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# EUROŠAI

VII Kongres Kraków 2008

**VII EUROS AI CONGRESS**  
Krakow (Poland), 2-5 June 2008



**I CONFERENCE  
EUROS AI-ARABOS AI**  
Tunis, 1-2 December 2006



**V CONFERENCE  
EUROS AI-OLACEFS**  
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Tel.: +34 91 446 04 66 - Fax: +34 91 593 38 94 - E-mail: eurosai@tcu.es - tribunalcta@tcu.es - www: <http://www.eurosai.org>

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

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# Editorial

Dear EUROSAI Members,

We are in the last third of the mandate established by the VI EUROSAI Congress, held in Bonn (Germany) in 2005; an Event in which a firm commitment was taken on in promoting cooperation at all levels.

Having overcome the creation of structures, the establishment of organisational foundations and basic channels of communication, EUROSAI, as an Organisation that has reached its maturity and grown very considerably in number, is seeking to direct its steps towards new horizons, in an progressive way, opening up paths in a dual direction. On the one hand, it is heading towards a greater internal involvement and reciprocal commitment among its Members; and on the other, towards goals which are projected outside of its own self in order to become related with the environs, thereby increasing the added value of its actions and enriching itself with shared values.

The tasks received from the VI Congress by the Governing Board, the Training Committee and the Working Groups of EUROSAI, along with the common initiatives adopted in it, such as the development of a coordinated audit on tax subsidies and the conducting of comparative studies on various aspects related to the auditing of public revenues, highlight the willingness to promote joint actions, exchange information and experiences, share documentation and reports, and help to support the strengthening of the internal strategies of each SAI with full respect for its independence.

The pooling of respective performances; the drawing up, analysis and proposal of alternatives in the face of new challenges; the consideration of ecology as a crucial element of development; the debate on shared problems, the search for solutions aimed at the introduction of good practices and progressing towards attaining procedural frameworks and homogenous standards, undoubtedly contributes to the strengthening of EUROSAI and of its Members; and it allows for a greater contribution from them to good management, transparency, efficiency and good government.

Between 2005 and 2007 EUROSAI has deployed a wide range of actions in its various fields of intervention. Activities and events have been carried out, with a major part of them being developed in the performance of its Training Strategy. The EUROSAI Working Groups have also provided a considerable impulse, which has been reinforced by promoting cooperation with INTOSAI, its Working Groups and its Regional Groups, primarily OLACEFS and ARABOSAI, as well as with IDI; thereby contributing to a common project coming under the INTOSAI Strategic Plan for 2005-2010.

The performance of the operational plan for carrying out the EUROSAI Training Strategy offers a firm point of connection to the various actions developed, with a network thus being formed within EUROSAI for performing its own activities, channelling cooperation with other Entities and Organisations with which it shares initiatives and interests, and exploiting the synergies deriving from any activity that could affect its environs.

With the aim of reinforcing its actions, EUROSAI seeks to promote activities from more operational perspectives; promoting new initiatives that will permit the targets of them to be widened and costs to be reduced, guaranteeing the best standards of quality and the search for financing means that will foster this with full respect for its priorities and strategic objectives, the greatest financial and technical commitment of EUROSAI, and the best application of information technologies.

But the execution of the mandates of a Congress contains within it the germ of a new blossoming; a subsequent Congress which consolidates that already done and opens up new challenges in that ascending evolution. So the VII Congress, to be held in June 2008 in Krakow (Poland), will take over from the VI Congress the baton which, also received and wisely administrated in that constant process of building up and updating, constitutes as a backbone of EUROSAI. Topics as interesting as the establishment of audit quality management systems for auditing and the audit of social programmes in the fields of education and the labour insertion of the disabled, will constitute the framework of debate for our, now not far off, VII Congress.

I would like to take advantage of this occasion to state my sincere gratitude to the authors who have generously made it possible to publish this new issue of the EUROSAI Magazine; and at the same time to offer this forum, which has the primary aim of serving as a vehicle for communication and cooperation among the members of this Organisation, to all those who wish to contribute to this common work.

Ubaldo Nieto de Alba  
President of the Spanish Court of Audit,  
EUROSAI Secretary General

29 October 2007



## *Eurosai News*

### MINUTES OF THE XXXI EUROSAI GOVENING BOARD MEETING

**Reykjavik (Iceland) – 11 September 2006**

The EUROSAI Governing Board held its XXXI meeting in Reykjavik (Iceland) on 11 September 2006, with the attendance of the members, observers and guests whose list is attached as Annex I, and under the chair of Prof. Dr. Dieter Engels, President of the SAI of Germany and President of EUROSAI.

Dr. Engels opened the Session and he thanked the host for his hospitality and the Secretary General of EUROSAI for the work carried out in the preparation of the meeting. He welcomed the participants with a special mention to the Heads of the SAIs that participated for the first time in the meeting, the President of the SAI of Portugal and the Auditor General of Norway.

Mr. Thordarson, Auditor General of Iceland and host of the meeting, welcomed the participants and he expressed his satisfaction to organise it, highlighting the importance of working in cooperation.

Dr. Engels took the floor to begin the discussion of the agenda.

#### **1. Approval of the Agenda of the XXXI meeting**

The agenda of the XXXI meeting was approved in the proposed terms.

#### **2. Approval of the minutes of the XXIX and XXX meetings**

The minutes of the XXIX (Bonn, Germany, 30 May 2005) and XXX (Bonn, Germany, 2 June 2005) EUROSAI Governing Board meetings were approved. The minutes will be sent to all EUROSAI members by the Secretary General.

#### **3. EUROSAI Activity Report, period 2005-2006**

Mr. Nieto de Alba, President of the Spanish Court of Audit and EUROSAI Secretary General, opened his intervention thanking for the hospitality of Mr. Thordarson and welcoming the participants, with a special greeting to the President of the SAI of Portugal and the Auditor General of Norway. Next, he presented the EUROSAI Activity Report 2005-2006. The actions carried out since the last Governing Board meeting were summarised in it. Those actions were directed fundamentally to make effective the agreements adopted by the VI EUROSAI Congress, to execute the training policy, and to promote cooperation with the Regional Organisations of INTOSAI. The Activity Report also described the current state of the projects, and the programming of activities and pending events for 2006, with an advance for 2007. The Secretary General also informed about the membership applications received by EUROSAI from Israel and Montenegro, about the publications (Magazine and Newsletters) produced by the Secretariat in the period, and the updating made in the EUROSAI website.

No additional comments were made on the Activity Report by the Governing Board.

#### **4. Presentation of the accounts, the Financial Report and the Auditors' Report related to financial year 2005**

Mr. Nieto de Alba presented the accounts and the EUROSAI Financial Report related to financial year 2005, reminding that it was the last one in which the three-year Budget approved in the V Congress (2002) was applied. He made a





special mention to the justification by the INTOSAI Development Initiative (IDI) of the annuity corresponding to 2005 (€30,000) of the subsidy granted by EUROSAI for the performance of the II Phase of the Long Term Regional Training Program (LTRTP). Likewise, he referred to the aid of €3,560 granted to the SAI of Lithuania for the partial financing of the second edition of the Seminar "SAIs role in the IT Audit", as well as to the refund by that SAI of €828 for not having been necessary to apply the total of the funds granted.

The Secretary General pointed out, likewise, that the Auditors of EUROSAI had made the field audit at the EUROSAI Secretariat regarding those mentioned accounts and financial statements, issuing a report without observations. The report showed that the financial statements provided a faithful image of the financial situation of EUROSAI and of the revenues and expenses of the financial year. Mr. Nieto de Alba highlighted the recommendation of the Auditors guided to the inclusion in the agreements of the Governing Board granting subsidies of specific provisions for their justification by the beneficiary. He highlighted also the reminder made by the Auditors about the need that the bank transfers of contributions to EUROSAI were free of expenses for this one.

The Governing Board took down the accounts, the financial report and the report of the Auditors of EUROSAI, without making any observations, proposals or concrete agreements.

##### **5. Adoption of a simplified procedure for the presentation of proposals to the EUROSAI Governing Board**

The EUROSAI Secretary General presented a Proposal for the approval of a simplified system of submission of consultations to the Governing Board, when the circumstances made it advisable for time reasons. This regime would be applicable exclusively to questions of mere procedure, related to the ordinary development of the EUROSAI activity, of organisation or representation that didn't imply an alteration of the contents of the Statutes and Standard Procedures, of the Agreements of the Congress or of the Governing Board,

neither of the EUROSAI criteria and essential principles. The system would enable the President and the Secretary General to submit to the Governing Board an initial written joint proposal on the question object of discussion. This system would not alter the competencies of initiative, proposal and decision-making of the Governing Board that will always decide under its exclusive criteria.

The EUROSAI President submitted the Proposal to the consideration of the Governing Board that approved it unanimously.

##### **6. Presentation of the Activity Report of the EUROSAI Training Committee, 2005-2006**

Mr. Nieto de Alba, co-chair of the EUROSAI Training Committee (ETC), presented the ETC Activity Report and he provided details on the performances developed in execution of the works mandated by the VI Congress to implement the adopted common Training Strategy. He also made a brief reference to the initiatives that the ETC was developing in diverse areas related with its internal organisation, its structure and the distribution of functions and responsibilities to make more efficient and more effective its operation. He highlighted the cooperation and the effective commitment of EUROSAI and its members as a key piece for the effective implementation of the Training Strategy.

Mrs. Lamarque, SAI of France and ETC co-chair, informed on the perfor-



Group Photograph of the XXXI EUROSAI Governing Board Meeting, Reykjavik (Iceland) – 11 September 2006.

mance of this Committee in order to promote the knowledge of the Training Strategy of EUROSAI among their members and outside it, to improve the effectiveness of training activities, and to identify resources and formulas to put them into practice.

The Governing Board took down the interventions and congratulated the ETC for its work.

#### **7. Presentation of the Seminars and Workshops organised by the Presidency of EUROSAI for the period 2006-2008**

Dr. Engels presented to the Governing Board the training Initiative that the German SAI would promote, as Presidency of EUROSAI, during the period 2006-2008. This Initiative that would be carried out with the technical and financial cooperation of the Academy of European Law of Trier and the German Organisations for the International Technical Cooperation (GTZ) and Continuous Training (InWEnt), has as aim to reinforce the strategic training Objectives identified by EUROSAI. Dr. Engels detailed the training events that would be carried out in performance of each Objective.

The Governing Board congratulated the EUROSAI Presidency for this Initiative.

#### **8. Proposal for consideration of granting EUROSAI Training Committee membership to the Lithuanian and Hungarian SAIs**

Following the applications submitted by the Auditor General of the SAI of Lithuania, Mrs. Budbergytė, and the President of the SAI of Hungary, Dr. Kovacs, and attending the suggestion of the ETC, the EUROSAI Secretary General presented a Proposal aimed at the consideration of granting the condition of ETC members to the mentioned SAIs, that already had formal Observer's status as a previous step. The membership would be granted taking into account that they belong to the EUROSAI Governing Board, body of which the ETC is a supportive entity, as well as their active involvement in the impulse of training, their material contribu-

tion to it and their availability to facilitate the ETC works organizing and hosting its meetings. The Secretary General said that, in case of being accepted the Proposal, it would be necessary to determine the status corresponding to the ETC members of new incorporation; having being proposed by the ETC, among others, the alternatives of nominating them with the same permanent character that the original members or granting them a temporary mandate conditioned to the permanency of the SAI in the EUROSAI Governing Board.

Mr. Nieto de Alba, following the request of the Director of the SAI of Switzerland, Mr. Grüter, clarified that an open approach existed for the admission of new members in the ETC whenever, in turn, the maintenance of a limited structure that made it operative were guaranteed, as its creation Resolution established; being necessary, in any case, a concrete agreement of the EUROSAI Governing Board on the issue.

The EUROSAI President submitted the Proposal to the Governing Board that supported it agreeing the granting of the condition of ETC members to the SAIs of Lithuania and Hungary and the provision to the ETC members of new incorporation the same status recognised to the original members.

#### **9. Analysis and consideration of the Proposals of the EUROSAI Secretariat in relation to the requests for granting financial contributions to be charged to the EUROSAI Budget**

##### *9.1. Request of the SAI of the Czech Republic*

The EUROSAI Secretary General presented an application of the SAI of the Czech Republic for a subsidy of 9,600 euro, to be paid in the 2006 financial year, for the organisation of a Seminar on "Auditing of Public Aids and Subsidies" to take place in Prague on 6-8 November 2006. This aid had the objective of financing the participation of an external expert and the provision of the necessary technical equipment for the event. Mr. Nieto informed that the application met the re-





quirements expressed in articles 5.2 and 14.3 of the EUROSAT Procedure Standards, as well as the Principles and Standards concerning the subsidies to be granted for events approved by the V EUROSAT Congress. He expressed that this request had been informed favourably by the ETC in its XIV meeting (European Court of Auditors, Luxemburg, 29/30 June 2006), as for their suitability and amount.

The EUROSAT President submitted to the Governing Board the financial application presented by the SAI of the Czech Republic, that was approved unanimously.

### 9.2. Request of the SAI of Hungary

The EUROSAT Secretary General presented the application of the SAI of Hungary for a financial aid of €7,500, to be paid in the 2007 financial year, for the organisation of a Seminar on audit quality to be held in Budapest on 1 and 2 March 2007. This aid would be applied to the travel and accommodation expenses generated by the participation of several experts of other Institutions whose intervention was considered of great interest for the Seminar. Mr. Nieto informed that this application met, equally, the requirements settled down by the EUROSAT regulations and that it had also the agreement of the ETC (XIV meeting, 2006).

The EUROSAT President submitted to the Governing Board the subsidy application, that was approved unanimously. Dr. Kovacs presented the Seminar shortly and he thanked EUROSAT for their support.

### 9.3. Request of IDI

The EUROSAT Secretary General presented the application for financial aid of IDI for an amount of €40,000, to be paid in 2006 financial year, for the partial financing of a Project on "Audit of Public Debt" that was taking place in the countries of the Commonwealth of Independent States (CIS) and in Mongolia. Mr. Nieto de Alba said that this application met the EUROSAT regulations, following the precedent of the subsidy granted to IDI by the Governing Board in 2003 for the financing of the II Phase of the Long Term Regional Training Program (LTRTP), and

that it had also the support of the ETC (XIV meeting, 2006). The Secretary General suggested to include in the Resolution granting the subsidy, in case of being approved, a specific procedure of justification, as it was made with the abovementioned aid granted in 2003, of submission to the EUROSAT Governing Board, through the Secretariat, of an annual balance sheet of the accounts regarding the use given to the financial contribution.

Mr. Kosmo took the floor to present the IDI Project shortly. Dr. Engels submitted to the Governing Board the financial application, that was approved unanimously in the terms proposed by the Secretary General.

With a view to the XIX INCOSAT in 2007, the EUROSAT President asked IDI for the submission of further documents regarding the implementation of the programme.

## 10. Information on the results of IV EUROSAT-OLACEFS Conference

Mr. Nieto de Alba informed on the main results of the IV EUROSAT-OLACEFS Conference, held in Lima (Peru) on 17 and 18 November 2005. He made a special mention to the Conclusions and Recommendations of the Conference, that were published in issue no. 12 of the EUROSAT Magazine and in its website.

## 11. Advance on the organisation of the V EUROSAT-OLACEFS

Mr. D' Oliveira Martins, President of the SAI of Portugal, facilitated information on the V EUROSAT-OLACEFS Conference, to be held in Lisbon on 10 and 11 May 2007. The selected Theme, "Fiscal Sustainability, Presentation of accounts and accountability", would be developed in three working sessions: "The fiscal sustainability in the modern State", "The SAIs contribution, especially of its recommendations, to the fiscal sustainability of the social sectors" and "Presentation of accounts and accountability." Mr. D' Oliveira facilitated a provisional program and details on the events to be organized on such an occasion. He announced the preparation of a website and the setting up of a Working Group, formed by representatives



of the SAI of Portugal and of the Presidencies and Secretariats of EUROSAI and OLACEFS, to support the organisation.

Mr. Stepashin and Mr. Grüter expressed their gratefulness to the SAI of Portugal and they expressed their interest in contributing to Sub-themes 2 and 3, respectively.

The offers were approved unanimously. The President and the Secretary General of EUROSAI joined to the recognition and they offered their support to the host.

## **12. Information on the I EUROSAI-ARABOSAI Conference and Meeting between the Governing Boards of both Organisations**

Mr. Nieto de Alba offered information on the I EUROSAI-ARABOSAI Conference, to be held in Tunisia on 1 and 2 December 2006, in the framework of the cooperation between both Regional Organisations approved by the VI EUROSAI Congress (2005). The Theme of the Conference, "Privatizations and its impact on the management of public services" would be discussed from different theoretical and practical perspectives. He added that prior to this Conference a meeting among the Governing Boards of both Organisations, where the Chairs of the INTOSAI Committees members of EUROSAI and ARABOSAI would also participate, would take place with the purpose of promoting the rapprochement and exchanging criteria on formulas to make cooperation effective. The EUROSAI Secretary General announced that it had been requested from the ARABOSAI Secretariat interpretation services to the five EUROSAI official languages during the Meeting of the Governing Boards, as it is done in its ordinary meetings, with the purpose of facilitating the debate and promoting participation. He pointed out that it corresponded to the EUROSAI Governing Board to approve the terms proposed, as well as to choose EUROSAI's SAIs speakers in the Conference.

Dr. Engels submitted the proposals to the Governing Board, that expressed its agreement and supported the request made in respect to the interpretation to the EUROSAI official languages. They agreed that the EUROSAI speakers for the Sub-

themes 2 and 3 would be the SAIs of Switzerland and the Russian Federation and that the SAIs of Germany, Hungary, Poland and Spain would be in charge of the presentation of case studies. The SAI of the United Kingdom would be the EUROSAI speaker in the scope of the INTOSAI Working Group on Privatisation.

The Secretary General of EUROSAI highlighted the importance of cooperation between Regional Organisations of INTOSAI, even though he expressed that the rhythm of the Conferences had to be compatible with the development of the ordinary activities of the SAIs and with the participation in other events and international activities. For this reason, he proposed to consider the possibility that the conferences EUROSAI-ARABOSAI might take place every three years. The SAI of France, following the offer already made in the XXX Governing Board meeting and supporting the Secretary General's suggestion, proposed to host the second joint meeting in Paris in 2009.

The Governing Board agreed to submit to ARABOSAI the mentioned proposals, on the occasion of the Meeting between both Governing Boards.

## **13. Information related to the preparation of the VII EUROSAI Congress. Proposal of participation of observers, confirmation of the selected subjects, and presentation of speakers and coordinators**

Mr. Górny, SAI of Poland, presented the advances in the preparation of the VII EUROSAI Congress that will take place in Krakow from 2 to 5 June 2008. He requested the confirmation of the selected Themes (Quality in the audit process, and the Audit of social programs on education and professional integration for the disabled), he presented the Chairs of the Theme Sessions (SAIs of Hungary, Portugal and United Kingdom) and he proposed the creation of a Working Group for the preparation of the Congress (formed by representatives of the host SAI, the Presidency and the Secretariat of EUROSAI, and the SAIs chairing the Theme Sessions).

Dr. Kovacs informed of the works already carried out on the Theme "Quality in



the Audit process” and the schedule planned.

The Governing Board expressed its agreement with the presented proposals.

#### **14. Information on cooperation EUROSAI-IDI**

Mr. Kosmo, Chair of the IDI Board, made a general presentation of the IDI Activities Report for 2005 and the actions developed in cooperation with EUROSAI.

Mr. Borge, General Director of IDI, informed on the final results of the execution of the II Phase of the Long Term Regional Training Program (LTRTP). He made reference to the programs of IDI in operation; especially to the Project on “Audit of the Public Debt” in the CIS countries and Mongolia, for which the EUROSAI Governing Board had approved a contribution of €40,000 in 2006 (see item 9.3). Only EUROSAI members shall benefit from the financial contributions made by EUROSAI. The programme is currently being evaluated, and the results of the evaluation will be reported by the end of 2006.

Mr. Borge said thank you on behalf of IDI. He highlighted the cooperation with the ETC and the “e-learning” training activities developed on-line; he also advanced data on the new Plan 2007-2011.

Dr. Engels thanked for the information provided by IDI and he highlighted the value of its work.

#### **15. Information on the activities of the EUROSAI Working Group on Environmental Audit**

Mr. Sekula, President of the SAI of Poland and Chair of the EUROSAI Working Group on Environmental Audit, provided information on the main activities of this Group in performance of the Working Plan 2005-2007 approved by the VI Congress. He gave details on the audit activities developed (parallel audits in environmental areas); on the organised and scheduled training events; and on the creation of a Subgroup on the Audit of the consequences of the natural disasters and those ones caused by the human actions

and the elimination of radioactive waste, to carry out a parallel audit on the use of the funds donated to Ukraine to eliminate the consequences of the Chernobyl disaster and to draft guidelines for this type of controls. Mr. Sekula announced that the SAI of Poland would leave the Chair of this Working Group from the VII Congress onwards, in 2008.

Mr. Grüter expressed his interest in joining the audit on the Chernobyl disaster.

The Governing Board took down the Report presented and congratulated the Working Group.

#### **16. Information on the activities of the EUROSAI Working Group on IT**

Mrs. Stuiveling, President of the SAI of The Netherlands and Chair of the EUROSAI IT Working Group, presented the activities carried out in the diverse areas of operation of this Group in execution of the Plan approved by the VI EUROSAI Congress. She provided details on the situation of the projects already begun in the previous period (self-assessment by the SAIs in the IT area, and elaboration of a framework for the audit of “e-Government”) and on the new projects in operation (studies about the relevance of IT in the audit of fraud in the public revenues, and IT investments and information security). Mrs. Stuiveling announced that this would be the last mandate of the SAI of The Netherlands as Chair of the Working Group. She proposed the SAI of Switzerland, for their implication in the topic, as a candidate for chairing it in 2008.

The Governing Board took down the information and congratulated the Working Group.

#### **17. Information on the activities of the EUROSAI Working Group for the Coordinated Audit on Tax Subsidies**

Dr. Engels, Chair of the Working Group of EUROSAI for the Coordinated Audit on Tax Subsidies, provided information on the current composition (18 SAIs), the meetings held and the actions carried out by the referred Group since its constitution in the VI Congress in execution of



the mandate that was given to it. He detailed the performance lines of each one of the Subgroups set in it related to "Value Added Tax", "Corporate Income Tax" and "Transparency/Subsidiaries Report". He pointed out that the Report of the Working Group would be presented at the VII EUROSAI Congress and he thanked the participant SAIs for their contribution.

The Governing Board took down the information and congratulated the Working Group.

#### **18. Information on the activities of the EUROSAI Study Group on Benchmarking the cost and performance of Tax Administration**

Mr. Grogan, SAI of the United Kingdom and Chair of the EUROSAI Study Group on Benchmarking the cost and performance of Tax Administrations, presented the works carried out by this Group that had the collaboration of the SAIs of Finland, France, Poland, The Netherlands and Sweden. He pointed out that the Group had met two times up to that date to exchange information and to identify procedures to carry out the analysis mandated by the VI Congress. It is foreseen to draft a questionnaire in order to facilitate the development of the evaluations. An interim report would be presented to the Governing Board in 2007 and the final report would undergo the VII Congress.

Mrs. Stuiveling suggested, on behalf of the EUROSAI IT Working Group, to carry out a joint work in this area.

The Governing Board took down the information and congratulated the Study Group.

#### **19. Decision about the representation of EUROSAI in the INTOSAI Governing Board**

Dr. Engels reminded that the SAIs of the Russian Federation, the United Kingdom and Italy had presented their candidacy to the EUROSAI Governing Board for their election as EUROSAI representatives in the INTOSAI Governing Board starting from the XIX Congress (Mexico, 2007), being so that the mandate of those designated in 2001 (SAIs of Portugal and Unit-

ed Kingdom) concluded on that date. He pointed out that the SAI of Italy finally had kindly decided to withdraw its candidacy in benefit of the other two SAIs.

The EUROSAI President submitted to the Governing Board the candidacies of the SAIs of the United Kingdom and the Russian Federation, that were unanimously supported as future members of the INTOSAI Governing Board in representation of EUROSAI. He thanked the SAI of Italy for their willingness at the EUROSAI service and their courtesy.

#### **20. VIII EUROSAI Congress: Presentation for consideration of the candidacy of the SAI of Portugal**

Mr. D' Oliveira presented the candidacy of the SAI of Portugal as host of the VIII EUROSAI Congress, in 2011.

Dr. Engels presented the Proposal to the Governing Board that supported it unanimously. Mr. Nieto de Alba congratulated the President of the SAI of Portugal and he offered him the cooperation of the EUROSAI Secretariat to support the organisation of the Congress. Mr. D'Oliveira thanked for the trust of the Governing Board.

#### **21. Next meeting of the EUROSAI Governing Board**

Mr. Grüter offered to host in Berne the XXXII EUROSAI Governing Board meeting in the second week of September 2007. The date would be fixed later on, according to the convenience of the participants.

Mr. Nieto de Alba thanked for the offer and he expressed his support to it, offering equally, the cooperation of the EUROSAI Secretariat. The Governing Board approved the Proposal unanimously.

#### **22. Other items**

##### *22.1. Information on the development of the INTOSAI Strategic Plan 2005-2010*

Dr. Kovacs, President of INTOSAI, provided information on the execution of



the INTOSAI Strategic Plan 2005-2010, approved in the XVIII INCOSAI (2004), and that was impelled by the extraordinary INTOSAI Governing Board meeting held in March 2005. After reminding the background of its preparation and approval, the goals of the Plan, the structure of INTOSAI resulting from the new design and the appointment of the responsible people for each task, he provided information on the current situation.

The Governing Board of EUROSAI noted down the information.

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The EUROSAI President thanked Mr. Thordarson, Auditor General of Iceland and host of the meeting, as well as his collaborators; the EUROSAI Secretariat; the members and observers of the Governing Board and the SAIs invited for their contributions. Dr. Engels ended the annual meeting of the Governing Board of 2006 and he closed the Session.

## ANNEX I

### LIST OF PARTICIPANTS

#### XXXI MEETING OF THE EUROSAI GOVERNING BOARD

Reykjavik (Iceland) – 11 September 2006

##### I. Members

###### Germany:

Mr. Dieter Engels  
Mrs. Beate Korbmacher  
Mr. Jan Eickenboom  
Mrs. Martina Hampel

###### Poland:

Mr. Mirosław Sekula  
Mr. Józef Górny  
Mrs. Alexandra Kukula

###### Lithuania:

Mrs. Budbergytė levels  
Mrs. Dainora Venckevičienė

###### Spain:

Mr. Ubaldo Nieto de Alba  
Mr. Manuel Núñez Pérez  
Mrs. María José del Fuente y de la Calle  
Mr. Jerónimo Hernández Casares

###### Italy:

Mr. Francesco Staderini  
Mr. Ennio Colasanti

###### Iceland:

Mr. Sigurdur Thordarson  
Mr. Grétar B. Gudjónsson

###### Switzerland:

Mr. Kurt H. Grüter  
Mr. Arthur Taugwalder

###### Russian Federation:

Mr. Sergey V. Stepashin  
Mr. Nikolay Paruzin  
Mr. Fyodor Shelyuto

##### II. Observers

###### Austria:

Mr. Wolfgang Wiklicky  
Mrs. Sabine Teufl-Märzinger

###### Hungary: Dr. Arpad Kovacs

Mr. Zsigmond Bihary

###### Norway:

Mr. Jorgen Kosmo  
Mr. Magnus Borge (IDI)  
Mrs. Wave Hoem

###### Portugal:

Mr. Guilherme P. D'Oliveira Martins  
Mr. José F. Tavares

###### United Kingdom:

Sir John Bourn  
Frank Grogan  
Dean Parker

##### III. Guests

###### France:

Mrs Danièle Lamarque

###### The Netherlands:

Mrs. Saskia Stuiveling





## SUMMARY OF THE DECISIONS OF THE XXXII EUROSAI GOVERNING BOARD MEETING

**Bern (Switzerland) 13 September 2007**

The EUROSAI Governing Board held its XXXII Meeting in Bern (Switzerland) on 13 September 2007, under the Chair of Dr. Dieter Engels, President of the SAI of Germany and of EUROSAI. The minutes will be submitted for the approval of the Governing Board in its next Meeting and will then be distributed to all EUROSAI Members; nevertheless, it is considered to be of interest to offer a foretaste of the main results:

1. Approval of the Minutes of the XXXI Governing Board Meeting (Reykjavik, Iceland, 11 September 2006). The EUROSAI Secretary General presented the Activity Report of the Organisation 2006-2007, along with the accounts, the Financial Report and the Report drawn up by the Auditors for 2006.

2. The Co-Chair of the EUROSAI Training Committee (ETC) presented the Activities Report 2006-2007, setting out the general lines of its action in carrying out the Training Strategy 2005-2008, works relating to the organisation and internal structure of the ETC itself and also the works carried out with a view to the VII EUROSAI Congress.

The Training initiative, promoted by the EUROSAI Presidency was reported on, which is being carried out during the period 2006-2008, in cooperation with

the European Academy of Law of Trier, and the German Agency GTZ, as a complement to the activities promoted by the ETC.

The EUROSAI Governing Board approved the ETC proposal relating to the maintenance of a single EUROSAI web site, hosted by the EUROSAI Secretariat, which will also include the training content; the material relating to this area will be centralised and produced by the SAI of France, which will send it to the EUROSAI Secretariat for incorporation into the web site.

The Governing Board agreed on the concession of the subsidy requested by the SAI of Lithuania charged to the EUROSAI Budget, for the organisation of a Seminar on "Financial Audit Standards", to be held in 2008.

It was likewise decided to grant the status of ETC Member to the SAI of the Russian Federation, bearing in mind the work carried out in this field, the impulse given to it and its willingness to facilitate the ETC tasks by organising and hosting its meetings.

The SAI of Norway presented the IDI Activities Report in which, among other matters, the use was accredited of the subsidies from the EUROSAI Budget received by it in 2005 and 2006 for the financing of Phase II of the Long Term Regional Training Programme (LTRTP); and the Project on "Auditing Public Debt" executed in 2006 in the countries of the Commonwealth of Independent States (CIS). The Report also gave an account of the projects in progress and future perspectives, with special attention to the new strategies and to e-learning programmes.

3. The situation of cooperation between EUROSAI and other Regional Groups of INTOSAI was also reported on. In particular, on the results of the V EUROSAI-OLACEFS Conference (Lisbon, Portugal, May 2007). It was announced that the VI Joint Conference will be held in Venezuela in 2009.



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Group Photograph of the XXXII EUROSAI Governing Board Meeting, Bern (Switzerland)- 13 September 2007.

Information was also given of the agreements adopted in the Meeting between the Governing Board of EUROSAT and the Executive Committee of ARABOSAI (Tunis, November 2006), the Minutes of that Meeting being approved, as well the results of the I EUROSAT-ARABOSAI Conference (Tunis, November 2006). The II Joint Conference will be held in France in 2009, with the Theme "The role of the SAI in the modernisation of the State" being suggested for proposal to ARABOSAI. Other possible future meetings within the framework of this cooperation were also discussed.

4. The EUROSAT Working Groups on IT (SAI of The Netherlands), Environmental Auditing (SAI of Poland), Coordinated Audit of Tax Subsidies (SAI of Germany), and the Study Group for Benchmarking Cost/Performance of the Tax Administration (SAI of the United Kingdom) explained the activities developed in compliance with their mandate and the situation of the Reports to be presented to the VII EUROSAT Congress. The EUROSAT Governing Board supported the initiative of the Working Groups on Environmental Auditing and IT to propose a change of Chair of the Groups to the VII Congress in favour

of the SAIs of Norway and Switzerland, respectively.

5. The Governing Board approved the request from the SAI of Israel to become a EUROSAT Member.

6. A report was made on the candidacies presented to date (SAI of Ukraine and the European Court of Auditors) for election as new Members of the EUROSAT Governing Board by the VII Congress. The decision on the proposal of the Governing Board to the Congress in that regard will be adopted in the XXXIII Governing Board Meeting (June 2008).

7. The SAI of Poland, host of the VII EUROSAT Congress, gave an account of the preparations underway for holding it and presented the draft Rules of Procedure, which were supported by the Governing Board.

8. The XXXIII and XXXIV Governing Board Meetings will take place in Krakow on 2 and 5 June 2008, respectively, immediately before and after the VII Congress.

9. The INTOSAI President provided information on the situation of the INTOSAI Strategic Plan 2005-2010, along with preparations for the XIX INCOSAI (Mexico, November 2007).



## MINUTES OF THE XIV EUROSAT TRAINING COMMITTEE MEETING

Luxembourg, 29-30 June 2006

The eight members of the EUROSAT Training Committee (ETC), consisting of the SAIs of the Czech Republic, Denmark, France, Germany, Poland, Portugal, Spain and United Kingdom and co-chaired by France and Spain, hold their XIV meeting in Luxembourg on 29 and 30 June 2006.

The meeting was hosted by the European Court of Auditors (ECA). According to the decisions made by the Governing Board in 2002 and 2005, respectively, the SAIs of Lithuania and Hungary attended this meeting as observers. Due to the agenda, repre-

sentatives of IDI, of SIGMA-OECD and of the SAI of Morocco also participated.

Danièle Lamarque, representative of the SAI of France, welcomed the participants on behalf of the co-presidency of the ETC and thanked the European Court of Auditors for hosting the meeting. She made special reference to the attendance of a representative of the Chair of the INTOSAI Capacity Building Committee, the SAI of Morocco. She highlighted the importance of promoting relationships between the SAIs of EUROSAT and strength-

ening co-operation on professional issues with ARABOSAI and INTOSAI.

### 1. Adoption of the agenda

María José de la Fuente, representative of the SAI of Spain, presented the draft agenda circulated for the XIV ETC meeting. It was unanimously adopted just changing the order of presentation of some items, at the request of the participants, for practical reasons.

### 2. Adoption of the draft minutes of the XIII ETC meeting in Budapest

María José de la Fuente presented the draft minutes of the XIII ETC meeting, held in Budapest on 22 and 23 September 2005, that were unanimously adopted.

Danièle Lamarque informed the representative of the ECA that the comments made by that institution on the draft minutes of the XI ETC meeting, held in November 2004, will be taken into account in the last version of the minutes.

### 3. Operational plan

#### 3.1. Building operational plan

Danièle Lamarque reminded the participants of the decisions taken by the VI Congress which had approved the strategy and

the operational plan proposed for 2005-2008, renewed and confirmed the ETC mandate and requested for the ETC to implement the actions as designed and to report to the Governing Board on its activities.

She presented the operational plan and its main issues, objective by objective. To sum up, many of the SAIs' needs have been fulfilled, but not all of them. The list of training priorities should be updated, either through updating the questionnaire or through the information collected by the SAI of Germany when re-circulating the questionnaire in 2005. Moreover, she stressed the fact that in order to ensure effectiveness of the training strategy, it would be necessary to ensure activities were fully evaluated. Now that training objectives have been agreed by the Governing Board, the main issues for consideration by the ETC should be:

- How effective has the implementation of the training strategy been to-date?
- How does the ETC measure the effectiveness of the training that has been delivered across EUROSAI?
- What feedback mechanisms does the ETC have in place to evaluate the effectiveness of training?

#### • *Updating the questionnaire and collecting information*

According to Jan Eickenboom, representative of the German SAI, 22 SAIs had



Group Photograph of the XIV ETC Meeting (29-30 June 2006).

answered to the 2005 questionnaire; performance and IT audit emerged as priorities. Answering to Helena Abreu Lopes, representative of the SAI of Portugal, he informed the Committee that the full analysis of the 2005 questionnaire could be made available to all members, if ETC wished so.

- *Evaluation*

Lisbeth Sørensen, representative of the SAI of Denmark, and Helena Abreu Lopes, gave the precision that both their SAIs had experimented evaluation applied to EUROSAT training events and that they were ready to make the corresponding documents available to all members. María José de la Fuente also emphasized the importance of promoting high quality training and trying to guarantee the quality standards through the follow up of the results and impact of the training activities supported, by EUROSAT.

All members agreed to the suggestion to develop a common evaluation questionnaire to be applied to ETC activities. Members also agreed to Danièle Lamarque's suggestion that evaluation should be an item to be debated of at one of the next ETC meetings. The very complex question of evaluation should be approached on a quality basis, taking into account not only attendants', but also organisers' points of view.

- *Avoid duplication*

Helene Morpeth, representative of the SAI of the United Kingdom, raised the issue of what steps the ETC might take to avoid duplication of training activity. While reminding that in some areas, IT audit for instance, it is sometimes necessary to provide repeat training events on the same topic, Danièle Lamarque echoed Helene Morpeth's concern and proposed that information about ETC activities should be made available for the largest number of organisations (ARABOSAI, INTOSAI, etc...), as circulating information seems to be an efficient mean to avoid redundant activities.

Elisabeth Türk, representative of the ECA, proposed to draw a list of events which could be presented at the annual meeting of the ETC to avoid duplication of training activities.

- *Drafting a paper on the EUROSAT Training Strategy: Visibility of ETC training strategy*

María José de la Fuente reminded the suggestion proposed in a previous ETC meeting. She pointed out that, since the EUROSAT Training Strategy and operational plan were approved by the VI Congress, it would be helpful to produce a document, for information, summarising the key elements of the Training Strategy for circulation across the EUROSAT region, INTOSAI and other regional groups. It could also be posted on the EUROSAT website.

Members agreed to that suggestion: the best way to make ETC strategy visible would be to have a synthesis of all the existing related documents. That synthesis should be precise enough to reflect the main issues and be of use to the Secretary General or to SAIs training managers, for instance, but short enough to catch the attention of potential readers.

Concluding the discussion, Danièle Lamarque wanted to make clear that the process of writing a synthesis should not lead to a new resolution to be presented to the Governing Board and proposed that the co-chair (the French representative with the support of the Spanish representative) should prepare a draft document to be circulated among the members before presenting it at the next ETC meeting.

- *Provisions on the structure, organisation and operation of the ETC*

Following the agreement taken under item 1 of the agenda the presentation of this item was postponed to the second day of the meeting. Due to the few time left for the end of the meeting María José de la Fuente proposed and reached an agreement from members to discuss on this item at the next meeting.

### **3.2. Building operational plan - Objective 1: Delivering training through seminars and events**

Introducing the point, María José de la Fuente reminded that due to the approved modification in the order of presentation of some items of the agenda, financial re-





quests from SAIs (item 5) were to be presented consecutively to the information about the training events and the programmes (items 3.2 and 3.3) that the EUROSAI financing had been requested for. There was an agreement to postpone the discussion on the financing aspect at the end of the presentations.

- *Seminar on “Public Procurement Audit”, Denmark, October 2005*

Lisbeth Sørensen, representative of the SAI of Denmark, provided information about the Seminar on “Public Procurement Audit” which was held in Copenhagen (Denmark) on 13 and 14 October 2005. She briefly presented the contents of the seminar, which 31 persons from 21 countries attended. Several speakers from different SAIs (among them Denmark, Slovenia, Poland, United Kingdom....) and from academic background introduced the debates. It was a fruitful seminar that covered many aspects of the audit of public procurement and showed a raising interest about new tendencies in that field. Lisbeth Sørensen indicated that more detailed information could be found on the Rigsrevisionen website.

- *Information on the workshop on implementing audit quality practices, Lithuania, May 2006*

Rimantas Bruzgulis, representative of the SAI of Lithuania, gave information on the workshop on “Implementing audit quality practices” which took place in Vilnius from 15 to 17 May 2006. This seminar was organised by the SAI of Lithuania, under the umbrella of the Expert Group on Audit Quality of the European Union SAIs with the cooperation of SIGMA, and was attended by 19 countries, among which candidate countries, and by a representative of ASOSAI (India).

María José de la Fuente suggested that it would be very useful that the material and documents prepared for that training event and any other previously held on audit quality were made available for the next events on the same topic; especially the seminar that will take place, in the framework of EUROSAI, in Hungary in 2007.

That way the purpose of the EUROSAI Training Strategy of getting advantage of all the possible synergies coming from training, at different levels, could be made effective.

- *Information on the training programme promoted by the Presidency of EUROSAI for the period 2006-2008*

Beate Korbmacher, representative of the SAI of Germany, presented the different forums and workshops that the SAI of Germany, as EUROSAI chairman, intended to organise during the period 2006-2008. She explained that the German SAI has made contacts with several training entities and universities, the European Law Academy in Trier and two German companies for international cooperation (GTZ) and continued training (InWEnt), in order to get their cooperation for carrying out these projects. The German SAI also considered seeking the support of technical experts, like SIGMA.





Developed in line with the ETC’s training strategy, the project has been built around 3 objectives: strengthening technical cooperation (in the fields of tax, IT and environmental audits), providing support for further development (on budgetary reforms approach and management of an SAI) and finally strengthening cooperation with other regional organisations (to give participants from ARABOSAI and OLACEFS institutions access to the training event offered by the Academy of European law on the structure and the function of the EU).

Out of the six projected training events, one have already taken place, the workshop on “Coordinated audit on tax subsidies” held in Bonn in February 2006, three more are to be organised before the end of the year, and two are planned for 2007.

Concerning the discussion forum on “Management of a SAI”, Beate Korbmacher indicated that Dr Engels’ aim is to address the Heads and high level managers of the EUROSAI SAIs to offer them the opportunity of sharing information about the management of their respective institutions. It is scheduled on two days, the first day being dedicated to an informal discussion about internal affairs between Heads of SAIs, the second day to presentations.

Beate Korbmacher also indicated that linguistic assistance will be provided for seminars but that workshops will be held in English.

Lisbeth Sørensen asked how the objectives had been defined. Jan Eickenboom explained that these priorities have been chosen in coherence with the training priorities identified and approved by the EUROSAI Congress. Even if some of

the topics have already been the subject of previous training events or working groups, he indicated that they will be dealt from a different perspective, mainly a legal perspective. As for the seminar on “management of a SAI”, it was a personal idea of Dr Engels.

Jacek Jezierski, representative of the SAI of Poland, confirmed that a contact with the EUROSAI Working Group on Environmental Audit had been made for co-ordination and that the proximity in time of the two events (both in autumn 2006) is not a problem as long as they pursue different objectives.

- *Conference on the role of the SAIs in the “Fight against Fraud and Corruption”, Ukraine, September 2006*

María José de la Fuente reminded of the letter sent by the President of the SAI of Ukraine to the EUROSAI Secretary General offering to host a training event on the role of SAIs in relation to the fight against fraud and corruption, in Kiev on 19-21 September 2006. Three Sub-themes will be discussed at the Conference: the role of the SAIs in the matter, cooperation of the SAIs with the law enforcement bodies for exposure and prevention of fraud and corruption, and practices of SAIs for implementing transparency and publicity in the field. The event would be imparted in English, Russian and Ukrainian. The EUROSAI Governing Board and the ETC were invited to participate, along with Central and Eastern Europe SAIs specially interested in this topic. Representatives of the Ukrainian Parliament and Government and International Organisations involved in the fight against fraud and corruption have also been invited to participate as



Year	Events	Cost
2006	<ul style="list-style-type: none"> <li>• Workshop on audit of tax subsidies (Bonn, February)</li> <li>• Seminar on audit methodology (Berlin, October 2006)</li> <li>• Workshop for IT working group (Trier, November 2006)</li> <li>• Workshop on environmental audit (Trier, December 2006)</li> </ul>	<p>6 600 €</p> <p>19 000 €</p> <p>19 000 €</p> <p>41 000 €</p>
2007	<ul style="list-style-type: none"> <li>• Discussion forum on “management of an SAI” (Berlin, May/June 2007)</li> <li>• Interregional workshop “Structure and functions of the EU” (Trier, open)</li> </ul>	61 000 €

guests. At the moment, 19 SAIs have answered positively.

María José de la Fuente informed that the SAI of Ukraine would not ask for financial support from the ETC for the Conference as it had been initially foreseen.

- *Seminar on audit of public aids and subsidies, Czech Republic, November 2006*

Zuzana Houloubkova, representative of the Czech Republic, presented the proposal of the President of the Czech SAI to host in November 2006, in the scope of EUROSAI, a seminar on the topic "Audit of public aids and subsidies". At the moment 18 SAIs have answered positively and between 45 and 60 persons are being expected. The event will be organised with the support of SIGMA, which has undertaken to find keynote speakers. A member of the GAO Canada has been asked, considering his participation could be of interest as the GAO Canada is not a member of any regional group. In the area of EU public aids and subsidies, an ECA speaker has volunteered.

The Czech SAI requested support from EUROSAI totalling 9,600 € to cover the travel and subsistence expenses of the Canadian expert asks support from EUROSAI in order to finance the venue of the Canadian expert (1,700 €) and the cost of venue hire and the technical equipment (7,900€).

- *Training event on performance audit, ECA, Luxembourg, 2007*

Elisabeth Türk informed the participants about the newest developments in performance audit within the ECA. The Training Unit of the ECA organised 4 seminars on the audit of sound financial management including different workshops. All audit groups of the ECA participated together with ADAR (the audit development and reporting division of the ECA). These training events contributed to the further development of a manual in performance audit, which will be adopted at the end of 2006. After the organisation of internal training courses the ECA is

planning to organise an international seminar at the end of 2007 to share knowledge and to further develop the audit of sound financial management in the public sector.

- *Seminar on audit quality, Hungary, March 2007*

The representative of the SAI of Hungary presented the seminar on audit quality which will be held on 1-2 March 2007 in Budapest at the State Audit Office of Hungary. The objective is to present, amongst others, the Guidelines on audit quality elaborated by the Expert Group of the EU SAIs on Audit Quality. The target group would be Eastern European countries as well as CIS countries of the Balkan region, members of EUROSAI, which did not participate in the Vilnius workshop on "Implementing audit quality practices", held in May 2006. The languages of the seminar will be English and Russian. The SAI's request for financial contribution amounts to 7,500 €, in order to cover travel and subsistence costs related to the participation of the foreign speakers.

The representative of the SAI of Hungary concluded by asking the Committee's opinion about the possible invitation of the Audit Institution of Montenegro, which is not yet a member of INTOSAI, but has presented a request to join the Organisation which might be examined by the Governing Board before the end of 2006.

ETC members didn't express any objection to the participation of the Audit Institution of Montenegro to the seminar, as long it was clearly stated they were invited as guests by the host.

- *Training event on financial audit standards, Lithuania, 2008*

Rimantas Bruzgulis, representative of the SAI of Lithuania, informed the Committee on the seminar on financial audit standards to be held, in the scope of EUROSAI, in Vilnius in 2008. The seminar will be organised in cooperation with INTOSAI, and IPSAS, the objective being to start a reflection on how to implement these standards.

Lisbeth Sørensen indicated that Denmark as the chair of the PSC will support



the proposal of the SAI of Lithuania. María José de la Fuente suggested that the SAI of Lithuania could approach the SAIs of Denmark and Italy, chair and EUROSAT representative, respectively, at the PSC.

- *Other possible events to be organised considering the priorities fixed*

Jan Eickenboom introduced the item indicating that if hosts have already volunteered for some of the future training events, some of the priorities fixed were still not answered, among them two important items, namely social security audit and performance audit.

### 3.3. Building operational plan - Objective 2: Supporting EUROSAT-IDI activities

Archana Shirsat, representative of IDI, presented the IDI-EUROSAT programme on "Public Debt Audit" which started in August 2005 with a first planning meeting in Oslo, followed by an evaluation survey, a seminar and a design meeting in Azerbaijan in February 2006 and ended with the Public Debt audit workshop held in May 2006 in Kazakhstan. The objective of this programme was to enhance public debt audit capacity in CIS countries (11 countries are concerned). An instructor team was established with subject matters experts and training specialists. Training was delivered in Russian. The programme budget amounts to 220,000 € and IDI'S request for financial support from EUROSAT is of 40 000 €. She specified that due to their resources, it was quite impossible to seek financial contribution from participating countries. She indicated that IDI had also requested financial participations from other donors (INTOSAT, ARABOSAT).

She reminded that the programme had been launched with the support of the former EUROSAT chair (Russia) in cooperation with EUROSAT and that public debt audit was considered a first priority in the SAIs targeted.

Archana Shirsat then presented IDI strategic Plan for 2007-2012, referring to the leaflet which had been circulated among ETC members. She explained that

IDI's plan was the result of a long process, started in November 2004 and to be ending in April 2007. She specified that when drawing this strategic plan, one of IDI's concerns was to shift from mere training activities towards a more capacity building preoccupation, without overlapping with INTOSAT capacity building actions.

María José de la Fuente reminded the representatives of IDI that the EUROSAT Governing Board should receive from IDI, through the Secretary General, the justification of the financial aid corresponding to the period 2005 granted by EUROSAT for financing the II Phase of the Long Term Regional Training Programme. Archana SHIRSAT pointed out that the justification would be made, as previous years, in the IDI Annual Report, that would be sent to the EUROSAT Secretariat proximately.

María José de la Fuente also informed the ETC on the agreement made by the EUROSAT Governing Board, at IDI's request, allowing IDI to use the working papers of the VI EUROSAT Congress for being applied for an IDI-ASOSAT cooperation programme for capacity building in the new SAIs of Asian countries.

### 3.4. Building operational plan - Objective 3: Supporting needs of Working and Regional Groups

- *Cooperation with EUROSAT IT Working Group*

Helena Abreu Lopes gave information on the goals and objectives of the working group: the EUROSAT IT Working Group has developed a methodology for IT self assessment by SAIs and launched a self-assessment project which has already been performed by 21 EUROSAT countries. She referred to the first and second seminars "SAIs in Control of IT" held in 2004 and 2005 to which participated 66 persons from 28 EUROSAT SAIs.

However, several SAIs have not yet been able to participate in these introductory seminars and for those which had participated, a need to follow up upon previous experiences has been identified. For these reasons, a third seminar has been planned and should take place in Luxembourg (hosted by the ECA) in April 2007.



Translation to and from Russian will be provided.

Helena Abreu Lopes reported on the ETC/ITWG seminar on "Manage and audit Electronic Record Management (ERM) projects" held in Bern on May 2006. She reminded the background of the seminar, as well as its objectives and design. 36 participants from 21 EUROSAI members participated in the seminar. Three speakers from the United Kingdom's NAO, from the ECA and from other EUROSAI SAIs made presentations. Most of participants considered that the seminar was very useful and successful.

Helena Abreu Lopes indicated that seminar dealt differently with the question of funding: in order to be able to organise the Bern seminar, fees had been asked from participants (180 € per person, covering organization, premises and trainers' accommodation expenses). If a new seminar were to be organised it would be directed mainly towards Eastern countries' SAIs and they would probably not be in capacity to contribute financially to the organisation (that is, travel and accommodation costs of its participants).

Finally, she informed that, according to the initial plan, another seminar on IT issues is to take place in 2008 and that the SAI of Estonia offered to host it.

María José de la Fuente thanked Helena Abreu Lopes for her presentation and asked the ETC for an opinion about the convenience of considering funding, from the EUROSAI budget, travel and accommodation costs of participants.

Jacek Jezierski indicated it could be conceivable but difficult to implement as it raised the question on which criteria a country should be supported. Danièle Lamarque agreed to the difficulty of defining criteria and reminded that some countries already benefit from funding for capacity building and thus should be able to support by themselves these expenses. Lisbeth Sørensen also expressed her concern that travel expenses should be paid by SAIs.

Danièle Lamarque reminded ETC members the above proposition to draft guidelines on principles for financing and selecting projects, and would consider it

useful to report on these issues in front of the Governing Board.

María José de la Fuente and Helene Morpeth agreed to the proposition and to the suggestion of reporting the Governing Board on the mentioned general guidelines that the ETC might approve for its internal operation.

- *Co-operation with EUROSAI Environmental Audit Working Group (EAWG)*

Jacek Jezierski informed on the activities and works carried out by the EAWG in 2005-2006; in particular, the meeting held in Vienna in 2005, on the topic "Waste, Air Pollution and Renewable Energy" which was attended by 27 EUROSAI SAIs, the SAIs of Canada (INTOSAI working group), of China (ASOSAI working group) and of Brazil (OLACEFS working group).

He briefly presented the programme approved for the EAWG for the next period: the meeting to be held in Luxembourg in November 2006, on NATURA 2000 programme, biodiversity, flood protection auditing and methodology in environmental auditing.

He mentioned the seminar to be organised by the German SAI, which should take place in December 2006 in Trier. It will deal with EU environmental law and treaty provisions, topics that EAWG considers as important and complementary with its own activities. He also mentioned IDI environmental training event planned on next November in Moscow.

- *Information about EUROSAI Working Group on the coordinated audit of tax subsidies*

Jan Eickenboom mentioned that the previous EUROSAI Congress in Bonn had decided that there should be a coordinated audit of tax subsidies that is open to all EUROSAI members. The Governing Board asked Germany to chair the Working Group set up to deal with this issue.

The general idea of the coordinated audit is that all participating SAIs shall





examine the same topic in their respective country. The results found will then be analysed and compared. The Group have established three sub-groups that deal with VAT, corporate income tax and transparency.

Members of the Working Group were at the time of the meeting Cyprus, Denmark, Finland, Germany, Hungary, Iceland, Italy, Lithuania, Latvia, Poland, Romania, the Russian Federation, Sweden, Switzerland, Slovakia and the United Kingdom; the Netherlands participated as an observer.

The Working Groups have organised a seminar on tax subsidies which was held in Bonn on 21/22 February 2006. Speakers were sent by the University of Cologne, the OECD, the Dutch SAI and the German GTZ (an international cooperation enterprise for sustainable development with worldwide operations).

- *Information about co-operation  
EUROSAI-OLACEFS*

María José de la Fuente gave information about the IV EUROSAI-OLACEFS Conference held in Lima in November 2005. She paid special attention to the Conclusions and Recommendations issued by the Conference and indicated that they would be available (through the EUROSAI website and the EUROSAI Magazine).

Helena Abreu Lopes had previously indicated that the V Conference was to be held in May 2007 in Portugal. The theme selected is "Fiscal sustainability, presentation of accounts and accountability" and the Conference should be opened by the President of the Portuguese Republic.

- *Information about co-operation  
EUROSAI-ARABOSAI*

Jan Eickenboom gave information about the first joint EUROSAI-ARABOSAI Conference to be hosted by the SAI of Tunisia, as ARABOSAI General Secretariat, in 2006. The selected topic is, at the moment, "privatisation and its impact on public service management". Each SAI could be represented by two participants (the head of the SAI and a specialist). He indicated that the agenda was still at a drafting stage.

María José de la Fuente informed that, just before the First Conference EUROSAI-ARABOSAI, a meeting between the Governing Boards of both Regional Organisations would take place to strengthen the relationships and look for possible ways of co-operation.

Danièle Lamarque confirmed that the Cour des comptes was ready to host the next joint conference in 2009.

- *Other regional events planned in  
different circles*

Nicolas Treen presented the recent activities of SIGMA, paying special attention to the Audit methods and manuals workshops organised in 2006. He offered the material produced for being used, if necessary, in other seminars. He indicated that current and future workshops reports and materials could be found on the SIGMA website.

### **3.5. Building operational plan - Objective 4: expand the use of Web Sites**

- *Information on the EUROSAI Training  
Website*

Danièle Lamarque provided information on the EUROSAI training website, hosted by the French SAI. She indicated that, at the moment, the French SAI is engaged in a process of revising its system (including change of web host, of search engine...). Thus, updating the training website has been suspended until the current procedure is completed.

She indicated that updating the web site raised several questions about the link between training objectives and the kind of information useful to be displayed, for instance the contents of SAIs' annual training programmes which are uneasy to keep updated and are not utterly relevant.

### **3.6. Building operational plan - Objective 5: Expand cooperation with universities**

Helena Lopes made a presentation on the cooperation of the SAI of Portugal with universities.





Danièle Lamarque proposed to launch a survey on existing cooperation between SAIS and universities.

The representatives of Germany, France, United Kingdom and Spain manifested that their SAIs were carrying out activities in co-operation with universities.

#### 4. Exploring other issues

##### 4.1. *Certified European Public Sector Auditor qualification*

To gather information of already existing diplomas in public sector auditing it was proposed that the ECA will collect information on this issue. Elisabeth Türk agreed to launch a questionnaire to all EUROSAI members.

##### 4.2. *Key training available on internet*

Information on this topic was provided by IDI under item 3.3.

##### 4.3. *Guidelines for managing training within SAIs*

- *National papers provided and discussion on the opportunity of drafting orienting guidelines on training*

María José de la Fuente remarked the recurrent nature of the theme: she observed that material exists, national papers containing training strategies or guidelines provided by different SAIs, but is still unexploited. She remarked how their study could help to get information, to exchange experiences and learn from each other and to have a pack of common "practices" on training. She put on the floor the possible interest of drafting orienting "good practices" for training having into account the common points of the national training strategies that had given good results.

Danièle Lamarque proposed to check the information available with the help of the Spanish SAI, in order to make a point on this issue at the next meeting. Jan Eickenboom indicated that in the questionnaire circulated in 2005 there was an item about guidelines on training strategy.

- *The European Public Administration and Training (EPAT) network*

Elisabeth Türk presented the activities of the European School of Public Administration (ESA), and in particular the conference held in Luxembourg earlier in June 2006.

#### 5. Discussion about financial requests

As it has been previously decided, a general discussion about financial requests took place: María José de la Fuente made an introduction on the main prescriptions of EUROSAI for financial aids and subsidies granted from the Budget of the Organisation, making specific reference to the principles and criteria approved on the issue by the V EUROSAI Congress. She reminded that the formal financial requests were to be presented to the EUROSAI Governing Board through the Secretary General, with a report including the concrete amount requested, the destination of the funds and the justification of the demand. When the financial requests refer to training activities, the ETC should give an opinion to the Governing Board on the adequacy of the request and the amount demanded. She pointed out that no reference is made in EUROSAI prescriptions to the costs of the training events that can be financed from the EUROSAI budget; only a concrete mention is made to translation and interpreters' costs.

A series of questions arose then in the discussion, mainly about which criteria should be taken into account: for instance, should travel expenses of participants or speakers be supported or even translation systematically.

The question of payment of professional fees for technical experts was also debated: Nicolas Treen, representative of SIGMA, indicated that in some cases professional fees and travel expenses may have to be paid, even to experts from EUROSAI institutions. Helena Abreu Lopes stated that facing requests for financing fees and travel expenses caused by the participation of SAI'S members of EUROSAI to some training event should be considered as a question of principle.

A proposal for drafting some general guidelines that could serve the ETC to



analyse the financial requests that might be made in the future and to give an opinion to the Governing Board on their adequacy and amount, was raised. The SAIs of the United Kingdom and Portugal supported the suggestion.

Danièle Lamarque suggested that, apart from specific expenses like social events which should not be financed by EUROSAI, the Committee should remain flexible and open. Financing or not expenses should be decided case by case, depending on the training issue. She proposed to consider the German proposals as a programme as a whole, the same way IDI's programme.

The ETC agreed that the financial requests made by the SAIs of the Czech Republic and Hungary and IDI for carrying out the seminars and programmes referred under items 3.2 and 3.3 of the agenda were worth being supported, in relation to their adequacy and amount, in front of the Governing Board. María José de la Fuente exposed from the perspective of the EUROSAI Secretariat that, taking into account that an important amount of money had been asked from EUROSAI for financing training in 2006 and additional requests could still arrive, an impossibility of paying all the requests from the annuity of the EUROSAI Budget for 2006 could overcome. Then she proposed that if it would happen, IDI's request (the most important one) would be partially paid in 2007. The ETC agreed on this proposal.

The ETC also agreed that a small task force, including Spain as representative of the EUROSAI Secretariat, should be committed to draw "financing guidelines" to be followed by ETC when asked to give an opinion on financial requests. The representative of the Polish SAI volunteered to be part of this task force.

The ETC also discussed on a possible financial request that the EUROSAI Presidency might make in the future, if considered convenient, for carrying out the training initiative for the period 2006-2008 explained under item 3.2 of the agenda.

Jan Eickenboom indicated that the German SAI was, at the moment, no longer considering a request for financial support. He expressed that this seemed not advisable, taking into account the mixed reaction of the ETC to the German pro-

posal. Further internal reflexion would give Germany time to decide about presenting a request at the next governing board meeting. Re-labelling the series of training seminars a "programme" might technically facilitate the obtainment of funds, but would not remove the doubts that several SAIs seemed to have about that training series in general.

María José de la Fuente summed up the discussion, which she found very fruitful. She noted that new approaches and new needs had emerged and thanked all the representatives for their interesting proposals. She manifested that, in her view, some general guidelines for the ETC to offer an opinion on financial requests received by EUROSAI could be very helpful.

Helene Morpeth endorsed María José de la Fuente's comments about the need to draw up some guidelines to define exactly what type of expenditure the ETC is able to fund.

## **6. Request of the SAIs Lithuania and of Hungary for ETC membership**

María José de la Fuente presented the requests of the SAIs Lithuania and of Hungary for ETC membership. She reminded that, when the SAI of Lithuania requested EUROSAI membership, the EUROSAI Governing Board decided in 2002 to offer the SAI the formal status of observer, taking into account their big contribution to training in EUROSAI; making that way the principles of openness of EUROSAI compatible with the maintenance of a small and efficient structure. The same criteria were followed by the Governing Board in 2005 when the SAI of Hungary requested ETC membership, giving that SAI the status of observer.

María José de la Fuente also pointed out the condition of the SAIs of Lithuania and Hungary as member and observer of the EUROSAI Governing Board, respectively; condition that seems to be essential for ETC membership taking into account that the ETC is a supportive body for the Governing Board. She also highlighted the big merits of the SAIs of Lithuania and Hungary for promoting, impelling and delivering training in EUROSAI.



A general discussion was raised on the topic. Different possibilities were considered in relation to the possible status of the members of the ETC that were not incorporated at the creation of the body in 2000. Among other possibilities, a temporary permanence while remaining members/observers of the Governing Board or providing them the same permanent status of the original ETC members, were discussed. A general agreement on proposing to the Governing Board Lithuania and Hungary to become full members of ETC, was taken. In relation to the possible status of the new members the ETC no position was taken by the ETC, that decided not to submit any concrete proposal on the topic to the Governing Board.

#### 7. Dates and places of the next ETC meetings

Hosting the next meetings is still open to offers at the XIV ETC meeting.

As María José de la Fuente reminded it, the ETC could follow a rotational system.

After the meeting, Germany actually offered to host the meeting to be held in spring 2007.

#### 8. Miscellaneous

- *Presentation of the "Good Co-operation Practice Guide on Audit Activities"*

Nick Treen made a presentation of the "Good Co-operation Practice Guide on Audit Activities" prepared by the Joint Working Group on the SAIs of the EU and Candidate Countries on Audit Activities:

contents, values of the guide, some benefits of audit activities and future actions.

- *Information on the INTOSAI Capacity Building Committee*

Mohamed Kamal Daoudi, representative of the SAI of Morocco as the chair of the INTOSAI Capacity Building Committee, made a presentation of the Committee: he made a review of its creation, in the line with INTOSAI strategic plan for 2005-2010, its missions, "to build the capabilities and professional capacities of SAIs through training, technical assistance and other development activities", its strategies and its structure, a main and a steering Committees, three sub-committees in charge of carrying out and implementing the CBC work plan. He presented propositions for co-operation with ETC, mainly based on sharing knowledge and experiences with SAIs from outside EUROSAI. He concluded by inviting SAIs that wished so to join the specialized sub-committees of the CBC and to enrich its activities.

Helene Morpeth said a few words about the first meeting of the Committee held in London in January 2006, hosted by the UK NAO. 70 delegates, including 12 auditors general, from 30 countries attended the meeting, which can be considered as a great success.

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María José de la Fuente and Danièle Lamarque thanked the ECA and specially Elisabeth Türk and her colleagues, Annick Van Damme and Lucie Prazakova, for hosting so kindly and efficiently the XIV ETC meeting; as well as the participants for their contributions and the fruitful debates.

## SUMMARY OF THE DEBATES AND DECISIONS OF THE XV EUROSAI TRAINING COMMITTEE MEETING Bonn (Germany) 8 and 9 March 2007

The EUROSAI Training Committee (ETC) held its XV Meeting in Bonn (Germany) on 8 and 9 March 2007, organised by the SAI of Germany and EUROSAI

Presidency. In addition to ETC Members, the meeting was also attended by representatives of the European Court of Auditors, of the SAI of Austria, IDI and the





Group Photograph of the XV ETC Meeting (8-9 March 2007).

Chair of the INTOSAI Capacity Building Committee, thereby continuing the effective cooperation between the respective Committees in charge of promoting training in the two Organisations.

The minutes will be submitted for the ETC approval in its forthcoming Meeting in Moscow (Russian Federation) in the spring 2008. Nevertheless, it is considered to be of interest to provide some preliminary information on the main subjects dealt with and the decisions adopted therein:

1. The ETC discussed the triple fields of action in which it undertakes its tasks: the performance of the Common Training Strategy 2005-2008, the works on its own organisation and internal structure, and the proposals to be drawn up with a view to the VII EUROSAI Congress (June 2008).

2. The works, activities and events developed and scheduled in application of the operational plan for the putting into practice of the EUROSAI Training Strategy approved by the VI Congress were reported on, as was the execution of the complementary training initiative promoted by the EUROSAI Presidency in cooperation with the European Academy of Law of Trier and the German Entity GTZ.

Emphasis was placed on the need to promote the provision of quality training oriented at complying with the strategic

objectives, which will complement those provided by each of the SAIs of EUROSAI and which will support the reinforcing of the respective internal strategies, with full respect for the independence of those strategies in their design and application. With this objective, questionnaires will be circulated periodically in order to update the priorities and training needs of EUROSAI Members, and surveys will be prepared for evaluating the quality of the training given and its impact in terms of benefits for participants and their SAIs, thus providing feedback for the system. It is likewise considered advisable to draw up some guidelines which, on an orienting basis, can facilitate the organisation of training events in EUROSAI.

3. As a complement to the provision of training, the importance was highlighted of promoting cooperation with the EUROSAI Working Groups, with INTOSAI and its Regional Organisations (fundamentally, with OLACEFS and ARABOSAI), and with other Entities with which common interests in this area are shared such as IDI, SIGMA or the universities. Also emphasised was the interest in creating communication networks among experts in order to exchange experiences and furnish information.

4. A debate ensued on other areas under study by the ETC: European Certifica-





tion of Public Sector Auditor; development of more innovative training initiatives and search for new financing formulas for training that would complement the contributions coming from the organisers of the events; provision of training via the Internet and intensification of the use of IT in order to increase the number of beneficiaries and reduce costs; along with the use of the web site and of EUROSAI publications as training vehicles.

5. In relation to its organisation and internal structure, the ETC focused its efforts on the design of systems that would facilitate an efficient operation and adequate distribution of duties and responsibilities. The ETC works directed towards the homogenisation of criteria in the adoption of agreements on different subjects relating to training were continued with, on the issues where the Governing Board is supported.

6. The ETC also oriented the debate towards proposals to be made in the subject to the VII EUROSAI Congress. It is convenient to conduct an analysis of the results and the impact of the training given in the EUROSAI Region in the execution of the Strategy 2005-2008, to examine the lessons learned and deduce good practices, to establish the system of priorities and pass on proposals to the Governing Board and to Congress for the design of the Training Strategy 2008-2011 and its guidelines; with a definition of the quantifiable objectives for action in view of the

new circumstances and of the concurrent challenges with respect to the training to be given in the future.

7. The need was repeated for a financial commitment from EUROSAI towards training, and possible measures were discussed aimed at homogenising the criteria for the granting of subsidies charged to its Budget.

The ETC backed the request for financial aid presented by the SAI of Lithuania for the organisation of a Seminar in 2008. It likewise agreed to propose to the Governing Board to maintain a single web site which would include the training material managed by the Secretariat of EUROSAI, for which it would have support of the SAI of France in the training area.

8. The concession by the EUROSAI Governing Board of the status of ETC Members to the SAIs of Lithuania and Hungary were reported on, and that of Observer to the SAI of the Russian Federation. It was agreed to pass on a proposal to the Governing Board to grant the status of ETC Member to the latter as well, bearing in mind its contributions in this field.

9. Information was provided on the activities undertaken in the last year by the INTOSAI Capacity Building Committee and its strategies. A discussion followed on possible cooperation formulas between it and the ETC, based fundamentally on the exchange of experiences and on sharing information and knowledge.



## **INFORMATION ON THE I EUROSAI-ARABOSAI JOINT CONFERENCE AND CONCERNING THE MEETING BETWEEN THE EUROSAI GOVERNING BOARD AND THE ARABOSAI EXECUTIVE COUNCIL (30 November- 2 December 2006)**

The I EUROSAI-ARABOSAI Joint Conference took place on 1 and 2 December 2006, hosted by the SAI of Tunisia as ARABOSAI Secretariat.

The fundamental theme of the Conference, in which Representatives from 39 SAIs took part, was "Privatisation and its

impact on the management of public services".

The Theme was developed over four Working Sessions. The First was devoted to the concept, evolution and legal and institutional framework of privatisations, and included a discussion from the

Tunisian Minister of Finance as Main Speaker. The Second Session focused on the role of SAIs in the field of auditing of privatisations and the challenges in performing their missions. The Third Session had the object of evaluating best practices in the auditing of privatisations, within the framework of INTOSAI and its Regional Organisations. The Fourth Session, of a more practical nature, was developed by means of presenting study cases, which were analysed by four Working Groups, with the results of each of them being set out in a Full Session.

In the four Sessions contributions were made by representatives of EUROSAI and ARABOSAI, thus guaranteeing plurality in the sharing of representative experiences of the various models of control existing within the framework of the SAIs of the two Regional Organisations.

The presentations and discussions maintained throughout the Joint Conference highlighted the role of SAIs in the auditing of privatisation procedures, these being operations whose legal framework needs to be clearly defined and regulated. Transparency in the procedures has to be guaranteed, as does the attaining of the objectives and the proper monitoring to make sure that they accord with the commitments taken on.

Stress was placed on the importance of SAIs undertaking their work independently of the decisions that might have led to the concrete privatisations, by means of applying methodologies of a technical nature, and for them to develop the appropriate tools for carrying out their tasks in this field, verifying not just the regularity but also assessing the management, considering the application of the policies and the results of the privatisation.

There was general agreement on the interest and success of this Joint Conference as a formula for promoting the exchange of information and experiences among SAIs of EUROSAI and ARABOSAI, and of discussing topics of common interest on a monographical basis in a technical environment. This cooperation initiative will be reinforced with other formulas which,

from practical perspectives, allow for a reciprocal enrichment at all levels. There is no doubt that the practice of each SAI constitutes an important source of knowledge and experience for the others, permitting a sharing of their results and knowledge of their advantages and limitations, along with the drawing of conclusions.

Prior to the I EUROSAI-ARABOSAI Conference, a Meeting was held between the Governing Board of EUROSAI and the Executive Council of ARABOSAI on 30 November 2006, also in Tunis, under the organisation of the Secretariat of ARABOSAI. That Meeting, whose minutes were approved by EUROSAI on the occasion of the XXXII Governing Board Meeting, was co-chaired by the Presidents of the two Organisations. It had the aim of debating the criteria that were going to form the basis of future stable cooperation between them which, as far as EUROSAI is concerned, were agreed by the VI Congress in 2005.

After making a brief introduction to the activity of the Organisations and drawing out the general lines defining the channels of their collaboration, a debate then ensued on specific formulas for making this effective within the framework of the objectives of the Strategic Plan of INTOSAI 2005-2010.

Four possible fields of cooperation between EUROSAI and ARABOSAI were identified: training; exchange of information and experiences (by means of organising technical symposiums, sharing of documentation and reports, the execution of joint works, holding study visits, exchange of experts and reciprocal participation in auditing works); the holding of Joint Conferences on themes of common interest, the First of which took place in Tunis and which are going to continue in a Second Conference in France in 2009; and cooperation between the Working Groups of the EUROSAI and ARABOSAI, an action that has already started in the field of IT.

The Secretaries General of EUROSAI and ARABOSAI were entrusted with the coordination, putting into practice, monitoring and evaluation of this cooperation.



## CONCLUSIONS AND RECOMMENDATIONS OF THE V JOINT CONFERENCE EUROSAI/OLACEFS (10-12 MAY 2007)

### “FISCAL SUSTAINABILITY, PRESENTATION OF ACCOUNTS AND ACCOUNTABILITY”

The V EUROSAI/OLACEFS Conference gathered in Lisbon, on 10 and 11 May 2007. Representatives of SAIs from 52 countries shared ideas and experiences on Fiscal Sustainability of State systems and policies and their role as audit institutions in auditing and promoting that sustainability.

1. Expressing their views and opinions through presentations, written contributions and debates, the participants in the Conference concluded that fiscal sustainability is today a wide international challenge. This requires **States to pursue sustainable economic development, social cohesion and the maintenance, improvement or even expansion of social protection to citizens and, at the same time, to reduce expenses and indebtedness.**

This effort is needed to limit the burden on present and future tax-payers and also to comply with external commitments to creditors and donors or, as in the case of

the European Monetary Union, to respect inter-States fiscal stability agreements.

To face this challenge, States have been adopting **reforms in the public sector**, aimed at: improving the level and quality of available information to produce better fiscal and management decisions; at making the best possible use of the present resources and at restraining expenditures and debt growth.

These reforms have focussed in the following main areas:

- **Budgetary reforms**, including the previous definition of priorities for the elaboration of budgets, the preparation of budgets within economic medium-term perspectives and the introduction of constraints on the preparation, approval and execution of budgets, such as balance requisites, savings targets, expenditure ceilings and/or indebtedness limits;

- **Accounting reforms** so that decisions are prepared and public accounts are



Group Photograph of the V Joint Conference EUROSAI-OLACEFS.

presented on accrual basis rather than cash, thus allowing to understand and forecast the actual financial situation of State and public bodies, including their commitments for the future. These new methods imply the use of harmonised and consolidated data;

- **Public management reforms** based on the development of information systems and electronic government, on the adoption of performance models, that emphasize the clear assignment of roles and responsibilities, the optimal use of resources, the quality and effectiveness of spending and the achievement of strategic quantified goals, on increased transparency and on stronger financial control, resulting in reduced corruption and misuse of funds;

- **Reforms of public pension, health and education systems**, redesigning them to reinforce contributory financing schemes and funding alternatives, such as the use of public private partnerships.

2. The SAIs gathered in the Conference recognized that **fiscal sustainability is a natural challenge for audit institutions** that strive for the better use of public assets, confronting them with the need to introduce changes in their activities and resources, such as the following:

- **SAIs, according to their mandates, may decide to audit new issues and issue special reports:**

- Appraising achievement of fiscal objectives and assessing compliance to fiscal and indebtedness constraints;

- Disclosing the actual size of public debt, implicit liabilities, guarantees and future costs and benefits of policy commitments;

- Assessing the actual economic situation of the State and of public bodies, certifying and/or drawing up balance sheets and the changes in their net worth over time;

- Evaluating new instruments and mechanisms used for funding public deliveries and their related future liabilities and costs (credit operations, advanced revenues, securitisation of liabilities and receivables, granting of guarantees, public private partnerships, etc.);

- Monitoring economy, efficiency and effectiveness of public management in achieving strategic targets and goals and making the best use of resources;

- Appraising the quality of social public services provided by alternative providers;

- Auditing the good governance of environmental changes and protection;

- Checking the independence and accuracy of national statistics, macroeconomic, budgetary and social systems forecasting and of the methods, data and indicators used.

- **SAIs may include, in their current audit activities, sustainability perspectives and recommendations.** Experiences shared during the Conference showed that some SAIs auditing social sector activities made relevant recommendations to Governments. This led to a reduction in current expenditure, the adoption of policies and control procedures to reduce tax evasion, more accurate evaluation and better management of assets, liabilities and guarantees, adequate funding and more efficient use of resources and the adoption of mechanisms to reduce the risk of corruption in social programmes;

- **SAIs may assess the accountability of public managers and governments in new ways** such as their contribution to sustainable development, social responsibility, good governance principles and intergenerational equity;

- **SAIs need to adapt themselves to new systems and procedures**, such as electronic information systems, within which audits are performed and accounts are rendered, new types of auditees, new budgeting and accounting rules, internationally harmonised accountancy and statistical standards. Thus, they may have to develop skills and methodologies to be able to analyse these new features of public finances, including national accounting, econometrics, statistics, IT, etc;

- **SAIs may need additional resources to these activities**, obtaining them in a way that doesn't put at risk their financial independence.

3. **In view of the above, the V EUROSAI/OLACEFS Conference recommends that SAIs:**





Closely **watch and monitor** the development of budget, management, accounting and social **reforms** in their countries, and **stimulate**, when appropriate, **their implementation** as a means of encouraging sounder fiscal management;

Consider **intensifying the audit** of fiscal restraints, policies and practices in view of their sustainability, paying special attention to decentralised revenue and expenditure discipline, fiscal balances, credit mechanisms and liabilities and to the evolution of social expenditure, funding and level of service;

**Inform** Parliament and citizens of the **results of their assessments** on the development and results of public sector reforms, on the sustainability of policies and decisions and on the accountability managers and users of public funds for their responsibilities on development, governance principles and sustainable resources;

Systematically **follow-up on audit findings** taking into account their previous

recommendations, sanction illegal conduct, when having powers to do so, and evaluate if their recommendations and action were actually effective to achieve intended goals;

Promote **development of adequate audit procedures and skills** related to public fiscal management and the new rules, procedures and technologies;

Within their mandates and when appropriate, **provide expert advice or express their views** on fiscal legislation and policy decisions to be taken by the Parliament and/or the Government and/or on individual programmes having a major bearing on the budgets.

**Exchange information** with their counterparts in other countries about fiscal sustainability issues, international reform trends and audit developments in the field;

**Continue to share experiences, methodologies and results** between each other in this area.



## THE COORDINATED AUDIT OF TAX SUBSIDIES – AN INTERIM REPORT BY THE GERMAN SAI –<sup>1</sup>

Currently, rapid change is taking place in Europe accelerated by major geopolitical initiatives such as the EU enlargement process and ongoing globalisation. This development does not fail to have an impact on the Supreme Audit Institutions (SAIs), that increasingly have to face similar challenges in this economic area, in which borders are steadily declining. The desire to carry out a coordinated audit in which all EUROSAI members may participate is therefore designed to meet the growing need for SAIs to become acquainted with each other in the course of an audit and to share lessons learnt by it.

The German SAI responded to this desire when hosting the VI EUROSAI Congress. The choice of the proposed audit theme was governed largely by the objective of presenting to the Congress a theme

of substance and importance. The choice made was the audit of tax subsidies, i.e. special arrangements in tax law which considerably reduce public revenue all over Europe and at the same time make tax law rather complex. The representative of the European SAIs welcomed the proposal made by the German SAI at the Petersberg near Bonn on 2 June 2005. While cooperation between the members of EUROSAI is nothing new and is generally growing, the level of cooperation envisaged by this coordinated audit project still is exceptional.

To implement the coordinated audit, a proposal made by the President of the Netherlands SAI was taken up according to which the design of the national audits was left to the individual SAIs. This permitted a parallel audit by a large number of SAIs in a rather short period of time with-

<sup>1</sup> By the EUROSAI Presidency Support Team. The Supreme Audit Institution of Germany.

out being detracted by questions about the scope of each SAI's responsibilities. Each SAI has assigned its own audit team that looks into the same field from each SAI's particular perspective, taking into account its relevant legal mandate. Lessons learnt are shared during joint meetings and may serve as input into each SAI's own work. The participating SAIs will submit their final reports independently to their respective Parliament or responsible ministry.

Since each SAI audits independently on the territory of its country, the key function of the working group is to agree on a questionnaire for the survey and on the timetable. Lists of questions were drafted in joint meetings that provide the participating SAIs with a structure which facilitates a comparative presentation of results in the final report. Each SAI is free to adopt this structure wholly or in part for its own audit design and schedule. To work out a questionnaire, a seminar organised by the EUROSAI Chairman was held on the subject of tax subsidies in Bonn on 21-22 February 2006, which was attended by representatives from 23 EUROSAI countries. Presenters from Cologne University's Institute of Fiscal Studies and from OECD contributed to creating a common knowledge base which may serve as a sound point of departure for the success of the common project.

The seminar addressed both the definition of tax subsidies and the Swiss Subsidies Act in which the most important provisions for transparency in this field have been laid down. The requirement made was proactive reporting about tax subsidies and their better integration into the budget process. In one paper held, the Netherlands SAI pointed out that, after an audit, more emphasis is now placed on the effectiveness and the results of the measures and tax subsidies are now reported in an annex to the annual budget. One representative of Deutsche Gesellschaft für Technische Zusammenarbeit (a technical cooperation company owned by the German Federal Government) emphasised that foreign investors' choice of location does not depend so much on tax subsidies but rather on good governance and a sound tax system. Another issue discussed was the abolition of merely all tax subsidies implemented in New Zealand in the course

of an overall tax and economic reform in the mid-80's.

Since May 2005, the SAIs of Denmark, Germany, Finland, France, Iceland, Italy, Latvia, Lithuania, Poland, Romania, the Russian Federation, the Slovak Republic, Sweden, Switzerland, Hungary, the United Kingdom and Cyprus have done audit work in this field while the Netherlands participate in the capacity of an observer. A total of three working sub-groups were set up, each of which addresses one particular aspect of the audit of tax subsidies.

One working sub-group which consists of the SAIs of Germany (chair), Finland, Iceland, Lithuania, Poland, Romania, the Russian Federation, the Slovak Republic, Sweden, Switzerland and the United Kingdom deals with the issues of transparency of tax subsidies and relevant reporting. An auditor that proceeds according to the questionnaire produced by this working sub-group is guided to the core issues of transparency during the 'life cycle' of a subsidy from its introduction and implementation to the reporting about the subsidy. Two other working sub-groups were set up that look into individual tax subsidies. The working sub-group led by the Hungarian SAI audits the efficiency and effectiveness of tax subsidies in the field of corporate income tax that are granted to small and medium-sized enterprises. In this case also a common list of questions was developed by the SAIs of Latvia, the Russian Federation, Slovakia and Germany. Another working sub-group studies the granting of a reduced VAT rate for particular deliveries or services. This sub-group is made up of the SAIs of Cyprus, Latvia, Lithuania, Switzerland and Germany (chair).

Enhancing transparency is the foremost common interest of all working group members. The development and implementation as valid mechanisms for programme results evaluation and thus the demand for comprehensive and complete information about the objectives and impact of tax subsidies, their financial volume and success have become the primary goal of the activities of the international working group. The results generated so far by the coordinated audit have already shown that the objectives and requirements of tax subsidies are not always



specified adequately. The potential impact of tax subsidies and their potential economic and social impact and alternative options for achieving the same objectives are not adequately studied. The same applies to the impact which their implementation could have on our environment. Thus, Parliament is already lacking the most important information base for its decisions. In exceptional cases only the legal provisions by which tax subsidies are created involve a time limit for the validity of the legislation that would give Parliament a chance to decide about the subsidy on the basis of the knowledge already available about the impact of the

subsidy noted so far. The actual impact of the subsidy after the coming into force of the relevant legal provision is not identified. The Legislature usually does not provide for programme results evaluations although these might contribute to mitigate the clash of political opinions about their reduction or abolition.

The results of all working sub-groups will be brought together in a framework report that will be submitted to the VII. EUROSAI Congress to be held in Poland in May 2008. It is desirable that this will stimulate an international dialogue about tax subsidies and that further SAIs will address the issue.

## WORKSHOPS ORGANISED BY THE PRESIDENCY OF EUROSAI<sup>1</sup>



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### Objectives of the workshops

After taking the chair of EUROSAI's Governing Board in May 2005, the EUROSAI Chairman developed a programme for supporting the work of EUROSAI during his three years' term of office. His initiative was guided by the following:

- Technical cooperation and the sharing of lessons learnt in various audit areas have been steadily increasing and intensifying, especially under the auspices of EUROSAI's working groups;
- EUROSAI is a forum uniting Supreme Audit Institutions from all parts of the European continent whose structures and functions have evolved on the basis of widely differing constitutional arrangements and historical traditions and whose cooperation, implemented in the form of bilateral projects, regional networks and with the support of organisations like IDI and SIGMA, provides mutual benefit and added value to the work of all participating institutions in breaking new ground, enhancing development and modernising institutions and procedures;
- The VI EUROSAI Congress decided to foster relations with other regional

working groups, especially ARABOSAI and OLACEFS.

To spur these developments, the EUROSAI Chairman took steps to organise a series of professional events and workshops which he is offering, during his term of office as EUROSAI Chairman, in line with the Training Strategy developed by the EUROSAI Training Committee. To organise these events, he has been cooperating with an academic institution, the Academy of European Law and the non-profit development aid organisation Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).

The purpose of the workshops is to strengthen technical cooperation within EUROSAI to provide further support to EUROSAI members in their development and to promote cooperation with other regional working groups.

### Strengthening technical cooperation

To enhance cooperation and the sharing of lessons learnt within EUROSAI's working groups, the EUROSAI Chairman supports their activities in accordance with EUROSAI's Training Strategy by means

<sup>1</sup> By the EUROSAI Presidency Support Team. The Supreme Audit Institution of Germany.

of workshops tailored to meet their specific needs.

The first workshop was held in February 2006 and addressed fundamental issues relevant for the activities of the Working Group on the Coordinated Audit of Tax Subsidies. Interested EUROSAI members not participating in that Working Group were also invited to attend. The workshop was designed to establish a professional basis for EUROSAI-wide coordinated audit of tax subsidies as approved by the VI EUROSAI Congress. Experts from Cologne University, OECD and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) gave presentations on evaluation of subsidies, tax expenditure reporting and the effectiveness of tax expenditures, and tax incentives in developing and transforming countries. A subject matter expert of the Netherlands' SAI reported on taxes as a policy instrument. 60 participants from a total of 23 member SAIs (17 of which were members of the Working Group) discussed the theses formulated by the experts and agreed that it was necessary for SAIs to convince policy-makers of the need to tread carefully when deciding about tax subsidies. Subsequently, the Working Group on the Coordinated Audit of Tax Subsidies started its work. The final report will be submitted to the VII EUROSAI Congress. Moreover, an interim report is included in the current edition of the EUROSAI Magazine.

In November 2006, a workshop on "European Data Protection Law" was conducted in cooperation with the Academy of European Law in Trier (Trèves) for the members of the Working Group on IT Audit. The workshop drew 23 delegates from 15 EUROSAI member SAIs encompassing auditors, legal staff and data protection officers. The programme designed by the Academy of European Law in conjunction with the Chairman of the Working Group featured reports by internationally recognised experts from EU institutions, German Federal Government as well as from the business and academic communities. The papers addressed the institutional framework for data protection in Europe, various directives on data protection, the repercussion of European data protection law on SAIs and the exchange of data between EU member states and third countries. Lively and fruitful discussions followed the pre-

sentations on the various facets of European data protection law and its application. Subsequently, participants discussed case studies about individual aspects of these issues in interactive workshops.

In keeping with the above format, another workshop was delivered in February 2007 on "Nature Protection in the Context of European Environmental Law". The meeting drew 30 delegates from 19 member SAIs (i.e. more than one half of the Working Group members). In this case, also, the programme was coordinated in detail between the Academy of European Law and the Working Group. The presentations by various experts from the academia (including professors from Gent University), from the judicial community (including from the European Court of Justice) and from the World Wide Fund for Nature (WWF) highlighted key legal provisions and held discussions on the implementation and funding with respect to the Directives "Natura 2000", Bird Protection and Flora Fauna Habitat. Thanks to the high quality input, this sophisticated and demanding subject was very well received by the target group and the workshop provided a sound basis for the parallel audit on "Natura 2000".

### **Providing support for further development**

The profound historic changes experienced in Western, Central and Eastern Europe during the last few decades and the worldwide repercussions of globalisation have increased the need for government institutions to undergo a process of reorientation, development and modernisation. One major example is the modernisation of government financial management and accountability systems. This was highlighted by the workshop on "Budgetary Reform Approaches – Government Auditing Challenges in the 21st Century" conducted in Berlin in October 2006. Experts from the SAIs of Slovenia, Sweden, France (supplemented by a report given by an expert from Paris X Nanterre University) and Germany reported on the introduction and application of New Public Management tools created by recent legislation in their respective countries. Based on these presentations, 50 participants from 25 EUROSAI member SAIs and one representative from the





Tunisian SAI shared their views in this field and discussed the need for the external audit function to reorient audit procedures and methods. The results of lively debates in four discussion groups were condensed the following statements.

- The public-sector budgetary and accounting system is in a process of profound change. This involves the introduction of new steering tools in the public sector.

- The introduction of accrual accounting is an essential feature of this development. Programme and performance budgets are already in place to varying extent in a number of areas and countries.

- SAIs monitor the reform efforts undertaken.

- SAIs analyse what repercussions such changes will have on their own monitoring and audit functions.

Union scheduled for October 2007. Apart from furnishing fundamental information about the structure and function of the European Union, this event is to focus on the management and audit of EU funds. Apart from papers and plenary discussions, case studies are designed to contribute to a lively exchange of ideas.

### Outlook

Together with the European Court of Auditors, the EUROSAI Chairman is planning to offer a workshop on performance auditing in Luxembourg in December 2007. According to a survey held by the ETC, a number of SAIs had reported urgent training needs in this field. It is intended that the participants will be presented case studies and exchange views on techniques and methodologies of performance auditing. Preliminary ideas for similar professional events to be held in the first six months of 2008 have also been prepared: for example, the Chairman of the Working Group on Environmental Audit suggested to the EUROSAI Chairman another seminar for working group members dealing with air pollution, climate protection and climate change.

The positive responses of the participants of the seminars held so far show that the series of workshops offered by the EUROSAI Chairman supplements and enriches EUROSAI's capacity building programme. The EUROSAI Chairman will be happy to further support EUROSAI's work by delivering the professional events scheduled for the coming months.



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### Strengthening cooperation with other regional organisations

The decision taken by the VI EUROSAI Congress to enhance cooperation with ARABOSAI and OLACEFS is implemented by means of regular joint conferences. In addition to formalised inter-regional relations, the EUROSAI Chairman intends to strengthen technical cooperation at the working level by offering some seminar programme events. He will be happy to invite representatives of member SAIs of ARABOSAI and OLACEFS to a seminar on the structure of the European

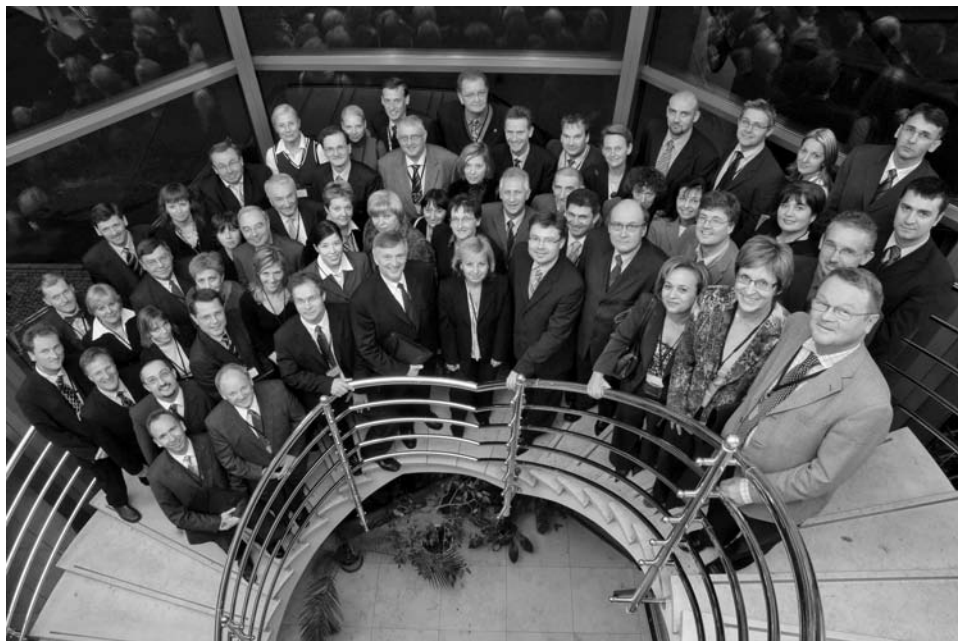
## VI EUROSAI TRAINING EVENT SEMINAR ON BETTER AUDITING OF PUBLIC AIDS AND SUBSIDIES<sup>1</sup>

Prague (Czech Republic), 6-8 November 2006

The Seminar on Better Auditing of Public Aids and Subsidies was organized under Objective 1 of the EUROSAI Training Strategy (Delivering Trainings through

Seminars and Events) as the EUROSAI's 6<sup>th</sup> training event. The topic was identified by the EUROSAI community as one of the training priorities in the questionnaire on

<sup>1</sup> By the Supreme Audit Office of the Czech Republic.



Group Photograph of the participants.

training strategy that was circulated in 2003. The seminar was organized and prepared in cooperation with SIGMA experts.

The workshop was hosted by Mr Frantisek Dohnal, President of the Supreme Audit Office, who welcomed the participants at the beginning of the seminar. Mr Dohnal namely welcomed two special guests, Mr Jean-François Bernicot, Member of the European Court of Auditors, and Mr Ronnie Campbell, Assistant Auditor General of the SAI of Canada. Mr Dohnal hosted a dinner for all participants and gave a farewell speech on the last day as well.

Since the topic of audit in the field of public aids and subsidies was rather broad, it was decided to focus on three specific fields of interest – on Auditing of State Aids and Subsidies, Auditing of EU Funds and Audit Issues for Public Private Partnership. Background papers were prepared for each of the three topics in order to facilitate understanding and discussions on latest developments and current international good practices. The seminar, co-moderated by Mr Nick Treen from SIGMA and representatives of the Czech SAO, took two and a half days in length. It had the form of plenary sessions with keynote speakers in the mornings together with a choice of more interactive discussion groups in the afternoons. Each of the after-

noon discussion groups was focused on one of the three subtopics mentioned above. Participants had a choice to take part in 2 of the 3 discussion groups, which best suited their professional interest. The last morning was reserved for presentations of results of these 3 discussion groups, for a roundtable plenary discussion led by the keynote speakers and for a questions and answers session. The seminar provided opportunities for a detailed discussion, learning, and exchange of experience, allowed participants to hear about recent developments and issues and to be informed about current audits carried out in the areas concerned and the audit issues addressed.

The seminar was preceded with a questionnaire in order to collect current information from SAIs on the discussion group areas. Its aim was to allow assessment of the situation regarding audit in this area and to inform participants about its outcomes. All EUROSAI countries were invited to participate and fill in the questionnaire, nineteen in total provided answers. The SAO team wishes to thank the SAIs of Albania, Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Hungary, Latvia, Luxembourg, Malta, Moldova, Slovakia, Slovenia, Switzerland, Turkey, and the European Court of Auditors for their contribution. The question-



naire results are available on the Czech SAO's website.

33 participants from 20 EUROSAI countries attended the seminar (Albania, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, Malta, Moldova, the Netherlands, Norway, Poland, Russia, Slovakia, Slovenia, Switzerland, and Turkey). Another 24 experts from 9 EUROSAI countries (Denmark, France, Germany, Hungary, the Netherlands, Poland, Spain, the United Kingdom, the Czech Republic) and other bodies (the European Court of Auditors, the SIGMA, the SAI of Canada and the PPP Centrum of the Czech Republic) participated as the keynote experts, discussion group presenters, moderators or reporters. The total number of participants reached 57. Apart from the 57 participants, a number of official representatives and auditors of the Supreme Audit Office attended the seminar in the role of observers.

The first topic (Auditing of State Aids and Subsidies) was opened by Mr Ronnie Campbell (SAI of Canada) who gave a presentation on Auditing Transfer Payment Programs in the first morning. Mr Vaclav Perich (SAI of the Czech Republic), the second keynote speaker for this topic, gave a speech on Czech views and perspectives. In the afternoon discussion sessions, representatives of the SAI of the Czech Republic presented two case studies, regarding the topics of funds spent on cleaning-up of flood damages and finances spent on the provision of investment incentives and investment aid. German colleagues covered the topic of tax subsidies and the Spanish representative presented Spanish experiences. The topic of EU Funds Audit was opened by Mr Jean-François Bernicot (Member of the ECA), who gave a special introductory speech. The keynote speakers, Mr Gabriele Cipriani from the ECA and Mr Jan van den Bos from the SAI of the Netherlands gave presentations on recent developments in structural funds, and National SAI experiences in auditing EU funds, respectively. Case studies were given by the SAIs of Denmark (A new audit approach), Poland (Polish SAI experience in the field of EU funds) and the ECA (Audit of the Single Payment Scheme). Mr Libor Cupal (PPP Centrum of the Czech Republic) opened the issue of public private partnerships

with a speech on Building Institutional Capacity & Creating The Appropriate Framework of the Czech PPP programme; Mr Richard Wade from the SAI of the United Kingdom outlined recent developments in the field of PPP. Case studies on the topic of PPPs were given by the SAIs of France (aimed at water provision management audits), Hungary (presenting first Hungarian experiences) and the Netherlands (presenting Dutch experience and views on the example of an audited railway project).

The seminar was organised with financial support from the EUROSAI budget. The total expenses were at around 26.300 EUR (covering the meeting room and technical equipment rental, services provided during meetings, working lunches, local transportation etc). The Supreme Audit Office applied for a contribution, which was approved by the XXXI EUROSAI Governing Board in Reykjavik. The contribution (7.900 EUR, i.e. roughly 30% of total expenses) was used to partially cover accommodation and transportation costs for the Canadian expert and some expenses related to the conference room and technical equipment rental.

Participants and contributors were asked to complete an evaluation questionnaire on the last day. In general, questions covered the issues of quality of presenters in both morning plenary and afternoon workshop sessions, overall evaluations of discussion groups, summary reports from discussion groups, overall evaluations of the seminar, its general sessions, its organization and relevance of the workshop to participants' work. In general, the seminar was very well rated from both professional and organisational view. Results of the questionnaire are available at the SAO website, seminar CD or upon request by email.

The organisers would like to share the following experiences and opinions that may be found useful in EUROSAI's future training activities:

- A high number of presentations and case studies by invited experts provided participants with a wide range of information on audit approach in different countries and proved to be a useful source of practical information and forum for exchange of experience;
- High rating for the overseas speaker showed that careful selection of non-



EUROSAI experts is worth exceptional investments;

- Having given participants a chance to choose two of three offered discussion groups enabled to focus better on specific topics of interest;

- Cooperation with SIGMA proved to be effective.

All seminar papers, presentations, questionnaire results, background papers

and other supporting materials are available on the websites of the Supreme Audit Office (<http://www.nku.cz/seminars/euro-sai-prague-2006/default.htm>) and the EUROSAI. A CD-ROM containing all relevant documents was distributed to all seminar participants. For more information please contact Mrs Sylva Mullerova, Director of the Department of International Relations at the Czech SAO ([sylva.mullerova@nku.cz](mailto:sylva.mullerova@nku.cz)).

## SUMMARY OF THE EUROSAI SEMINAR ON AUDIT QUALITY<sup>1</sup> Budapest (Hungary), 1-2 March 2007

### DAY 1

#### Introduction

- Applying audit quality requires a systematic, institution-wide approach;

- Most quality problems are due to poor management either at the audit team level or at the SAI level.

#### Guidelines on Audit Quality

- Presentation covered a synopsis of the Guidelines on Audit Quality;

- Guidelines are fairly generic as intended to be suitable for Audit Office and Court of Audit models and for Financial and Performance Audits;

- Clear focus on the importance of recruitment, training and performance appraisal system;

- Include a discursive section on managing the relationships with key stakeholders;

- Interesting and useful discussion about the differing meanings of assurance and control in different languages;

- Discussion about the differing importance of quality control (i.e. hot reviews) and quality assurance (i.e. cold reviews).

#### Hungarian Experiences in Implementing IFAC Standards on Audit Quality

- Overview of the decision and process for introducing IFAC standards for the Hungarian private sector;

- The regulations for quality control are freely available on the Hungarian Chamber's website;

- Quality assurance takes the form of peer review by members with at least six years of experience;

- There are clear sanctions for poor quality audits and non-compliance with review teams;

- The Chamber has needed to convince members that reviews are in its own interest;

- Discussion highlighted point that should be little difference between quality assurance processes in public and private sector;

#### Quality Assurance System in the State Audit Office of Hungary

- The SAO of Hungary researched systems developed by other SAIs, ISO standards and systems used by private sector accountability firms when developing its QA system



<sup>1</sup> By Gareth Caller, NAO of the United Kingdom.



- The aim is to produce a total quality management system; the current system covers audit and HR (but not other support services)

- The Quality Assurance Unit is under the direct supervision of the President of the SAO

- There was a discussion about letting clients see audit work as a driver for quality; conclusion that they should see report and have ability to comment but not working papers

- Discussion about how to win staff over to new quality systems – some complain makes more work

### **Audit Quality Management System in the Russian Federation**

- Quality Assurance is now seen as a high priority for the Russian Federation Accounts Chamber

- The role of the Chamber is developing and the influence of the Chamber is increasing all the time

- The Accounts Chamber has the following stages of the forming quality management system: quality planning, quality assurance, quality control, quality improvement.

- Some elements of control management are in place, but this is not yet systematic

- At present the organization of quality control in the Accounts Chamber has the following structure:

- Chairman of the Accounts Chamber, Directors of audit units conduct expert meetings before the Board meetings (every week) where results and quality of conducted audits are discussed

- Auditors of the Accounts Chamber (Members of Board) as Heads of corresponding Audit departments discuss results and quality of conducted audits before presenting reports to the Board

- Russian law requires formal retraining for all audit staff at least once every five years

- The Chamber sees quality control and quality assurance equally important in the audit quality management system.

- The Chamber plans to use quality assurance questionnaires that can be completed by any appropriate person external to the audit team

- Query on how quality assurance criteria should be set; suggestions included:

- Timeliness of reports

- Usefulness of reports

- Whether recommendations are accepted by clients

- Feedback from stakeholders seems very important to assess the audit quality: (audited organizations, superior bodies of audited organizations and ministries; the Parliament and its committees, media and general public; scientific institutions)

### **Adding Quality to the Audit Process – A Practical Example**

- Run through a practical example of how the EU Court of Audit added quality to a specific process to draw out lessons of how it might be more widely applicable

- The Commission receives about 150 evaluation reports from external contractors each year and about 30 Performance Audit reports

- The methodology is a process to provide quality assurance for Evaluations. However, the lessons are as useful for Performance Audits

- As evaluations can look very different a standard checklist is not appropriate

- Need to ensure that stakeholders understand the limitations of audit

- Use a mixture of stick, carrot and education to get EU Divisions to co-operate with audit teams

- Vital to make the link between audit work and decision making clear to auditees to increase chance of co-operation

- Feedback loop seen as very important to improve audit quality

### **DAY 2**

#### **Performance Audit Quality Assurance Model - Sweden**

- There is a Quality Assurance Department which aims to ensure overall quality



- Performance audits have three key stages; planning, half-way review and when the draft goes to the auditee

- The quality assurance reviewer gives a written opinion at the end of each stage

- Each review is discussion-based as well as document based

- There are mandatory quality assurance criteria at each stage but the key aim is to provide advice on quality matters rather than to hold the audit team to account

- Quality assurance reviewers are experienced audit staff given extra training in making constructive suggestions

- There is an Information and Communication department which aims to ensure that key messages are picked up by the media

#### Quality Control for Financial Audit – UK

- Having high quality staff is key for delivering quality audit work

- Have contract with private sector accountancy firms to buy-in expertise; also allows SAI to benchmark performance

- In the UK Quality Control is based on the IFAC standards and includes quality assurance

- Internal procedures include:

- Mandatory audit procedures directly linked to the relevant IFAC standards

- Detailed review by Audit Manager – must be evidenced for every procedure, but level of review depends on professional judgement

- High level review by Audit Director – also must be evidenced and focuses on key risks to giving incorrect audit opinion

- Standards Assurance Review for ‘high risk’ audits (either politically sensitive or technically complex)

- Cold review of completed audits

- Line auditors conduct cold reviews but this can make staffing difficult

- Effort put into selling procedures to staff so they won’t complain about extra work too much

- External procedures include:

- Review by Quality Assurance Directorate of ICAEW

- Client Feedback Questionnaires

- External procedures mainly used to publicly demonstrate commitment to audit quality rather than really improving audit quality

- Results of quality assurance procedures communicated to auditors through changes to office policy and key lessons included in future training

#### Financial Audit Experiences in Quality Control - Estonia

- Strategic goal is to comply with IFAC standards

- Five heads of department who sign audit reports and are personally responsible for audit quality

- Supporting services with responsibility to harmonise audit methodology

- Quality management focussed round professional competence (which is defined as a mixture of knowledge and experience)

- The methodology team reviews audit plans to confirm that they are of an appropriate standard

- The Estonian SAI uses documentation software to make it easier to evidence review – there was a discussion about the usefulness of software such as Teammate

- It has proved impossible to learn all the IFAC standards in a short time, but the SAI is getting better all the time.

- There was a discussion about who should set audit plans and about to what extent standardised audit procedures are beneficial



## EUROSAI ACTIVITIES IN 2006

- **EUROSAI SEMINAR ON “TAX SUBSIDIES”**, Bonn (Germany), 21-22 February 2006.

- **II MEETING OF THE WORKING GROUP FOR THE PREPARATION OF A COORDINATED AUDIT ON TAX SUBSIDIES IN THE SCOPE OF EUROSAI**, Bonn (Germany), 21-22 February 2006.

- **MEETING OF THE INTOSAI CAPACITY BUILDING COMMITTEE**, London (United Kingdom), 13-14 March 2006.

- **WORKSHOP ON “IMPLEMENTING AUDIT QUALITY PRACTICES”**, Vilnius (Lithuania), 15-17 March 2006.

- **SEMINAR ON “AUDIT ON ERM-SYSTEM”**, Bern (Switzerland), 15-17 May 2006.

- **XIV EUROSAI TRAINING COMMITTEE MEETING**, Luxembourg (European Court of Auditors), 29-30 June 2006.

- **III MEETING OF THE WORKING GROUP FOR THE COORDINATED AUDIT ON TAX SUBSIDIES**, Copenhagen (Denmark), 28 August 2006.

- **XXXI EUROSAI GOVERNING BOARD MEETING**, Reykjavik (Iceland), 11 September 2006.

- **CONFERENCE ON “THE ROLE OF THE SAIs IN THE FIGHT AGAINST CORRUPTION AND FRAUD”**, Kiev (Ukraine), 19-21 September 2006.

- **IV MEETING OF THE IT WORKING GROUP**, Bratislava (Republic of Slovakia), 20-22 September 2006.

- **WORKSHOP ON “APPROACHES TO THE BUDGETARY REFORM AUDIT IN THE XXI CENTURY”**, Berlin (Germany), 26-27 October 2006.

- **SEMINAR ON AUDIT OF PUBLIC AIDS AND SUBSIDIES**, Prague (Czech Republic), 6-8 November 2006.

- **SEMINAR ON “LEGISLATION ON DATA PROTECTION”**, Trier (Germany), 9-10 November 2006.

- **V SEMINAR AND V MEETING OF THE ENVIRONMENTAL AUDIT WORKING GROUP**, Luxembourg (European Court of Auditors), 27-29 November 2006.

- **MEETING OF EUROSAI-ARABOSAI GOVERNING BOARDS**, Tunisia (Tunisia), 30 November 2006.

- **I EUROSAI-ARABOSAI CONFERENCE**, Tunisia (Tunisia), 1-2 December 2006.



## EUROSAI ACTIVITIES IN 2007

- **WORKSHOP ON “EUROPEAN ENVIRONMENTAL LEGISLATION”, IN COOPERATION WITH THE ACADEMY OF EUROPEAN LAW OF TRIER**, Trier (Germany), 6-7 February 2007.

- **IV MEETING OF THE WORKING GROUP “COORDINATED AUDIT ON TAX SUBSIDIES”**, Warsaw (Poland), 16 February 2007.

- **SEMINAR ON “AUDIT QUALITY” IN COLLABORATION WITH EUROSAI**, Budapest (Hungary), 1-2 March 2007.

- **XV EUROSAI TRAINING COMMITTEE MEETING**, Bonn (Germany), 8-9 March 2007.

- **I MEETING OF THE SUBGROUP “AUDIT OF THE CONSEQUENCES OF NATURAL DISASTERS AND RADIOACTIVE WASTE” (WORKING GROUP ON ENVIRONMENTAL AUDIT)**, Kiev (Ukraine), 16 March 2007.

- **XIX UNITED NATIONS/INTOSAI SEMINAR**, Vienna (Austria), 28-30 March 2007.

- **V MEETING OF THE WORKING GROUP OF EUROSAI ON IN-**

**FORMATION TECHNOLOGY. SEMINAR ON “ANALYSIS OF THE MOST FREQUENT PROBLEMS OF SAIs REGARDING IT”,** Luxembourg (European Court of Auditors), 17-18 April 2007.

• **V EUROSAI-OLACEFS CONFERENCE,** Lisbon (Portugal), 10-12 May 2007.

• **V MEETING OF THE WORKING GROUP “COORDINATED AUDIT ON TAX SUBSIDIES”,** Bratislava (Republic of Slovakia), 11-12 September 2007.

• **XXXII EUROSAI GOVERNING BOARD MEETING,** Bern (Switzerland), 13 September 2007.

• **EUROSAI SEMINAR ON “AUDIT OF THE EXECUTION OF THE KYOTO PROTOCOL”,** Bratislava (Slovak Republic), 3-5 October 2007.

• **SEMINAR ON “STRUCTURE OF THE EUROPEAN UNION”,** in cooperation with The Academy of European Law, Trier (Germany), 23-25 October 2007.

• **XIX INTOSAI CONGRESS,** Mexico DF (Mexico), 5-10 November 2007.

• **SEMINAR ON “PERFORMANCE AUDIT – WHERE DO WE STAND?”** in collaboration with EUROSAI, Luxembourg (European Court of Auditors and SAI of Germany), 4-6 December 2007.

## ADVANCE OF THE EUROSAI AGENDA 2008

• **CONCLUSION MEETING OF THE EUROSAI WORKING GROUP FOR A COORDINATED AUDIT ON TAX SUBSIDIES,** Bonn (Germany) 29-31 January 2008.

• **MEETING OF THE EUROSAI WORKING GROUP ON INFORMATION TECHNOLOGY,** Ljubljana (Slovenia), 18-20 February 2008.

• **SEMINAR ON “CLIMATE CHANGE”, IN COOPERATION WITH THE EUROSAI WORKING GROUP ON ENVIRONMENTAL AUDIT AND THE ACADEMY OF EUROPEAN LAW,** Trier (Germany) 11-12 March 2008.

• **SEMINAR ON “SAI MANAGEMENT”,** Berlin (Germany) 9-11 April 2008.

• **VII EUROSAI CONGRESS,** Krakow (Poland) 1-5 June 2008.

• **XXXIII MEETING OF THE GOVERNING BOARD,** Krakow (Poland) 2 June 2008.

• **XXXIV EUROSAI GOVERNING BOARD MEETING,** Krakow (Poland) 5 June 2008.

• **SEMINAR ON “FINANCIAL AUDIT STANDARDS”,** Vilnius (Lithuania) 2-3 October 2008.

• **SEMINAR ON “COBIT, AN AUDIT TOOL”,** Estonia October 2008





## NEWS ON EUROSAI MEMBERS IN 2007

### • STATE COMPTROLLER'S OFFICE OF ISRAEL

The XXXII EUROSAI Governing Board approved the request from the SAI of Israel to become a EUROSAI Member.

### • STATE AUDIT OFFICE OF FINLAND

Mr. Tuomas Pöysti was appointed Auditor General of the SAI of Finland.

### • CORTE DEI CONTI OF ITALY

Mr. Tullio Lazzaro was designated President of the SAI of Italy in February 2007.

### • THE COOMITTEE OF STATE CONTROL OF THE REPUBLIC OF BELARUS

Mr. Zenon K. Lomat was appointed President of the SAI of Belarus.

### • ACCOUNTS CHAMBER OF THE REPUBLIC OF AZERBAIJAN

Mr. Heydar Kh. Asadov was designated President of the SAI of Azerbaijan.

### • CHAMBER OF CONTROL OF GEORGIA

Mr. Levan Choladze was nominated President of the SAI of Georgia.

### • NAJWYKSZA IZBA KONTROLI OF POLAND

Mr. Jacek Jezierski was appointed President of the SAI of Poland in August 2007.

### • RIKSREVISIONEN OF SWEDEN

Ms. Karin Lindell was appointed Auditor General of the SAI of Sweden.



## *European Union*

### THE «FINANCIAL CONSCIENCE» OF THE EUROPEAN UNION: 30 YEARS OF THE EUROPEAN COURT OF AUDITORS

In 2007 the European Union (EU) will celebrate 50 years since the signature of the Treaty of Rome, creating the European Economic Community. At the same time, the European Court of Auditors will mark 30 years of existence. The Court was established on 22 July 1975 by the Treaty of Brussels and began operating as an external Community audit body in October

1977. Since the Treaty of Maastricht the European Court of Auditors has been recognised as one of the institutions of the European Communities. As the external auditor of the EU, its mission is to contribute to improving the financial management of EU funds, so as to ensure maximum value for money for the citizens of the Union.

### SELF ASSESSMENT AND PEER REVIEW

The Court considers that it should be subject to a peer review. The objective is to receive an independent external assessment on the organisation and performance of the Court in order to help improve the quality of the Court's management and output. As part of the preparation for the peer review, the Court carried out a self-assessment exercise in 2006. This has enabled the Court to identify strengths and weaknesses. An Action Plan has been ap-

proved in order to address the weaknesses. It incorporates all ongoing and newly introduced projects into one, coherent and strategically oriented programme. This allows rational priority setting, better monitoring of progress achieved, the identification of areas where additional action needs to be undertaken. Overall, it should help ensure that strategic goals are met. The peer review will help to determine whether the Court is on the right track.



### 2005 ANNUAL REPORT

The European Court of Auditors published its Annual Report on the implementation of the 2005 EU general budget on 31 October 2006. In 2005 expenditure was much the same as in 2004 at ?105 billion. The Annual Report and the Statement of Assurance remain the major products of the Court which address its main institutional stakeholders, including the European Parliament, the Council and the European Commission.

#### **A changing environment : the new accounting system at the European Commission**

The year 2005 was a key milestone for the Commission in the modernisation of the

Communities' accounting system. Since 1 January 2005 the Commission has changed its accounting system from a cash basis to an accruals basis. It is generally acknowledged that the information provided by an accruals-based accounting system is more complete and useful both for internal and external users of the accounts. The Commission has also made significant steps in improving its own internal control environment and accountability. The introduction of accruals-based accounting is a considerable achievement.

#### **The legality and regularity of the underlying transactions**

For the twelfth year running the Court issued a qualified opinion on the legality

and the regularity of the majority of EU expenditure; due to the high incidence of errors in the underlying transactions and continuing weaknesses in the internal control systems both within Member States and at the Commission. However, the Court also reported that in those areas where the supervisory and control systems are implemented in a manner which provides for adequate risk management, the underlying transactions taken as a whole were legal and regular: revenue, commitments and payments for administrative expenditure and pre-accession strategy except Sapard (Special Accession Programme for Agriculture and Rural Development).

#### The reliability of the accounts

While the Court concludes for 2005 that the consolidated financial statements present fairly, in all material respects, the financial position of the European Communities as of 31 December 2005, it qualifies this opinion mainly due to misstatements in the consolidated balance sheet and inconsistent application of cut-off procedures.



#### A balanced statement

The Court's President, Mr Weber, explained to the Budgetary Control Committee of the European Parliament (COCOBU) on 23 October 2006: «Overall, the situation [relative to the legality and regularity of underlying transactions] has not substantially changed since last year.» [...]» However, this does not mean that all, or even the majority of, payments from the EU budget are affected by errors, nor can it be interpreted as an indication of fraud. What it does signify, however, is that, judging by the results of the Court's detailed audit work, errors with a financial impact are found too frequently for the Court to conclude that all is well. The underlying reason why most errors occur is that beneficiaries – farmers, local authorities, project managers – claim more than they have the right to claim. Explanations range from simple neglect or error, through poor knowledge of the complex rules up to presumed attempts to defraud the EU budget. However, it is the responsibility of the Commission to administer the budget in a way that reduces the risk of irregularities through preventive measures and controls that are properly carried out.»

## OTHER REPORTS AND OPINIONS PUBLISHED BY THE EUROPEAN COURT OF AUDITORS

Since the 2004 Annual Report, the European Court of Auditors has issued 11 Special Reports and 2 Opinions covering different aspects of EU finances and management issues.

The Special Reports (SR) are:

- SR 1/2006 on the contribution of the European Social Fund in combating early school leaving
- SR 2/2006 concerning the performance of projects financed under TACIS in the Russian Federation
- SR 3/2006 concerning the European Commission Humanitarian Aid Response to the Tsunami
- SR 4/2006 concerning Phare investment projects in Bulgaria and Romania

- SR 5/2006 concerning the MEDA programme
- SR 6/2006 concerning the environmental aspects of the Commission's development cooperation
- SR 7/2006 concerning Rural Development Investments: Do they effectively address the problems of rural areas?
- SR 8/2006 Growing success? The effectiveness of the European Union support for fruit and vegetable producers' operational programmes
- SR 9/2006 concerning translation expenditure incurred by the Commission, the Parliament and the Council
- SR 10/2006 on ex post evaluations of Objectives 1 and 3 programmes 1994-1999 (Structural Funds)

- SR 11/2006 on the Community transit system

The Opinions are:

Opinion 10/2005 on the draft Council Regulation amending Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities

Opinion 11/2005 on the draft Commission Regulation amending Regulation (EC,

Euratom) No 2342/2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities

The Court's publications are available on its website in all EU languages.

See [http://www.eca.europa.eu/audit\\_reports/audit\\_reports\\_index\\_en.htm](http://www.eca.europa.eu/audit_reports/audit_reports_index_en.htm)

## NEW MEMBERS OF THE EUROPEAN COURT OF AUDITORS

With the latest enlargement of the EU, on 12 December 2006 the European Parliament appointed Mrs Sandolova

(Bulgaria) and Mr Ispir (Romania) as Members of the Court for renewable terms of six years.

## REMARKS ON THE MEETING OF THE HEADS OF THE SUPREME AUDIT INSTITUTIONS OF THE EUROPEAN UNION IN WARSAW, 11-12 DECEMBER 2006<sup>1</sup>



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On 11-12 December 2006 in Warsaw there was a meeting held of Heads of the Supreme Audit Institutions (SAIs) of the EU Member States and the European Court of Auditors (ECA).

Main topic of a discussion was the role of SAIs in improving accountability of EU funds. The topic closely applies to the European Parliament's 2004-2006 resolutions on discharge and the European Commission 2005-2006 documents on integrated internal control framework, which promotes introducing changes into systems of audit of EU funds. As almost 80% of expenses from the EU budget is realized through Member States, the Parliament and the Commission opt for enhancing their responsibility for a proper functioning of national control and audit systems, as well as for a correct functioning of the EU expenses in a given country. It is suggested to confirm sound management and control of the EU funds with means of national declara-

tions on a political level; the SAIs' role would be to issue an opinion about such a declaration. In addition, it was suggested by the Parliament and the Commission that SAIs audit implementation of the EU funds more deeply and inform parliaments of their countries about the findings.

The majority of the SAIs share an opinion that there should be more audits of the EU funds, but at the same time emphasize that these are conducted for the purposes of national bodies and not the EU institutions. SAIs are not part of the internal control system of the EU funds, whereas their cooperation with the ECA proceeds on the basis of mutual trust and maintained autonomy of each SAI. The CC in turn opted for enhancing the SAIs role in achieving accountability of the EU funds and for improvement of cooperation between them. Consequently, it was decided to increase exchange of experiences in auditing within the EU, particularly of infor-

<sup>1</sup> By Jacek Mazur, Ph.D. Advisor to the President of the Supreme Chamber of Control of Poland.



mation on audits planned for the next year (years), audit tasks programs and information about types of errors and irregularities found during the audit (up to the level allowed by national legislation). It was deemed advisable to make EU audits' findings available on the CC website by means of links to SAI websites.

For the first time in a forty-years history of the CC representatives of the European Parliament and European Commission participated in the Meeting and discussed issues with SAI Heads. When encouraging SAIs to enhanced auditing of implementation of EU funds, Siim Kallas (vice-President of the European Commission's for Administrative Affairs, Audit and Anti-Fraud) stated that their countries would benefit from these in form of strengthened national management systems and limited number of direct audits of the Commission. In April 2006 the Commission turned to SAIs with a proposal to provide them with information on EU funds sent to individual countries. The majority of the SAIs welcomed such a proposal with an approval, however it turned out that data is too general and does not correspond to the needs of SAIs. Mr Kallas reaffirmed that if the irregularities found by the SAIs (or other national audit bodies) are assessed and deterred, the Commission will not apply any fines on the auditee. President Dieter Engels (SAI of Germany) reminded that such a rule results from the Community Regulations 1260/1999 on structural funds and 1290/2005 on financing common agricultural policy, whereas detailed provisions are provided in the internal Community regulations.

Szabolcs Fazakas, Chairman of the Committee on Budgetary Control of the European Parliament stated that conducting SAI audits of implementation of EU funds is in the interest of individual countries, as it will enable to limit number of audits of European institutions and decrease the risk of possible fines. In other words, these tasks of the SAIs which result from the provisions of national law should be fully completed because in majority of cases the EU funds are subject to audit on same rules as other public funds are. It is important, however, that findings of such audits would be presented to the parliaments and other na-

tional bodies and consequently made available to the European institutions.

It was emphasized in a discussion that among objectives of SAIs there should be ensuring efficient audit of implementation of the EU funds in their own countries. The EU funds, similarly as funds from national budget, are generated from citizens, thus are due to a thorough audit. What this means is that the SAIs should allocate respectively large resources for audits of the EU funds. Audit reports should be presented to the national parliaments. It would also be desired for the ECA to take advantage of these, which however requires conducting audits applying same criteria, methods and standards. To this end the CC established a Working Group under the chairmanship of the ECA, which will draw up common auditing standards and comparable auditing criteria, based on internationally respected auditing standards, adjusted to the peculiarity of the EU. Developing unified auditing standards will constitute a crucial "input" of SAIs into improving accountability of EU funds. It was stated that creating a knowledge base for public auditing would enable to establish valuable contacts and a transfer of knowledge, improve scientific work and training of auditors.

Another topic of a discussion was a suggestion to strengthen cooperation between the ECA and SAIs during ECA audit missions in Member States. It requires a good organization, namely informing SAIs about audit missions in advance, providing necessary data and documents and later organizing common discussions about audit findings in order to make better use of knowledge of the ECA and SAI auditors.

President of Poland, Mr. Lech Kaczyński (former President of the Polish SAI between 1992-1995) met with Heads of SAIs and the ECA and in discussions emphasized the importance of audits of the EU funds. It was stressed that level of risk in implementation of the funds is significant, thus require diligent audits conducted on both – the EU and national levels.

On the occasion of the CC Meeting the special English edition of the State Audit journal (*Kontrola Państwowa*) was published<sup>2</sup>.

<sup>2</sup> Full text at [http://www.nik.gov.pl/docs/kp/kp\\_2006\\_referaty\\_calosc.pdf](http://www.nik.gov.pl/docs/kp/kp_2006_referaty_calosc.pdf)



## VII EUROSAI Congress – FAQ

### THE SUPREME AUDIT INSTITUTION OF POLAND

VII EUROSAI Congress will be held on 2-5 June 2008 (with the opening social programme starting on Sunday 1 June morning).

#### **When will VII EUROSAI Congress be held?**

VII EUROSAI Congress will be held on 2-5 June 2008 (with the opening social programme starting on Sunday 1 June morning).

#### **Where will VII EUROSAI Congress be held?**

It will be held in Kraków in Poland and hosted by the Polish SAI – Supreme Chamber of Control (NIK).

Kraków [pr. 'krakuf] is the historical capital of Poland (until 1596), which is still reflected in its official name: the Metropolitan Royal City of Kraków. It is located in the south of Poland and is the second biggest city in the country with ca. 800,000 inhabitants.

All the sessions of the Congress will be held at the Auditorium Maximum of the Jagiellonian University in the centre of the city, within walking distance from all the hotels where the Congress participants will be accommodated.

All the hotels are located in the Old Town, in the heart of the city.

#### **What will our discussions focus on?**

The following three themes have been agreed as discussion topics:

Theme 1: Establishing Audit Quality management System within a Supreme Audit Institution;

Theme 2: Audit of Social Programmes; Audit of Education;

Theme 3: Audit of Social Programmes; Audit of Programmes for Professional Integration of the Disabled.

Each of the themes has been developed in detail by a working group chaired by a EUROSAI member. The Chairs of the

working groups (the SAIs of Hungary, Portugal and the United Kingdom) have kindly agreed to take up the role of rapporteur during the respective thematic sessions. The working groups are composed of the following SAIs:

Theme 1: Hungary (Chair), Denmark, Malta, Russian Federation, European Court of Auditors.

Theme 2: Portugal (Chair), Estonia, France, Sweden, Ukraine.

Theme 3: United Kingdom (Chair), Estonia, Iceland, Switzerland, Sweden.

At the moment, the groups are analysing country papers and questionnaires submitted, developing discussion papers and planning the contents of each session in detail.

#### **When can we expect invitations?**

The invitations will be sent in late February – both by traditional mail and by e-mail.

#### **Where can you find more information?**

When you need more information related to the event, the Congress Secretariat is there willing to help you at **euro-sai2008@nik.gov.pl**.

A special website will also be launched by the host of the Congress. By the end of 2007 you will receive an e-mail with relevant information.

#### **Why is there a dragon in the Congress logo?**

It is related to one of the most famous legends of the city of Kraków, in which a horrible dragon living in a cave under the Wawel Castle hill tormented the inhabitants for years until a brave and clever shoemaker got rid of it by serving it a sheep stuffed with sulphur...

*It will be held in Kraków in Poland and hosted by the Polish SAI – Supreme Chamber of Control (NIK).*

*When you need more information related to the event, the Congress Secretariat is there willing to help you at [eurosai2008@nik.gov.pl](mailto:eurosai2008@nik.gov.pl).*

*All the sessions of the Congress will be held at the Auditorium Maximum of the Jagiellonian University in the centre of the city.*



# *Model and strategy-Correct positioning as success factor for the Court of Audit*

DR. JOSEF MOSER

President of the Austrian Court of Audit  
Secretary-General of INTOSAI

Since the start of my presidency on 1 July 2004, the Austrian Court of Audit (Austrian SAI) has adopted a new positioning in order to be able to confront the challenges of the future with success. Of special importance for achieving this is the offensive of quality and training in the field of audit service.

Starting from the evaluation of the key tasks of the Austrian Court of Audit and the development of MBA studies on «Public Auditing» in cooperation with the Executive Academy of the Wirtschaftsuniversität Wien (Economic University of Vienna), in later projects workers went on to develop specific proposals for the implementation of the new positioning. The updating of the model and of the concept of strategy played a major role in this. The aim was to draw up principles for the new orientation conceived for the future and for an unmistakable identity of the Austrian Court of Audit as a precursor for innovations and reforms.

The Austrian Court of Audit now has experience with the development of models. Its first model was created in the year 1992, since models in the public sphere were still infrequent. With its model, the Austrian Court of Audit was the precursor in public service and it thereby supported the innovation programme for what was then the administration during the development of models in other departments.

The starting point for the new model and the new strategy was the task regulated in the Federal Constitution according to which the Austrian Court of Audit was created as independent supreme financial control for the Federation, the States and the Municipalities. With the new concept of strategy, the basis was provided so that workers of the Austrian Court of Audit would reorient their activities and services in order to comply with their constitutional mission and be able to transmit internally and externally an identity that would be unitary and up to date. The managers play

a key role for this. They have to set an example and integrate common values and objectives in their decisions and actions.

It is important that all the workers should be aware of the contents of the model and the strategy. Its implementation is promoted selectively and is achieved by means of short courses and events such as the Examination for managerial personnel, as well as via operational measures such as reorganisation, performance reports or inquiries into the concept of audit.

## **The path towards the model**

For the new development of the present model young workers were deliberately used in order to make a proper assessment of the approach oriented towards the future and to continue along the path of innovations. The project group developed the new model in a process of integration. The aim was to explain the principles of the new positioning, self-comprehension oriented to the future, along with the unmistakable identity and values of the Austrian Court of Audit, and thereby to provide a base for the concept of strategy, which was partly developed in parallel.

In order to assess these requisites, as a first step the project group prepared a draft, which it sent to all workers in the form of a survey. In this way, the process of the model was provided with a broad base and all the workers became involved in its development. Their proposals were adopted by the project group and the intermediate results were presented as part of three events. The workers thereby had the

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opportunity to participate actively in the development of the model.

The result of this process was a new model for the Austrian Court of Audit which, basing itself on the principle of «Independence and objectivity in audit and advice» and the ultimate objective – the best possible use of public resources – sets out in twelve phrases values such as independence, the rule of law, sustainability, equality of opportunities, objectivity and credibility. Six principles state the objectives and the benefits, six principles are devoted to self-comprehension and values, and they transmit a clear identity.

### Determination of the strategy

The principles constitute the basis of the new concept of strategy of the Austrian Court of Audit. It includes all the areas of services performed by it and determines how the new positioning can be applied and the principles for carrying out the tasks. In this way, the principles are also completely reflected in the concept of strategy and characteristic data are indicated for all task areas of the Austrian Court of Audit with the aim of being able to measure the achievement of objectives with regard to services and effects, aspects concerning costs/ utility and quality assurance. So, the Austrian Court of Audit makes an approximate measurement of the number and volume of its audits or the drawbacks or potentials for financial improvements that are stated as well as the effects such as savings actually carried out or improvements achieved.

In order to draw up a concept of strategy, the members of the model group were included in the project team with the aim of producing a coherent integration of the results and experiences in designing the model in the concept of strategy.

### The Court of Audit – mission and self-awareness

The new model and the new concept of strategy introduce the requirement that, starting from the social mission and the special situation of the Austrian Court of Audit as supreme organ for financial control of the Federation, the States and the

Municipalities, as well as in its capacity as headquarters of the Secretariat-General of INTOSAI, it should offer, in accordance with the new positioning of the Austrian Court of Audit, an approach oriented towards the future which takes into account international and national developments in external public financial control in the European context.

The Austrian Court of Audit is considered to be a collaborator in a network of financial control in Austria that also consists of the Courts of Audit of the States, the control organs, as well as the review, internally and internationally, of the supreme authorities for the auditing of accounts and the European Court of Audit. As an example of control that comprises the Federation and the States, the Austrian Court of Audit is characterised by its federal structure and its interconnected audit actions.

At the national level, it watches over collaboration with the Courts of Audit of the States, the control organs and internal reviews, it reinforces the transfer of knowledge, along with the exchange of experiences and outside technical knowledge and it harmonises its audit activity with other control bodies. Internationally, it strengthens the financial control of the EU by means of collaboration with the European Court of Auditors and the foreign Courts of Audit and it uses its role as Secretary-General of INTOSAI by means of the transfer of international knowledge and quality assurance.

As far as the use of EU resources is concerned, it introduces the evaluation of the profitability and effectiveness of the use of Community resources as a complement to the formal criteria of auditing, legitimacy and the application of regulations which the European Court of Auditors confirms in the declaration of reliability.

The Austrian Court of Audit is considered to be auditor and advisor, as well as precursor of innovations and reforms. The scope of services, strategically important, is the checking of financially efficient public activity. In its audits, the Austrian Court of Audit is oriented towards the main strategic fields. These refer to all the fields of action of politics such as law and security, work, social and health aspects, the family, training, research, the arts, cultures, finances and the economy, as well as

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infrastructure. It analyses whether the resources used are employed in a manner that is economical, profitable and suitable, and for this it uses the point of view of efficiency.

With its audits, the Austrian Court of Audit deploys a range of different benefits, since it draws the attention of audited bodies to possible incomes, savings and improvements via its recommendations and, by means of processing the facts and convincing recommendations, it offers the general organs of representation certain bases for decision taking and alternatives of action for the optimum employment of public resources and it provides public opinion with transparent information on the application and use of public resources.

On the basis of its audits, the Austrian Court of Audit advises the audited bodies by means of suggestions within the framework of consultancy, but also through the production of reports on the general problems of financial control, such as for example current developments in claim management or on publicity measures of the federal government, as well as via participation in reform projects and on work groups.

These advisory services provide an added value increasing the benefit of the review of individual management and continually strengthening the effect of public financial control.

In addition to the auditing and advice constituting its primary purpose, it also offers other important national political services and a series of special notarising duties.

In all its activities it seeks to defend its independence, protected by the Federal Constitution. In addition, the Austrian Court of Audit is directly subject to law and does not take instructions from any-

one. This is particularly highlighted in the independent drawing up of its audit programme which primarily consists of initiative audits, the choice of the main points to audit and the topics of the audit, or in the right of the President to participate in negotiations of the National Council relating to the Austrian Court of Audit and his right to speak.

In its strategic orientation the Austrian Court of Audit follows the Lima Declaration on financial control directives (IX Congress of INTOSAI 1977), which requires the legal protection or the organisational, functional and financial independence for the supreme authorities for accounts control.

The Austrian Court of Audit is aware that its important national political function can only be complied with when its workers act objectively and independently, free of the influences of political parties. For that reason, quality assurance has a particularly high value for the Austrian Court of Audit. With the Professional MBA programme «Public Auditing», which it has developed in collaboration with the Executive Academy of the Wirtschaftsuniversität Wien, an initiative was adopted aimed at the qualification of auditors offering an on-going preparation and training at the highest level and open also to auditors from other Courts or Audit and similar control bodies. In this way, it promotes the exchange of experiences and ties with other control organs. It is only high-quality services that meet its recommendations, along with correct action and behaviour, that convert it into a collaborator that is competent, just and credible.

The model and strategy, along with information on the MBA «Public Auditing», can be consulted at the web site of the Austrian Court of Audit: [www.rechnungshof.gv.at](http://www.rechnungshof.gv.at).

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# Improved working conditions for the Czech SAI

DR. FRANTIŠEK DOHNAL

President of the Supreme Audit Office of the Czech Republic

Since the establishment of the Supreme Audit Office in 1993 its officials have been looking for a suitable seat where the institution could properly operate. The building, inherited from its preceding organisation, the Ministry of State Control, met neither the disposition requirements nor, later on, capacity demands.

The offer of state-owned vacant buildings was very small at that time, one of the reasons were ongoing property restorations, so staying in the original building slowly changed from an assumed provisional arrangement to a status quo.

At the turn of the millennium the SAO building was hit by a damaging flood, subsequently Parliament approved the plan to build the SAO's new seat. Since building proceedings are complicated in the historical city centre, it always takes long years from plans to building itself. In the end of 2005 the SAO still found itself operating in the old provisional building and in other two rented buildings in different parts of Prague. The building site was ready and prepared though, project studies were approved and financing of the new building was guaranteed. The new building was planned to serve its purpose since 2009.

Nevertheless, the real estate market in Prague has changed significantly over the past ten years. Private ownership, flow of capital from abroad, attractive location and pleasant ambiance changed Prague into a much-sought locality for investments in administrative buildings and office centres. For this reason, before giving his final approval for construction, the President initiated a detailed research of the real estate market in spring 2006, aiming to check, whether there were suitable office spaces for rent at favourable economical conditions. Since results of this research seemed to be promising, the new building process was disrupted. Three new office rental projects and the original construction project were compared against each other in great detail. The fi-

nal decision was given in summer 2006 and in the turn of years 2006 and 2007 the Supreme Audit Office moved to newly rented offices.

As a matter of fact, the modern administrative centre TOKOVO, owned by a large insurance company, is located on the other end of the street, where the Office was seated for over 14 years. The eighteen-storey building made it possible to concentrate all SAO employees working in the capital city and offers enough space for potential increase of activities of the Office. The premises were tailored to meet the needs of the SAO and were completely furnished, including telecommunication and information infrastructure. The offices



View of the SAO's new seat

*Since building proceedings are complicated in the historical city centre, it always takes long years from plans to building itself.*

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were contracted for five years with an option of further extension, the net rent makes less than one sixteenth of the total amount intended for the construction of a new seat.

“The Supreme Audit Office supervises the economical use of public funds and should therefore set an example. It is not economical to build new state-owned

buildings when the market offers a range of suitable premises at acceptable conditions” stated the SAO president František Dohnal in Parliament during discussions about the budget. Office rental not only made possible to stop the investments from the state budget, but also to decrease the number of maintenance and house operating employees of the SAO.

## *State Audit Office of the former Yugoslav Republic of Macedonia – Committed to Development*

DR. DRAGOLJUB ARSOVSKI

General State Auditor

The State Audit Office of the former Yugoslav Republic of Macedonia

The first government auditing bodies in the Republic of Macedonia were established after the World War II. Throughout the years they have undergone many reforms until the State Audit Office was established as Supreme Audit Institution.



### **History of the SAO**

The first government auditing bodies in the Republic of Macedonia were established after the World War II. Throughout the years they have undergone many reforms until the State Audit Office was established as Supreme Audit Institution.

**The State Audit Office (SAO)** is an independent body, established in 1998 by the Parliament of the Republic of Macedonia, under the State Audit Law (adopted in 1997). It became operational at the beginning of 1999, with nine employees, all of them coming from the Audit Department of the former Payment Operation Office. The SAO has grown from a staff of 11 in its first year to 78 at the moment. The SAO has a mandate similar to those of most Supreme Audit Institutions, that is, the SAO is authorized to conduct audits (compliance, financial, and performance audit) of Government institutions and activities on both central and local level, report on

the results of those audits, make recommendations for improving the Government operation, and to issue an annual report to the Parliament.

The SAO has no judicial or executive powers. Suspected criminal offences, including corruption, are reported to the Ministry of Interior, the Public Prosecutor Office and other competent authorities.

The SAO is next to several other entities of the Macedonian Government, also progressing to meet the demands of the European acquis, and may play the key role in the reform processes for bringing the Republic of Macedonia closer to the EU standards.

For the purpose of fulfilling its role the SAO has committed to the following developments:

- First, to strengthen the position as national supreme audit institution, and
- Second, to be able to operate according to the internationally accepted standards for an audit institution.

*The State Audit Office (SAO) is an independent body, established in 1998 by the Parliament of the Republic of Macedonia, under the State Audit Law (adopted in 1997).*

### The Development Strategy of the State Audit Office 2006-2010

The Development Strategy of the State Audit Office for the period 2006-2010 was adopted by the General State Auditor on June 13, 2006. SAO has published this Strategy to be a Guide for the activities in the upcoming years.

The Strategy contains the five strategic goals closely related to the SAO mission.

**Goal 1: Independence-** Ensuring full independence of the state audit as a constitutional category, in accordance with the principles of the Lima Declaration;

**Goal 2: Strengthening institutional capacities-** Ensuring optimal level of human resources (number, structure, level of competence and expertise) as a pre-requisite for fulfilling the functions of the state audit;

**Goal 3: Development of the type and the quality of performed audits** - Improving the quality of the performed audits, their harmonization with the INTOSAI standards and quantifying the effects of the performed state audits;

**Goal 4: Information systems and IT** - Establishing the information system of the SAO, application of the information technology and their rational and efficient utilization of audit;

**Goal 5: Communication policies-** Improving the communication and information exchange system with domestic and international legal entities and informing the public on the SAO operations.

At operational level the SAO strategic goals are pursued based on the annual programs that define the specific activities to be performed for implementation of the mandate.

### International Cooperation of the State Audit Office

The international cooperation of the State Audit Office is an integral part of its functioning. It is performed in four directions: activities related to membership in the international professional organizations; activities that result from the bilateral cooperation with other Supreme Audit Institutions (SAIs); activities related to the

European Union and activities for SAO development.

1. The State Audit Office, as a Supreme Audit Institution in the Republic of Macedonia, is a member of INTOSAI (the International Organization of Supreme Audit Institutions) since 2001 and EUROSAI (the European Organization of Supreme Audit Institutions) since 2002.

The interest and the needs for membership of the Republic of Macedonia, i.e. the State Audit Office in INTOSAI and EUROSAI, is accompanied by many obligations that consist of maintenance of permanent communication and engagements for inclusion of the State Audit Office in the activities of the working groups and bodies of these international organizations.

Since the SAO has become an INTOSAI and EUROSAI member, the representatives of SAO have participated in the following congresses, international conferences and workshops:

– XVII INTOSAI Congress, in Seoul, 2001

– XVIII INTOSAI Congress in Budapest, 2004

– VI EUROSAI Congress in Bonn, 2005

– IV Euro- American EUROSAI-OLACEFS Conference in Lima, 2005

– I International Conference of the SAIs of Central and South Eastern Europe in Podgorica, 2006

– IDI (INTOSAI Development Initiative) strategic planning workshop within the Long-term Regional Training Program in Zagreb (2002) and several workshops for training of audit instructors held in Moscow, Sofia and Vilnius the result of which was two IDI training specialists in SAO (2004).

– As an active member of the EUROSAI Working Group for environmental auditing (since 2002), and the EUROSAI IT Working Group (since 2006) SAO participates regularly in its meetings and seminars (Warsaw 2002, The Hague 2003, Sofia 2004, Vienna 2005, Moscow 2005, Luxembourg 2006, Bratislava 2006).

Representatives of the SAO got acquainted with the latest developments from

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*The Strategy contains the five strategic goals closely related to the SAO mission.*

*The international cooperation of the State Audit Office is an integral part of its functioning.*



certain audit areas by participating in other seminars as well.

Significant cooperation between INTOSAI and EUROSAI was realized with the provision of relevant information by SAO for the research and investigative projects of their commissions connected with the needs for training of the employees in SAI, the mandate and independence of SAI and corruption and money laundering prevention.

2. During the last five years the State Audit Office was very active in establishing a bilateral cooperation with the SAIs of Bulgaria, Croatia, Poland, Sweden, the Netherlands, Turkey, Romania, Great Britain, European Court of Auditors, Ireland, Hungary, the Czech Republic, Greece, Slovenia and Lithuania. We hope that the further contacts with these and other SAIs will include exchange of experience for specific audit topics and participation in joint audits.

3. The visit to the European Court of Auditors in Luxembourg (2003) contributed significantly to the acquaintance with the experience from the audit area, application of the auditing standards and the existing practice in the European Union.

From the discussions in the European Court of Auditors related also to the preparations for integration in the European family, the State Audit Office acquired interesting information about the manner of cooperation between the Court of Auditors and SAIs from the countries candidates for EU membership. The SAO has been preparing itself for active participation in the auditing of the programs financed by the EU funds once they become available to the Republic of Macedonia.

Joining the Network of SAIs of the EU Candidate and Potential Candidate Countries and the European Court of Auditors in 2005 has given the SAO the opportunity to benefit from grater contacts with colleagues from the other SAIs.

In December 2006 the SAO delegation, headed by the General State Auditor, for the first time attended the Contact Committee Meeting in Warsaw as an active observer. As a part of the information on the activities of the Network of SAIs of EU Candidate and Potential Candidates at the conference, it was announced that the

SAO would be the host of the forthcoming conference of the SAIs Presidents to be held on 11-12 June 2007 in Skopje.

In accordance with the Network's operational plan, a parallel audit of the Candidate and Potential Candidate Countries' SAIs has been initiated. Based on the questionnaire that was sent to all SAIs of the Network, an *Audit of EU pre accession/Cards funded investment projects* was identified as a topic of common interest. The SIGMA, the ECA and the Chair of the JWGA have been providing support to this activity.

Following the start-up meeting in May 2006 in Bucharest, hosted by the Romanian Court of Accounts, the participating SAIs, including the Macedonia SAO, produced their audit plans by July 2006 and performed the parallel audit in the second half of 2006. The aim was to produce national reports to be followed by a consolidated "Parallel audit" report in 2007 which will be one of the main products on the Agenda of the SAIs Presidents Conference on 11-12 June 2007 in Skopje.

The SAO has found extremely beneficial the possibility to participate in the Courts' internship scheme which runs twice a year for a period of five months. Our first candidate has just finished the program which has proved to be successful for both parties concerned, particularly for further enhancing the co-operation between the ECA and the SAO of the Republic of Macedonia.

4. The cooperation with the World Bank, the SIGMA (the Program for Support for Improvement in Governance and Management in Central and Eastern European Countries) and the USAID has been going on continuously since 2000. The State Audit Office was regularly subject to screening and assessment by their missions, mainly from the aspect of its role in the financial control system and accountability in the country. The recommendations, addressed to SAO, the majority of which were incorporated in the State Audit Law, emphasized the necessity of additional staffing of SAO and expansion of its competences in a direction of strengthening its independence, efficiency and transparency.

A result of this cooperation and of the need for institutional and functional

*A result of this cooperation and of the need for institutional and functional strengthening of SAO was the World Bank Project for State Audit Office Development (within the Public Administration Reform Program – PSMAL 2).*



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The funding of the Project that lasted for 20 months (November 2003 – July 2005) was provided in a form of grant by the Netherlands Government and the Project leader was an IBTCI expert. As a part of the Project tasks that include a wide range of activities, the Project achieved remarkable results in organization and delivery of training courses for the SAO personnel, preparation of performance audit manual, improvement of the reporting, and study tours to the SAIs of Slovenia, Lithuania, Poland and other participations.

In Apart from the auditors from the SAO, internal auditors from the Central Internal Audit Unit from the Ministry of Finance, Ministry of Internal Affairs and the Health Fund also participated.

In parallel with this education, the cooperation of the SAO with the USAID and the World Learning resulted in financial support for realization of a study tour of a group of auditors from the SAO to the SAI of Hungary, local government and other government institutions in Hungary, and a part of the SAO personnel was covered with the program for improvement of the English language skills.

By the end of the SAO Development Project, based on the example of the most of the SAIs from the Central and Eastern European Countries, the SAO started to investigate the possibilities for commencement of a twinning project with several SAIs from the EU member states. A proposal for such type of cooperation was submitted to the Netherlands Court of Audit through the Embassy of the Kingdom of the Netherlands in December 2004.

A twinning arrangement between European government entities is an instrument that enables peer-to-peer relationships between colleagues at several levels within the respective organizations.

Since in the past years (1998-2005) of our functioning as a SAI we have introduced procedures and practices in line with the internationally accepted standards, we believe that the twinning concept is the most appropriate way to present our practice to a highly developed sister

institution and to receive suggestions for further development of our institution.

In addition, we appreciate the twinning concept as the project activities and interventions are, in principle, need-driven.

With the assistance of this Twinning Programme, the State Audit Office aims to build and strengthen its capacity in order to be capable of fulfilling its part in implementing and enforcing the *acquis communautaire* (according to Chapter 32). Moreover, the State Audit Office strives to ensure high level competences and effectiveness in performing various types of audits in compliance with the European Union and the relevant international standards and good practices.

The Project has officially commenced in October 2005 and the following are some of the values added to the cooperation:

- SAO Communication policies have been already discussed and experience in anchoring audit quality has been exchanged.

- New improved SAO Strategy document for the period 2006-2010 has been developed and reviewed by the NCA.

- Draft amendment to the Constitution and modifications of the Law on State Audit has been prepared. Reference to best practices, European *Acquis* and other international standards is included.

- The Round Table Conference on the role of the State Audit Office as the Supreme Audit Office in the Republic of Macedonia was organized in Skopje on January 31, 2007. The purpose of the Conference was to exchange views on strengthening the independence and effectiveness of the State Audit Office (SAO) of the Republic of Macedonia. The focus was on discussions on improving the legal framework and its relation to other institutions by considering what has already been working well elsewhere, notably in the Netherlands. Consideration was also given to what is required to achieve full compliance with the international standards (INTOSAI), thus reaching the level required for accession to the EU (Chapter 32 of the *Acquis Communautaire*). General conclusions of the Conference - It was very encouraging that representatives of the Parliament, the Government, the ministries of



Finance and Justice and the other participants of the round table discussions expressed their full support to the measures to be taken for strengthening the role of the SAO. There was general endorsement of the proposals for amendments to the Constitution and the State Audit Law dealing in particular with: an audit of the completeness of the revenues; more flexible and adequate budget procedures; consideration of the SAO reports by a special Parliamentary body; institutionalized co-operation between the SAO and the competent bodies involved in the public internal financial control systems and the fight against corruption.

– A Pilot Financial Audit (the Ministry of Local Government) has been performed in cooperation with the NCA in June 2006, and it is to continue in the same manner. Four new pilot financial audits are planned for 2007.

– Two Pilot Performance Audits (Passports Issue and Child Protection) are in the execution phase. The NCA colleagues are involved in all phases of the audits.

– IT-self assessment following the COBIT Standard and EUROS AI-IT methodology has been performed and the SAO IT-strategy has been developed and adopted by the General State Auditor in November 2006

– Exchange of experience on the Netherlands Court of Audit practice in performing financial audits (The Hague, November 2006)

– Promotion of active participation in the EUROS AI / INTOSAI working groups: Attendance at the meeting of the EUROS AI Working group for IT (Bratislava, September 2006); Seminar on Environment Audit organized by the EUROS AI Working Group for Environment Audit (Luxemburg, November 2006)

– Presentation of the experience of the twinning cooperation – International Conference on the “Latest Developments in

the Government Financial Management” organized by the International Consortium for Government Financial Management in Miami. The State Audit Office experience with the twinning cooperation with the NCA was presented at the Conference.

– Peer review of the SAO’s audit work- The SAO initiated post-audit quality assurance activities. The German Supreme Audit Institution (Bundesrechnungshof) has been asked to perform a peer review of the SAO’s audit work and capabilities in order to seek high quality advice and input for SAO development in the upcoming years. The peer review is to be performed by the end of March 2007.

### Cooperation with EU Institutions

After submission of the answers to the Questionnaire of the EC in March 2005, the contacts between the SAO and the EC and its other organizations and bodies are continuously maintained, providing a significant contribution to the functioning of the institution in the context of the European integration.

The Republic of Macedonia has gained the status of a candidate for EU membership in December 2005. Since then, a new type of monitoring has been introduced by the EC regarding the operation of Public Internal Financial Control (PIFC), with focus on the external audit as a key component of the accountability system in the public sector. For this purpose, the SIG-MA has been carrying out annual assessments of the external audit (SAO) on a regular basis.

The SAO has also been included in the seminars delivered by the EC DGs on the IPA regulation which specifies the establishment of the Decentralized Implementing System for the Use of Pre-accession EU Funds. The transfer of know-how and the fact finding missions will continue in the future as well.

*The Republic of Macedonia has gained the status of a candidate for EU membership in December 2005.*



# *Contemporary Methods of Auditing the Final Accounts of the State Budget in the Practice of the State Audit Office of Hungary*

DR. ÁRPÁD KOVÁCS

President of the State Audit Office of Hungary  
Chairman of INTOSAI Governing Board

In the second half of the 1990's, it became possible for Hungary to embark on the process of joining the European Union. The financial and economic audit organisation of the National Assembly, the State Audit Office, formulated its first strategy in 1998, in the spirit of uniform adaptation to a continuously changing environment.

The strategy emphasised the need for creating a culture of financial controlling in Hungary, based on a control methodology for "classic" public audit activities in harmony with the INTOSAI standards, a function indispensable for the National Assembly in its role as the supervisor of the public budget.

With a view to exploring, adapting and implementing the most recent internationally accepted control methods used in the final accounts procedure, the State Audit Office concluded a twinning agreement with the National Audit Office of the United Kingdom. This method is one of the EU's best practices, applied in a number of member states, fundamentally comprising a set of procedures and a wide range of supporting tools. Beyond consistent compliance with the method of reliability checks, the Hungarian State Audit Office established a high audit certainty threshold (at 95%), according to which the maximum acceptable rate of audit risk was set at 5%.

As a result, adherence to the rules of the method yields a high degree of certainty in establishing the reliability and truthfulness of the annual final accounts as regards the asset structure and financial situation of a budgetary organisation, on the basis of how it made use of its various chapter-managed appropriations. As for the accounts of the national economy, such control aims at checking the comprehensiveness and reliability of these, as reflected in the final accounts bill.

In line with the various types of audit performed by the State Audit Office, including financial audit, a set of methodologies and guidelines are available to describe the relevant detailed technical requirements and procedures for the respective audit types.

The State Audit Office provides regular trainings on such requirements and procedures, including the consistent testing of participants' knowledge.

The State Audit Office has created a system of exceptionally high standards for its audits of the final accounts. The methodology establishes that financial compliance auditing must be based on materiality and risks, which makes it necessary to gain in-depth information about the environment and operations of the organisation or responsibility under inspection.

Establishing materiality, as well as identifying and assessing the risks relevant for the purpose of audit objectives, are key elements in the planning and successful implementation of an audit task (the materiality threshold has been set at 2% of total expenditures in the report under scrutiny). The findings of the audit, as well as the qualifications and comments made, are to be supported by sufficient and appropriate evidence. Compliance with the foregoing criteria is essential to effectively implementing the quality control function included in the State Audit Office's quality assurance policy, and integrated into the process of audit work.

*This method is one of the EU's best practices, applied in a number of member states, fundamentally comprising a set of procedures and a wide range of supporting tools.*

*The State Audit Office has created a system of exceptionally high standards for its audits of the final accounts.*





The annual budget of public finances in Hungary is compiled following the cash-flow method. Public finances are composed of the budgets of the central government, the separated state funds, local governments, and the social security system. All these subsystems are obliged to prepare a report (of final accounts) as at the last day of the calendar year, discussed in the National Assembly along with the State Audit Office's report.

The basic assumption is that every public entity must spend the resources made available to it in a manner that is compliant, in harmony with the funds' intended purpose, efficient, effective and economical, and that all this must be reported and accounted for comprehensively, reliably and truthfully.

The State Audit Office, in its capacity as the supreme body of external supervision over public finances, has the mandate of providing information to the National Assembly with a high degree of certitude as to the compliance of the final accounts tabled by the government with the relevant legislative requirements, as well as the accuracy of the figures reported as part of the final accounts. At present, the State Audit Office is yet unable to fully exercise such a comprehensive mandate.

The documents issued by INTOSAI have emphasised that the requirements and recommendations pertaining to audit are subject to the specific circumstances of each country, as far as their interpretation and implementation are concerned. These are provided as useful basics for the creation of a system of national rules for financial auditing.

The setting up of a system of public finances is a matter of national significance, comprising the definition of responsibilities associated with the reliability and truthfulness of the accounts given of the spending of public funds. Therefore, it is natural that a number of different models are in use in various countries. However, in Hungary there is no uniformity even in the responsibilities and practices related to the audit of the final accounts of the four subsystems of public finances.

Pursuant to the now effective provisions of the Act on public finances, it is the finance minister's, as well as the government's, responsibility to ensure the reliability

of the figures reported in the final accounts.

It should be noted that according to the Act on public finances, the government is to discuss and endorse the reports of the separated state funds and the social security funds upon a financial auditor's certification only, even though the measures aimed at facilitating such a function have been delayed in respect of the institutional reports of various chapters, despite repeated resolutions by the National Assembly and the provisions of effective law. Such measures would be necessary to complete the comprehensive certification of the central government's accounts, since the State Audit Office attaches qualified (limited) opinions to central government reports in 76% of the cases.

Apparently, the discussion is increasingly focussed on standards and techniques. Techniques can be applied quite generally in all areas, but the point in question is that internal control is key to compliant and efficient operations, and internal audit is responsible for safeguarding the working of this function. The outcome is, that the system of internal control, combined with the internal audit of individual chapters, can provide sufficient guarantee for implementing the government's tasks and running the various institutions in a proficient, compliant and efficient way, following the methodology developed by the State Audit Office. One of the most crucial products of an internal control system of such a structure will be that chapter-based audits will be able to qualify the reliability of the elementary reports submitted by the institutions supervised. The National Assembly's audit body, that is, the State Audit Office is responsible for establishing whether the internal control and audit system set up by the Government to supervise public finances, is in compliance with requirements in all respects.

With a view to accomplishing such common objectives, as well as to implementing the National Assembly's resolutions and the Government's decrees, the State Audit Office stands ready to provide all necessary methodological and training assistance to the finance minister responsible for the co-ordination of the internal financial audit system created for public finances, as well as to the individual chapters.

Experience from auditing the reliability of the past five years' final accounts has

*Pursuant to the now effective provisions of the Act on public finances, it is the finance minister's, as well as the government's, responsibility to ensure the reliability of the figures reported in the final accounts.*





shown that the financial compliance audits concluded with a qualified opinion have primarily been related to errors of significant magnitude in connection with the accuracy of the financial situation as reflected in the balance report, as well as spending out of compliance with the intended purpose of various appropriations.

Errors exceeding the materiality threshold have predominantly been due to the incompleteness of the internal control system, as well as its deficient functioning. Demonstrating the reliability of accounts, and accurate reporting of performance figures, are largely dependent on creating and operating such an internal control system in institutions as will minimise the risk of the report containing erroneous statements or figures.

In the majority of institutions, the level of regulation and functioning of the IT environment pose high risk. IT support in accounting is not uniformly developed across the various institutions. There is a wide range of software tools in use, and the outputs of the different systems are not in conformity with the same standards, rendering the audit of financial operations rather difficult.

Chapter-based and institutional internal audit has but moderately reduced control risks. The underlying reason is that, working on the basis of a government decree on internal audit, it is not possible to

qualify internal audit at budgetary organisations in a way that is reliable in all respects from the point of view of the system-oriented approach defined in the INTOSAI guidelines. According to INTOSAI's guidelines, the internal control system comprises organisational management, control activities, as well as risk management. The INTOSAI guidelines provide a definition of the scope of internal and external auditing, as well as a framework for co-operation. In view of all these, by integrating external and internal audit activities that are based on the completeness of the internal control system, and its continuous and effective functioning and upgrading, public finances can be controlled with significantly more efficiency and cost-effectiveness. What is needed to achieve this, is a common set of technical requirements for both internal and external auditing, in the absence of which it is impossible to implement a most basic function of the internal and external auditing of public finances, that is, that both these must facilitate high-quality public services, as well as the compliant, efficient, cost-effective and productive use of the resources assigned to such responsibilities.

In conclusion, our target for the future is to gradually improve our performance year on year, to eventually achieve our strategic target by 2009, and thus qualifying all financial statements in the public sector.

*The State Audit Office stands ready to provide all necessary methodological and training assistance to the finance minister responsible for the co-ordination of the internal financial audit system created for public finances, as well as to the individual chapters.*



## *The Supreme Audit Commission of the Principality of Monaco*

JAMES CHARRIER

President of the Supreme Audit Institution of the Principality of Monaco

With the aim of endowing the Principality with an independent Supreme Audit Institution, as occurs in all modern States, article 42 of the Monegasque Constitution of 17 December 1962 sets down that “the financial management shall be audited by a Supreme Audit Commission”.

The texts for the application of that article were adopted within the framework of measures of a legislative and regulating nature which, in conformity with the prin-

ciples stated by the Constitution, defined the budgetary and financial regime of operations conducted by the State, in partic-

ular within the framework of Act No. 841, of 1 March 1968, relating to budget laws.

Sovereign Ordinance No. 3,980 of 29 February 1968 – modified by Sovereign Ordinance No. 15,594 of 12 December 2002 – established the powers, composition and functioning conditions of the Supreme Audit Commission.

### **I – POWERS OF THE SUPREME AUDIT COMMISSION**

Article 1 of Sovereign Ordinance No. 3,980 provides that the Commission “shall control the application of the constitutional, legislative and regulating provisions relative to the financial management of the State, of the municipality and of public establishments, in particular those referring to budgetary operations defined by law”.

Sovereign Ordinance No. 15,594 establishes that the Commission “shall, at the request of the Prince, also be able to audit the subsidies provided by the State for beneficiary entities”.

Likewise, “the Prince shall be able to request the Commission to undertake any task of study or information belonging to the scope of its powers” (article 7 of Sovereign Ordinance No. 3,980).

Thus defined, the powers of the Commission, which have their primary and obligatory expression in reports on the accounts of the State and of other public bodies, are manifested via other actions, by means of various reports and, in relation to its consulting duties, via the opinions intended for the Government of the Principality or information intended for the Services.

#### **A – Reports on the accounts of the State, of the municipality and of public establishments**

Act No. 841, of 1 March 1968, relating to the budget laws, sets down that the Prince shall declare the definitive Liquidation of the budgetary accounts “with prior compliance of the steps provided for by the Sovereign Ordinance No. 3,980, of 29 February 1968, on the Supreme Audit Commission ...”, in other words “at least one month starting from the moment of the

Report being sent from the Commission” on the operations conducted in the previous accounting year.

Said Report, drawn up under the conditions stated below, is sent to the Prince, along with the replies from the Minister of State and at the same time as the “Draft Annual Accounts of budgetary operations”. These documents are also sent to the National Council, which submits the budget laws (law on the budget for the accounting year and laws on the rectifying budget) to a debate and vote.

In application of the provisions of article 66 of Act No. 959, of 24 July 1974 on municipal organisation, the Commission draws up a different report on the accounts of the Municipality, with a view to the Liquidation of the accounts of that Corporation.

As far as public establishments are concerned, the powers of the Supreme Audit Commission rest on article 6 of Act No. 918, of 27 December 1971, on public establishments, according to which the “accounting management thereof shall be subject to the audit ... of the Supreme Audit Commission”. So, the Commission systematically examines the annual accounts of the Princess Grace of Monaco Hospital, of the Office of Social Protection, of the National Museum, of the Scientific Centre and of the Prince Pierre Foundation.

Nevertheless, unlike the State accounts, those of the municipality and of public establishments can, depending on the work schedule of the Commission, be the object of reports covering one or more accounting years.

#### **B – Other reports**

Aside from the reports which the Commission is obliged to produce on the State accounts and on those of public bodies, it can also present other reports of different kinds deriving from audits conducted at its own initiative or at the request of the Sovereign Prince or of the Government of the Principality.

Within the framework of the powers which we have just set out, and as a complement to the usual verifications, the Commission can be required to present its

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observations on a specific topic in separate reports. This was the case, for example, with the controls which had major equipping operations as their object (Luis II Stadium and the Grimaldi Forum).

Following in the framework of its duties regarding the State and public bodies, the Commission can, at the instance of the Sovereign Prince or of his Government, be urged to conduct studies or verifications which will be the object of special reports.

These reports usually contain, for example, "audits" of a general nature, mainly referring to public establishments.

In the opposite sense, the Commission can be asked to conduct investigations that are highly focused on specific aspects, sometimes as a consequence of characteristic irregularities (misappropriation for example) that have been observed in certain services or bodies.

Sovereign Ordinance No. 15,594, of 12 December 2002, sets down that the Commission can, on request from the Prince, exercise "control over the subsidies provided by the State for recipient bodies".

By virtue of this provision, the Commission can be asked to carry out controls among subsidised bodies, the results of which will be set down in specific reports intended for the Sovereign Prince or his Government.

**C – The consulting role of the Supreme Audit Commission**

By virtue of the provisions of article 7 of Sovereign Ordinance No. 3,980, of 29 February 1968, "the Prince shall be able to request [the Commission] to undertake any task of study or information coming within the scope of its powers".

Making use of this possibility, the Government of the Principality has consulted the Commission on numerous topics since 1970.

The topics dealt with have been, among others: the financial provisions of certain projects or proposals of texts (public establishments, municipality, etc.), accounting problems (nomenclature and classification of accounts; various procedures for execution, control or clo-

sure, etc.), budgetary questions (structure of the budget, nomenclature of the chapters and articles; commitment and control certain expenditures, opening and management of commitment credits and payment referring to operations in capital, etc.), problems of management (personnel, functioning of the Princess Grace Hospital, etc.).

Independently of the opinions drawn up at the petition of the Government of the Principality, the Supreme Audit Commission has had to perform an informative and advisory role for the services, with the aim of facilitating the application of the recommendations drawn up in its annual reports or in its opinions.

More generally, it is on the occasion of in situ audits when the Commission seeks, in a practical and constructive spirit, to provide the Services with clarifications and suggestions which can facilitate a search for solutions duly adapted to the problems facing it in the different fields of its authority.

**II – COMPOSITION AND FUNCTIONING CONDITIONS OF THE COMMISSION**

**A – Composition of the Supreme Audit Commission**

By virtue of the provisions of modified article 2 of the Sovereign Ordinance of 29 February 1968, the Supreme Audit Commission is made up of six members and it can only discuss matters with the attendance of three of them at the meeting.

The members of the Commission, "designated on the basis of their abilities in matters of public finance", are appointed for a period of five years by Sovereign Ordinance; the chairman and the vice-chairman are designated by the Prince from among the full members. They are sworn in before the Prince.

In order to guarantee the independence of the Commission, various incompatibilities have been provided for: members of the National Council (art. 54 of the Constitution) cannot form part of the Commission and neither can functionaries or agents actively working for the State, the municipality or Monegasque public estab-

*"The Prince shall be able to request the Commission to undertake any task of study or information belonging to the scope of its powers".*



lishments (art. 3 of the Sovereign Ordinance of 29 February 1968).

Apart from these reservations, the election of members of the Commission is not subject to any other condition beyond that of “abilities in matters of public finance”. In fact, and since its origins, this designation has fallen to the judges of the French Court of Audit, which has given its own physiognomy to the Supreme Audit Entity of the Principality.

Indeed, since its creation, in 1969, the Supreme Audit Commission of the Principality has been composed of judges, either honorary or practising, of the French Court of Audit.

Such a situation is unusual : members or ex-members of the French Court of Audit are in effect designated on a personal basis by a Sovereign State – with the agreement of the French Court in the event of practising judges – in order to ensure the functioning of the Supreme Audit Institution with which that State has been endowed.

This implies on the part of the Monegasque public powers the recognition of qualities such as independence, discretion and objectivity, which are traditionally demanded of “accounts judges” in France, in addition to the “abilities in matters of public finance”.

### **B – Functioning conditions of the Supreme Audit Commission**

The conditions of functioning and actions of the Supreme Audit Commission, which is a purely administrative body, are defined in the texts solely in general terms, whether this concerns the means and methods of control or of the steps which have to be applied to that control.

The Sovereign Ordinance of 29 February 1968 establishes that each year the Commission is presented with the Annual Accounts of the budgetary operations of the State, of the Municipality and of the Public establishments. It must also have received the Annual Report produced by the Inspector-General on those same operations.

It is important to highlight here that the role of the Monegasque Supreme Au-

dit Commission – as with that of any Supreme Audit Institution – is to a large degree conditioned by the structure and functioning of the internal controls. In the case of Monaco, the action of the Inspector-General – and of the Financial Auditor – is an essential element in controlling public management, which the Commission bears very much in mind of course. And the excellent working relations existing between the Commission and the Inspector-General enormously facilitate the work of the former body.

In order to exercise its controls, the Commission can obtain any administrative and accounting documents that it considers appropriate for complying with its task. With this aim, the Commission will turn to the General Treasury and to the managing Services, being able to request whatsoever written explanations from functionaries and agents of the services being submitted to control, or to hold hearings with them.

Having completed the controls, the members of the Commission who have carried out the checks note their observations in reports which are submitted for debate and approval of the Commission, after having heard the views of members of the Council of Government and affected bodies.

In terms of the annual accounts of the State, the report drawn up by the Commission is passed on to the Minister of State, who has a period of two months for presenting “any clarifications in reply to the observations made in that report”. Once the replies have been received, both the report and the replies are sent to the Prince and to the National Council, as we have already stated when referring to the Liquidation of the Budget. Similar procedures are followed for other reports from the Commission.

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The Commission, lacking in any own sanctioning power, has since the beginning and up to the present day conceived its role as being that of an advisor rather than that of an auditor. And it has been able to note with satisfaction, on the one hand, the excellent welcome and spirit of cooperation that it has found in the services, corporations and entities submitted to its controls and, on the other, the positive direction





that is very often given to its recommendations or suggestions.

Indeed, the Supreme Audit Commission of Monaco, thanks to a composition and certain functioning conditions which

were not explicitly demanded in its founding text, can properly exercise its role as independent Supreme Audit Institution, in accordance with the mission conferred on it by the Constitution of the Principality.

## *The analysis of budgetary stability by Supreme Audit Institutions*

MANUEL NÚÑEZ PÉREZ

Member of the Spanish Court of Audit and Chairman of the Audit Section

The expansive and easily consolidated nature of public expenditure, aimed at satisfying the numerous social demands coming from the implementation of what the so called Welfare State and its intense participation in the development of the economic system, accompanied by difficulties in increasing budgetary revenues via higher fiscal pressure, has traditionally encouraged the appearance of permanent and accumulative budgetary deficits, financed primarily by public debt.

To this persistent appearance of public deficits can be added a pronounced flexibility in budgetary discipline, with the dilution of the relevance and significance of the actual Budget as a reference and synthesis of public management and as an expression of the leading role played by the Legislative Power in the exercise of control over the Executive Power.

This accumulative process of deficits led to a situation of financial difficulties which resulted in the well known crisis of the Welfare State, which encouraged the adoption of different decisions in the organisation of a new public management. Among others, an awareness grew of the need to establish a new budgetary framework aimed at strengthening budgetary discipline and capping the actions of the Executive Power, fitting the annual budgets into certain maximum spending limits and certain pluriannual scenarios, and restricting the possibilities of their modification during the execution process. This came to signify a strengthening of parliamentary control and a “redemocratisation” of the budgetary institute. In short, the definition of this new budgetary framework has allowed the bases on which political responsibilities are founded to be empha-

sised, along with control over the public powers for the rigorous and austere use of the available resources.

### **I. The new budgetary regulation**

In this context a great many studies were conducted, from the perspective of institutional economy, which generated a body of doctrine and the formulation of the corresponding proposals for control over public spending based on the financial logic of interdependence between public spending and revenues. It is aimed at restricting the autonomous behaviour of the former and conceiving public revenues as a determining factor of the volume and distribution of public spending, and consequently renouncing the permanence of the chronic budgetary deficit.

Focusing this evolution on the European Union, the Treaty signed at Maastricht in November 1993 incorporated certain quantitative criteria in relation to the deficit and debt of Member States, with the latter undertaking to adopt the pertinent measures and to inform the European Commission twice a year on the evaluation between the forecasted and real levels of

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deficit and debt. The later signing of the Stability and Growth Pact reinforced the effectiveness of those criteria due to considering them as one of the conditions for access to phase three of Economic and Monetary Union.

Independently of the fact that the term Growth were included in its name, the objective of this Pact and its instrumentation was focused on the concern to achieve in the medium term a budgetary situation that would be close to equilibrium or with a surplus; an aim that had to be set down in the stability programme to be brought before the Council and the European Commission. Moreover, regulations were established stating that the evaluation of the objectives set down in that Pact and the economic convergence criteria should be carried out by means of the methodology established in the European System of National and Regional Accounts of the Community (ESA 95), which was legally binding on all Member States and whose application, in the absence of a harmonised regulation of the different public accountabilities, can guarantee the homogeneity and consequently their possible comparison, transparency and equality of treatment among all States.

This Community regulation on budgetary stability can in turn have been strengthened by means of its transposition into the internal laws of each country and the incorporation of new requirements in the public economic-budgetary behaviour, as an expression of the concern for disciplining public management and avoiding imbalances in it. This has been the process followed in Spain which, along with the effort made in the important and rapid reduction in the deficits that were persistent in the phase prior to joining Economic and Monetary Union, has also added a regulation of its own, materialised in the General Act of Budgetary Stability 18/2001 and Organic Act 5/2001, of 13 December 2001, complementary to the former, in order to guarantee budgetary stability, defined as the situation of equilibrium or surplus calculated over the economic cycle in terms of ESA 95.

The successive attempts to review these initial criteria for budgetary stability, at both the Community and the national levels, and not always in an identical direction, cannot be overlooked. Nevertheless,

the final result of these review processes has been the reaffirmation of the need to discipline public management and maintain the previously agreed criteria. And this, independently of the fact that the opportunity might have been noticed to adapt the objective of medium term budgetary stability to the different economic and budgetary situations of the various countries, in line with the phase of the economic cycle, and once any exceptional and temporary measures have been applied and having attended to the needs of public investment. That objective can be reviewed every four years with a greater period being provided for the adoption of the pertinent corrective measures. There is no doubt that the conclusions of the European Council of Brussels, of March 2005, classified as a review of the Stability and Growth Pact, incorporate a greater complexity in the application of that Pact, due to differentiating the objective and the measure to adopt in line with the circumstances of each country, though this has in some way implied that the Community has renounced the adopting of certain stability objectives and their subsequent monitoring.

Likewise, as far as the Spanish internal code of laws is concerned, the review process, via Act 15/2006, of 26 May 2006, in reform of the said General Act of Budgetary Stability 18/2001, starts from the express conception of budgetary stability as a collective good that is beneficial for citizens as a whole, and the recognition that transparency and information are an indispensable requisite and the main tools for disciplining the decisions of the public managers; independently of the agreement to adapt budgetary policy to the economic cycle, with the equilibrium of public accounts being conceived as an essential element of an economic policy that is sustainable over time and, under certain conditions, authorising investment programmes that offer a significant favourable impact on productivity.

As an evaluative synthesis of this brief reminder of the process followed in the implementation of the new budgetary regulation, it can be maintained that budgetary stability is an objective that has not been renounced. Its virtues are preached when it is conceived as an expression of the rigour that can be demanded of the

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public managers in the planning of their economic activity and an unavoidable reference in the task of supervising and evaluating both, the process of drawing up the budgets and that of their execution and liquidation.

## II. Actions derived from the new budgetary regulation

Subjection to the criteria agreed in the Stability and Growth Pact and the reinforcement of them via a specific internal rule, as in the Spanish case, has meant an important transformation in the regulating framework of the financial and budgetary activity of the public sector. It has been explicitly subjected to new budgetary principles requiring new procedures in the planning and execution of the public management and the boosting of new alternatives in the production of goods and rendering of public services. This in turn forces the control institutions to open up their auditing activity to new scopes of action and to new procedures, in tune with the evolution being registered in the planning and organisation of public management.

### II.1. Monitoring of new principles in budgetary management

Classical budgetary doctrine usually offers a list of rules of acknowledged legal efficiency, habitually referred to as budgetary principles, which admit different classifications, according to whether they follow public, economic or accounting criteria, among others. Most of these criteria have been set down in the usual manner in the budgetary regulations, and many of them enjoy express recognition at constitutional level.

The importance of the new regulations, following the Stability and Growth Pact, is that they have implied the incorporation into positive law of new legal principles which reinforce the classical principles, incorporating a greater rigour into the budgetary technique and propitiating the identification and assumption of responsibilities in the entire budgetary cycle. Among these new principles can be cited that of budgetary stability intrinsically tied to

pluriannuality, along with the strengthening of the principles of transparency and efficiency in the assignment and use of public resources.

The principle of budgetary stability defined as a situation of equilibrium or surplus, calculated over the budgetary cycle and in terms of ESA 95, is none other than the assumption and transfer to positive law of the concept of equilibrium which guided the drawing up of the Stability Pact with the assumption of commitment to avoid excessive deficits. In this way, the signing of that Pact came to supplant the claim defined by an important part of Treasury doctrine of constitutionally limiting the total of public spending and guaranteeing budgetary stability as an unavoidable reference in economic policies, the advantages of which are widely recognised.

It has to be pointed out that the principle of budgetary stability does not come down to a simple proclamation of intentions, but is instead designed by means of complementary measures that reinforce it. So, in Spain, according to the specific rule on this matter, first of all a maximum limit on spending for the year is imposed. It has to be accompanied by the specification of the objectives of all budgetary agents, reinforcing the programming by objectives and giving a greater unity to Budgets as an expression of a set of rationally designed economic policies. Moreover, a strict limit and control is established for credit modifications, for which a contingency fund is created, quantified as a small percentage of the initial credits and contained in a specific budgetary section, in such a way that any other credit modification will have to be compensated with a variation in the opposite direction in another of the initial credits.

All these preventions in favour of stability are reinforced once and for all by the obligation to present a medium term correction plan on the part of those entities which have failed to respect their stability objective, which, if not put into practice, will lead to a series of sanctions. Monitoring of compliance with the fixed stability objective is materialised in the report which the Ministry of Finance presents to the Government each year, in addition to the control that can be exercised by Parliament and the results that can derive from

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an examination of the budgetary liquidation made by the SAI in the context of examining the General Account of the State for each year.

In this regard, the different scope has to be pointed out of the stability objective according to the classification of the subjective area of application, and that for the public corporation sector is identified solely as a situation of financial equilibrium. To this different scope of the principle of budgetary stability has to be added the different accounting criteria demanded by public accounting and by the accounting of national and regional accounts following the criteria of the ESA 95, which has been taken on in the measurement and evaluation of the public deficit.

The principle of pluriannuality appears necessarily tied to that of budgetary stability, correlating the budgetary cycle with the economic cycle. The drawing up of the budgets is set within a pluriannual scenario, compatible with the established principle of annuality by which the budgetary approval and execution is governed. It permits the general and individualised budgetary stability objective for the different Administrations to be modulated, even permitting the appearance of a small and controlled deficit, as an expression of the anticyclic action.

The rationality of the budgetary process is backed by the rationality in the macroeconomic projection of the future behaviour of the economic system, with the congruence between the macroeconomic scenarios and the evolution of the budgets being able to be evaluated in their headings of both revenues and spending. In this regard the interrelation and reciprocal influence between the economic system in general and the activity to be developed by the public sector cannot be evaded.

The new budgetary behaviour has to be guided by the principle of transparency, a principle which goes beyond the theoretical approaches of the codes of good management, frequent in the design of public policies, in order to become incorporated into positive law. It highlights the importance of the budgets both in their approval phase and in that of the liquidation, as the cusp of parliamentary control over the Executive Power and democratic expression, by permitting all agents with an interest in this process to learn of the financial situa-

tion of the public sector and the expectations that are forecasted to be achieved in the short and medium term. An essential point about public transparency is the requirement that the action of the public sector should be open to citizens, offering an effective knowledge of decisions on fiscal and economic policy as well as data on the public accounts. Transparency is presented as a guarantee of public ethics and as an unavoidable means for social control of the actions of the public powers.

In the document "Strategic objectives 2005-2009" the European Commission said that in order to achieve a correct functioning of the Union and greater participation and involvement from citizens, "the Union must lend itself to public control and render accounts of the work it does, which requires a high level of accessibility and transparency. The extension of the analysis, of impact for example, and access as broad as possible for the population to the work of the institutions ought clearly to show how the Union takes its decisions".

The validity of this principle highlights the activity of the external control institutions as sources of credibility and guarantee of the information offered by the different Public Administrations.

As far as transparency in the design and execution of the budgetary activity is concerned, its scope goes beyond the classical principle of publicity, since it requires that, in their process of preparation and liquidation, the Budgets should contain sufficient and adequate information for permitting a check to be made that they accord with the principle of budgetary stability, as well as complying with the objective of budgetary stability and with the obligations imposed by Community rules in terms of national accounting. It is therefore a principle with an instrumental range; but it is rooted in the democratic essence due to demanding the contribution of documentation adequate for the subject being dealt with and sufficient for understanding the proposed objectives and the degree of their attainment, thus encouraging the participation of Parliament and of society in budgetary debates and restoring to the Budgets their authentic significance and relevance, which had become diluted in the face of the complexity and evolution of the public sector and the technification of the budgetary structure.

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The advisability of this critical judgement being emitted by an Institution that is suitably specialised in these subjects and which has no organic relation with those responsible for Government who have drawn up the budgets and the complementary documentation on which these are based, highlights the need to allow the SAIs to enter into these analyses. These being bodies whose scope of action extends to the whole of the public sector and whose specialisation and experience are a guarantee of being able to offer Parliament the technical assistance required on account of the importance of dealing with and approving the budgets, in perfect harmony and respect, therefore, with parliamentary competencies in the process of approving those budgets and of exercising political control over the Executive Power.

The principle of efficiency in the assignment and use of public resources is a habitual reference in all doctrinal approaches relating to good public management. Nevertheless, this process of concern for public efficiency appears strengthened when it is considered in a context of budgetary stability, due to requiring that the rendering of public services be marked by the quality of them and at the lowest possible cost. Budgetary restrictions compel an intensification of the rationalisation of public spending in view of the difficulties of incrementing the financing channels and the need to at least maintain the level of public services.

*II.2. The exercise of external control over the economic-financial activity of the public sector from the perspective of budgetary stability.*

To the considerations that have been stated deriving from the incorporation of new budgetary principles has to be added the fact that, from an economic perspective, it is not possible to segregate the functions of planning, organisation and management, since they all form part of a single economic reality. It is identified as a properly inter-related whole, and a rational planning cannot be conceived that dispels with the designed organisation and the management that is planned to be carried out, just as the development of a management that was outside of the initially planned approaches and budgets would also lack sense. As a

consequence, the auditing action ought also to be extended to the process of drawing up budgets, as well as their execution and liquidation. Such an extension should not be able to be interpreted as an improper intrusion into the competencies of the Executive Power as being responsible for the design of the public policies or into the competencies of the Legislative Power which approves the budgets in which those policies are materialised.

In terms of the procedural development of this auditing, it has to be recalled that budgetary stability is related to the capacity or need for financing calculated in accordance with the criteria set down in the European System of National and Regional Accounts, ESA 95, and which, in order to carry out its analysis, both the budgets and their liquidation have to contain sufficient and adequate information, in application of the principle of transparency.

The absence of a process of public accounting standardisation within the European Union, similar to that registered in private accounting via the implementation of International Standards on Financial Information, has led to the existence of different national plans of public accounting with a very heterogeneous regulation. It has compelled the adoption of the European System of National and Regional Accounts (ESA 95) as a criterion of uniformity and comparison among the different countries committed to the monitoring of a budgetary policy aimed at stability within what is known as the economic cycle.

The need to verify the principle of budgetary stability in terms of the ESA 95 has forced the Court of Audit, and would so too, it is considered, the other SAIs that have commenced their analysis in this field, to broaden their auditing perspective to accounting statements drawn up following criteria of national accounting and to analyse the correspondence of the balances of national accounting and public accounting of the majority of entities in the public sector; and even of the private accounting of some public entities whose accounting plan might have been applied in the representation of their management. It has to be borne in mind that the differences between different accounting systems affect both the subjective scope of the entities affected in each case and the treatment of particular operations and criteria to apply.

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This expansion of the auditing scope requires having the corresponding information and documentation, in application of the principle of transparency. As a consequence, the Spanish Court of Audit has been stating in its Declaration on the General Account of the State that the liquidation of the Budgets must be completed with the consequent references to the fixed objective of stability and degree of compliance achieved; references which would in turn have to be accompanied by the corresponding justifying documentation, until the necessary degree of sufficiency and suitability is reached for being able to carry out the evaluation that is intended. So, it is a matter of applying a set of quantitative criteria – sufficient – and qualitative criteria – suitable – in the analysis of the documentation which has to accompany the General Budgets until achieving the pertinent evaluation of compliance with the objective of budgetary stability that has been established and the reconciliation of the result in terms of national accounting with that offered by public accounting.

These analyses are materialised in verifying that the actions planned in the process of drawing up the Budgets have to be executed under the terms provided for in the existing regulations, that the Draft Budget is respectful of the maximum limit on spending previously set by Parliament, and that the distribution of budgetary allocations corresponds to the planned pluriannual scenario and with the policies defined and based on the documentation that has to accompany that Draft. These analyses are completed in the phase of budgetary execution, especially via the examination of the different budgetary modifications. Since just as important as the establishment of a maximum limit on spending, as a reference for the establishment of the objective of budgetary stability, is the endowing of the budgetary execution with a strict regulation in terms of the possible modifications of the initial budgetary endowments, in order not to impair the scope of the Budgets approved by Parliament. In Spain, the setting up of a Contingency Fund, as a specific budgetary section to which are charged the new budgetary obligations which might arise during the period of budgetary execution requiring that any budgetary necessity that exceeds the endowment of that Fund has to

be covered with the consequent reduction in the endowment of any other budgeted expense, has meant an important restriction on budgetary modifications. It has brought in a greater discipline in budgetary execution, with a greater respect for the extent and binding nature of the initial budgeting agreed in the parliamentary headquarters. The monitoring conducted by the Spanish Court of Audit on the execution of the approved budgets following the introduction of the new budgetary regulation confirms this.

Independently of the possibility and opportunity of the analyses aimed at evaluating the documentation prepared as back-up and basis for the Draft Budgets, it is the analysis of the budgetary liquidation which finally permits a check to be made on the degree of compliance of the set objective of stability and which, on account of its own scope, permits the previous phases of the budgetary process to be encompassed. These analyses require the transferring of the criteria inherent to public accounting until their conciliation is achieved with those of national accounting, as has already been stated. Although this conciliation ought to be carried out in the determination of the objective of budgetary stability, it is at the moment of the analysis of the budgetary liquidation that it acquires its genuine relevance, since it is an indispensable procedure for being able to evaluate the effective compliance of the objective of stability. As has already been mentioned, the scope of this conciliation can be interpreted at a dual level: on the one hand, the identification of the entities making up the sub-sector of Public Administrations; and on the other, the different accounting treatment of certain operations. In relation to the different accounting treatment of certain operations, a brief reference can be made to the most recent evolution observed in public management and which also opens up new horizons for auditing activity.

### *II.3. New alternatives in the production of goods and rendering of public services.*

The intensification of budgetary rigidity has propitiated the adoption of different measures of privatisation of the public sec-

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tor and of outsourcing of its activity, encouraging different formulas of public-private cooperation in the production of goods and rendering of public services. Given the impossibility of substantially increasing the revenues, the approaches of budgetary equilibrium require the adopting of spending restriction policies, unless alternative financing sources are found, such as the different modalities which can be offered by what are known as public-private partnerships.

In relation to the different alternatives that can be arranged in these relations of public-private cooperation, and independently of other considerations which might be made on their nature, risks and responsibilities taken on, emphasis has to be placed on the important challenge accepted by the participating public entity for achieving an adequate design for each operation, enquiring into all possible approaches and into the advantages deriving from each option. All the circumstances that could modify the initial conditions of the operation should be forecasted and mechanisms guaranteeing financial equilibrium during its entire life have to be established, so that situations of captivity and dependence of the public sector do not arise with regard to the private entity and so that the quality and efficacy of the activity developed can be guaranteed, along with its economicity.

Equally, the subsequent exercise of control over these operations is affected by their considerable complexity, since compliance with the formal requisites that might have been established in this regard is going to aggravate the comparative examination of the technological conditions, in addition to the economic-financial ones between the option that is followed and the one that would have derived from applying any other modality of direct management by the public sector, along with compliance of the conditions decided upon in the development of the agreed management. This is an analysis that could be extended to the private entity responsible for that management, a circumstance that could alter the habitual control actions and demand a greater intensification of them and an efficient classification and demanding of the responsibilities which could arise in each case.

One of the essential basic elements for monitoring these operations and their control is to have some explicit criteria for recording the accounts. As there is no common and standardised system for these operations, different criteria can arise for their recording, bearing in mind the risk or the level of control over them as the most habitual references. The criterion required in this respect by Eurostat at the level of the European Commission allows that operations do not have to be registered in the accounting statements of the public sector in which the private partner assumes the risk of construction and bears at least one of the following risks: risks of demand and risk of availability. The lack of precisely defined and duly regulated criteria can lead to a considerable degree of uncertainty in the public managers and leaders, all the more so when they can find themselves faced with an evolution in their official interpretation and with a definitive position of Eurostat that is contrary to their exclusion from the accounting calculation under the terms of ESA 95, when the economic-financial decision is irreversible. This can have a very negative impact on the compliance of the agreed stability objective.

Independently of the different accounting systems and criteria which have to be applied in each case, it is obvious that, as a consequence of the legal steps agreed in these operations, certain commitments of the State have arisen with a certain degree of exactability, true or potential, which in the evaluation of the economic-financial situation of the public sector will always have to be taken into account. And it can lead to an inevitable volume of obligations for future years and which, as such, must be recorded or at least reported in the accounting documentation drawn up and rendered, as an element of reference for the preparation of future budgets.

#### *11.4. Importance of combining efforts in the intensification of external control in relation to budgetary stability.*

Irrespective of the individual actions that might have been programmed and carried out in this field by certain Supreme Institutions of External Control, it is considered that current regulations lack provision

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for the consequences that might be inferred from the conclusions obtained in the exercise of the control related to budgetary stability. Perhaps the fact that there is no duly harmonised general plan of public accounting has also led to a lack of provision on the actions that could derive at the national and Community level from the results achieved by the auditing institution in its examination of compliance with the objective of budgetary stability. This lack has not acted as an impediment preventing SAIs from the stating their interest in carrying out audits on the budgetary process, as a guarantee of transparency and reliability of the accounting statements and means of revitalisation of the parliamentary debate during the passage of the budgets and in monitoring their execution. In this regard one can mention the VI EUROSAI Congress, among others, which was held in Bonn in May-June 2005, in which the involvement of the SAIs in the control of quality and transparency in the budgetary process was emphasised. Also the V EUROSAI-OLACEFS Conference, held in Portugal in May 2007, notable among whose conclusions were the references to the involvement, as a natural challenge for the SAIs, in the internationally agreed financial sustainability, and in the advisability of strengthening their audits over the entire budgetary process, helping the Budget to regain the relevance that corresponds to it, via a transparent reflection in it of the public policies for which it is trying to provide financial coverage. This commitment could find itself reinforced with the exchange of information and a sharing of experiences and methodologies.

As a complement to their particular auditing initiatives, it is considered that it would be of interest to have some general regulating provisions that would facilitate a homogenous approach and action by all SAIs of committed countries with certain common objectives in the analysis of budgetary stability, helping to guarantee the representativeness and reliability of the balances of the macro-magnitudes offered

in terms of public accounting. It cannot be forgotten that in current regulations the sole control that is formally exercised over that accounting is the one done by Eurostat, at the Community level, and by the corresponding national services of internal control, which are very often also responsible for carrying out that accounting.

The participation of external control in the evaluation of the objective of stability, including in it the impact of new forms of public management, would provide conclusions and recommendations that would help to improve the public management, contributing greater transparency and offering greater guarantees of reliability for the accounting being presented. It would in turn permit the control of the Legislative Power to be increased and budgets to be attributed the scope that is proper to them in any democratic State. It is stressed that this contribution would be strengthened if the actions of the SAIs could be developed from a common regulating framework. It has to be borne in mind that the policy of budgetary stability is the result of a Pact signed among different countries, which share a same direction in the scope of the European Union, in such a way that breach by any one country of the commitments taken on does not just affect its national economy, its negative effects are also transmitted to the functioning of the Community economy.

From the above consideration, the advisability can be deduced of all countries could be able to count on similar guarantees in terms of the reliability of the accounts, offered by the exercise of external control, avoiding the differentiating effect that might occur in the event that the level of control were different. The progression of this line of action could be favoured by the exchange of ideas and acquired experiences, which could lead to a framework regulation that would standardise procedures and criteria, recognising the interest and the contributions deriving from the exercise of external control.

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# The Court of Audit of Spain

JAVIER MEDINA GUIJARRO

Member of the Spanish Court of Audit

The public managers of our democracies have to act properly towards the general interest, doing so with objectivity, transparency and at the service of citizens<sup>1</sup>. These are all principles of the administrative activity set down in our Legal Code and also in the code of public ethics which is the Nolan Report (1995<sup>3</sup>) of Great Britain.

The public managers of our democracies have to act properly towards the general interest, doing so with objectivity, transparency and at the service of citizens<sup>1</sup>. These are all principles of the administrative activity set down in our Legal Code (art. 103 of the Spanish Constitution; art. 5 of the General Act on Budgetary Stability 18/2001, of 12 December 2001; and arts. 26 et seq. of the General Budgetary Act 47/2003, of 26 November 2003)<sup>2</sup> and also in the code of public ethics which is the *Nolan Report (1995<sup>3</sup>)* of Great Britain.

In particular, as *Barea Tejeiro, J.*<sup>4</sup> states, the principle of transparency “*is a public good and with all the more reason has to be so in the public sector, where, in the absence of the filter of the market, this has to be replaced with an absolute trans-*

*parency, since transparency is to public bodies what the market is to companies.*”

Transparency presides over public economic-financial activity with the aim of evaluating the objectives of economic policy and the economic and social consequences deriving from its execution. The effectiveness of transparency is measured in terms of economic information, in other words, its application demands a clear and truthful rendering of the public accounts, in such a way that their analysis enables one to learn the involvement of the public sector in the markets and to show the effects which public economic-financial activity has on the future evolution of macro-economic aggregates.

Because of this, the transparency of public accounts has to be accompanied by

*The transparency of public accounts has to be accompanied by a transparency in economic information.*



<sup>1</sup> “*The service for citizens and the general interest must be characterised by objectivity. In other words, transparency in the administrative activity has to be not just a guarantee for citizens but also a yardstick of general action of the public apparatus. The heads of the different administrative organs are nothing more than managers of interests of others, of the social body, and they must therefore render accounts of their management to citizens.*” (Statement of Motives of Act 6/1997, of 14 April 1997, on the Organisation and Functioning of the General Administration of the State).

<sup>2</sup> As CORONA MARTÍN, R.M. points out in “*The new Budgetary General Act and the Court of Audit*”. *Revista Española de Control Externo*, Nº 18, Madrid, 2004, “*.. shaped as governing principles of the new Act are multi-annuality, transparency and effectiveness, closing the route to the possibility of ‘spending more’ and necessarily promoting ‘spending less’.*”

<sup>3</sup> At the request of the British Prime Minister at the end of 1995, a Committee of Experts was set up to propose certain Standards of Conduct in Public Life, referring to parliamentary and administrative activity. This Committee, chaired by Judge Nolan, issued a first report in May 1995 in which the following appear as the principles of public ethics: “*capacity to take on the public interest, integrity, objectivity, responsibility, transparency, honesty, and decision-taking capacity*”.

The complete version of the report can be seen in “*Standards of conduct for Public Life (Nolan Report)*”. Documentos INAP. Madrid, 1996.

Also of interest is the Report of the National Committee of Public Ethics in Chile for the year 1996 and the United Nations documents on practical measures concerning corruption in the Public Administration, along with the Inter-American Convention against Corruption of the Organisation of Inter-American States signed in Caracas in March 1996.

To find out more:

FUENTETAJA PASTOR, J.A. / GUILLÉN CARAMÉS, J. “*The regeneration of the Public Administration in Great Britain*” Cuaderno Civitas. Madrid, 1997.

MARTÍN RETORTILLO, L. “*Urgent reflections on the Nolan Report*”. *Revista Aragonesa de Administración Pública*. Nº 11, 1997.

<sup>4</sup> BAREA TEJEIRO, J. *Diario Cinco Días*. 20 March 2004. Spain.

a transparency in economic information which consists not just of publishing the relevant information with no further limitations than those affecting the security of the State or personal privacy, but also, moreover, this information needs to be published in previously established schedules, using the most modern computing supports in order to facilitate a study and analysis, and in a way that is sufficiently comprehensible so that it can be of use to citizens. In this manner, society will be able to have an effective participation in public affairs and be able to exercise its right to control the actions of the public sector<sup>5</sup>.

The corollary to what has been stated, the clear and truthful rendering of public accounts, is a conquest of the democratic State and is in turn the starting point for the exercise of the function of the control bodies. Hence the fact that our opinion on the accounts rendered by the public managers has to reach society and be assessed by citizens in such a way that allows them to exercise what is known as social control.

For that reason, I believe that the judgement of citizens on our organisation, on our procedures and on our results, assessing whether we meet the “minimum of values” which societies have acknowledged to the Control Institutions and, also, the degree of our contribution to the clear, transparent and truthful formation of the necessary opinion for the exercise of social control, will determine the margin of acceptance of the Control Institutions.

However, with what has been said I do not aim to assert that there are some models of Control Institutions that are better than others. What I am trying to say is that the configuration of the Institution of national control needs to be reconciled with the idiosyncrasy inherent to each State.

In this regard, the *Lima Declaration* of 1977, and its re-edition of 1998, acknowledges both the need to have an efficient and independent Audit Body, and also the competency of the States to configure and organise them according to their own historical, social, political and economic particularities, because it is clear that, in this

field, there does not exist a single model of external control body, instead, and on the contrary, a mere analysis of the reality existing in the different democratic States with Rule of Law reveals that nowadays there are different models of control in existence, all of them equally effective.

As art. 1 of the *Lima Declaration* of 1998 states: “control does not represent an end in itself but an indispensable part of a regulatory system which has to point out the deviations from standards and violations of the principles of legality, efficiency, utility and rationality of financial operations, in such a way that the appropriate corrective measures can be adopted, determining the responsibility of the guilty body and demanding the corresponding compensation or taking steps that will prevent such breaches from being repeated in the future, or at least make it more difficult.”

The objective of the control thus described can be achieved with different control structures, whether one opts for the French or Latin model or for the English one – though the latter requires the collaboration of the ordinary courts in order to “... determine the ‘responsibility of the guilty body’, and demand the ‘corresponding compensation’” – or other models are adopted that exist in various democratic States with Rule of Law.

For systematic reasons, doctrine has grouped together the different models into two categories: the first, which includes the French type, which are those that have a technical body with its own jurisdictional powers; and the second, which we regard as being the English type, and which is characterised by attributing external control over spending to a body of the same nature, one that is specialised and dependent upon Parliament. Nevertheless, today there does not just exist these two models, in fact, we can even assert that, apart from isolated coincidences, there are as many models as there are States with Rule of Law existing in the world.

As we shall see below, our system, though it forms part of the French model, differs from it not just by radically separating the exercise of the audit function

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*We have to recognise that each model is in response to the historical and political reality of the country in which it arose and has developed and, likewise, we have to admit that the models that demonstrate their efficiency in their countries of origin are not easily transferable with equal efficiency to other States.*



<sup>5</sup> From the Report “*Transparency in public audits and in economic information*”. Secretariat of State for Finance and Budgets of the Ministry of Economy and Finance of Spain. Madrid. 21 September 2004.

from the jurisdictional but also when it qualifies the content of the jurisdiction, in other words, the accounting liability, as having a character that is wholly civil and not sanctioning<sup>6</sup>.

In any case, we have to recognise that each model is in response to the historical and political reality of the country in which it arose and has developed and, likewise, we have to admit that the models that demonstrate their efficiency in their countries of origin are not easily transferable with equal efficiency to other States. The important thing, therefore, is to promote an objective and independent external control no matter what its organisation might be, though taking into account that the two models systematised by doctrine, that of parliamentary link and that of jurisdictional power, appeared in order to achieve a single objective: that of attaining the utmost independence in the exercise of control. In this way, those countries in which legislative power shone above the rest (Britain, United States, Canada, etc.) shaped a control body without any jurisdictional function, while others (France, Spain, Italy, etc.), in which the power of Parliament was subordinated to that of the Administration, granted jurisdictional functions to the external control body. Indeed, two different ways of arriving at the same result: re-establishing the balance between the powers in order to grant the utmost independence to whoever had to exercise the function of control over spending<sup>7</sup>.

So, all models can be equally efficient since what is really important is not so much their structure, their composition or their location as the status of organic and functional independence of the body called on to exercise the control function. Organic independence is achieved by sep-

arating it from the executive power, and functional independence by demarcating its competencies on the basis of technical specialisation, in such a way that it can analyse the management of public funds in accordance with the budget and pursuant to the parameters that report on public spending in order, later on, to recommend as it sees fit for improving the effectiveness, efficiency and the economy of public spending. All this is without receiving any orders or instructions or recommendations at all coming from any body or authority external to it.

Indeed, as the *Lima Declaration* states: “Supreme Audit Institutions can only effectively comply with their duties if they are independent of the institution being controlled and are protected from outside influences.”

In our case, the Court of Audit counts in auditing terms as a constitutional body dependent upon the Legislative Power which exercises its functions with complete independence and subject to the codes of laws (art. 136 of the Spain Constitution and 5 of the Organic Act of the Court of Audit).

Independence does not just lie in its location within the State organisation without any interference or outside limitations affecting other external bodies or authorities. It is also manifested in a series of guarantees relating to its functioning. So, there needs to be financial independence, which requires the drawing up of its own budget, within, of course, the needs and magnitudes imposed by the general economic policy of each country and, in all cases, having the necessary financial means, administered under its responsibility, for complying with its ends (art. 7 of the *Lima Declaration*), though, for the

*Organic independence is achieved by separating it from the executive power; and functional independence by demarcating its competencies on the basis of technical specialisation.*



<sup>6</sup> MEDINA GUIJARRO, J. “*The Link between the audit/control function and the jurisdictional function*”. I Encounter of the Courts of Audit of Spain and Portugal. Lisbon. 2003.

MEDINA GUIJARRO, J. “*The function of accounting trials of the Court of Audit as ‘its own jurisdiction’ in history and in the Spanish Constitution*”. In the book “*La Constitución de 1978 en su XXV Aniversario*” [“*The 1978 Constitution on its XXV Anniversary*”] Published by Bosch. 2003.

MEDINA GUIJARRO, J. “*Present and future of accounting trials of the Court of Audit*”. *Revista Española de Control Externo*. Nº 1. 1999.

MEDINA GUIJARRO, J. “*Material and formal aspects of accounting jurisdiction*”. Conference on “*Auditing of public spending*”. Spanish Inland Revenue Service. Institute of Fiscal Studies. Madrid. 1998.

MEDINA GUIJARRO, J. “*The jurisdictional function of the Court of Audit*”. University of Salamanca. May 2002.

<sup>7</sup> On this idea, see “*External control of public spending. Configuration and constitutional guarantee*”, by VALLÈS VIVES, F. Centre for Political and Constitutional Studies. Madrid. 2003.

sake of legality and transparency, notwithstanding being subject to the control mechanisms which each State has regulated by law since the non-existence of areas exempt from control is also an essential principle of any State with Rule of Law.

So, in Spain, the Court of Audit, pursuant to art. 6 of its organic Act, shall draw up its own budget, which shall be included in the General State Budgets, in an independent section, and be approved by the Spanish Parliament.

Likewise, the independence of the control body has the inevitable presupposition that its members are also independent<sup>8</sup>. Indeed, it is therefore necessary that the members of the control body, in other words, those who have to take the decisions, whether this be on a collegiate or unipersonal basis, should have a constitutional or, as appropriate, legal statute assuring them of their independence both towards the actual organisation and in the integral and exclusive exercise of its competencies<sup>9</sup>. To achieve this, it is necessary to define in detail the powers and procedures for exercising them that correspond to each of the members of the body, and, of course, their selection should also correspond to Parliament in that the latter is the representative of the popular sovereignty and guarantor of democratic legitimacy. They have to be chosen with the broadest possible consensus among all the parliamentary forces on the basis of their professional suitability to exercise the post, so that their skills and merits can provide them with the necessary capacity for solving matters pursuant at all times to technical criteria. The choice has to be subject to a mandate of defined duration and, if possible, not coincident with the mandate of those performing the tasks of government and, therefore, who are the managers on whom the exercise of the control will have to fall. During their mandate they have to enjoy irremovability, the main guarantee of independence,

so that, aside from cases of demise or voluntary resignation accepted by Parliament, removal of a post is only possible due to the occurrence of the cases previously set down in Law (incapacity, incompatibility and serious breach of the duties proper to the post). It also has to be known that they cannot accept orders, instructions or suggestions from any body or authority, and they shall furthermore refrain from practising any other professional activity, paid or otherwise, solemnly undertaking at all times to take on their functions, to respect the obligations deriving from their post and, in particular, the duties of dignity, honesty, discretion and impartiality.

In our case, the statute of members of the Court of Audit is contained in the Constitution itself, where it sets down that “they shall enjoy the same independence and irremovability and be subject to the same incompatibilities as Judges” (art. 136.3 of the Spanish Constitution) and likewise both the Organic Act (arts. 29 to 36) and the Functioning Act (arts. 21 to 26), both of the Court of Audit, contain the rules of development under the terms that have been expressed above.

With respect to the functioning and, specifically, with respect to prime function of Supreme Audit Institutions, namely, that of auditing the spending of the entire public sector, it is also necessary to set up a series of formal guarantees. So, the initiative for the audit has to come from the external control body, notwithstanding the fact that other bodies, such as Parliament or other similar institutions representing the people at the regional or local level, can share that competence. But in all cases it has to be the external control body which decides on the annual or, as the case might be, multiannual plan of audits to carry out, bearing in mind, certainly, any initiatives that are raised, though on the basis of objective criteria and risk that has previously been determined<sup>10</sup>.

*In any case, audits have to correspond to the most recent economic years and have to concern the most relevant public economic events that might have arisen during that year.*



<sup>8</sup> MEDINA GUIJARRO, J. “Independence and impartiality of the jurisdictional function of the Court of Audit of Spain». Revista Española de Control Externo. Nº 15. Sep. 2003.

<sup>9</sup> MARTÍN MARTÍN, P. “Reflections on the Court of Audit on the XXV Anniversary of the 1978 Spanish Constitution”. Revista Española de Control Externo. Nº 15. Sep. 2003.

<sup>10</sup> In the case of our Court of Audit, in the meeting of the Full Session of 22 January 2002 it approved the criteria for drawing up the programme of audits for 2002, which has also served for preparing those for the years 2003 and 2004.



Clearly, no matter how ambitious the plan might aim to be, it cannot exhaustively cover the whole of the public sector. Instead, it has to be realistic and resort to the procedure of sampling, selecting those areas of the public sector which, on account of their volume of spending, of their high social sensitivity, or even on account of their actual risk, can provide an accurate judgment on the quality and regularity of the economic operations of the public sector. In any case, audits have to correspond to the most recent economic years and have to concern the most relevant public economic events that might have arisen during that year<sup>11</sup>. This implies that the plan has to be flexible, providing for the possibility of change and even of emerging situations that need to be tackled unexpectedly, since, just as society does not understand that the control bodies dedicate their activity to previous years, nor is it easily understandable that in the face of certain situations of major social, economic or political relevance that might erupt with time, the opinion or “a posteriori” analysis of the national external control body can pay no respect to those situations.

In any case, the annual or multiannual plan of audits to be conducted has to be public, such that Parliament and, in general, society can know both what is expected of its control body and also, in the end, measure its degree of effectiveness. All this will contribute to emphasising the technical, objective and independent nature of the control institution, achieving what is known as legitimacy of exercise which will go hand in hand with its deserved social recognition.

In the Spanish case, the annual programme of audits is approved each year on the basis of certain objective criteria previously decided in a Full Session and afterwards brought before the “Congress-Senate Mixed Committee for Relations with the Court of Audit notwithstanding any audits which the latter has to conduct at the initiative of Parliament and, as appropriate of the Legislative Assemblies of the Autonomous Regions, according to art. 45 of Organic Act 2/82” (art. 3.a of the Organic Act and art. 32 of the Functioning Act, both of the Court of Audit).

Equally necessary precautions for functioning are the existence of technical procedures establishing, in a way that is stable and rigorous<sup>12</sup>, the patterns to follow in each case, with the due regulation of the powers of investigation of the Supreme Audit Institutions, which set down the right to demand the collaboration of all bodies in the public sector and the obligation on the latter to provide whatsoever statements, data, documents or reports that might be required of them by the control bodies in the exercise of their functions, attributing to them the legal authority to take coercive measures to ensure that those duties are performed (with regard to the Court of Audit of Spain, see for these purposes arts. 7 of its Organic Act and 30 of the Functioning Act); also considering as a necessary step the contradictory procedure with the audited body and with the audited manager so that the information that has to be provided for Parliament is technical, truthful and checked<sup>13</sup> (with regard to the Court of Audit of Spain, see for these purposes arts. 31 to 44, and in particular art. 44, all of them from the Functioning Act).

*In any case, the annual or multiannual plan of audits to be conducted has to be public, such that Parliament and, in general, society can know both what is expected of its control body and also, in the end, measure its degree of effectiveness.*



<sup>11</sup> In this respect, DE VICENTE MARTÍN, C. in his article “*Reflections on civil society concerning control over the public sector*”, published in the *Revista Española de Control Externo*, N° 16 (January 2004), regarding the need for audits to be quick, highlights the fact that: “*speed, or immediacy in time, of a control organ such as the Court of Audit exists when this body issues a audit report shortly after, or at least not very long after, the process of public management, or management of public funds (subsidies) by private individuals, has taken place. The general opinion believes that the Court of Audit could be faster. There are those who even think that the Court is very slow. It is sometimes possible to find opinions that have been published which speak of ‘the desperate slowness of the Court of Audit’.* In order not to commit any facile exaggerations, we will set down on record that speed is possible in general in all audits that do not start from the rendering of a public account”.

<sup>12</sup> As DE VICENTE MARTÍN, C. states in the same article, “*civil society expects the content of audit report to be rigorous, a requisite that audits of the Court comply with. Information is rigorous when it is based on data and offers conclusions that are coherent with the results obtained from the audit works, and it puts forward recommendations for improving the management which could possibly be taken on by the Administrations and other audited bodies.*”

<sup>13</sup> On the principle of contradictory procedure or of the mention of third parties by name within the scope of an audit procedure, I suggest reading the judgment of the Court of Justice of the European Union, of 10 July 2001, issued in the appeal by *ISMERI EUROPA S.R.L.* against the Court of Audit of the European Community.

In all cases, the procedures have to be continually adapted to the progress of science and techniques related to the control operations<sup>14</sup> (art. 13.3 of the *Lima Declaration*) and the result achieved with them, in other words the report, has to be drawn up in a way that is clear, precise and comprehensible (art. 17 of the *Lima Declaration*)<sup>15</sup>. As *Velarde Fuertes, J.*<sup>16</sup> states, one of the aims sought by the reports of the Court of Audit is to “to achieve, notwithstanding the requirements of a excellent work in accounting, economic and juridical terms, that said work that is exhibited should be not only comprehensible but also attractive for a large majority of the citizenry”.

To achieve this, the procedures have to be transparent and the reports have to be public. Nevertheless, it needs to be borne in mind that “*The communications media can interpret the results erroneously and exaggerate them and, as a consequence, thwart the purpose of the audit. Therefore, based on experience, it is recommended that the communications media be provided with suitable and balanced information backed up with factual evidence, taking on the form of, for example, a press release.*”<sup>17</sup>

In our Court, the drawing up of audit reports accords with a contradictory procedure, expressly regulated by Law and developed via certain Technical Rules of auditing, which end in Reports or Memorandums, Notes or Motions which are published in the official journal and sent to the Congress-Senate Mixed Committee for Relations with the Court of Audit, for political discussion and approval of the resolutions as it sees fit (arts. 28 and 31 to 44, all from the Functioning Act).

The supply of transparent economic information, in other words, information that is truthful, systematised, organised and comprehensible, constitutes the proper response which the institutions of democratic governments have to provide to requests for information from specialised and non-specialised public opinion. Easy access to comprehensible economic information improves the involvement of citizens in public life and it permits a better understanding of political decisions, and furthermore contributing to satisfying the growing demand for information from all social sectors and, therefore the promotion of investigation and innovation.<sup>18</sup>

*Audit reports have to be of use to all their recipients. They have to provide accessible, concise and updated information so that the Administration, Parliament and other interested bodies can use them to improve their economy, efficiency and effectiveness, and to accord more with legality.*



<sup>14</sup> On the future of the audit function of the Court of Audit of Spain, the reader is recommended to look at the reflections contained in the article by ÁLVAREZ DE MIRANDA, R. “*The auditing of the Court of Audit*”, published in the *Revista Española de Control Externo*, Nº 12 (September 2002), on certain aspects thereof, notable among which is, on the one hand, the fact that this function has to be directed towards determining breaches of the proper content of the economic-financial information of public bodies, so that this information can satisfy the aims of relevance and objectivity, incorporating into its practical application the new demands deriving from new conceptual framework of public accountability. And on the other, the limitations with which the audit function is tackled, deriving from the different degree of implementation of the General Plan of Public Accountability in the regulation which the Autonomous Regions have developed on this subject, along with the new scopes of auditing of the public sector, which were not present at the moment our basic rules were approved.

<sup>15</sup> In similar terms, in the article by MARTÍNEZ NOVAL, L. *The auditing of the Court of Audit. Auditing at the dawn of the 21<sup>st</sup> century*”, published in the *Revista Española de Control Externo*, Nº 12 (September 2002), he states that “*as far as it has to be do with the Reports which the Court of Audit draws up, it is possible to make an effort so that they are written in a comprehensible ‘language’, which, shunning the economic-auditing jargon and respecting the indispensable rigour, makes it possible for there to be an intellectual attraction for readers so that they can approach it. A document, no matter what subject it concerns, is attractive if, at first sight, it offers the potential reader elements that are striking in their presentation, with simplicity of structure and volume; on the other hand, there are visual characteristics that make it inadvisable “prima facie” to approach them.*” For its part, DE VICENTE MARTÍN, C. in his article “*Reflections on civil society with regard to control over the public sector*”, published in the *Revista Española de Control Externo*, Nº 16 (January 2004), adds that “*... civil society expects comprehensible information of the Court of Audit. Audit reports are comprehensible when, being juridically and economically rigorous, they can be understood not just by Parliamentarians (at whom the Reports are aimed) but also by citizens (indirect targets). Reports of the Court that can only be understood by experts and, sometimes, only by the person who originally wrote each section, cannot be classified as comprehensible. For that reason, the Court of Audit must take care over the language of its reports, which requires technical rigour to be made compatible with clarity of discussion, since all economic realities, no matter how complex they might be, can be explained with clarity.*”

<sup>16</sup> VELARDE FUERTES, J. *ABC Newspaper*. 20 October 2003. Spain.

<sup>17</sup> From “*Rules and directives for performance audit based on the Rules of Auditing and practical experience of the INTOSAI*”. Approved in the XVIII INTOSAI Congress. Budapest (Hungary). October 2004.

<sup>18</sup> From the Report “*Transparency in public audits and in economic information*”. Secretariat of State for Finance and Budgets of the Ministry of Economy and Finance of Spain. Madrid. 21 September 2004.

For that reason, audit reports have to be of use to all their recipients. They have to provide accessible, concise and updated information so that the Administration, Parliament and other interested bodies can use them to improve their economy, efficiency and effectiveness, and to accord more with legality. In that same sense, *“suitable audit reports on performance are useful for interested parties and comply with the set aims. They contribute to a better knowledge and to carrying out necessary improvements. They take the reader into account, are well structured, and their language is unambiguous. The results are presented in a way that is objective and balanced. The results and conclusions are displayed separately, and the facts are presented and interpreted in neutral terms. Different points of view and perspectives are represented, and the pertinent results, arguments and evidence is included and the reports are constructive: positive conclusions are presented.”*<sup>19</sup>

Shaped thus, the external control body becomes a structural element of the State that contributes to strengthening the exercise of political control and good management of public funds and resources, which promotes information for public opinion on the mode and manner in which public resources are spent, and finally, one that permits adequate exercise of social control.<sup>20</sup>

Indeed, the Supreme Audit Institutions have to have independence in their organisation and in their functioning, and offer reports that are precise, rigorous, reliable, clear, comprehensible and attractive, which technically assist parliaments in the exercise of political control and which reach citizens easily, helping to shape their free opinion regarding the exercise of the necessary social control<sup>21</sup>. Only in this way will the citizenry receive what they expect from us.

However, the general characteristics tackled so far, referring to both organic and functional independence which the

supreme institutions for external control of modern democratic states have to meet, can undoubtedly be asked of the Court of Audit of Spain and, as we have basically seen, they all have their faithful reflection at the constitutional level and also in its Organic Act 2/1982 and in its Functioning Act 7/1988.

Moreover, our Legal Code assigns the exercise of another function to the Court of Audit, in addition to the auditing of the whole of the public sector, which is a jurisdictional function whose content is to judge, necessarily, fully, exclusively and without postponement, the accounting liability incurred by those who are in charge of handling public wealth or effects.

This jurisdictional function, which accords with the historical tradition of our country, has its own nature with regard to the jurisdictional functions attributed to other Courts of Audit.

The specific nature in our case lies not so much in the different concept of jurisdiction, since our Court of Audit is set within the scope of the principal of jurisdictional unity which, pursuant to art. 127 of the Spanish Constitution, forms the basis of our jurisdictional organisation, but on the content of our jurisdiction, in other words, on the civil or patrimonial nature of the accounting liability.

For that reason it is difficult place our Court on a comparable basis to other external control bodies existing within the framework of Comparative Law in order to include it in a specific model, since the content of our jurisdiction, what is known as accounting liability, does not coincide with what shapes the scopes of the jurisdictions of other Courts of Audit where the sanctioning tone of the liabilities they demand takes precedence, compared to the markedly exclusive correcting and civil nature to be found in our Court.

In this sense, the material content of the jurisdictional function of the Court of

*This jurisdictional function, which accords with the historical tradition of our country, has its own nature with regard to the jurisdictional functions attributed to other Courts of Audit.*



<sup>19</sup> From “Rules and directives for performance audit based on the Rules of Auditing and practical experience of the INTOSAI”. Approved in the XVIII INTOSAI Congress. Budapest (Hungary). October 2004..

<sup>20</sup> In this same regard, VALLÈS VIVES, F. “External control of public spending. Configuration and constitutional guarantee”. Published by the Centre for Political and Constitutional Studies. Madrid. 2003.

<sup>21</sup> As MARTÍNEZ NOVAL, L. states in his article “The auditing of the Court of Audit. Auditing at the dawn of the 21<sup>st</sup> century”, published in the Revista Española de Control Externo, N° 12 (September 2002).

Audit consists, according to art. 2.b) of its Organic Act, of

*“the trial of the accounting liability incurred by those who are in charge of handling public wealth or effects.”*

In the words of our Constitutional Court (Ruling of 29 October 1996 and Judgment 187/1988):

*“the accounting trial... appears shaped as an activity of a jurisdictional nature..., which... consists of applying juridical rules to the act of accounting, issuing an opinion on whether that act accords with those rules and declaring as a consequence whether or not there exists any liability of the official, absolving or condemning him and, in the latter case, executing its decision coactively. All this via a judicial procedure regulated in Chapter Three, Title V, and developed in the Functioning Act of the Court, in which the objective, subjective and formal elements characterising a process appear.”*

In the same way, and also in the words of the Constitutional Court (Ruling of 16 December 1993):

*“accounting liability is a civil rather than criminal liability.”*

as is unequivocally revealed from the legislation in force. Moreover, the supreme interpreter of our Constitution goes on to say

*“the particular content of this variant of liability, which can be incurred by those who are in charge of handling public wealth or effects consists strictly of the obligation to compensate the damage and injuries caused (arts. 2.b and 38.1 of the Organic Act of the Court of Audit).”*

In my opinion, the above quotes offer a fairly precise idea of what the content is today of accounting jurisdiction, along with the nature and concept of this “*subspecies of civil liability*”.

To synthesise, the constituting legislator, as well as granting the function of audit on a supreme basis, also allowed the Court of Audit its own jurisdiction; but this is not a jurisdiction that arose *ex novo* in 1978. It is that which the Court has always held for judging the liabilities which we now call accounting and which cannot, nor must not, be confused with the control function over the public economic-finan-

cial management. The function of the accounting trial is the necessary corollary of rendering accounts and, in turn, it is in this rendering wherein lies the nature and essence of the Institution. Roots that cannot be more democratic and which are closely tied to principles that are very much of our times, as in the service of citizens and the transparency of the public task, since the heads of public bodies are no more than managers of outside interests, those of the social body, and as such they have to render accounts of their management to citizens.

But the civil and correcting nature of accounting liability is not the only aspect characterising the jurisdiction of our Court. The most singular characteristic of it is the radical separation between the audit function and the jurisdictional function. Both have a different nature and aim: on the one hand, the auditing function, of a technical nature, verifies the economic activity – revenues, spending and their budgetary connection – for the entire Public Sector (a formula that is used in art. 136 of the Spanish Constitution, as a general clause of competence of the Court), under the prism of principles making up what is known as good financial management, or, if preferred, those which, by application of art. 31.2 of the constitutional text, today govern over public spending with the sole and exclusive aim of reporting on it to Parliament, proposing as appropriate measures aimed at improving the public management. On the other hand, the accounting trial, of a jurisdictional nature, whose content is the requirement of accounting liability incurred by those who are in charge of handling public wealth or effects.

Both have a separate and independent functioning, such that the audit ends by informing Parliament and does not try to investigate any event at all of accounting liability, even if such has been detected, as occurs in practice, to the degree that auditing consists of inquiring or investigating an economic management that has already been carried out. Nevertheless, its purpose is not to detect such events but to conclude on how the management have been conducted and to recommend improvements for the future. For its part, our jurisdiction does not necessarily start with the audit activity; as well as that, there are also accu-

*In my opinion, the above quotes offer a fairly precise idea of what the content is today of accounting jurisdiction, along with the nature and concept of this “subspecies of civil liability”.*





sations from individuals, of the different managing offices of the Public Administrations, the reports of internal control bodies, steps taken by criminal courts and even the exercise of popular action using instruments that serve to commence the corresponding jurisdictional procedure. For such reasons, we can say that accounting jurisdiction does not hinder, nor distort, the exercise of the audit function of the Court. So much is this the case that it would be the same if the accounting jurisdiction did not reside in the Court of Audit. Indeed, we have to add that the existence of the accounting jurisdiction enriches the audit by adding on its advantages, the compensating and dissuading functions inherent to jurisdiction.

However, this radical separation between the two functions constitutionally attributed to our Court does not mean that there do not exist any relations between the two since, in all cases, this comes within the scope of the organs of the Institution, unipersonal or collegiate, which are held by the members of the Court.

In this way, the exercise of the audit function corresponds to the Full Session of the Court, (ex art. 21.3.a of the Organic Act) and, in this regard, it has competence for exercising the initiative (art. 45 of the Organic Act and 3.b of the Functioning Act); approving the programme of audits for each year and bringing them before Parliament (art. 3.a of the Functioning Act); being aware of their development and incidence, as well as the situation of examining and checking of audits (art. 3.b of the Organic Functioning Act); establishing the Technical Directives which the different audit procedures have to abide by (art. 3.g of the Functioning Act); and approving reports or memorandums, motions or notes setting down the exercise of the audit function, as well as measures to propose, as the case might be, for improving the economic-financial management of the Public Sector and bringing it before Parliament or the Local Administrations of the Autonomous Regions and the Full Sessions of Local Corporations.

The Full Session of the Court is made up of the President of the Court, the remaining eleven Audit Councillors and the Prosecutor. In this regard, the Full Session is made up both of the Audit Councillors assigned to the Audit Section and those

that have been assigned to the Trial Section, it acts with a constitution quorum of two thirds of its members and it adopts agreements by a majority of attendants (art. 21.2 of the Organic Act). Nevertheless, the legislation of the Court clearly causes the Audit Section and, especially, the Departments making it up, each of which is headed by one of the seven Audit Councillors of the Audit Section, to bear the weight of verifying the accountability, the examination and checking of the audits and of the economic management of the accountants which have to be submitted to the audit of the Court and dealing with the corresponding audit procedures in accordance with the Programme and with the Technical Directives duly approved by the Full Session of the Court.

For its part, accounting jurisdiction is exercised through the following jurisdictional organs: on the one hand, as unipersonal organs, the Audit Councillors, assigned to the Trial Section. The Trial Section currently also comprises the President of the Section, three Audit Councillors who are the heads of the three jurisdictional departments, which, assisted by the necessary technical administrative staff, along with the corresponding staff from the judicial secretariat, all have the same objective and territorial competencies assigned to them, such that cases are distributed to each of the Departments in chronological turn of arrival in the Section.

Moreover, as collegiate organ, the Chamber of Justice of the Court, which is presided over by the President of the Section and, as well as the President, also includes two Audit Councillors of the Trial Section, though always of course excluding the one who issued the decision in first instance forming the object of the remedy of appeal.

In the cases provided by the Functioning Act of the Court of Audit, extraordinary appeals of reversal and/or review can be filed with the Supreme Court (Contentious-Administrative Chamber 3).

So, the organisation explained here highlights the participation of the organs exercising accounting jurisdiction in the auditing work of the Court and, consequently, the relation that is produced between the two functions, though, I repeat,

*The auditing does not end with the accounting trial, as revealed by the fact that, in approximately 60-70% of cases nowadays, the jurisdictional proceedings of the Court commence via routes other than the audit function of the Court.*



the auditing does not end with the accounting trial, as revealed by the fact that, in approximately 60-70% of cases nowadays, the jurisdictional proceedings of the Court commence via routes other than the audit function of the Court.

From everything that has been stated, we can thus conclude that our Court of Audit exercises two functions, that of audit and the jurisdictional one, in an autonomous or separate manner, without either of them conditioning or interfering

with the other, but with both contributing to the effectiveness of the Institution in the exercise of its constitutional task of controlling management and public funds, for the sake of the constitutional rights of Spanish people to a public spending that is equitable, effective and efficient, not forgetting the requirements of subjecting the public powers to the principle of legality, which is an indisputable guarantee of our social and democratic State with Rule of Law.

## INTOSAI Professional Standards Committee

ANE ELMOSE

Advisor of the National Audit Office of Denmark

According to the Strategic Plan of INTOSAI (Goal 1), the purpose of the Professional Standards Committee is to promote strong, independent, and multidisciplinary SAIs by encouraging SAIs to lead by example and by contributing to the development and adoption of appropriate and effective professional standards. In the light of this mandate, the PSC Steering Committee has formulated 5 strategic goals for the period 2004-2007.



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- Develop a common framework for all INTOSAI professional standards to be presented at INCOSAI 2007.
- Conduct a survey on the present status of the INTOSAI professional standards and guidelines among SAIs (are they being used?) and on the need for new standards
- Establish a performance audit sub-committee and present the draft Terms of Reference to the Governing Board meeting 2006.
- Develop partnership with other external standard setters in order to facilitate knowledge sharing and corporation.
- Elaborate on a set of transparency and accountability principles.

### **A common framework for all INTOSAI professional standards**

The overall purpose of the framework is to give the members of INTOSAI and

other interested parties an overview and common understanding of the auditing standards and guidelines of INTOSAI. Furthermore, the framework should provide greater focus and attention on professional standards and raise the profile and status of INTOSAI's standard-setting process.

The framework comprises all documents endorsed by INCOSAI with the purpose of guiding the professional standards used by SAIs. The name **International Standards of Supreme Audit Institutions (ISSAI)** is used as a common name for these documents.

The framework contains 4 hierarchical levels, in accordance with the usual division of INTOSAI documents into four levels:

- **Level 1:** The Lima Declaration
- **Level 2:** The INTOSAI Codes which contain statements of values and principles guiding the daily work of the auditors. An example of a Code is the INTOSAI Code

*The overall purpose of the framework is to give the members of INTOSAI and other interested parties an overview and common understanding of the auditing standards and guidelines of INTOSAI.*

of Ethics. A Code of Independence will be presented to the INCOSAI 2007 for endorsement.

- **Level 3:** The INTOSAI Auditing Standards which contain the basic assumptions and principles for carrying out the audit work.

- **Level 4:** INTOSAI Implementation Guidelines which contain more specific guidance material on different subjects

The draft framework was approved by the INTOSAI Governing Board at their meeting in November 2006. Following a consulting procedure among all INTOSAI members, the draft framework will be presented to the INCOSAI 2007 for endorsement. For more information about the framework, please visit: [www.issai.org](http://www.issai.org)

**Survey on the present status of the INTOSAI professional standards and guidelines**

The PSC has started the formulation of a new mandate for the period 2007-2010. The survey on the present status of INTOSAI professional standards and guidelines plays an important role in identifying the areas in which PSC should invest its efforts in the years to come. The purpose of the survey is thus to get input from all SAIs on the following aspects:

- Application of professional standards and guidelines: Determination of which professional standards and guidelines are used by SAIs, and from which sources.
- Key differences between private and public sector auditing in different countries.
- Future development of INTOSAI standards and guidelines: Where should PSC concentrate our efforts in the future?

**PSC Performance Audit Subcommittee**

The establishment of a performance audit subcommittee, chaired by the SAI of Brazil, was approved by the INTOSAI Governing Board at their 54th meeting, November 10-11 2005. The approval included the following mandate for the subcommittee:

- Disseminate the INTOSAI Implementation Guidelines for Performance Auditing.

- Develop standards and guidelines for performance audit on the basis of the present INTOSAI Implementation Guidelines for Performance Auditing.

- Monitor the development and reforms of the public sector and continuously estimate the consequences for performance audit.

- Monitor the development of relevant theories, methods, evaluations etc. at universities and other relevant research centres and continuously estimate the consequences for performance audit.

The Performance Audit Subcommittee held its inaugural meeting in Brasilia, August 8 – 9, 2006.

**Partnership with other external standard-setters**

At the PSC Steering Committee meeting in Washington, May 2006, the members agreed on the following approach to the development of auditing standards:

*“INTOSAI’s guidelines should preferably be based on standards that are widely recognized among SAIs. By recognizing, utilizing and building on standards issued by other standard setting bodies to the maximum extent possible and appropriate, PSC will work to harmonize public sector audit internationally. INTOSAI will develop complementary guidance where there is a special need and/or a pressing concern in the SAI environment and will seek to influence international standards to address issues of particular interest to SAIs”.*

The cooperation with other standard-setters has primarily been taking place between IFAC’s International Auditing and Assurance Standards Board (IAASB) and PSC’ Financial Audit Guidelines Subcommittee (FAS), chaired by Sweden. The existing Memorandum of Understanding between the Professional standards Committee of the International Organization of Supreme Audit Institutions and the International Auditing and Assurance Standards Board of the International Federation of Accountants has been updated May 2006. At present, the PSC and the Institute of Internal Auditors (IIA) is negotiating about a similar agreement between IIA and INTOSAI/PSC

*The cooperation with other standard-setters has primarily been taking place between IFAC’s International Auditing and Assurance Standards Board (IAASB) and PSC’ Financial Audit Guidelines Subcommittee (FAS), chaired by Sweden.*



**Transparency and Accountability principles**

The SAI of France is currently chairing a project on the development of principles for transparency and accountability. The purpose is to establish principles for the transparency and accountability of SAIs based on the viewpoint expressed in the strategic plan of INTOSAI 2005-2010:

*“With due consideration to their mandates and governing legal frameworks, information about SAIs should as far as possible be readily accessible and relevant; its work processes and products should be transparent; it should communicate openly with the media and other interested parties; and it should be visible in the public arena. INTOSAI could do more to encour-*

*age transparency by developing a code for SAIs to adapt and apply, as appropriate, and by identifying and publicizing best practice in this area”.*

A set of draft principles will be discussed by the PSC Steering Committee at the next meeting, April 2007.

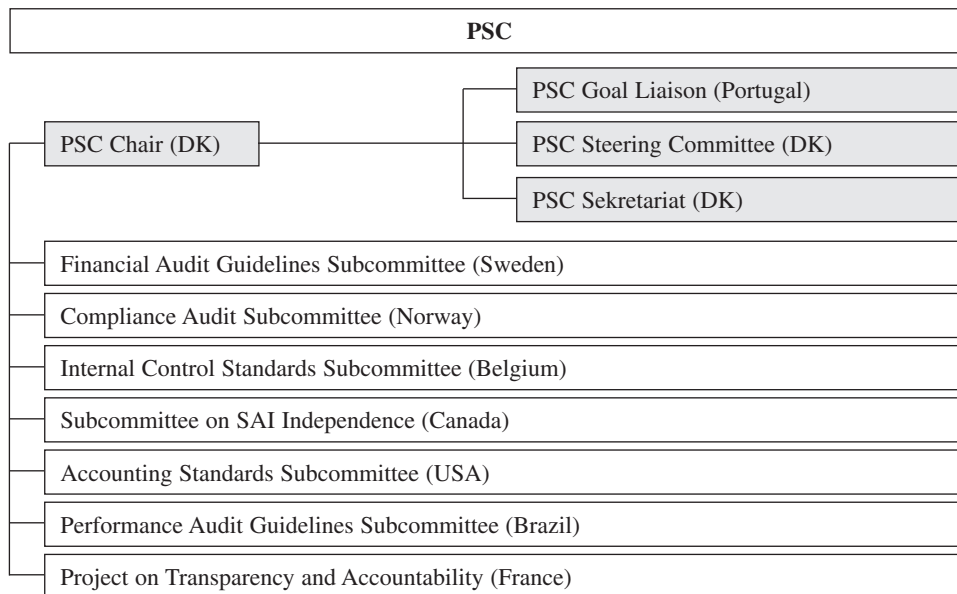
**The future**

Following the survey, the PSC Steering Committee will discuss a draft mandate for the period 2007-2010 at the next meeting in Bahrain, 23-24 April, 2006. For more information about PSC, the Subcommittees and the project, please visit the web-site: <http://psc.rigsrevisionen.dk/>

Fact box:

*The SAI of France is currently chairing a project on the development of principles for transparency and accountability.*

**Figure 1. Structure of the Professional Standards Committee**





## *The Albanian SAI confronting the integration challenges*

DEPARTMENT OF FOREIGN, PUBLIC RELATIONS AND AUDIT METHODOLOGY  
OF THE ALBANIAN SAI

The State Supreme Audit of Albania is institutionalized for the first time in 1925 and along this period, its legal framework has undergone continuous changes and adaptations as a result of the continuous work for the consolidation of this institution towards its modernization.

Nowadays, the State Supreme Audit of Albania continues effectively its transformation and confrontations of challenges in line with the universal principles of Lima Declaration, INTOSAI Auditing Standards or various EUROSAI guidelines, prestigious organizations in which our institution honorably adheres and actively participates in different Working Groups or ECA workshops, which in turn have demonstrated our auditors' professional capacities and values.

Another considerable and important achievement for the State Supreme Audit of Albania has been the close collaboration with international audit organizations as well as with some homologue audit institutions, among which, it is worth mentioning the bilateral agreements signed with Supreme Chamber of Control of Poland, Account Chamber of Russian Federation, NAO of Denmark and the State Audit Office of Hungary.

In this context, the management staff of the State Supreme Audit of Albania in collaboration with the UK NAO and European Delegation experts in Tirana have jointly outlined and defined the terms of reference for the Twining Project CARDS 2004 "Support for the State Supreme Audit", setting out its components, objectives and their achievement.

The Twining Project represents the main issues planned in the Strategic Development Plan for the period 2005-2008, adopted in collaboration with UK NAO experts.

This partnership between UK NAO, Netherlands Court of Audit and State Supreme Audit of Albania aims at assisting our SAI to accelerate the transformation process and develop its management capacities in order to run effectively the performance and regularity audits towards its integration in the European Union.

The Twining, as a key instrument for assisting the candidate countries institutions in order to meet the EU standards consist in the allocation of one or more civil servant employees of one member state to the candidate country administration for 20 months, assisting in the implementation of "acquis communautaire" (EU structure of laws and rules).

This project, besides the direct contribution to the participant auditors in enriching their professional knowledge, will be able to ensure a general institutional progress, its reformation in compliance with the set objectives, as well as with those defined in the bilateral agreements on corporation between the parties concerned.

In addition, this Twining Project responds to the objectives of the State Supreme Audit of Albania to implement the INTOSAI external audit standards and EU good practices, having as its main priority the support of its procedures, operations, legislative and communicative institutional aspects for the efficient and effective use of public funds.

*The Twining Project represents the main issues planned in the Strategic Development Plan for the period 2005-2008, adopted in collaboration with UK NAO experts.*

*In addition, this Twining Project responds to the objectives of the State Supreme Audit of Albania to implement the INTOSAI external audit standards and EU good practices.*



## *Peer review of the Swiss Federal Audit Office was a success*

THE SUPREME AUDIT INSTITUTION OF GERMANY

As a result of its peer review of the Swiss Federal Audit Office, Germany's SAI, the Bundesrechnungshof, gave a favourable assessment of high professionalism, care and objectivity with which the Swiss SAI performs its functions. The Bundesrechnungshof made recommendations on such issues as the choice of audit themes, the audit mandates, the executive agencies that operate under a regime of financial devolution and the provision of support and advice to the Legislature.

“Who audits the auditors?” is a frequently asked question. The Swiss Federal Audit Office (SFAO) raised this question as early as in the year 2000. In summer 2004, the Joint Finance Committee of the two Houses of the Swiss Parliament approved a peer review by the German SAI. The performance of such peer reviews by SAIs of their counterparts in other countries is a procedure recommended by INTOSAI. The peer review was designed to examine whether SFAO carries out its statutory mandate in an effective and professional way and whether the resources allocated to this internal audit function are adequate. At the same time, SFAO expected a technical assessment of its planning and work processes, the use of its resources, its knowledge management and advice about potential areas for improvement to achieve best practice. The peer review was not to develop an overall evaluation of public-sector audit and financial oversight mechanisms at the federal or other levels of government. The peer review was led by the President of the German SAI.

The Bundesrechnungshof issued a report on SFAO's performance. The German SAI concluded that SFAO was an effective tool for the external audit of the Swiss Federal Government and fulfilled its statutory functions. The German SAI found that a considerable portion of SFAO's audit resources is tied up by obligatory audit mandates of national and international bodies. It therefore recommended that ways of limiting these commitments should be considered in order to leave SFAO more scope for addressing new challenges. The German SAI went on

to say that staff resources were adequate and that, compared to other audit institutions, SFAO assigned a large proportion of its staff resources to audit work thus keeping the allocation of staff to administrative work at a minimum. The high productivity of the SFAO was highlighted by the number of audit exercises carried out each year in proportion to the number of audit staff.

The German SAI further found that as a result of the professional skills of SFAO's staff and its careful and objective approach to its work contributed significantly to the fact that SFAO enjoys a very favourable reputation with the audited bodies and the addressees of its work in the Legislature for the reliability, impartiality and integrity of its findings and conclusions.

The German SAI recommended developing a methodology for selecting audit themes based on risks related to the audited bodies and to the type of government operations. In the German SAI's view, an enhanced targeting of audit themes would give more weight to SFAO's audit findings and conclusions.

Finally, the German SAI found that the needs of Parliament, the Government and the public administration for objective, knowledgeable and competent analysis goes beyond the review of ex post audit findings. Therefore, the German SAI concludes that advice provided by SFAO about financial risks and potential savings could be of great benefit, if they were used as an input on which decisions are based. To enable SFAO to perform such a support function would require arrange-

*“Who audits the auditors?” is a frequently asked question.*

*The German SAI concluded that SFAO was an effective tool for the external audit of the Swiss Federal Government and fulfilled its statutory functions.*



ment under which SFAO could use an adequate portion of its staff resources for investigating key issues on a more timely basis. Furthermore, general conditions would have to be created that allow adequate matching of the need for independent advice and SFAO's scope for action. An essential requirement was to effectively safeguard SFAO's independence in the face of changing demands as to the performance of its functions. If SFAO's advisory role were enhanced, its independence

would become even more important than it is now.

As a result of the peer review, SFAO has shifted the emphasis of its work to cross-cutting matters to strengthen its support to Parliament. Therefore, it is intended to identify suitable ways of improving SFAO's advisory work for the Legislature.

For an abridged report of the peer review and further information please refer to the Swiss SAI's website at: [www.efk.admin.ch](http://www.efk.admin.ch).

*As a result of the peer review, SFAO has shifted the emphasis of its work to cross-cutting matters to strengthen its support to Parliament.*

## *Priorities of the State Audit Office of the Republic of Latvia in 2006 - training of personnel and recruiting new professionals*

### THE STATE AUDIT OFFICE OF THE REPUBLIC OF LATVIA

State Audit Office of the Republic of Latvia is an independent collegial supreme audit institution, a key element of the State financial system serving public interests by performing financial, performance and legality audits.



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Our mission is to promote effective and lawful utilization of public funds (taxpayers' money), development of finance management and responsibility for funds utilized, fair and transparent decision making process in the public sector.

Our vision is to help the state to spend and manage its resources wisely.

The values of the State Audit Office are responsibility, transparency and development.

State audit office is persuasively becoming a modern and effective institution that clearly realizes its objectives and achievable results both for short and long term.

The last two years for the State Audit Office should be recognized as a period of changes and reforms. In order to significantly improve the quality of State Audit Office work and to turn it into professional supreme audit institution acting in conformity with international audit standards and enjoying the loyalty and respect of the society, first of all, it was necessary to

identify the most important fields of activity that need to be improved, and to define the directions and concrete tasks for further activities.

In the early 2006 we have approved a Strategic Development Plan for four years to come. The plan has been worked out in order to define the State Audit Office objectives and results. In the plan, three important strategic development areas are defined:

- Strengthening the role of the State Audit Office as an external auditor;
- Ensuring the sustainable development of State Audit Office;
- Planning and management of the State Audit Office resources.

The most important part of the State Audit Office system is people performing audits, giving recommendations for the elimination of shortcomings detected. This is why we have defined the vision of the Human resources Strategic Development Plan 2006-2009 as to secure State Audit

*The values of the State Audit Office are responsibility, transparency and development.*

Office with well-educated, professionally competent, skillful and motivated employees able to timely and qualitatively implement certain strategic objectives and tasks of the State Audit Office, as well as to form an environment where the employees, in conformity with their work quality and quantity, would have adequate salary and a possibility to fully develop their knowledge, habits and skills.

State Audit Office has marked two strategic directions of human resources development: human resources planning and management; promotion of the State Audit Office employees' professional growth and development.

This year we have summarized the information concerning the implementation progress of Strategic Development Plan. For 2006, it was planned to implement the total of 48 activities with fixed terms, from which 39 have been fulfilled in due time and appropriate quality, and for the rest the implementation terms have been postponed to year 2007.

While summarizing the information, the Strategic Development Plan has been actualized by setting new objectives to achieve, including the objectives concerning human resources. For instance, State Audit Office has set a long-term objective to attract highly skilled employees, providing that at least 80% employees during the annual work performance evaluation have received A or B.

#### **Providing State Audit Office with appropriate employees**

##### *State Audit Office employees' recruitment process*

The main value of the State Audit Office is its employees; that is why, in order to guarantee duly, objective and qualitative employees' recruitment that would correspond to needs and objectives of the State Audit Office, a procedure defining the main principles of recruitment and the organization of recruitment process has been developed by the State Audit Office. This is one of personnel management processes helping to achieve one of objectives set – to provide the State Audit Office with educated and well-informed employees.

Our main employees' recruitment principles are as follows:

- appropriate competence;
- timeliness;
- objectivity;
- quality;
- transparency and preciseness;
- unified demands, criteria, standards;
- publicity and accessibility of information.

The Personnel Division is constantly supervising the staff vacancies and informs Auditor General about existing and planned vacancies. In compliance with this, the Personnel Division in collaboration with the head of the appropriate structural unit and Auditor General analyzing the vacancy:

- considers whether this position is necessary or it is possible to broaden the competence of other employees;
- identifies and specifies job description, liability, amount of work and other demands concerning the position;
- defines the demands concerning necessary competence.

Depending on the results of position analysis, the Personnel Division works out or specifies the demands concerning position qualification, job description and criteria of position evaluation (competences).

Mutual collaboration between the Personnel Division and the heads of the units allows defining the competences and criteria necessary for the vacancy. Having properly identified the necessary position criteria, it is easier to find the most appropriate candidature for the position, thus saving financial and time resources.

In the process of employees' recruitment different means of applicant attraction can be used; for instance, posting the job advertisement in the Intranet, website and mass-media; placing advertisements in educational institutions and professional organizations, as well as using personnel selection companies' databases. According to our experience, vacancies' advertising in the Internet and mass-media nowadays is the most effective means of attracting job seekers' attention. As one of the actions for process improvement in future it is planned to introduce and use an

*For 2006, it was planned to implement the total of 48 activities with fixed terms, from which 39 have been fulfilled in due time and appropriate quality, and for the rest the implementation terms have been postponed to year 2007.*

*Mutual collaboration between the Personnel Division and the heads of the units allows defining the competences and criteria necessary for the vacancy.*





internal database of employees that would help to find necessary employees in proper time.

To apply for a job an application should be submit to the State Audit Office. We have worked out a template for application that would give the Attestation Commission all the necessary information and let the applicants to be assessed correctly and in accordance with a unified system.

The applicants are being selected and invited to the interview by Attestation Commission. For certain positions the Attestation Commission is authorized to define the way of organization of applicants' knowledge examination (tests, practical assignments). If necessary, the Personnel Division can verify the applicant's references from former working places. Verification of references is an effective method of determining the applicant's working history, since the information obtained usually is true and objective. Taking into consideration the fact that labour market resources in Latvia are limited, an entrepreneur is not interested in giving untruthful information about his former employee, since it can ruin the enterprise reputation.

During the year the State Audit Office plans and implements at least two great audit personnel recruitments – in spring and in autumn. As a result, mostly highly motivated high school graduates eager to materialize themselves in the field of audits, are being recruited. In 2006 the State Audit Office has recruited 67 employees; moreover, it was possible to attract the private sector employees with certain experience in the field of audits. This fact has in total increased institutions' work capacity and improved the working results.

After the interviews, the Attestation Commission, having agreed upon a candidature and justified their choice, makes the decision concerning the selection of an applicant. On the basis of this decision Auditor General hires the applicant, having defined a probationary period.

*Employees' probationary period organization*

In order to ensure the successful start of new employees' work, as well as to duly evaluate their conformity to the posi-

tion, State Audit Office has developed and introduced "Procedure for Organization of Probationary Period for New Employees". In order to achieve the objective, the direct manager has to perform a lot of important tasks:

- to give the employee clear and comprehensible work tasks;
- to ensure the feedback by organizing regular discussions;
- to make the employee realize the importance of work he/she performs and his/her contribution to the achievement of the total aims.

Control and assessment of the employee's work are made during the whole probationary period. The probationary period task and work performance evaluation form should be filled in. In this form one should define the new employee's work tasks and give the evaluation of the results. The employee's work tasks during probationary period should be connected with tasks defined for the structural unit and sector (division), taking into consideration a particular job description.

During the first year the new employee receives mentor's help; the mentor should be able to give professional advice and recommendations. Mentor's work is voluntary and, in order to become a mentor, one should correspond to the following criteria:

- having worked at the State Audit Office for at least six months;
- holding the same or higher level position as compared to the new employee.

Training and support of an employee during probationary period

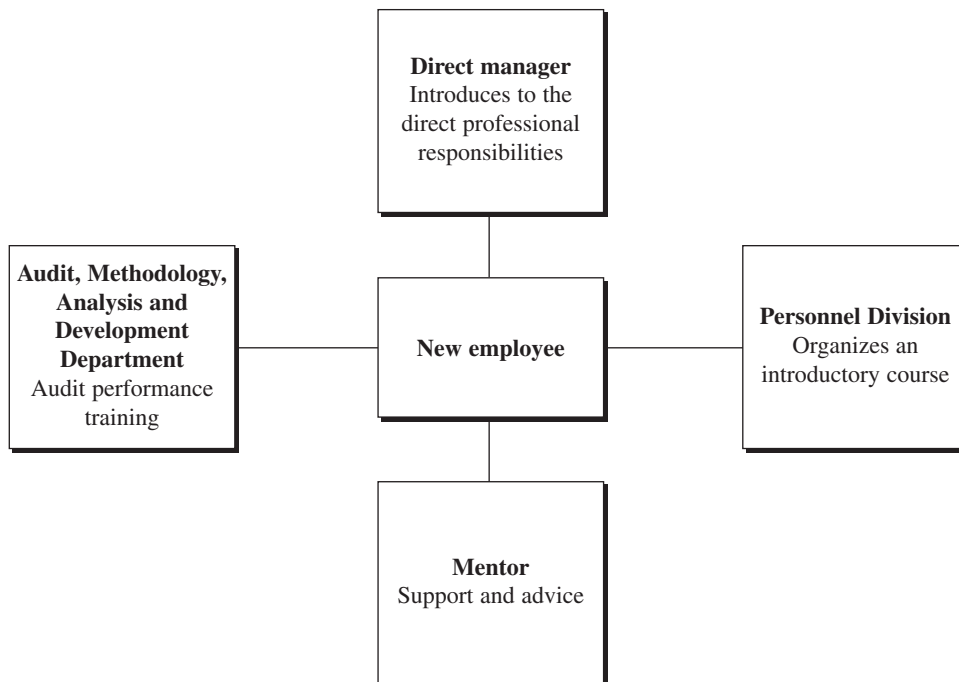
During the probationary period the Personnel Division provides for the new employee's successful coming into the performance of his/her professional responsibilities, thus helping the direct manager and keeping up to the probationary period organization, ensuring the documentation concerning the employee's probationary period and organizing the training process.

On the basis of the probationary period task and work performance evaluation form, the decision concerning the conformity of the employee to the work he/she is in charge of and concerning the continua-

*In 2006 the State Audit Office has recruited 67 employees; moreover, it was possible to attract the private sector employees with certain experience in the field of audits. This fact has in total increased institutions' work capacity and improved the working results.*

*The probationary period task and work performance evaluation form should be filled in. In this form one should define the new employee's work tasks and give the evaluation of the results.*





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tion or termination of employment relationship, should be made.

Having passed the probationary period, the employee, together with the direct manager, works out the individual tasks for the year.

### Defining individual tasks

For the State Audit Office to successfully fulfill its mission and to achieve one of the most significant objectives – to become a modern supreme audit institution which, due to its qualitative and effective activity, has deserved the loyalty of the society, the auditees and the international organizations, - each State Audit Office employee every year should define his own individual tasks and objectives.

Individual tasks for every employee are defined already on the following day after the end of his/her probationary period. Thus the State Audit Office secures the continuity of the employee's tasks, switching from probationary period tasks to individual (constant) tasks. The tasks set by the employee and their performance is most important criteria for annual assessment of employees. The tasks allow agreeing upon objective assessment criteria in advance.

Individual tasks for every employee are designated taking into consideration

the job description and individual competences, as well as their conformity to the objectives set for the structural unit. The necessary training and development are also considered in individual task plans, in order to make the work as qualitative as possible, but, nevertheless, the most part of attention is paid to the work results, not only to contribution (for instance, necessary resources).

For an employee and a direct manager to designate individual tasks more easily, they should keep up to the basic principle of SMART method that allows defining specific, measurable, achievable, result-oriented significant and time-concerning tasks.

It is important to make the tasks being updated – an employee and his/her manager should revise the tasks at least once per six months. Tasks' revision can be made more often, in case of important changes in work conditions or apparition of problems of personal nature.

### Assessment of employees' work performance

In order to guarantee the effective activity of the State Audit Office, it is necessary to regularly and objectively assess the employees' work performance. In order to

*It is important to make the tasks being updated – an employee and his/her manager should revise the tasks at least once per six months.*

make it successfully, the State Audit Office has introduced an employees' work performance assessment system that helps to evaluate the existing employees' competences and to promote the development of new competences. In 2006 the State Audit Office has named among its most important tasks broadening the knowledge of managers in the field of human resources management and development, as well as in the field of audit process supervision and the quality assessment of audits performed.

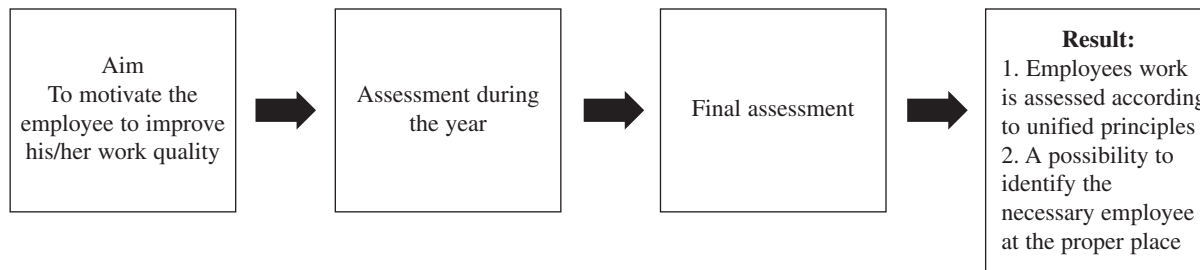
Work performance assessment is a system defining the principles of employees' motivation to improve the quality of their work, thus promoting the improvement of the quality of the whole State Audit Office work. Assessment, in its turn, is a process that, on the basis of previously defined employee's individual tasks, the results of their performance and the competences necessary for the position, helps to assess the employee's work within a certain period.

- work planning and organization;
- personal qualities;
- creative approach and strategic thinking;
- managerial skills.

For every competence its own criteria are being determined, taking into consideration the tasks specified for each position. Thus, the employees' work, according to the assessment criteria determined, can be assessed as corresponding to four categories - A, B, C and D. **A** – exceeds the demands specified for the position; **B** – corresponds to the demands specified for the position; **C** – partially corresponds to the demands specified for the position; **D** – does not correspond to the demands specified for the position.

Assessment process in the State Audit Office

*Their task is to prepare a structural interview with every employee, also analyzing the results of the employee's examination and practical assignment.*



The aim of employee's work performance assessment is to guarantee the consistency of the assessment process and usage of unified standards during the assessment process.

In the State Audit Office all the employees are being assessed, excluding the State Audit Office Council, employees of the Office of Auditor General and employees working physical work.

The assessment process consists of two parts: assessment during the year and final assessment. The criteria taking into consideration during assessment include the following main competencies:

- education;
- professional experience;
- professional competence and intellectual effort;
- communication skills;

For the work performance assessment during the year, the employee starts with assessing his/her own work according to the assessment categories, then the direct manager evaluates the employee's assessment and during their mutual discussion affirms it or makes amendments to the assessment form.

Then the assessment form is approved by the structural unit head and Auditor General. For the final assessment, the employee, in addition to what was determined during the year, takes an examination to test his/her knowledge and the analysis of a practical assignment.

In order to make the assessment process more impartial and to guarantee its transparency, for the final assessment independent assessors are involved. Their task is to prepare a structural interview with every employee, also analyzing the results of the employee's examination and

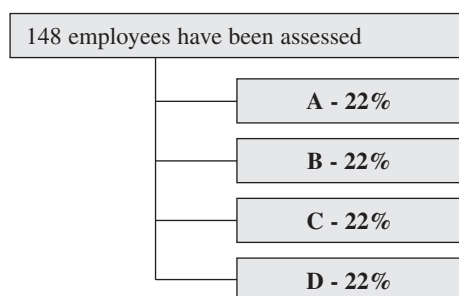


practical assignment. Depending on final assessment result, Auditor General can decide whether to promote the employee, to increase his/her salary, to give him/her an extra leave (up to five working days).

If the overall assessment of an employee is D, Auditor General makes a decision on working out an action plan for the employee's individual development promotion, including theoretical and practical training, as well as giving appropriate tasks for the direct manager, in order to guarantee the conformity of the employee to the position held (qualification degree). If the assessment D has been received two times in succession in any of the assessment parts, and the action plan for the employee's individual development promotion has not been fulfilled, the Auditor General can make a decision concerning the demotion of the employee or the termination of labour relations.

During the last two years a great degree of employee turnover can be observed. Its reason is the introduction of work performance assessment process and high demands concerning the employees' competences and qualification. As a result, the overall performance of the State Audit Office work has improved.

Employees' work performance assessment in 2006



**Employee's qualification improvement and training**

State Audit Office, in accordance with structural unit tasks and employees' stated individual tasks, has decided upon the necessary training for each employee. The State Audit Office in short time period has fulfilled large-scale training of employees within a Twinning project implementation, by involving private sector service providers, as well as the State Audit Office

employees. In 2006, the State Audit Office has spent 84500 lats (equal to 120 700 euro) for training its employees which is approximately 450 lats (equal to 643 euro) per employee.

The aim of the training is to improve the State Audit Office work quality, efficiency, personnel professionalism and employees' motivation, as well as to guarantee rational utilization of resources.

The main principles of training organization are as follows:

- systematic planning of training;
- topicality and relevance;
- training validity;
- purposefulness;
- availability of necessary training;
- individual approach;
- culture of organization promoting personnel development;
- education of new employees;
- active support of direct managers and structural unit heads;
- employees' support and collaboration;
- feedback providing.

The necessity of training is realized on the basis of priorities and objectives of Strategic Development Plan, including topical events, employees' competence and individual training needs. In order to provide a unified approach to the State Audit Office employees' qualification improvement and training organization, training programs are developed. In these programs, the main topics and questions for the employees to master are defined, as well as a desirable quantity of hours per year that an employee spends for training. The Personnel Division revises and actualizes the training programs depending of the work performance final assessment results.

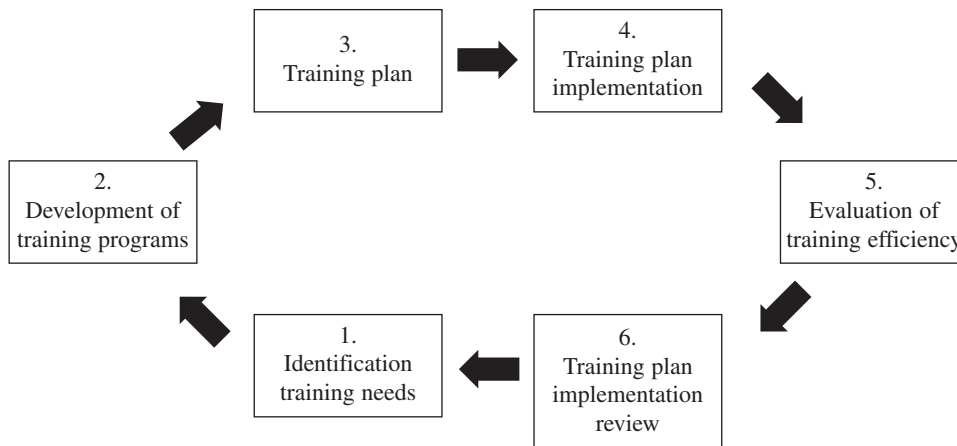
On the basis of training needs summary, the Personnel Division develops a training plan for the year to come. The training plan topics are grouped as auditing work related training, supporting units work related training; personnel training, management knowledge training, information technologies, foreign languages and other courses.

Training organization cycle

*The Personnel Division revises and actualizes the training programs depending of the work performance final assessment results.*







Training is divided into external (training provided by external trainers), internal (training is provided using State Audit Office internal resources) and training provided within international projects (training is provided by foreign experts and consultants in collaboration with State Audit Office internal resources). After the training, an employee within three days submits a copy of training certificate to the Personnel Division for its registration and adding to the personal file of the employee. The Personnel Division summarizes all the training courses of an employee registering the information in the personal file account system. In 2006 auditors used on average 110 hours for their training and the supporting personnel - on average 46 hours per employee.

The training is analyzed in order to evaluate its purposefulness in accordance with the State Audit Office priorities. After the implementation of training plan, the Personnel Division performs its implementation evaluation including the following criteria:

- training quality;
- trainer's conformity to certain general and specific demands;
- changes of employees' qualification;
- work performance assessment results and their changes in relation to the employees' training passed;
- efficiency of employees' motivation system;
- employees' activity within the training courses;
- effectiveness of expenditure;
- information and experience exchange system.

During 2006 the processes of employees' recruitment, training and work performance assessment have been improved, thus providing the individual contribution of every employee and the overall performance of the State Audit Office work. Continuing the improvement of professional competence the priorities of personnel management for 2007 are development and implementation of training programs for auditors and managers.

*The training is analyzed in order to evaluate its purposefulness in accordance with the State Audit Office priorities.*



# *The Court of Accounts of the Republic of Moldova – a pillar for Public Accountability*

GHEORGHE COJOCARI

Member of the Court of Accounts of the Republic of Moldova

This article gives an overview of the development direction taken by the Moldovan Court of Accounts and indicates some key messages worth considering for the relation between a Parliament and an SAI when striving for becoming a Well Performing Audit Institution.

A modern democratic society relies on a system of checks and balances. The four most important areas for those are:

- *Legislature* - the Parliament needs a functioning scrutiny including an external audit system to determine whether or not the Government has reported and executed the budget in line with the intentions, under good internal control and in a lawful way.

- *Executive* - The Government needs to set up a financial control structure, which ensures that the authorities under their jurisdiction report and carry out the budget in the intended way.

- *Market* - The need for the State to organise and enforce prerequisites for a well functioning market and defend the income side of the state budget.

- *Judiciary* - The need for an independent and well functioning Law Enforcement and Judiciary.

It is thus clear that *the Legislature needs different functions* to help them follow up on whether or not the *Executive* carries out the decisions taken by the Legislature in line with its intentions. The Legislature should also hold the Executive accountable for shortcomings, breaches etc. One important function is the Supreme Audit Institution (SAI).

The importance of a well functioning Parliamentary oversight and an effective SAI has been acknowledged in the agreement between EU and Moldova - the basis for the further programming of the community's financial assistance - as both a principle and a condition.

The INTOSAI Lima Declaration of Guidelines on Auditing Precepts (1977)

provides a clear basis for the role, mandate and task of an SAI. According to the declaration a basic prerequisite for a well functioning SAI is a sufficient legal framework guaranteeing the SAI's *independence* from both the Executive and the Legislative powers. This is internationally recognised as an indispensable feature for the confidence in the SAI.

## **A Well Performing SAI should:**

- fulfil its role as an *independent verifier of economic and performance information as well as the status from legality and economy, efficiency and effectiveness point of view* in the chain of command: Agency – a Ministry - the Government and the Parliament;

- promote high standards on transparency, accountability and integrity in financial management and performance of public administration; and

- have well-developed *follow-up systems and procedures* to promote action on audit findings and recommendations by the parties concerned - the auditees, the Government and the Parliament.

**The Court of Accounts (CoA)** was established in 1994. Up till now the CoA basically has been a classical east European Control body carrying out compliance control, focusing on individual transactions, with the main objective to punish individual wrong-doers. During 2006 a Strategic Development Plan has been adopted with the objective to reform the CoA into a modern "Well Performing SAI" in accordance with internationally recognised audit standards and best European practice. A

*The importance of a well functioning Parliamentary oversight and an effective SAI has been acknowledged in the agreement between EU and Moldova - the basis for the further programming of the community's financial assistance - as both a principle and a condition.*



number of donors have given support to the CoA in assessing, recommend and assist in establishing the way forward. In the implementation of the SDP the Swedish National Audit Office will take on the role as institutional partner to the CoA, providing professional assistance in key areas. Additionally a World Bank trust fund is foreseen to make important contributions. One important part of the project is the current drafting of a new Law on the CoA expected to lay the foundation for a modern external audit institution.

Important **Strategic Issues** for the Parliament to address in the near future are:

- to secure a sufficient legal framework around the CoA giving the institution the best possible prerequisites to fulfil its role and mandate as an external audit institution;

- to develop the interactions between the Parliament and the CoA in order to find the most efficient forms to support the Parliament in its task of to hold of the Government accountable for the execution of the Budget; and

- to develop a dialogue between the Parliament and the Government dialogue in the discharge procedure based on the CoA reporting.

Some key messages for the Parliament and the CoA to consider in this are:

**The Parliament should** enhance its working relations with the SAI and its oversight of government activities including:

- Designate a Parliament committee to oversee SAI finances (without interference from the government) and to review - but not direct - its performance. The Parliament should ensure that the SAI itself is subject to external independent audit in accordance with applicable standards;

- Specify clearly the types of audit reports to be presented to Parliament, but be selective and leave the task to the discretion of the CoA;

- Inform the SAI of Parliament interests, including suggested audit topics, but leave final decisions on audit priorities to the CoA;

- In using the CoA's work and in overseeing the government, it is important to establish rules for the operation of Parlia-

ment committees and provide them with adequate staff support; and

- Ensure that the appropriate Parliament committee takes prompt cognisance of CoA audit reports.

At the same time it is important that **the CoA:**

- Write audit reports in a clear and concise, fair and factual manner, avoiding political statements;

- Give appropriate - but not exclusive - consideration to Parliament concerns in setting audit priorities;

- Secure that the audit will add value in the process of developing the Public Financial Management and Control in line with international agreements;

- Be selective in deciding which audit reports to submit to Parliament by sending only those reports which clearly merit the attention of the Parliament and which include a clear statement of why the report is being sent to Parliament; and

- Follow-up actively and methodically on previous audit findings and inform Parliament of any patterns of inaction on important problems.

With this focus a good base will be founded enabling the CoA to contribute to a better Parliamentary oversight; the development of the Government control system; and an effective implementation of budgets and policies.

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# *Experience and Knowledge Gained from Audit of Implementation of Program Budgeting in the Slovak Republic*

MARIÁN PALKOVIČ  
JÚLIUS TUŠ

The Supreme Audit Office of the Slovak Republic

The Slovak Republic recently joined the countries implementing program budgeting as an instrument for reinforcing strategic planning and management. The transition to program budgeting is a general tendency in the most of the developed countries and is being gradually implemented in the most of the OECD member countries.

Program budgeting links the priorities of the government with budgetary expenditures and its aim is to improve the decision-making process. This entails the increased responsibility of the administrators of budgetary chapters for budgeting and its transparency for the public from the perspective of the assessment of the purpose and the ultimate effect of the use of public funds.

The Ministry of Finance of the Slovak Republic initiated the implementation of program budgeting in the budgetary process of the Slovak Republic as early as the end of the 1990s. The introduction of this new results-oriented budgeting system was one of the aims of the public finance management reform in the Slovak Republic, implemented with the significant contribution of the World Bank.

Under the pilot project in 2001-2003, the program budgeting methodology was gradually further refined and improved and first budgetary chapters started with their program budgeting in 2002. During this period the intention was to lower, based on previously gained experience and knowledge, the number of projects approved by the government and integrate the budgetary sources from the Structural Funds, the Cohesion Fund and other EU funds into program budgeting structure. It was in 2004, when almost the entire budget was approved using the program budgeting structure for the first time, representing 90% of its expenditures. In 2004, the obligation to compile drafts of budgetary chapters, including the proposals of

targets and aims of the programs was enshrined in the Act on Budgetary Rules of Public Administration. The Ministry of Finance of the Slovak Republic issued a methodological guide for this area by which it regulated the procedure of the administrators of budgetary chapters and organisations under the competence of the administrators of budgetary chapters. The methodological guide covers the whole budgetary process in terms of preparation, implementation, monitoring and evaluation of the programs. The Ministry of Finance also issued a manual to the guide containing specific examples of correctly and incorrectly set targets, objectives and quantifiable indicators.

IT support of program budgeting was implemented in the form of the Budgetary Information System, which is a comprehensive information system for preparing and managing the state budget. The Treasury system – ensuring mainly the implementation of the budget of public administration entities, maintenance and management of clients' accounts, execution of payments and management of the state debt – started with the execution of payments using the program budgeting structure on January 1, 2006.

In 2006, the Supreme Audit Office of the Slovak Republic carried out audits of 18 administrators of budgetary chapters aimed at compliance with the principles of program budgeting in order to point to untapped potential through this new form of budgeting. The purpose of the audits was

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to evaluate the program structure, the feasibility of targets and objectives of the programs and their implementation, as well as adherence to the established quantifiable indicators.

The improvement of the ultimate effect of the use of public funds through the introduction of program budgeting can be considered a long-term objective. Therefore, at this stage, the audits were aimed mainly at compliance with the procedural issues of the preparation, implementation and assessment of the program budgets in 2005 and in related areas in 2004 and 2006 as well.

The auditors had to take into account, as early as during the planning stage of the audit tasks, the following main principles of audits of programs:

- replacement of traditional audits of inputs by audits of outputs;
- verification of non-financial outputs;
- verification of results and indicators used to measure performance;
- evaluation as to whether the reported fulfilment of quantifiable indicators corresponds to the reality;
- evaluation of deviations, if any, and identification of underlying causes;
- verification whether the quantifiable indicators can serve as an instrument for monitoring and assessment of objectives;
- formulation of programs in direct connection with the objectives and whether these are verifiable and cost effective;
- evaluation whether the set objectives are concise, measurable, specific, unambiguous, realistic, verifiable and relevant to organisational units of the administrator of the audited budgetary chapter.

The Supreme Audit Office carried out audits aimed at compliance with the principles of program budgeting during the implementation of budgetary chapters of the Supreme Court of the Slovak Republic, 13 ministries and another four central authorities of the state administration. The selection of a quite large sample of the audited entities (more than 50% of all administrators) allowed for the generalisation (with small deviations) of gained experience and knowledge to other budgetary chapters of the Slovak Republic.

During the planning of audit tasks, the Supreme Audit Office of the Slovak Republic asked the audited entities for self-evaluation of the program structure of the respective chapters for 2005 and, if necessary, also in the following years and to answer the questions in a questionnaire. These contained mainly more detailed information concerning the creation of the program structure of the budgetary chapter in question, responsibility for its implementation, spending the funds on various items of the program structure, transfer of the unused funds to the next year etc. On the basis of this information, the audit sample was selected for individual budgetary chapters.

On the basis of knowledge gained from the audits it is possible to state that the most important benefit of the program budgeting in Slovakia lies in the considerable improvement of information on the allocation of resources from the state budget. The transparency of the use of funds from the state budget has improved considerably, which is one of the preconditions for more efficient spending of funds. The stabilisation of the program structure of the budgetary chapters, which in 2005 consisted of 70 programs and inter-departmental programs, has also been positively assessed. During the preparation of the budgets for 2005 and 2006 almost all budgetary chapters maintained continuity of basic items of the program structure comparing to the previous year.

However, audits have also revealed some negative findings. In some budgetary chapters the total amounts of expenditures set as the binding indicators for the respective programs have been amended by budgetary measures of the Ministry of Finance of the Slovak Republic in a manner that considerably increased or decreased these amounts. The transfer of such funds did not affect the achievement of the set objectives. However, this indicates that the objectives had not been connected sufficiently with the funds allocated to relevant programs.

The administrators of the respective budgetary chapters under their powers granted by law often transferred the funds according to the current needs of individual units, which was also reflected in the number of fiscal measures taken and in transfers of funds made. In one case, al-

*The improvement of the ultimate effect of the use of public funds through the introduction of program budgeting can be considered a long-term objective.*

*The transparency of the use of funds from the state budget has improved considerably, which is one of the preconditions for more efficient spending of funds.*



most 24% of the total amount of the budgetary chapter approved for 2005 had been transferred. Such significant transfers within the approved budget indicate that at the budgetary-planning stage the realistic cost requirements of programs had not been taken into account optimally.

In some cases the funds have not been broken down and drawn to an extent that corresponds objectively to expenditures under various programs and/or sub-programs or their elements. These mainly covered the personnel or energy costs aggregated by the administrators of budgetary chapters under a budgetary line of the program structure that ran counter to the principle of public transparency. This is true particularly from the perspective of the assessment of the purpose and the ultimate effect of the use of budget appropriations.

In 2004 and 2005, the administrators of several budgetary chapters took advantage of what was permitted by law and carried unused funds forward to the next year. Nevertheless, in several cases these funds remained unused in the following year, which was also due to the unrealistic objectives of the program, sub-program or program element concerned. In three cases, the amount of the funds carried forward from 2005 to 2006 exceeded SKK 1 billion, and in one case this amount exceeded SKK 3 billion.

Other findings from the audits revealed that in their breakdown of mandatory indicators for 2005 the administrators of budgetary chapters sometimes failed to set objectives and measurable indicators. Specifically this involved the program structure for the legal entities under their authority or the ratio or formula via which the organisation should contribute to the achievement of the objectives. In some cases, the administrators had also failed to identify the organisational unit responsible for the achievement, monitoring and assessment of the objective even though the methodological guide of the Ministry of Finance mandates this. Precisely this identification of the organisational unit responsible for the achievement, monitoring and assessment of the objective can be considered critical. It is one of the main conditions for the achievement of a more obligatory character in terms of the fulfilment of targets and objectives of the selected programs ap-

proved under the State Budget Act for the respective year.

Pursuant to the Act on Budgetary Rules of Public Administration, the targets and selected objectives of the government program represent mandatory indicators. However, pursuant to current legislation any failure to fulfil them would not result in the imposition of any sanction on the defaulting administrator of the budgetary chapter. The Supreme Audit Office of the Slovak Republic therefore recommended to stipulate in the Act on Budgetary Rules of Public Administration the obligation for the administrators of budgetary chapters to fulfil the approved targets and objectives more clearly. The objective is to make this obligation more compulsory and to classify any failure to fulfil them as, for example, a breach of financial discipline under this Act, as it is in other events of failure to meet the mandatory indicator.

According to the current principles for the implementation of program budgeting, all expenditures of a budgetary chapter must be allocated to programs. Programs were often not used for the implementation of a specific project with a view to achieving greater cost-efficiency but, in effect, they provided mainly analytical information on activities carried out and performed within a budgetary chapter during the period in question. In most cases they covered the day-to-day operation and performance of tasks arising from generally binding legal regulations for the budgetary and subsidised organisations subordinated to the sector in question. The fact that the funds were, under the various programs, allocated to day-to-day operations can be classified as non-compliance with the fundamental principle that stipulates that program budgeting is objective oriented.

The audits also revealed that some elements of the program structure did not identify the content of activities clearly enough. Furthermore they did not constitute an integral whole, some elements of the program structure, under which a considerable amount of money was spent, did not specify any objective or objectives at all, or objectives were specified only in relation to a portion of expenditures approved for the sub-program concerned. Due to an insufficient link between the amount of budget appropriations for the program and/or the project and the specifi-

*According to the current principles for the implementation of program budgeting, all expenditures of a budgetary chapter must be allocated to programs.*



cation of its objectives, the conditions for the provision of reliable information on the envisaged results for the costs incurred had not been created. This, of course, infringes one of the principles of program budgeting.

Elements or objectives had frequently not been met, despite the fact that expenditures had been accounted for in full. In other instances, fulfilment of objectives as specified could not be impacted by the organisation.

*For example, under a budgetary chapter, the objective of a sub-program was to provide annually at least 3,000 rescue operations to protect life and health of individuals and to protect assets in mountainous and alpine areas. Pursuant to the assessment, the measurable indicator was fulfilled in proportion of 23.9% (as a result of 718 rescue operations).*

In this particular case, neither the objective nor measurable indicator had been set correctly, because the number of rescue operations performed by the mountain rescue service cannot be established in advance.

Shortcomings were also identified with respect to the monitoring and evaluation of the program structure. The evaluation of the fulfilment of objectives and measurable indicators often had been done casually, lacking correct and adequate underlying documents. In the evaluation, some of the administrators of budgetary chapters had used other measurable indicators than those set for the respective objective.

*For example, a budgetary chapter contained the “number of reconstructed buildings” as a measurable indicator, but in the evaluation the indicator “number of executed contracts” was used. In another case, the “number of approved projects” was assessed as the measurable indicator instead of the “number of implemented projects”.*

The results gained during the audits pointed to the fact that in several audited budgetary chapters the principles set in the methodological guide of the Ministry of Finance for preparation, implementation, monitoring and evaluation of the program structure were not observed. Any non-compliance with the principles of program budgeting will ultimately result in lower efficiency of the new budgeting system. This is mainly due to the fact that in com-

parison with the previous budgetary process, the new system is more demanding from an administrative point of view. In the interests of higher efficiency of the program budgeting, the Supreme Audit Office of the Slovak Republic recommended to adopt the main provisions of the methodological guide in the form of a legal regulation with a higher legal force.

Until now, the possibility to also specify in the monitoring report the detected shortcomings – inappropriate objective, failure to meet the schedule – as well as to suggestions for their remedy has not been fully utilised.

In order to remove the detected shortcomings, the statutory bodies of the institutions responsible for individual budgetary chapters took measures aimed in particular at developing an internal methodology for setting targets, objectives and measurable indicators of the programs and their elements. They are also developing systems for monitoring and assessment of the fulfilment of programs, and specifying personal liability for a review of approved objectives and measurable indicators. The aim was to see that the revised objectives and measurable indicators are realistic, and that the relevant organisational units could impact their fulfilment. Such internal methodology should also be aimed at the assessment of the economy, and efficiency and effectiveness during the implementation of programs in order to improve the decision-making and allocation of resources. Some of the suggestions made by the Supreme Audit Office have already been reflected in the draft budget for 2007, the remaining suggestions will be implemented in the following periods.

The conclusions of audits of certain budgetary chapters revealed that the objectives of program budgeting have not yet been achieved to the required extent. Program budgeting is often formal, does not allow the efficiency of the public funds use to be measured and does not provide for transparency with respect to the purpose of their use. However, these results should be viewed from the perspective of the rather short period of time that has elapsed since the introduction of program budgeting in Slovakia. Nevertheless, experience gain abroad as well as the benefits already attained are prerequisites for its further improvement in the Slovak Republic.

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# Addresses of EUROSAI members

## EUROSAI SECRETARIAT

E-mail: eurasai@tcu.es  
http://www.euroesai.org

State Supreme Audit  
Bulevardi Deshmoret e Kombit  
Tirana  
**Albania**

Tel: 003554232491/429  
Fax: 003554232491  
E-mail: klsb@albaniaonline.net  
klsb@klsb.org.al  
http://www.klsb.org.al

Tribunal de Comptes  
C/ Sant Salvador, 10 3r 7º  
Andorra la Vella  
**Principality of Andorra**

Tel: 376 80 60 20  
Fax: 376 80 60 25  
E-mail: tcomptes@andorra.ad  
http://www.tribunaldecomptes.ad

Chamber of Control of the National Assembly  
Marshal Bagramyan Ave, 19  
375095 Yerevan  
**Armenia**

Tel: 374 2 52 33 32  
Fax: 374 2 58 85 42  
E-mail: vpal@parliament.am  
vupal@parliament.am

Rechnungshof  
Dampfschiffstr. 2  
A-1031 Wien  
**Austria**

Tel: 43171171-8456  
Fax: 4317129425  
E-mail: bh@rechnungshof.gv.at  
intosai@rechnungshof.gv.at  
http://www.rechnungshof.gv.at

Accounts Chamber of the Republic of Azerbaijan  
Government House  
370016 Baku  
**Azerbaijan**

Tel: 0099412936920  
Fax: 0099412932025  
E-mail: office@ach.gov.az  
http://www.ach.gov.az

The Committee of State Control of the Republic of Belarus  
3, K. Marx St.  
Minsk 220050  
**Belarus**

Tel: 003750172272422  
Fax: 003750172891484

Cour des Comptes  
2, Rue de la Régence  
1000 Bruxelles  
**Belgium**

Tel: 3225518111  
Fax: 3225518622  
E-mail: international@ccrek.be  
http://www.ccrek.be

Ured za reviziju finansijskog poslovanja institucija  
Bosne i Hercegovine  
(The Audit Office of the Institutions of Bosnia Herzegovina)  
Muevkitita 4,  
Sarajevo, 71000  
**Bosnia and Herzegovina**

Tel/Fax:  
+38733264740  
+38733264741  
+38733269300  
+38733269301  
+38733216785  
E-mail: saibih@bih.net.ba or saibih@revizija.gov.ba  
http://revizija.gov.ba

National Audit Office  
37, Exarch Joseph Str.  
1000 Sofia  
**Bulgaria**

Tel: 35929803690  
Fax: 35929810740  
intrel@bulnao.government.bg  
http://www.bulnao.government.bg

State Audit Office  
Tkalciceva 19  
Hr-10000 Zagreb  
**Croatia**

Tel: 385 1 4813 302  
Fax: 385 1 4813 304  
E-mail: dur@rgz.tel.hr  
http://www.revizija.hr

Audit Office of The Republic  
12, Vyzantion Str.  
1406 Nicosia  
**Cyprus**

Tel: 3572401300  
Fax: 3572668153  
E-mail: cao@audit.gov.cy  
http://www.audit.gov.cy

Supreme Audit Office  
Jankovcova 1518/2  
170 04 Prague 7 Hotesovice  
**Czech Republic**

Tel: 420 2 33045350  
Fax: 420 2 33045336  
E-mail: 170@nku.cz  
http://www.nku.cz

Rigsrevisionen  
Landgreven 4  
Postbox 9009  
1022 Copenhagen  
**Denmark**

Tel: 4533928400  
Fax: 4533110415  
E-mail: ftrr@ftrr.dk  
info@rigsrevisionen.dk  
http://www.rigsrevisionen.dk

The State Audit Office of Estonia  
Narva Mnt, 11A  
15013 Tallinn  
**Estonia**

Tel: 372 6 400700-400721  
Fax: 372 6616012  
E-mail: info@riigikontroll.ee  
http://www.riigikontroll.ee

State Audit Office  
Antinkatu 1  
00101 Helsinki  
**Finland**

Tel: 35894321  
Fax: 35894325820  
E-mail: kirjaamo@vtv.fi  
http://www.vtv.fi

Cour des Comptes  
13, Rue Cambon  
75100 Paris Rp  
**France**

Tel: 33142989500  
Fax: 33142989620  
E-mail: contact@comptes.fr  
http://www.comptes.fr

Chamber of Control  
Ketevan Tsamebuli Ave. 96  
Tbilisi, 380048  
**Georgia**

Tel: 99532968849  
Fax: 99532968849  
E-mail: chamber@gol.ge  
http://www.control.ge

Bundesrechnungshof  
Adenauerallee 81  
53113 Bonn  
**Germany**

Tel: 004922899/7212612  
Fax: 004922899/7212610  
E-mail: poststelle@brh.bund.de  
http://www.bundesrechnungshof.de

Supreme Court of Audit of Greece  
4, Vouvrizou & Tsoba str.  
101 68 Athens  
**Greece**

Tel: 3013810211/40129  
Fax: 3013800526  
E-mail: elesyn@otenet.gr  
http://www.elesyn.gr

State Audit Office  
Apezzai Csere Janos Utca 10  
1052 Budapest  
**Hungary**

Tel: 003614849100  
Fax: 003614849200  
E-mail: kovacs@asz.hu  
http://www.asz.hu

Ríkisendurskodun  
Skulagata 57  
150 Reykjavik  
**Iceland**

Tel: 3545614121  
Fax: 3545624546  
E-mail: postur@rikisend.is  
gretur@rikisend.althingi.is  
http://www.rikisend.althingi.is/

Office of the Comptroller and Auditor General  
Dublin Castle  
Dublin 2  
**Ireland**

Tel: 3531 6793122  
Fax: 3531 6793288  
E-mail: postmaster@audgen.irl.gov.ie  
http://www.audgen.gov.ie

State Comptroller's office  
Beit hadfus 12  
P.O. Box 1081  
Jerusalem 91010  
**Israel**

Tel: 972 2666 51 06/1  
Fax: 972 2666 51 50  
E-mail: yroth@mevaker.gov.il  
http://mevaker.gov.il

Corte dei Conti  
Via Baiamonti 25  
00195 Roma  
**Italy**

Tel: 390638768704  
Fax: 390638768011  
E-mail: presidenza.ufficiorelazioniinternazionale@corteconti.it  
http://www.corteconti.it

Accounts Committee for the Control over Execution of the  
Republican Budget  
8, House of Ministries  
35 St.  
010000, Astana  
**Kazastan**

Tel: 7 (3172) 74 16 02 and 7 (3172) 74 15 89  
Fax: 7 (3172) 74 22 63  
E-mail: esep\_k@Kazai.Kz

The State Audit Office  
Republic of Latvia  
13 k-5 Skanstes Street  
Riga, LV 1013  
**Latvia**

Tel: 371 7017500  
Fax: 371 7017673  
E-mail: lrvk@lrvk.gov.lv  
http://www.lrvk.gov.lv

Landtag des Fürstentums  
Kirchstrasse 10  
FL-9490 Vaduz  
**Liechtenstein**

Tel: 4175 2366571  
Fax: 4175 2366580  
E-mail: Cornelia.Lang@st.llv.li

National Audit Office  
of the Republic of Lithuania  
Pamenkalnio 27  
LT-01113 Vilnius  
**Lithuania**

Tel: 37052621646  
Fax: 37052625992  
E-mail: nao@vkontrole.lt  
info@vkontrole.lt  
http://www.vkontrole.lt

Cour des Comptes  
2, Av. Monterey  
L-2163 Luxembourg  
**Luxembourg**

Tel: 352474456-1  
Fax: 352474456-242  
E-mail: tom.heintz@fi.etat.lu

European Court of Auditors  
12, Rue Alcide de Gasperi  
L-1615 Luxembourg  
**Luxembourg**

Tel: 35243981  
Fax: 352439846430  
E-mail: euraud@eca.europa.eu  
euraud@eca.eu.int  
http://www.eca.europa.eu

National Audit Office  
Notre Dame Revelin  
Floriana CMR 02  
**Malta**

Tel: 356 22 40 13  
Fax: 356 22 07 08  
E-mail: joseph.e.galea@magnet.mt  
nao.malta@gov.mt  
http://www.nao.gov.mt

Court of Audit  
B-RD Stefan cel Mare, 105  
2073 OR, Chisinau  
**Moldavia**

Tel: 0037322210186  
Fax: 0037322233020  
E-mail: cdc@ccrm.gov.md  
http://www.ccrm.md

Commission Supérieure des Comptes de la Principauté  
Ministère d'Etat  
Place de La Visitation  
Mc 98015 Monaco  
**Monaco**

Tel: 37793158237/44  
Fax: 377 93154081

Algemene Rekenkamer  
Lange Voorhout 8  
NL 2500 Ea Den Haag  
**The Netherlands**

Tel: 31703424344  
Fax: 31703424130  
E-mail: internationalaffairs@rekenkamer.nl  
http://www.Rekenkamer.nl

Riksrevisjonen  
Pilestredet, 42  
N-0032 Oslo  
**Norway**

Tel: 4722 241000  
Fax: 4722 241001  
E-mail: riksrevisjonen@riksrevisjonen.no  
http://www.riksrevisjonen.no

Najwyższa Izba Kontroli  
57 Flirtowa Str.  
00-950 Warszawa 1  
**Poland**

Tel: 4822 8 254481  
Fax: 4822 8 250792  
E-mail: nik@nik.gov.pl  
http://www.nik.gov.pl

Tribunal de Contas  
Av. Barbosa du Bocage, 61  
1094 Lisbon Codex  
**Portugal**

Tel: 351217972863  
Fax: 351217970984  
E-mail: dg@tcontas.pt  
http://www.tcontas.pt

Curtea de Conturi a României  
22-24, Lev Tolstoi St. Sec. 1  
011948, Bucharest  
**Romania**

Tel: 4012301377  
Fax: 4012301364  
E-mail: rei@rcc.pcnnet.ro  
http://www.rcc.ro

Accounts Chamber of The Russian Federation  
Zubovskaya Street 2  
121901 Moscow  
**Russian Federation**

Tel: 74959140190/0601  
Fax: 74952908707/007095  
E-mail: intrel@ach.gov.ru  
http://www.ach.gov.ru

Supreme Audit Office of The Slovak Republic  
Priemyselna 2  
SK 824 73 Bratislava  
**Slovak Republic**

Tel: 421 2 55423069  
Fax: 00421255568363  
E-mail: info@sao.gov.sk  
http://www.sao.gov.sk

Court of Audit of The Republic of Slovenia  
Slovenska cesta 50  
SI-1000 Ljubljana  
**Slovenia**

Tel: 003864785810/00/88  
Fax: 0038647858392/91  
E-mail: sloud@rs-rs.si  
aud@rs-rs.si  
http://www.rs-rs.si/rsrs/rsrseng.sng

Tribunal de Cuentas  
Fuencarral 81  
28004 Madrid  
**Spain**

Tel: 0034914460466  
Fax: 0034915933894  
E-mail: tribunalalta@tcu.es  
eurasai@tcu.es  
http://www.tcu.es

Riksrevisionen  
Nybrogatan 55  
S-11490 Stockholm  
**Sweden**

Tel: 4686904000  
Fax: 4686904123  
E-mail: int@riksrevisionen.se  
http://www.riksrevisionen.se

Contrôle Fédéral des Finances  
de La Confédération Suisse  
Monbijoustrasse 45  
CH 3003 Bern  
**Switzerland**

Tel: 41313231111  
Fax: 41313231100  
E-mail: sekretariat@efk.admin.ch  
info@efk.admin.ch  
http://www.efk.admin.ch

State Audit Office  
M.Tito-12/3 Macedonia Palace  
Skopje, 1000  
**The former Yugoslav Republic of Macedonia**

Tel: 38923211262/520  
Fax: 38923126311 ext. 106  
E-mail: dzz@dzz.gov.mk  
http://www.dzz.gov.mk

Turkish Court of Accounts  
Sayıştay Başkanlığı  
Inonu Bulvarı 45  
Balgat  
06530 Ankara  
**Turkey**

Tel: 90 312 2953030/720  
Fax: 90 312 3106545  
E-mail: Int.relations@sayistay.gov.tr  
sayistay@sayistay.gov.tr  
http://www.sayistay.gov.tr

The Accounting Chamber of Ukraine  
7M, Kotyubynskogo Str.  
01601, Kiev-30  
GSP 252601  
**Ukraine**

Tel: 380 44 224 26 64  
Fax: 00380442240568  
E-mail: rp@ac-rada.gov.ua  
http://www.ac-rada.gov.ua

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP  
**United Kingdom**

Tel: 442077987777  
Fax: 442072336163  
E-mail: nao@gtinet.gov.uk  
http://www.nao.gov.uk



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Organización de las Entidades Fiscalizadoras Superiores de Europa  
European Organisation of Supreme Audit Institutions  
Organisation des Institutions Supérieures de Contrôle des Finances Publiques d'Europe  
Europäische Organisation der Obersten Rechnungskontrollbehörden  
Европейская организация высших органов финансового контроля