.org.uk/publications/nao_reports/02-03/0203393.pdf

The guide demonstrates and explains good practices in place in tackling external fraud.

Structure of the guide

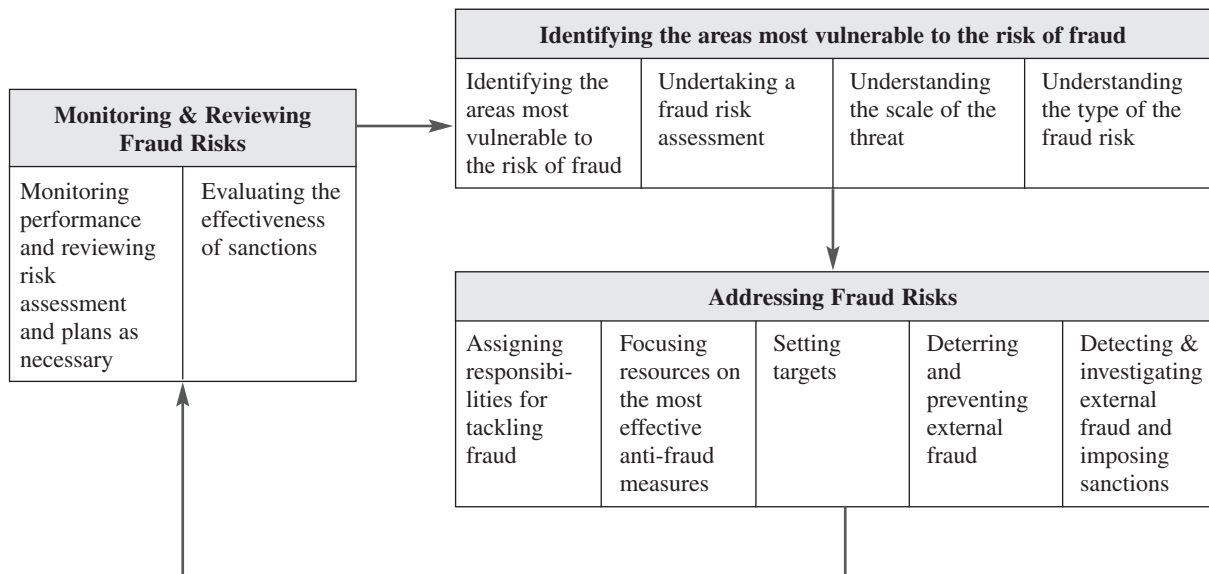
5. The guide is structured on the main issues of:

- Understanding and managing the risks of external fraud
- Preventing and deterring external fraud
- Detecting and investigating fraud and imposing sanctions

6. In the United Kingdom, government departments and agencies have a responsibility to develop anti-fraud policies to show those seeking to defraud the government that such action is unacceptable and will not be tolerated. They must report on their processes to identify and manage risks, including the risk of fraud. Legislation on the proceeds of crime and on money laundering also place responsibilities on regulated organisations. Her Majesty's Treasury has issued guidance to government departments and agencies on taking an integrated strategic approach to tackle external frauds. Figure 3 summarises the main elements of a strategic approach.

In the United Kingdom, government departments and agencies have a responsibility to develop anti-fraud policies to show those seeking to defraud the government that such action is unacceptable and will not be tolerated.

Figure 3: The main elements of an integrated strategic approach to tackling fraud



Understanding and managing the risks of external fraud

6. A strategic approach to understanding and managing the risks of fraud fits in with good corporate governance. A major element of good corporate governance is a sound assessment of an organisation’s business risks. Fraud risk should be managed in the same way as managing any other business risk and should therefore be approached systematically at both the organisational and operational level. A strategic approach can also help in developing a range of measures which apply proportionate and well targeted pressure at all levels of the problem. It can help achieve a cost effective approach in tackling fraud by focusing on areas of greatest risk and where efforts may have the greatest impact.

7. The main issues in developing a thorough understanding of the risks of fraud and in being able to manage such risks effectively are:

- taking a strategic approach to tackling fraud risk;
- assessing the size of the threat from external fraud and, where significant, undertaking a separate fraud risk assessment;
- identifying the areas most vulnerable to the risk of fraud;

- knowledge of the size of the fraud threat / types of fraud committed/ who is committing them/ how often/ and how much is involved;
- operating a package of measures to tackle losses from fraud where these are significant;
- introducing targets to stabilise or reduce fraud and monitoring performance against these;
- assigning responsibilities for tackling, and ownership of, fraud risks to ensure that risks are managed, plans are implemented and progress is monitored;
- focussing resources on the most effective anti-fraud measures.

Deterring and preventing external fraud

8. Deterrence involves convincing potential fraudsters that frauds against an organisation are not worthwhile. Prevention measures aim to stop frauds entering an organisation’s systems. Effective mechanisms for deterring and preventing fraud are essential elements in combating fraud. Measures to deter and prevent fraud can be costly and organisations need to ensure they are well designed for greatest effectiveness. The main elements for deterring and preventing fraud are:

Fraud risk should be managed in the same way as managing any other business risk and should therefore be approached systematically at both the organisational and operational level.

Effective mechanisms for deterring and preventing fraud are essential elements in combating fraud.



- seeking to influence customers' and the wider general public's attitudes to gain their support against fraud;
- sending a strong message to potential fraudsters that they are likely to be caught and that robust sanctions will be imposed. For example, by issuing press releases on people/ businesses prosecuted;
- "fraud proofing" new programmes and activities;
- ensuring that fraud controls are applied consistently and their use is monitored;
- strengthening controls where new fraud risks emerge or where frauds start to escalate;
- creating an anti-fraud culture where staff understand the standards of conduct required and their personal responsibilities in preventing fraud; applying controls and reporting cases of suspected fraud.

- applying techniques proactively to detect cases of suspect fraud such as in-depth investigative work into "hotspot" areas, data matching exercises, data mining and neural networks as appropriate;
- assessing whether suspect cases of fraud need to be investigated further such as through the use of scoring systems;
- considering whether the number of investigations is proportionate to the potential sums lost from fraud;
- tracking the progress of individual investigations;
- employing sufficient investigative staff with the essential professionalism, technical knowledge and experience;
- commissioning independent quality reviews of the way fraud investigations have been conducted;
- imposing appropriate sanctions on fraudsters such as fines, other penalties, or criminal prosecution in appropriate cases;
- seeking to recover the amounts lost from fraud;
- evaluating the effectiveness of sanctions;
- working with others to tackle fraud.

To show that an organisation is serious about tackling external fraud, it needs to detect cases of fraud, investigate them where appropriate and impose sanctions which are proportionate to the crime.



86

Detecting and investigation external fraud and imposing sanctions

9. To show that an organisation is serious about tackling external fraud, it needs to detect cases of fraud, investigate them where appropriate and impose sanctions which are proportionate to the crime. This will help to deter potential fraudsters in the future by showing that crime does not pay, especially if the consequences to fraudsters from detected cases are well publicised. Organisations also need to consider whether the frauds detected show any new threats are emerging, or are on a larger scale than originally thought. From this work, organisations will need to consider whether their strategic approach needs updating. They will also need to assess whether any frauds reveal systemic weaknesses which need to be tackled.

10. The main issues in detecting and investigating external frauds and in imposing sanctions are:

- running a well publicised telephone hotline, email and freepost address to which the public can report cases of suspected fraud;

Launch conference in London

11. The guide was launched at a joint National Audit Office and Her Majesty's Treasury conference in London in April 2004. Over 200 delegates attended from a wide range of government departments and agencies in the United Kingdom, from private sector organisations and from the Audit Offices of a number of European countries including Cyprus, Denmark, Germany, Malta, the Netherlands, the Slovak Republic and Slovenia.

12. Sir John Bourn, Comptroller and Auditor General officially launched the guide at the conference. Edward Leigh, Chairman of the Committee of Public Accounts spoke about the lessons learned in tackling fraud from the work carried out by the Committee. Fraud experts from the

The guide was launched at a joint National Audit Office and Her Majesty's Treasury conference in London in April 2004.

Department for Work and Pensions, Department of Health, HM Customs and Excise and Inland Revenue presented case studies of good practice introduced within their Departments. Jane Earl, the Director of the Assets Recovery Agency spoke on the work of the Agency. And Her Majesty's Treasury drew together the main messages highlighted by the speakers.

How to obtain the guide and other reports on tackling fraud

The guide is available on the United Kingdom National Audit Office website:

http://www.nao.org.uk/guidance/Tackling_External_Fraud.pdf

Copies of the guide may also be requested from Craig Adams at the National Audit Office (craig.adams@nao.gsi.gov.uk).

14. Previous reports on fraud published by the United Kingdom National Audit Office, by the Committee of Public Accounts and by Her Majesty's Treasury are listed in the bibliography to the guide, along with the website addresses to obtain each report.

15. Details of the launch conference and the slides presented at the conference are also available on the National Audit Office website:

<http://www.nao.org.uk/conferences/fraud/externalfraud.htm>

<http://www.nao.org.uk/conferences/fraud/ConferenceSlides.pdf>

Romanian Court of Accounts – Tradition and perspectives



87

Professor DAN DROSU ŞAGUNA
President of the Romanian Court of Accounts

The Romanian Court of Accounts is a fundamental institution of the Romanian state, which unites in a perfect symbiosis the experience given by its 140 years old tradition and the recent developments in the line of consolidation of the institutional position of the Court in the context of the European accession process of Romania, and by the modernization of its activity through adoption of audit methodologies harmonized to international auditing standards and with best practices in this field.

Background

The Romanian Court of Accounts is a fundamental institution of the Romanian state, which unites in a perfect symbiosis the experience given by its 140 years old tradition and the recent developments in the line of consolidation of the institutional position of the Court in the context of the European accession process of Romania, and by the modernization of its activity through adoption of audit methodologies harmonized to international auditing standards and with best practices in this field.

The Court of Accounts, as with every Supreme Audit Institution, and especially those of Eastern and Central Europe, has a key role to play in the reform and transition process in Romania, being at the same time the subject of the activity of forming the institutions of the rule of law in view of accession to the European Union.

An essential element of the reform is the necessity for improvement of the financial and performance audit of the public funds, including those originating from financial support from the EU. In view of Romania's accession to the EU, the Court of Accounts will contribute to the increase

of efficiency and efficacy of the Romanian economy, through limitation of waste, and to the economic use of public funds, thus becoming a guarantor of optimum use of the public money.

Throughout its history, the Court of Accounts has functioned as an institution with prestige, whose principles of organization and functioning were continuously developed and perfected, with the aim of keeping it up to date with the present, aligning itself to the economical, social and political realities of the day. The Court has an important position in the State, having a legal mandate provided by the Constitution as well as by the Law on the organization and operation of the Court of Accounts.

International coordinates

The Romanian Court of Accounts pays special attention to cooperation with the Supreme Audit Institutions from around the world, and with other prestigious organizations and institutions.



88

Audit of the EU funds – the SAPARD¹, ISPA² and PHARE programs

The need to create special conditions for a gradual and harmonious accession of the candidate countries to the EU structures has been pointed out by the European Council ever since 1995, during its meeting in Madrid. The accession process should be especially sustained through the development of a market economy, adaptation and consolidation of administrative capabilities and development of a stable economic and monetary environment.

In this context, and with the purpose of supporting the candidate countries, the European Union has created new financial instruments aimed at sustaining their efforts of development and modernization in the economic and institutional development area, in view of aligning to the standards and principles of the Community.

Thus the (EC) Council Regulation no. 1266/1999 was issued, regarding the coordination of the aid given to the candidate countries within the strategy of pre-accession, which defines the general guidelines regarding the assistance given through the SAPARD, ISPA and PHARE.

The SAPARD program has a decentralized application character aimed at financing low-scale investment projects in agriculture and rural development, ISPA finances large-scale projects (over 5 million EURO) for transport and environment infrastructure, while the PHARE programme focuses on institutional building (some 30%) and investments (70%).

Bearing in mind the requirements of the European Union, stipulated in the accession regulations, several regulations were issued in Romania, regarding especially the management of non-refundable funds granted to Romania by the European Commission and of their co-financing funds³, within the conditions established through the agreement memorandums regarding the establishment and use of the National Fund and of the SAPARD⁴ Multi-annual Financing Agreement.

Also, in view of protecting the financial interests of the European Commission regarding the use of funds, it has been agreed that Romania, as beneficiary and user of non-refundable funds, will have to ensure a professional control system that complies with the requirements of the European Union.

The Romanian Court of Accounts has taken into consideration all of the requirements stipulated in the agreements with the European Commission and, as a Supreme Audit Institution, it has actively involved itself in the development of an efficient control framework, capable of ensuring the European Commission of the way in which the community funds granted to Romania are being used.

The completion and alignment of the Romanian legal framework continued by extending the control mandate of the Ro-

The Court has an important position in the State, having a legal mandate provided by the Constitution as well as by the Law on the organization and operation of the Court of Accounts.

In this context, and with the purpose of supporting the candidate countries, the European Union has created new financial instruments aimed at sustaining their efforts of development and modernization in the economic and institutional development area.

¹ Special Accession Program for Agriculture and Rural Development.

² Instrument for Structural and Pre-accession Policy.

³ Government Emergency Decision no.63/1999, regarding the management of non-refundable funds granted to Romania by the European Commission and of their co-financing funds, modified through GD no. 6/2002.

⁴ Approved through the Law no. 316/2002.

manian Court of Accounts over the use of funds granted to Romania through the SAPARD program⁵. Based on the mandate extension and having in mind the stipulations within the Multi-annual Financing Agreement, the Court of Accounts acts as Certifying Body for the accounts of the SAPARD programme.

Subsequently, during the administrative reorganization of the Court⁶, the control competences were extended over the way of use of all funds that come from the financial assistance granted to Romania by the European Union and other international financing sources.

In order for the Court to fulfil its functions resulting from assuming the obligation to audit the way in which the SAPARD and ISPA funds are being used and to report its findings to the European Commission, a department was created and its personnel was trained for completing this task at a high level of professionalism.

Given the attention paid, especially in the last period, by the European Union and the other international donors, to the development of an efficient control system, the Romanian Court of Accounts has taken this demand into consideration and has established a professional training program for the entire staff, in order to achieve an optimum performing of the audit, in accordance to the international audit standards, and especially regarding the use of EU funds in Romania.

Co-operation with the European Court of Auditors

In addition to the theoretical training, the Court's auditors took part, as observers, in several audit missions performed in Romania by the European Court of Auditors. The most recent audit mission took place in March 2004, and was performed by a team of ECA auditors which was accompanied by an audit team of the Romanian Court of Accounts, having as objective the audit of the Phare projects in Romania. The Romanian Court of Accounts is always open and welcomes such cooperation, since it

aims at achieving the skills that are necessary for performing the audit of the use of EU funds in view of fulfilling the obligations taken by Romania through the financing agreements and memoranda.

Twinning Covenants and the DFID project

Being concerned about strengthening its own institutional capacity building and to continuing implementation of the financial and performance audit, the Romanian Court of Accounts concluded a Twinning Project with the Supreme Audit Institutions of Spain and Germany (Tribunal de Cuentas and Bundesrechnungshof) which is ongoing with important achievements.

The general objective of the project is strengthening the institutional capacity of the Court as an independent, professional and reliable institution of the external audit of the public funds; extending its competencies and activities by introducing modern audits methodologies, in accordance to the international auditing standards and best practices.

Also this project is intended to assure the Court has the ability to face new challenges, to respond the changes and to extend the Court activities in other area not covered by the first Covenant which was completed in 2003, having as partners NAO UK and the Court of Audit of Greece.

During 2004 there were organized a series of seminars with Spanish and German speakers on the following topics: "Development of the auditing standards in accordance to the international principles", "Auditing the European funds", "Training in auditing the health insurance funds", "Detecting fraud and corruption and fight against money laundering", "Audit of privatisation process", etc. More than 200 employees from the Court headquarters and local offices had attended these seminars.

Starting in 2000, during the discussions with the Delegation of the European Commission in Bucharest on the occasion of the negotiations of the Twinning Covenant within the Phare 2000 programme, the need was raised for several

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⁵ Government Decision no. 101/2001.

⁶ Law no. 77/2002 for modification of the Law no. 94/1992, regarding the organization and functioning of the Court of Accounts.

activities in addition to those provided in the Covenant. As result, and at the request of the NAO UK, the Department for International Development (DFID) of the British Government agreed to finance a technical assistance project regarding the institutional capacity building of the Romanian Court of Accounts.

The DFID project was planned to be carried out during 2000-2005 and the main purpose of the project is to develop the external audit function of the Court.

Thus in this important project 205 auditors and directors from 10 regional offices of the Court were trained on implementation of financial audits according to international auditing standards and best practices.

Conclusions

In view of Romania's accession to the European Union, the Court of Accounts will act for the strengthening of accountability of the way in which the public funds are being used in Romania and carefully monitor the way of their use.

As a member of INTOSAI and EUROSAI, the Romanian Court of Accounts constantly takes part in their activities, manifesting its availability for cooperation, adjustment and strengthening of institutional efficiency, with independence, transparency and professionalism, so it can competently respond to the requirements coming from Romania's statute as a Candidate Country and future Member State of the European Union.

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Good public sector governance and external audit

Prof. DIETER ENGELS

President of Germany's Supreme Audit Institution

Today, we have an ambiguous attitude towards public sector performance and good governance. On the one hand, it cannot be denied that the principle of 'shaping' things, a principle whose application made our country so successful in the past, has been rather neglected of late. It is much too often that, when looking for answers to the pressing problems we are facing, we come up with haphazard short-term solutions rather than developing sustainable solutions on the basis of sound and viable principles.

Today, we have an ambiguous attitude towards public sector performance and good governance. On the one hand, it cannot be denied that the principle of 'shaping' things, a principle whose application made our country so successful in the past, has been rather neglected of late. It is much too often that, when looking for answers to the pressing problems we are facing, we come up with haphazard short-term solutions rather than developing sustainable solutions on the basis of sound and viable principles.

On the other hand, a clear demand is felt for policies that create a sound frame-

work for economic activities, for the good governance concept assigns an important role to the State with all its government departments and agencies. It is up to the State to develop a framework in which individuals and social groups can pursue their own particular interests in a way that will at the same time help to accomplish the objectives of society as a whole. The principle of competition is a vital element of such a framework, since it is assumed that the pursuit of individual objectives will generate forces that are critical not only to our society's dynamics and capacity to achieve high performance levels but al-

so to the accomplishment of social objectives. However, it is also assumed that the State, which may not pursue interests other than the common good, will impose clear rules and restraints in areas where not doing so would jeopardise the achievement of these general objectives.

As is generally known, the rules whose compliance the Bundesrechnungshof, as an external audit institution, has to monitor, are economy, efficiency and effectiveness. In the private sector, competition is the mechanism that enforces compliance with the demands: the markets will (adamantly) punish non-compliance. In contrast, we mainly operate in areas where no genuine competition takes place. We therefore have to find and develop other ways that lead to efficient solutions. I wish to specify the essential five challenges that we are facing in this context:

Firstly: We have to increase awareness of individual interests in the largely non-competitive public sector in order to ensure public accountability. This is the key aspect we have to consider in connection with the necessary public sector modernisation.

Secondly: We have to decide carefully whether work done by government departments and agencies is the most efficient way of performing public functions. From the good governance point of view it may be a more reasonable and cost-effective solution to follow the principle defined by Karl Schiller, the former German Economics and Finance Minister “to give the market what is due to the market” This principle is defeated if the State takes important activities away from the market and becomes an entrepreneur itself.

Thirdly: We have to raise our voice whenever administrative activity and bureaucratic structures become excessive and ultimately go beyond the sphere in which government activity makes sense. We do this by addressing cases in which the public administration unduly imposes restrictions on the scope of activities within which citizens and businesses should be free to act as they deem fit.

Fourthly: Furthermore, it is our job to ensure, in line with the principles of a regulatory policy, that the public administration defines clear rules and abides by them itself. Walter Eucken, a German economist

and an eminent advocate of a social market economy, was correct in saying, “Where systematic thinking is on the decline, patchwork solutions govern human action.” Our experience has taught us the lesson that piecemeal action may often be a costly and erroneous exercise.

Fifthly and lastly: We have to ensure that the government continues to be able to perform efficiently and effectively those functions that are of an inherently governmental nature. This leads directly to the revenue budget. We found that there would be much more scope for government financial action if the State provided rigorous leadership to ensure compliance with applicable regulations and rules.

I would now like to highlight some of our findings on these five challenges.

1. Let us begin with public sector modernisation. The issue here is the effort to incorporate the principles of efficient thinking and action into public administration. Essential elements for achieving this objective are private sector business tools such as transparent cost and performance reporting, efficiency-oriented management methods, incentives for optimising performance and decentralised budget responsibility. Obviously, the public administration does not need to invent these tools from scratch. However, it lacks the necessary impetus for innovation. This in turn has repercussions elsewhere; for example, products generated by public administration rarely ever have a sizeable market value. This makes it difficult to match products or services with the corresponding costs and thus to draw conclusions about the profitability of the product. I am afraid we shall have to live with these incompatibilities. Hence, it is even more important that we exploit the full potential for compensating the lack of competition. Audit missions carried out by the Bundesrechnungshof have shown that benchmarking among different departments and agencies may create the incentive to enhance performance. Similarly, we found repeatedly that agreements about objectives may contribute to an efficiency-oriented steering of government activities although, in contrast to the private sector, no significant financial incentives can be given to strengthen the drive for improvement. We have also come to the conclusion that the delegation of responsibility and flexible financial management tools help

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avoid unnecessary public expenditures. One example is flexible financial management tools introduced in budgetary law which help to better target spending in accordance with practical needs and prevent spending policies based on the periods of time for which spending authority has been given. Nevertheless, public managers are clever, and as a consequence, our work has shown that greater flexibility also opens up new ways for pursuing individual interests. Amended budgetary law provides for carrying over unobligated funds to the following financial year to avoid the traditional year-end spending rush. Some government departments used this new flexible provision in order to save up for additional demands of the department. Following our recommendation, the Federal Ministry of Finance issued new provisions that prevent this practice and ensure that departmental selfishness does not encroach upon the general budget interests. This deterrent action is quite in line with the principles of good governance policy. Sometimes, the responsible use of public funds is impeded by different scopes of financial and material responsibilities. A typical case occurs where one public entity defines the product or services it considers necessary and another public entity estimates the funds needed in its budget. It is not surprising that the entity which places the order but does not pay for it does not scrutinise the real need for what it considers desirable. Our general proposal therefore is to budget the funds within the respective entity that also responsibly defines its own needs.

A further area of responsibility of the Bundesrechnungshof also comes within this context: We have considerably enhanced our efforts to focus policymakers' attention on aspects of proposed legislation which lead to excess costs, redundant bureaucracies and additional burdens on the State and its citizens. Even the best public administration will become a hindrance rather than a help if it has to execute poorly designed or outdated legislation or regulations.

2. Let us now look at the second challenge that emerges at the interface between government and the private sector. The question of administrative efficiency is solved automatically if one succeeds in shifting the discharge of public functions to areas ruled by competition. It goes with-

out saying that more is needed than simply converting a former government agency into a limited company, appointing its senior civil servants as top managers and paying them significantly higher salaries in the process. Unfortunately, some private organisation projects give the impression that this is the most important aspect. This is true especially where the public administration establishes incorporated companies, e.g. companies that have a private sector label but operate under the convenient shelter of being government-owned, and fear neither insolvency nor competition. Efficiency is generated by competition and not by state-owned companies that ultimately rely on the financial and staff resources of the state and on the fact that they do not have to comply with the strict rules for awarding contracts that are applicable to government departments and agencies. Many examples can be found in our report: Does it make sense, e.g. that the State lets residential premises, thereby giving the benefit of cheap rent at the expense of the federal budget to occupants who do not need such support? Can we tolerate that holiday apartments may be rented cheaply in a government-subsidised building erected to serve as venue for official meetings? Is it really necessary that government research labs perform contracts awarded by private sector businesses while enjoying government support and tax exemption, whereas private research institutions must rely on their own resources and have to bear the full tax burden? All these types of activity are questionable in terms of regulatory policy and are detrimental to the public budget and to competition. These findings should however not distract from the fact that privatisation makes sense and is necessary where the private sector can perform functions as well as or even better than the State. This is the case where services which are in the public interest can be performed competitively and profitably. This principle has been incorporated into German budgetary law. This is why the Bundesrechnungshof has repeatedly asked the question whether the State must itself perform all relevant functions by relying on its own agencies and staff. We have made suggestions for privatisation concerning, for example, the Federal Printing Office or various elements of transport infrastructure. Nevertheless we carefully monitor the privatisa-

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tion processes because our experience tells us that frequent weaknesses occur in this field. We need to prevent situations where government departments or agencies let themselves be tricked into unfavourable bargains with the private sector. Unfortunately we found that such unfavourable bargains are not an unusual occurrence. The essential feature of any agreement between the public and private sectors must be a fair and appropriate allocation of benefits, chances and risks between the two sectors. This should also apply where the State must rely on businesses to implement its projects. In such situations, the State and the private sector can and must behave like honest parties to a business transaction within a market economy. This implies rights and duties on both sides and, like every business deal, is contingent upon market-oriented pricing agreements, clearly defined performance standards and appropriate warranties. Where these requirements are not met, there is a high risk of project failure. A fair distribution of chances and risks is also a prerequisite for exploring further ways of harnessing the momentum of private-sector initiative and performance for the discharge of public functions. Co-operation between the public and private sectors nowadays comes in various forms usually referred to by sophisticated abbreviations. We talk of PPP – public-private partnership; or PFI – Private Finance Initiative, an instrument for the private funding of infrastructure facilities. These approaches demonstrate the creativity with which public managers seek to identify more cost-effective ways of discharging public functions, usually under the pressure of public-sector budget constraints. On the whole, these developments are beneficial. Still, as in any effort to explore new spheres, wrong decisions may be taken in the course of implementing such approaches. In the context of any method of co-operation between the State and the private sector, this enhances the need for public managers to have a precise knowledge of the economic and legal bases, the chances and risks of new approaches. With our audits of programmes underway we want to make a contribution that helps ensure that public managers have an adequate knowledge about these factors and that new prospects for efficient government action are developed in the process.

3. The third challenge concerns the efficiency of administrative structures. The eminent scholars that propounded the concept of the social market economy entertained a deep scepticism about bureaucracy. This was based not only on their experience with the cumbersome machineries of centrally planned economies, but also on the theoretical knowledge that administrations have an inherent tendency of expanding and of developing ever more rigid structures independently of the functions they have to perform. This judgment is often borne out by our audit experience. Thus the Bundesrechnungshof faces the continuous challenge of scrutinising the necessity of administrations, the functions assigned to them and the form in which they are organised. Doing so is not an easy task since we regularly offend the sensibilities of the chief executives of authorities, of politicians and stakeholders who feel that the administrations that are active in their particular fields of interest are of particular importance. We stand a good chance of asserting our view whenever we are able to credibly expose the effects generated by unnecessary or unnecessarily large bureaucracies and to convincingly point out alternative options. We accomplished such a success in our studies on the organisational structures of Germany's statutory pension insurance system. In a comprehensive analysis carried out in 1998 we showed that annual savings of €350 million could be achieved by streamlining the system by drastically reducing the number of pension insurance bodies especially by mergers. Even if one's views are based on sound arguments, it takes time to assert them. Recently the Federal Government and Germany's constituent states agreed on a scheme that comes very close to our proposals.

4. Concerning the fourth challenge, we have learned from the sociologist Max Weber that the rule of law in a country depends on the existence of a public administration whose actions are governed by clear rules and whose decision-making processes are plausible and transparent. We use these criteria when auditing the regularity of government operations and transactions. It is certainly not surprising that poor decision-making occurs above all when clear rules and transparency are lacking. Nevertheless, this fact must be

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brought to mind again and again. It goes without saying that, especially in times of rapid technological, economic and social change, public administration must have scope for discretionary decisions in order to respond flexibly to new challenges. Excessive regulation would certainly be the wrong way. It would be equally wrong, however, if public administration responded to new challenges by random case-by-case decision-making. Therefore we take care that the State makes rules applicable to everybody and also abides by these rules itself.

5. The fifth and last of the challenges mentioned above addresses the government's scope for financial action. Having in place and enforcing a set of rules that provides incentives for good performance in all sectors requires a State which is capable of acting efficiently. What we need is a strong Legislature and government departments and agencies that are able to reliably and effectively perform the functions assigned to them. This is in turn contingent upon a solid financial basis for the State – not for the purpose of enabling ever-increasing expenditure to be incurred but to safeguard the State's ability to act effectively. In our reports we have pointed out again and again the dangers arising from the excessive burdening of the federal budget with consumptive expenditure. We have clearly stated that the growing mountain of debt and the increasing proportion of interest expenditures impose a considerable burden last but not least on future generations. It cannot be denied, though, that the impact of our analyses and recommendations is quite limited in this field. We cannot do more than warn continuously and live with the fact that the risks forecasted often materialise. This realistic assessment can by no means be considered tantamount to fatalism and resignation. Every year we submit proposals for savings in the range of billions of euros and thus contribute to the efforts to strengthen the Federal Government's financial position. It appears to me that the significance of revenues needs to be emphasised in this context. The Bundesrechnungshof is a victim to the prejudice that it only considers spending budgets. This is far from the truth: a considerable portion of our audit work addresses the question whether taxes have been levied accurately

and completely. According to our findings, the financial constraints faced by the Federal Government could be mitigated if the taxes due to the Federal Government were collected with the necessary rigour and consistence. We often found that this is not the case. This has a wide variety of reasons such as legal provisions that are excessively complicated, amended too often and too quickly and leaving the staff of the fiscal authorities no way to cope; legal provisions that have too many loopholes for tax fraud and tax avoidance. Also the structure of our fiscal administration impairs the uniform application of provisions and an effective oversight. Obviously, the financial damage caused by these factors is compounded by considerable adverse effects on the equality of opportunities and the competitive position of businesses. We have been able to clearly demonstrate this on the basis of the legal provisions regarding value-added tax. In a report recently submitted we made proposals for curbing fraudulent practices in various sectors of the economy. If these proposals were consistently implemented, tax revenue could be increased by an amount in the range of tens of billions of euros. We are pleased that the Government and Parliament have quickly taken up these proposals.

I do not want to give the impression that every single step of our work is governed by fundamental considerations. This is prevented by the fact that our auditors do not only look into issues of a general nature. This is so because disclosing minor and major weaknesses in the public administration is part of our business and because such weaknesses are unavoidable wherever people decide and act. It is part of our mission to make our presence felt in the world of federal departments and agencies by carrying out audits relating to individual cases. While the deterrent effect caused by the knowledge that an audit by the Bundesrechnungshof is always possible cannot be easily measured, it should not be underestimated. On the whole it should have become clear that our role of watchdog is not limited to pointing out individual shortcomings. We feel that we are also under the obligation to highlight erroneous trends that can be attributed to excessive regulation by government bodies. Ludwig Erhard, the second Chancellor of

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the Federal Republic of Germany, once said that one may “commit sins” also in a social market economy as long as one is aware that one is sinning. It strikes me as important that there is someone who draws

attention to these “sins”. Even more important is that the identification of such “sins” and the “sinners” eventually results in proposals for improvement. Attempting to ensure this is a formidable challenge.

Strategic aspects of knowledge management for Accounts Audit Authorities - example of application of the Austrian Court of Audit

DR. VOLKMAR KÄPPL, MSC

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Knowledge can be understood as the superior concept for data, information, individual knowledge and for organisational knowledge. Given that knowledge is the most important strategic success factor for accounts audit authorities, they can be referred to as typical knowledge organisations. The systematic harmonisation of measures aimed at their main functions with regard to the database and human capacities is the object and the challenge of knowledge management.



95

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Knowledge management, as a strategic leadership approach, contributes decisively to making a better use of the resource of an accounts audit authority. For its operationality there are four pillars that are of special importance: management of vital knowledge, promotion of the flow of knowledge and the creation of knowledge, management throughout the audit process and the system for deploying a corporate knowledge culture.

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of both sexes. Its activity has already led to efficacious support for the audit service.

1. The concept of knowledge

Knowledge has acquired a fundamental importance in the era of what is known as the Information Society. But what do we understand by knowledge? Science has developed different definitions on the basis of different disciplines, such as for example philosophy, sociology, business economics or computing. In relation to the concept of knowledge the concepts Data and Information are frequently also cited. In everyday language, these three concepts – important for the Theory of Knowledge – are used in a non-systematic and heterogeneous way.

Bearing in mind the intention to investigate into Knowledge Management, it is essential to clarify the meanings of the concepts. To this must also be added a clear demarcation of the concepts taking account of the consequences for the operative treat-

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ment of the subject. Taking the specialised bibliography as the basis, the author has developed the following definitions of concepts for the Austrian Court of Audit:

“Data is the combination of signs or stimuli perceptible by persons.” Therefore, data is that which can be perceived by persons via their senses, such as for example, words, numbers, images, noises or temperature.

“Information is data that has relevance for the recipients at the moment of the perception, for a connected use.” The relevance from the point of view of the recipient is decisive – the importance in a particular context.

“Individual knowledge is the capacity of persons to perform actions on the basis of the assessment of the data and information, in order to achieve a result that is sought.”

“Organisational knowledge is the capacity of persons to shape their cooperation in an organisation in order to achieve the objectives of the organisation.”

Knowledge is used as a superior concept for data, information, and individual and organisational knowledge.

2. The accounts audit authority as organisation of knowledge

The main function of the accounts audit authorities consists of conducting value for money audits, performance audits and regulatory audits. All these types of audit are normally conducted within the framework of the audit process. During the audit process, individual auditors or teams of auditors prepare products, such as for example conceptual audit procedure papers, contents of conversations or draft reports, which are conveyed to target groups that are internal or external to the accounts audit authorities. These products are to a large degree intellectual achievements. Their preparation requires, along with a complete database and a selection of selective information, the use of highly qualified technical knowledge.

On the basis of these facts, it becomes clear that **knowledge is the most important strategic success factor** for the accounts audit authorities. Due to this funda-

mental importance of their knowledge, the accounts audit authorities can be designated as frankly typical organisations of knowledge.

3. Knowledge Management and its challenges

For each organisation – especially for a knowledge organisation – its knowledge needs to be managed professionally. Various different scientific disciplines for this have arisen in recent years, different approaches under the term of Knowledge Management. Nevertheless, there exist different opinions on how this term ought to be understood.

In the Austrian Court of Audit, *Knowledge Management* is understood as being the efficient organisation, according to needs, of

- analysis, ordering and maintenance of that existing,
- acquisition, development and integration of that necessary, and also
- preparation, transfer and application of that available

with regard to data, information, individual knowledge and organisational knowledge.

The **challenges** for Knowledge Management by an accounts audit authority are various, though only on the basis of the following considerations: the audit activity is – for example, with regard to development, the audit method or the quality of the product – to perceive at the highest level. The fields of audit present highly complex contexts. The recipients of audit reports expect clear and up-to-date expressions with quantified valuations and practical recommendations.

For Knowledge Management this situation primarily implies encouraging the talents of individual knowledge and optimising the application of organisational knowledge. Nevertheless, the satisfactory employment of human capacities requires the possibilities of access on a rational database and well-founded sources of information. For the conception of Knowledge Management, the systematic and reciprocal harmonisation of measures with regard to the database and human capacities is fundamental.

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4. Strategic considerations on Knowledge Management

Knowledge Management can be understood as a **strategic leadership approach** for an accounts audit authority: by means of its use it becomes possible, on the one hand, to make the most of the capacities of the workers, and, on the other, to carry on increasing the organisational intelligence of the accounts audit authority.

It seems appropriate to formulate a particular strategy for Knowledge Management – derived from the strategy of the accounts audit authority.

For the structuring of the fields of activity of Knowledge Management, it is advantageous to make a division into strategic fields of action. The *strategic fields of action* might be, for example, the management of organisational knowledge, interface management within the accounts audit authority or network management with external knowledge supports. The strategic fields of action can be divided with the help of subareas of action into specific material themes. The *subareas of action* for network management, for example, could be the identification of external sources of knowledge, the determination of its potential scale of achievement, as well as taking care over personal contacts and exchange of experiences.

The objectives as part of the strategy for Knowledge Management can be represented in an *objectives pyramid*: from the vision of knowledge the strategy and ideal of knowledge branch out. While the strategy of knowledge includes objectives of knowledge aimed at long-term strategic programmes, the ideal of knowledge contains the objectives of regulatory knowledge, referring to values and modes of behaviour. Materialised under these two branches are the objectives of operative knowledge and, finally, the individual agreements and actions sought for implementing the strategy of knowledge management.

5. The pillars of Knowledge Management in the implementation

For the operationality of a strategy of the knowledge management of the accounts audit authorities, the following four thematic fields of strategic procedures

seem to have special importance as pillars of knowledge management:

5.1. Management of vital knowledge

The management of vital knowledge consists of the conscious care of the knowledge contingents, which are fundamental for the success of the accounts audit authority. The management of vital knowledge must identify the basic knowledge for success, it must structure the databases clearly and it must ensure possibilities of easy access. Knowledge maps can be an aid for implementation. The maintenance of a coherent technical language of the accounts audit authority and the clear regulation of the responsibilities for the management of vital knowledge are of great importance.

A fundamental part of the knowledge for the exercise of the vital competencies of the accounts audit authority consists of knowledge via the audit method. Knowledge Management must also concern itself with documenting the audit method in the most comfortable way for the user and develop it or innovate it.

5.2. Promoting the flow of knowledge and the creation of knowledge

Promoting the flow of knowledge and the creation of knowledge is another pillar of Knowledge Management for an intelligent knowledge organisation. Within the accounts audit authority this can be achieved by means of knowledge exchange in a network– without any hierarchical or functional barriers. The workers of each organisational unit paying special attention to the organisation of the knowledge in its organisational unit could also work as knowledge agents within the accounts audit authority.

Along with its inherent functions of documentation, the library can also provide valuable services, for example, in the field of data searching, in information management or in the exchange of individual and organisational knowledge. Knowledge communities can guard, create, encourage and innovate – beyond the hierarchical structures – for areas of knowledge selected from strategically important parts of the knowledge of the accounts audit authority.

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Promoting the flow of knowledge and the creation of knowledge is another pillar of Knowledge Management for an intelligent knowledge organisation.



5.3. Knowledge Management during course of the audit process

Knowledge Management during the course of audit process must take into account the particularities of the intensity of the knowledge of the audit process: for this, the performance capacity of the auditors and the composition of the audit team must be especially concerned with optimising the communication structure, the specific support of the process by means of special activities and the production of the thinking tool box.

The rough modelling of the audit process has to bear in mind the great differentiability of the particular audit procedures and permit the greatest possible margin of design for the members of the audit team. The introduction of knowledge into the audit process controlled by the Knowledge Management helps to optimise the product. The exit of knowledge from the audit process, used systematically, can be useful for increasing the organisational intelligence of the accounts audit authority.

5.4. The system for deploying a corporate knowledge culture

The system for deploying a corporate knowledge culture provides the necessary substrate for the capacity of the knowledge carriers and their performance willingness. The culture of the knowledge organisation needs mainly confidence, openness, tolerance, creativity and a liking for innovation.

The culture of the communication ensures the communication as the "path" of knowledge and as a source of energy for creating individual and organisational knowledge. Dealings with the knowledge carriers, the updatedness and contents of the organisational communication, the creation of institutionalised communications forums and the suitability of the spatial possibilities of communication seem to be especially important.

The incentive system for workers of the knowledge of the accounts audit authorities must be concentrated on the intrinsic motivation developed by the love for the work. For the success of the knowledge management of the accounts audit authorities, the recognition of the perfor-

mance of their workers, attention towards their workers, the promotion of the talents of their auditors, the provision of a sufficient margin for the carriers of success knowledge and the fast and flexible implementation of authorised ideas and innovations seem to be the main points of special importance.

6. Knowledge Management in the Austrian Court of Audit

Since September 2001, the Austrian Court of Audit (henceforth abbreviated to the Court of Audit) has had a *Knowledge Management Department*. The library of the Court of Audit forms part of the department. Its basic powers concern the creation and organisation of knowledge management, management of the library, central quality management, perfecting the audit method and cooperation in performance audits. In this way, particular advantage can be taken of the synergy effects of Knowledge Management, process management, quality management and library management. There are currently nine workers of both sexes making up the department.

The medium-term objective of the Knowledge Management Department is to optimise access to data, expand the information gathering system, contribute to the network and promote the knowledge carriers in Human Resources, develop the audit processes and its methods in a way that is innovative, and intensify contacts with external knowledge sources.

Independently of the individual Knowledge Management of the member of the Court of Audit, there exist three *levels of Knowledge Management*: all the departments of the Court of Audit act as centres of competence in matters of their specific responsibility in the distribution of competencies. The knowledge communities are forums of vital knowledge coming above the departments in certain fields of knowledge. The Knowledge Management department organises the basic vital knowledge for all organisational units of the Court of Audit.

For the particular conception of its fields of activity, the Knowledge Management department has drawn up a rough planning covering more than 40 units adapted among each other with different implementation schedules.

The introduction of knowledge into the audit process controlled by the Knowledge Management helps to optimise the product.

The culture of the knowledge organisation needs mainly confidence, openness, tolerance, creativity and a liking for innovation.



Under the **measures** already carried out can be mentioned, primarily: the development of a new structure for vital data of the Court of Audit already electronically stored, the creation of knowledge communities in theory concerning themes of construction, health, social themes and hospitals, public administration and administrative reform, accounting and awarding and the redesign of the process of performance audits bearing in mind their characteristics as knowledge-intensive processes.

The current **offers of service by the Knowledge Management** department include, among others, electronically retrievable information, information on special technical knowledge of the workers, the support of the audit departments, in particular the steps of the audit process or the conducting of investigations with special data.

As future **perspectives** of the Knowledge Management in the Court of Audit, mention can be made mainly of delving further into the audit service, the innovative perfecting of the audit method at the operative sphere and the perfecting of the library for a knowledge exchange with more and more use being made of information and communications technology.

7. Perspectives

Knowledge Management is making a decisive contribution to exploiting the resources of an accounts audit authority, orientated towards achieving the objective. It is very important that Knowledge Management be perceived and experienced by the entire organisation. Its functions extend from the strategic field to individual work steps. A special organisational unit can, above all, provide efficient support for the organisational means.

The Austrian Court of Audit believes that it is on the right path for increasing its efficacy via its Knowledge Management.

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Control of the Regions and Local Bodies in the new constitutional system of Italy

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The reform of Title V of the Constitution has without any doubt provided our system with ever more pluralistic characters, involving the strengthening of the autonomy of the regions and other territorial bodies.

1. Constitutional Act 3, of 18 October 2001, introduced an important reform into the Italian constitutional system with regard to the Regions and other infra-regional Local Bodies (Title V of Part II of the Constitution).

The reform of Title V of the Constitution has without any doubt provided our system with ever more pluralistic characters, involving the strengthening of the autonomy of the regions and other territorial bodies.

Among the most relevant aspects of our system, I would like to highlight (considering moreover their impact on the structure of external control of local bodies) on the one hand its strongly supportive nature and, on the other, the space that has been handed over to Local Bodies.

In terms of the first aspect, I wish to emphasise the provision by which an Equitable Distribution Fund is set up, aimed not just at compensating for the lower quantity of tax revenues received by the most disadvantaged bodies but also at financing the exercise of all their ordinary functions, mainly social benefits which, in accordance with the text of the Constitution, must be sought for all citizens at a basic and uniform level guaranteed by the State.

The determination of that level, in its two qualitative and quantitative aspects, is the responsibility of the exclusive legislation of the State within the framework of its general financial obligations.

The other aspect that distinguishes our system and which, if one may say so, makes it unique on the European scene is the exceptionally high degree of autonomy granted to the territorial bodies located at the infra-regional level, to which it grants normative powers (statutes and regulations) provided for and regulated directly by the Constitution. Those bodies are not subordinated to the regions, nor do they come under them at the functional plane (as is the case, for example, of the *Länder* in Germany).

2. The recent constitutional reform repealed articles 125 and 130 which used to regulate the external control of the regions and local bodies. This concerned audits of administrative acts, which used to precede their execution and, if illegalities were found, they could even be impeded by means of annulment. The power for exercising these controls was, according to a logic that accorded at that time with a hierarchical framework rather than with a framework of autonomy, attributed to a "State organ" for regional acts and to an "organ of the Region" for the acts of the local bodies.

Starting from this reform, this system of controls was regarded as superseded: the modern administration, which favours efficiency and operates by targets, is con-

sidered to be in all aspects compatible solely with the *a posteriori* control of actions.

Following the repeal of the regulating provisions of the controls mentioned above, the constitutional text has not provided any other controls of a different sort. But that does not mean that the ordinary legislator cannot introduce them, provided it is possible to include them within a particular constitutional provision. Moreover, the Constitutional Court has already pronounced in this same direction, when acknowledging the legitimacy of the reform over the controls of the Court of Audit, carried out by means of Act 20 of 1994, which reduced to just a few the fundamental acts which have to be subjected to *a priori* control of their legitimacy, this being a control which used to be exercised over virtually all administrative acts, and it introduced generalised *a posteriori* control over all public actions.

This *a posteriori* control requires by its nature a collaboration between the controller and the controlled; since it is oriented, by means of evaluating the results and their comparison with the programmed objectives and the results achieved (as well as with the behaviours adopted) in similar situations, to promoting in the controlled administration the search and adoption of the necessary corrective measures.

The Constitutional Court has also recognised the legitimacy of these controls with respect to the Regions, on the basis of a series of provisions (the principles of the satisfactory progress of administrative action, of the responsibility of civil servants, etc.) derived from articles other than those which were repealed (in other words, articles 125 and 130, which established the aforementioned *a priori* control). The later constitutional reform that we are referring to here not only has not introduced any provision that could be regarded as going against this decision but also, and on the contrary, it contains new principles: in particular, the principle of financial coordination and the principle of equitable fiscal distribution, which provides even more of a justification for considering the carrying out of external controls on management and public finances.

So, having recognised the constitutional legitimacy and the appropriateness of

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introducing external controls over the management of territorial bodies, the problem was raised of deciding on to whom the exercise of those controls corresponded. The alternatives were to confirm that they should be assigned to the Court of Audit, in conformity with the decision adopted in 1994, or to favour the role of the region in the new constitutional system, following the example of other federal or para-federal states in which this function is assigned to institutions other than the national institution, as an embodiment of regional organisations.

3. Before explaining the decision taken by our legislator, I have to specify that the problem of attributing external control referred solely to control over the management *stricto sensu*. On the contrary, with regard to the financial aspects of the management – which correspond to the State, to the Regions or to the Local Bodies – the question has never been raised of the competence of the Court of Audit with regard to verifying the principles and norms aimed at protecting public finances, among which are to be found respect for budgetary balancing, considering in addition the obligations derived from EU links.

In the exercise of financial control, each year, and on the occasion of the Government presenting the State General Balance Sheet, the Court of Audit draws up a Report consisting of an overall analysis of the trends in public finances, which gives it the opportunity to compare the programmed decisions with the results of the management.

This report is attached to the Resolution known as “declaration of conformity” of the general balance sheet, which basically consists of a comparison of the results of the balance sheet with the items of the budgets law and accounting records of the Court of Audit itself.

With the passing of time and as the decentralisation process has been progressing, this activity has been accompanied by the task of informing Parliament on the general tendencies of all public finances, analysed in each of their components (regional finances, finances of the local bodies, health spending, social security spending, etc.).

In the exercise of these functions, the Court of Audit has not, during these last few years, ceased to direct its attention and

its observations towards compliance by all bodies making up the Republic of Italy with the financial obligations set down by the European Union.

With the *internal stability pact* provided for by article 28 of Act 448 of 1998 (the Budgets Act for 1999), the wish was to involve the regional and local administrations in pursuing the objectives of convergence and stability deriving from our country’s membership of the European Union, primarily in relation to the obligations contracted by member states by virtue of the *Stability and growth pact* to which art. 104 of the Treaty of Maastricht and Resolution of 17 June of 1997 of the European Council of Amsterdam refer.

The constitutional reform which, in 2001, modified in depth the Italian legal code, strengthening the autonomy of territorial administration, does not display any contraindications for the exercise of that financial control being carried out by the Court of Audit; indeed, it even increases its role as guarantor of public finances.

In fact, it has to be borne in mind that according to the new article 119 of the Constitution, the municipalities, provinces, metropolitan cities and regions have financial autonomy in terms of revenues and spending, and they impose their own taxation system.

All of them have autonomous resources composed of: *a)* their own taxes and revenues; *b)* co-participation in the product of State taxes gathered in their own territory; *c)* resources coming from an Equitable Distribution Fund set up by means of a State Law in favour of territories with the least tax gathering potential.

It is the exclusive competence of the State (article 117) to regulate the system of equitable distribution of financial resources, which can be carried out by means of the Fund mentioned above as well as via other forms of direct subsidy, aimed at mitigating economic and social imbalances. Since this concerns a power shared with the regions, the State must also in this case establish the principles of harmonisation of public accounts and of coordination between the public finances and the tax system, with these principles having to govern in terms of the application and collection of their own taxes by all the other territorial bodies.

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For the correct performance of its role as supreme calculator of payments and body responsible for public finances, it is essential for the national Parliament to have information and evaluations on the financial management and accounting data of all the territorial bodies. This information would have to be accurate at the technical level, neutral at the political level, and coherent in the background. As an organ of the magistracy, by its nature independent and specialised, with a unitary structure sustained on a regional basis, it can be said that the Court of Audit is naturally called upon to fulfil this role of assistance to Parliament, and with all the more reason as a result of the latest reform.

Recently approved by Parliament, the law which puts these new constitutional principles into practice has taken account of the new division of powers, as shall be seen further below.

4. Returning to control over the management by the regional and local administrations in its strictest sense, the problem that we were referring to earlier, on the body which ought to exercise this, was solved by choosing, from among the two possible solutions, that of confirming and expanding the powers already held by the Court of Audit.

There are several reasons why the model of other European federal states was not followed by Italy.

First of all, the specific nature of our system has played a role that cannot be scorned.

The constitutional principle of non-hierarchy with regard to the Regions, established by the reform of 2001 for municipalities and provinces, has no equivalent in other places, where, on the other hand, subordinate bodies usually come under the device of higher bodies and are subjected to organisational and functional rules issued by the latter. In our present constitutional system, given the respective constitutional position of both devices, which are different from and equal to each other, the local bodies would not be able to be controlled by an organ of the region, even if it has the same prerogatives of independence generally acknowledged to the External Control Institutions.

So, if a device were to have been adopted for the regions based on various

control organs, this would have had to have been extended to the infra-regional level, with all the drawbacks which can be easily imagined and which would result from the number and dimensions of those organs (there are over 8,000 municipalities).

The other specific aspect of our system consists, as has been said earlier, of its strongly supportive character.

In fact, article 119 of the Constitution, when establishing additional resources or special interventions of the State in favour of municipalities, provinces and regions for reasons of social solidarity as well as for promoting their economic development, also provides that a law of the State shall set up an Equitable Distribution Fund of resources for territories which have less fiscal potential, so that, with the aid and incorporation of other ordinary resources, it becomes possible for them to exercise all the functions within their powers, including those relating to the benefits of social services at the minimum, *basic*, uniform level for all citizens.

However, there can be no doubt that the functioning of this fund, which is supplied with part of the fiscal product gathered in the richer regions, demands a control over the correct application of the mechanisms for collecting and distributing the revenues gathered, but above all a control of the regular, efficient and effective utilisation of those revenues on the part of the beneficiary administrations.

But, so that a control of this kind can be credible and that everyone accepts the checks made by it, it cannot be entrusted to an organ that is an expression of the system itself, and therefore of the very administrations that are controlled. In fact, in that case, there would subsist a suspicion of non-impartial behaviour in spite of the requisites demanded for the appointment of that organ and the guarantees of independence which would have to be acknowledged of it in the exercise of its duties.

Another argument justifying the option chosen of confirming the powers of the Court of Audit in this sphere is based on noting the disadvantages that have been observed in those countries in which the solution of various external control organs has been chosen.

An attempt has been made to mitigate these disadvantages and others that are



empirically similar, by promoting initiatives of arrangement and dialogue, coordinated controls of common aspects of management, conferences of chairpersons or (as has been done in Spain) setting up a Coordination Commission. Many initiatives have certainly turned out to be useful, yet they have a negative impact on the control periods which has revealed the limits of the will that characterises them, in terms of both participation and the carrying out of what is agreed. Indeed, in these provisions, in order to underline the total independence of the regional control bodies it is better to speak of cooperation rather than of coordination. The said organs are willing to combine their action with that of other comparable institutions on the basis of a consensus, but they would not be willing to submit themselves to common rules of coordination established without their consent, even if this were by a qualified majority.

All the reasons that have been argued here have, without any doubt, contributed to providing a different orientation to the form of external control of the regions and local bodies in comparison with the models followed in other parts of Europe. But the determining cause of the alternative that has been chosen lies in the fact that in Italy the Supreme Audit Institution has for a long time been a magistracy characterised by having an undisputed professionalism and proven independence with regard to the political power. In such conditions, it is capable of providing its resolutions and opinions with the necessary credibility for all interested persons and bodies, including the European authorities.

The Court of Audit will be able to act in each region, via its decentralised Chambers, both as an organ of the State and by way of being an organ of the same region or of the other local bodies.

The law of execution of constitutional provisions has, as we shall see, adopted an *ad hoc* rule in order to make the tie between the decentralised chamber of the Court and the territorial bodies being controlled real and concrete, with the aim of establishing an effective relation at both the organic and the functional levels.

In spite of its complexity, the unitary character of this organ permits the same cultural and professional approach to be

maintained (as a consequence too of the identical methods of recruiting and training personnel) and therefore the same assessment criterion to be conserved, something which is particularly valuable in the exercise of an activity, which is discretionary and subjective by nature, as is that of evaluating the correct functioning and the healthy administrative management.

The coordination is also going to be much more easy and effective, as will the comparison of experiences and the exchange of points of view. In this regard, the Court of Audit, exercising its powers of self-organisation, has, as we shall see later on, already established specific procedures and coordination structures aimed at reconciling the autonomy of each Chamber with the requirements of common operating parameters, techniques and criteria.

Finally, the Italian model permits an easy comparison to be made of the actions of the different administrations in complying with a single task, which implies a fundamental tool of management control, which becomes more effective as the comparison becomes broader. The objective is to compare models of organisation and processes introduced in the different territorial realities, but also, and with the aid of indicators resulting from national averages or from the averages of regions that are similar to each other, to evaluate the results achieved. The aim of all this is not to issue certificates or produce classifications – since this would be too simplistic and deceiving – but instead to introduce a series of reflections and debates among administrators, experts and officials, to which public opinion would also be added for the sake of the ambitious aim of achieving an ever better administration.

5. As I have said earlier, the principles traced out by the constitutional reform of 2001 have found their first embodiment in a recent State law (Act 131, of 5 June 2003) which, at the same time as defining the aspects relative to the application of Constitutional Act 3, also contains provisions on the control by the Court of Audit of municipalities, provinces, metropolitan cities and regions.

In terms of controls of a financial nature, from the beginning the law confirms the model of a unitary Court of Audit

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which will have the role of informing Parliament on the overall respect of the budgetary balance by all territorial bodies, bearing in mind as well the obligations derived from European Law, with the aim of coordinating all the public finances.

Finally, provision has been made for the introduction of a Regional Chamber of the Court of Audit in each regional capital for carrying out audits, whether they be on financial management or on the administrative management of the territorial bodies, for the purpose of preparing a report intended for the Assemblies of elected representatives.

As far as control of the regions in particular is concerned, which likewise covers the auditing of the proper functioning of the internal control services, this has the aim of verifying that the objectives set by the regional laws on principles and programme (the most important of which is, of course, the Budgets Act) and by the State laws of an equal nature, are being sought.

Regarding the remaining territorial bodies, the control assigned to the Regional Chambers is undoubtedly broader, in that it is orientated to auditing what, to use an expression taken from Community Law, is known as “healthy financial management” and in that it does not in essence differ from an analysis of the economy, the efficiency and the efficacy of the administrative action of the bodies involved.

Given that the investigations of the Regional Chambers have the same characteristics as the control of management, they lack any immediate sanctioning effects and any negative consequences which would fall on the administrators and officials responsible for the management being audited. The repercussion of the control is only indirect and is tied to the later interventions carried out by the local executives and the Assemblies of elected representatives, who are the targets of the information coming from the Regional Chambers.

In short, the reasoned denouncement of possible illegalities or irregularities of procedure, and the detection of inefficient and even anti-economical behaviour, together with the formulation of recommendations, suggestions and proposals, ought, according to the logic of the system, to give rise to virtuous processes of self-correction of practices and procedures.

Moreover, the unitary structure of the external control organ could have represented a serious obstacle for its acceptance by the regions and local bodies, if they were to have felt prejudiced due to having to submit themselves to control by an organ which, although it belongs to the magistracy, could be regarded as one that is fundamentally dependent on the State and therefore alien to them.

The said law intervenes in an effective way for staving off this danger, introducing provisions having the aim of demonstrating in a concrete way the relation, at the organic and functional level, of the Regional Chambers with the bodies being controlled.

As far as the organisation is concerned, the law of execution provides that the composition of the Regional Control Chambers shall be complemented with two members – who shall for all effects enjoy the status of magistrate – respectively appointed by the Regional Council and by the representation organ of the local bodies in the Region.

It is evident that the objective of the legislator is to create conditions favourable for establishing a relation of close collaboration and mutual help among the regions and the local bodies, in such a way that professional experiences acquired at the local level, in direct contact with concrete situations and the problems they generate, are shared. For such purposes, the law provides that these members shall be elected among persons who, on account of their studies and the acquired experience, are genuine experts not just in legal and accounting matters but also – and I would say above all – in economic, financial and business matters.

As far as the functioning aspects of the Chambers are concerned, provision has been made so that each region, bearing in mind specific demands related to auditing of the correctness of their financial management and of the efficiency and efficacy of the administrative action, can, on its own initiative, exercise the power to invoke, by means of procedures yet to be determined, the assistance of the Regional Control Chamber. Given that the methods of that collaboration are not regulated by law, they could in theory consist of a wide range of activities,

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which would extend from reports on specific themes to appearances of magistrates of the Chamber before the Regional Council or also the certification of the trustworthiness of the budgets. The local bodies have a similar power acknowledged to them, though it is exercised, at least in general, with the mediation of the Council of Local Bodies (which is an organ recently created by virtue of article 123 of the Constitution) which performs linkage and consultancy functions between the regions and local bodies. Finally, the Regional Control Chambers are acknowledged the possibility of issuing opinions on matters of public accounts, when so requested by the region.

To end, it has to be pointed out that, following the coming into force of the new law, the need was immediately felt to adapt the organisation of the Court of Audit in order thereby to harmonise the activity of financial control corresponding to each Regional Chamber with its functions – exercised at the central level – of General Speaker for the regional and local finances before Parliament. These functions must necessarily be based on the results and the financial analyses effected within the scope of the Regional Chambers.

There then arose the fundamental requirement of identifying an instrument of organisation which would be capable of guaranteeing a fluent coordination which was at the same time efficient and respectful of the autonomy of each Chamber, which would permit common methods and guidelines to be defined in the *a posteriori* control of the management, and to establish the comparisons which characterise investigations that are common to several Chambers.

For this, and within the exercise of the regulatory power of organisation which the law grants to the Court of Audit, a special “delle autonomie” (territorial bodies) Chamber has been set up whose composition – it is chaired by the President of the Court of Audit and made up of the Presidents of the Regional Control Chambers – permits it to be considered as “the expression of the Regional Chambers”. In this framework, the coordination functions are going to acquire a relevance that has nothing to do with hierarchical relations, but instead more to do with the fact of sharing decisions with a view to the best compliance of the functions which have to be performed at both the central and the decentralised levels.

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