JOINT WORKING GROUP on AUDIT ACTIVITIES

(DRAFT) GOOD co – operation PRACTICE GUIDE for audit activities based on experience gained by SAIs in the Candidate Countries and the European Union

Introduction

1.   Co-operation between SAIs is not new but it is increasing. Currently, driven by key geo-political initiatives such as the EU enlargement process and the progressive globalisation of efforts to strengthen financial management and improve governance, the pace of change is rapid. EU and Candidate Country SAIs, along with key partners such as the European Court of Auditors, SIGMA[1] and others have shown themselves both willing and able to respond to the requirement for increased technical assistance that such changes demand.

2.   There are several modes of technical assistance currently in place. For example

- large scale donor funded programmes such as TWINNING involving strategic, methodological and management development and training activities,

- SAI technical networks supported by SIGMA and driven by peer reviews, sharing experience workshops and expert groups on specific subjects,

- opportunities to participate in ECA audits of EU funds,

- participation in internship and exchange programmes and

- specific bilateral arrangements between SAIs.

These activities have different forms, operate on different scales and utilise a variety of approaches but they all have essentially the same aim – **capacity building and professional development of one institution (SAI) through skills transfer from and sharing experience with development partners (SAIs or others).**

3.   The (EU Contact Committee and Candidate Countries) Joint Working Group on Audit Activities has as its locus the promotion and facilitation of small scale, concrete audit activities between EU SAIs, SIGMA and other co-operation partners. Members of the group have been involved in over 50 such activities between 1999 and 2004 and have identified a range of "lessons learned". The aim of this paper is to use and share those experiences to make a contribution to the efficiency and effectiveness of the wider co-operation process by creating a Good Practice Guide for SAIs and their partners in undertaking future concrete and practical audit activities together.

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[1] *SIGMA is a joint initiative of the OECD and the EU, principally financed by the EU*

The Good Practice Guide: Sources and applications

4.   In reading or applying the Guide it is important to have a clear understanding of its basis, the context where it might be used and what its value is seen as being. Technical assistance inputs – including the small scale audit activities this paper is based on - will not, in themselves, achieve any significant sustainable results. They need to be part of the SAI's institutional development programme. Within such a programme however they can provide considerable developmental benefits with a value well beyond their immediate results and findings.

5.   Up to now, the 50 or so audit activities can broadly be categorised as Pilot Audits, Parallel Audits or Joint Audits under the following generalised definitions:

        - A **Pilot Audit** is an audit undertaken by an SAI which includes the objective of testing new working procedures, practices or techniques.   These may done by the SAI alone or, if carried out as part of a technical assistance or institution building project, may involve help from external experts (such as SIGMA or another SAI) although reporting is normally only to the Parliament of the host/recipient country SAI. (Examples are provided at Annex 2 Cases 1, 3, 4 and 5).

        - A **Parallel Audit** is an audit where key decisions are shared, but where the work is carried out by separate audit teams from each of the participating SAIs. Each SAI is looking at the same area but from its specific point of view and given its legal remits. Observations are exchanged and mutually taken into account but the final reporting will be done by each SAI independently to its respective Parliament or governing body.   The ECA has led several parallel audits on the audit of EU funds (Details are provided at Annex 2 Case 6)

        - A **Joint Audit** is an audit where key decisions are shared, work is done by one audit team and a single report is prepared which may be presented to each respective Parliament or governing body. Some of the ECA activities, where staff from another SAI are assigned to the ECA audit team, fall into this category. (Details are provided at Annex 2 Cases 2, 3 & 6)

6.   It has to be acknowledged that these definitions have not always been applied consistently – but this has not been a major problem in developing the current Guide. Each of the categories has yielded valuable lessons and a high degree of correlation has emerged between the points arising under different activities.   Despite the limited range of activities it is drawn from it seems that the Guide may also prove useful for other forms and scales of audit co-operation depending on the needs of partners involved. For ease of reference in this paper no further distinction will be made between the type of audit activity involved (Pilot, Parallel or Joint) unless not to do so would be misleading

Benefits accruing from incorporating Audit Activities in wider co-operation and institution building work

7.   Audit activities are useful

- in circumstances where an SAI is developing a new audit methodology. In such a case the audit activity would probably be devoted solely to furthering that development. It would take place in a real work environment and would have the twin objectives of audit

development within the SAI and of informing the principal external stakeholders of the changes taking place;

- as a particularly good way of field testing methodology before it is prescribed in audit manuals or audit procedures documentation;

- as a practical development tool for staff and audit teams over and above the new procedures themselves. Experience carrying out an audit contributes directly to developing the professional competence of audit staff. It also helps staff to understand the process as a whole rather than as a series of isolated steps. The (generally) narrower scope of many audit activities can help here; and

- by providing wider, consequential benefits to the SAI. For example carrying out a range of audit activities across different areas with different teams facilitates the development of a consistent approach and quality. Also, in the medium to longer term, it increases the possibility for the SAI to use staff flexibly within and between teams without a loss of audit quality.

8.   Developmental activities are most effective when they are undertaken within the framework of a wider development initiative for the SAI aimed at improving audit operations and methods. This development initiative may itself fall within the implementation of a wider strategic development plan addressing the corporate development needs of the SAI (often the outcome of a peer review type exercise supporting a process of self-assessment). Such plans are based on analyses of desired states and will identify the key areas where change is needed and they will also establish priorities. They may be prepared with the co-operation of experts from other countries with broad experience of international auditing standards and working practices but their knowledge of the situation and culture of the host SAI and the environment in which it works is likely to be, at best, superficial. A concrete audit activity can provide a practical, hands-on way to test the changes and to give assurance that full implementation will proceed smoothly.

9.   Implementing development plans is a huge challenge for all SAIs and they need to devote considerable resources to ensure that they progress smoothly and successfully. It is likely that, given limits to the staff resources available, the outputs from the existing activities and responsibilities of the SAI will reduce. In some countries this may lead to criticism from important stakeholders, such as parliamentarians. It is vital therefore that the mix between audit development activities and the fulfilment of the continuing responsibilities of the SAIs is balanced so that quality of outputs from both areas is not jeopardised. The use of a range of audit activities helps to keep that mix of responsibilities at the appropriate level.

10.   The audit methodology component of a Strategic Development Plan will often cover a four or five year time span for the successful implementation of new audit methodologies. Joint and pilot audits provide, at a very early stage in the life of these plans, an excellent mechanism to provide quality feedback about how the changes are working in practice. They also have the advantage of requiring only a relatively small number of SAI staff to undertake the work required. The risk of wasting scarce human resources is therefore kept to a minimum.

11. Audit activities can also be appropriate when SAIs need the understanding and acceptance of their stakeholders to the changes being proposed. Maintaining the SAIs standing and credibility can be difficult when changes are being introduced that are not fully explained or understood. Structured, practical audit activities and results provide a useful basis on which to hold discussions with key stakeholders to help establish their concerns and ensure that they can be addressed for the future.

12. In some countries the changes being made require changes to the legal framework and changes to major governmental processes (such as the budgetary process, financial management processes, the introduction of internal audit) and it is vital to ensure that the changes being introduced by the SAI are fully compatible with the changes being made elsewhere in government. Such issues can usefully be highlighted through a focussed audit activity and enable the SAI to contribute to the changes in the broader financial accountability area.

13. When an SAI decides to introduce a new audit methodology or to revise significantly an existing methodology (revising both practice and documentation re. audit manuals) it is always best practice to test the new working procedures, practices and techniques before implementing them for all audits. This will help to ensure that as many shortcomings or problems as possible are identified so that appropriate remedial action can be taken. Without such testing the quality and the credibility of the new audit methodology will be at risk.

14. Small scale, focussed audit activities are an excellent, practical way of extending and re-enforcing messages and techniques introduced through initial training courses, seminars and exchanges. As well as furthering the development of skills of those on the audit teams involved the audit provides a clear opportunity to demonstrate the utility and benefits of new audit approaches in a practical environment. The experiences of the staff involved can be disseminated to all staff as 'real life' examples. SAIs should also consider maximising the benefits of these experiences by using members of the audit teams as 'trainers' for other SAI staff as the audit methodology is introduced throughout the SAI. This approach can make a large contribution to the sustainability of the development programme when technical assistance projects finish and international experts leave. In addition the feed-back international experts get about their own SAI and its audit methods based on the questions raised by colleagues in the recipient SAI provides them with a unique opportunity to look at their own approach and practices in a new light and to make changes when appropriate.

Requirements for a successful audit

15. Experience has shown that the following minimum requirements or conditions will provide a good basis for successful audits:

- They are part of a wider Strategic Development Plan process for implementing desired change and development. This is important for the implementation team, and senior staff, to ensure that the Plan progresses.

- It must be clear to all that senior management support the attempts to develop new audit methodologies and this support must be demonstrated. Without such support staff involved will soon become disenchanted with the process.

- Use experienced and skilled audit staff with potential to train other staff.

- Have designated Audit Methodology staff. These are core SAI staff used to develop or revise the audit methodology and/or the audit manual in the light of experience and research.

- Use External expert(s) with considerable experience of audit and technical assistance to assist in reviewing progress audits at key stages. This may be facilitated by another SAI or other experts.

- Sufficient time should be allowed to carry out the audits to ensure that the methodologies are applied properly.

- The application of new methodologies should be carefully evaluated to assess their relative success and applicability to the host SAI's environment

- Hold internal workshops to provide regular feedback at key stages of each audit (Planning, Fieldwork, Review, Reporting, Lessons Learned and Feedback).

- Seminars for all audit staff using staff from pilot/joint audit teams as trainers.

- Ensure that there are discussions with stakeholders to clarify the changing role of the SAI and the basis of the audit methodology, the audit is carefully planned and that the audit objectives are clear;

- The auditee and the SAIs own audit team must be fully aware of the scope, purpose and intention of the audit activity including the fact that the process and the output may take a different form to that which they have become used to under the SAIs traditional approach;

- The audit results are accurate, fair and constructive and the activity is generally regarded as successful and useful to all parties thus helping to persuade all parties of the benefits of revising approaches and techniques;

- Lessons are learnt from the experiences gained;

- The lessons learned are fed-back into the development and improvement of standard audit practices and procedures in a coherent manner;

- The role and function of the audit team and the partner SAI are clear and well understood from the start by all involved in the activity; and

- Communication within the audit team is effective and regular and the approach is sufficiently flexible to take on board any modifications needed during the audit.

Lessons Learned

16.   The following lessons have emerged from the group's combined experience of Audit Activities under the EU enlargement process

- Select an audit area of substance and importance. Such audits provide a rare opportunity for the SAI to demonstrate clearly the changes being made and the added value and contribution they make to the stakeholders' own development. However, it is better to have a successful audit with a more limited scope than one that fails due to over ambition.

- Keep the number of audits at a manageable level. Over-enthusiasm for change can reduce the benefits of using these audits as a tool in the first place.

- Ensure that the expert(s) obtain as good an understanding as possible of the audit environment, in general and in relation to the specific area under the audit. Use the audit team to carry out the briefings – this will help highlight any gaps which need filling in their own knowledge before the audit starts.

- Ensure the expert is kept up to date with progress on the audit activity between visits. This not only contributes to stronger team work but helps to ensure best use of the experts' time in-country.

- Do not under-estimate potential language problems. Define technical terminology and expressions clearly.

- Select audits that are priorities under the SAI's annual work plan. Conflicting priorities will affect audit quality.

- Ensure that the legal basis of the audit is sound to minimise the risk of challenges to the reports being made.

- Do not under-estimate the difficulty of dealing with audited bodies who may not understand what is required under the new audit approach. It is essential for the expert(s), on certain key occasions, to be part of the audit team visiting the client eg. At the planning stage and the reporting back of findings stage. This helps all parties understand what is actually taking place.

- Make sure that findings and reports to management add value as regards the development of the audited body. The ways in which the findings are expressed is vital, as this is likely to be a new experience for the participants.

- The outcomes of the audits need to be fed back into the audit development process. The Methodology Team may lead on this but staff from the audit teams should play an active part in the process. They will bring an independent view of the impact of findings on the development of the SAI's audit methodology.

- Ensure that the results of the audits are spread effectively. Pressures to get on to 'the next audit' can result in the knowledge already gained not being disseminated fully.

- Do not assume that lessons learned from one specific type of audit (eg Performance) are not also relevant to or of value in carrying out other work (eg. Financial audit/risk work). Read across of experiences can sometimes be useful.

- Seminars and practical workshops are good mechanisms, particularly as a dialogue

> between the expert and the audit team can make the experiences more interesting.
>
> - At the completion of each audit ensure that team members are appointed to senior positions in new audits so that their experience is not 'lost'. This makes the most effective use of limited resources.
>
> - Ensure that most team members have the potential to 'train' and lead seminars. This will contribute to sustainability after projects finish.

Conclusion

17.   This Guide also contains a basic practical check list of the key requirements for good co-operation (**Annex 1**) and a list of lessons learned drawn from a series of case studies in six different actual audit scenarios (**Annex 2**). These highlight many of the basic requirements as well as some of the potential pitfalls if these are not considered and appropriately addressed by the right people at the right time. The types of audits covered are

- Performance Audit

- Financial management and control systems audit

- Attestation audit

- Budget execution audit

- EU funds project audit and

- EU budgetary funds audits.

18.   Experience shows that pilot audits and parallel and joint audits are an effective tool for re-enforcing training and for testing new working procedures, practices and techniques in an SAI. This in turn facilitates the development and preparation of audit manuals. Staff resources are invariably scarce and this type of approach helps with the implementation of a new methodology in a very effective way. It is vital that these audits, along with other tools used in the change and developmental process, are applied as part of an agreed Strategic Development Plan so as to ensure that progress can be monitored and controlled satisfactorily.

19.   The support and co-operation of the SAI's stakeholders is vital, these include not just the audited bodies but also relevant parliamentarians and bodies with oversight responsibilities such as the Ministry of Finance. External experts are a valuable addition to joint and pilot audits, they are able to bring their experience of European external audit good practices and standards to bear on real audits rather than simply from a theoretical perspective which may not always take into account local culture and practices. Joint and pilot audits with other SAIs can be a good way of experiencing and testing new methodology.

20.   The outcomes of each of these audits also have the potential to identify shortcomings in audit methodologies. If used effectively, it can contribute to the future development by the SAI concerned of improvements in methodology or the introduction of new auditing practices and approaches.

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GOOD PRACTICE CHECKLIST

This checklist sets out some good practices for carrying out an audit activity which have been developed during technical assistance and co-operation among European Supreme Audit Institutions (SAI). Many of these activities were pilot, parallel or joint audits directly in support of the process of accession into the EU for the recipient SAIs. However based on the feedback from a circularisation amongst co-operation partners some of whom are also involved in other fields – not solely to do with EU accession – it seems that the checklist could have a more generic or transferable value.

Good practices for carrying out successful and useful joint or pilot audits that have been identified so far emphasise the importance of a rigorous and organised project style approach, together with excellent communications with and between partner SAIs.

General preparatory stage

❑ Develop clear, measurable and achievable project objectives and plans for the audit activity, based on a thorough, shared understanding of the recipient institution's needs and priorities;

❑ Involve all partners

❑ Clearly identify the type of audit to be carried out and the specific purpose of the audit

❑ Ensure the specific subject or area selected is suitable for the approach proposed (pilot, parallel/joint audit)

❑ Try and select an audit that has a high likelihood of producing good results. This will create a "feel-good" factor for the audit team and the auditee and add to the positive momentum of the whole project

❑ Allocate sufficient and suitable resources and take care to select suitable approaches to sharing knowledge and skills;

❑ Identify early, and monitor, the types of experiences, skills and knowledge that the audit activity will provide to the recipient SAI.

❑ Allocating clear responsibility for executing project plans, and responding flexibly to evaluations of progress and results, and to new needs and priorities;

❑ Promoting effective project communications.

On setting project objectives and formulating project plans

To avoid misdirected effort and enable partners to demonstrate success, clear, measurable and achievable project objectives and plans, based on a thorough, shared understanding of the institution's needs and priorities are needed. In particular, partners should:-

❑ Formulate and agree project objectives based on thorough research.

❑ Project objectives should take account of other changes the accession institution plan to make and changes in the public administration's internal control framework, including the changes pursued through other technical co-operation projects.

❑ In framing project objectives, auditors and partners should take account of attitudes and other factors that may support or impede the pursuit of project objectives. For instance, attitudes to change among audit staff, senior staff in the public administration and parliamentarians.

❑ Ensure project plans include benchmarks against which to assess progress and achievement. These should include, for instance,

  ❑ the resources the partners have devoted to the project,

  ❑ the completion of important deliverables (training and manuals, for instance);

  ❑ the implementation of new working methods (such as risk based financial audit),

  ❑ and results (audit recommendations accepted, for instance).

❑ Identify and evaluate risks to achieving project objectives. These will include risks to

  ❑ Time – for example in setting work schedules consider adequacy of contingencies

    ❑   Quality – for example poor translation can cause misunderstanding and misdirection of effort

❑ Ensure project plans, including the scheduling of activities, take into account peaks of work within the recipient SAI and partner institutions.

On allocating appropriate human resources and selecting approaches to technical co-operation

Recipient and Partner institutions need to devote suitable human resources to projects, and adopt appropriate approaches to sharing knowledge, skills and experience. In particular:

❑ Both (all) partner institutions should have suitable procedures for selecting individuals with the expertise needed, who will be available when they are needed for the audit activity, and giving them the training and briefing they need. For instance, to contribute effectively, member state experts may need to be equipped with training, personal, communication, language and consulting skills, in addition to technical skills, knowledge and experience.

❑ Ensure that auditors and experts receive appropriate briefing. This may include, for instance, the objectives of the work they are to perform, how it relates to other project deliverables, information about the institution's organisation and organisational and national culture.

❑ Ensure that the accession country institution devotes suitable human resources to projects. Candidate country institutions should allocate clear responsibility for selecting, briefing and evaluating accession country inputs.

❑ The leadership of the accession institution directly involve themselves in project deliverables.

❑ Partners should identify suitable approaches to transferring knowledge based on their assessment of costs and benefits, including the preferences of the partner SAI's staff. Approaches may include

    ❑ training,

    ❑ advising,

    ❑   study tours,

    ❑ and pilot audits supervised by member state experts.

On executing project plans

The project execution should be carefully managed, and in particular they should:

❑ Allocate clear responsibility for implementing project plans.

❑ Plans should set out the respective responsibilities of named individuals within the partner institutions for particular project activities. This may include, for instance, responsibility for planning expert visits, evaluating expert visits, and communicating progress and resolving difficulties, and managing specific project risks.

❑ Establish arrangements for monitoring and evaluating progress and results.

❑ Evaluation should include, for instance, the quantity and quality of resources devoted to the project; the quality and effectiveness of training and consulting, progress against milestones; and the results achieved.

❑ Evaluation should be timely – enabling appropriate remedial action where necessary.

❑ Prepare timely, comprehensive progress reports.

❑ Reports should include, for instance, progress against budget; resources devoted by accession institution, including co-financing; processes (evaluation of individual activities); outputs (manuals, for instance), and outcomes (sustainable improvement in institutional capacity).

❑ Ensure progress is checked regularly by a group that includes senior individuals from the partner institutions, including senior individuals *able to make decisions*.

❑ Progress reports must also note the status of specific project risks and the action taken to manage them.

On project communications

Good communications are vital to managing audit activities, especially if part of a technical co-operation projects, effectively. During project planning, partners should adopt a strategic approach to communications and consider:

❑ What needs to be communicated (likely to include project objectives, new working practices, and the effects of changes on individuals)

- Who it needs to be communicated to (likely to include the accession institution's leadership and staff, and external stakeholders (the EC delegation, SIGMA, ECA, Parliament, audited entities, and the public)

- How it needs to be communicated, (good practice suggests that formal and informal methods should be used. For instance, (personal letter from president at start of project; launch events; newsletters; meetings

- How often it needs to be communicated.

- Partners should promote two way communications – with external stakeholders, among the staff of their institutions, and between each other.

- Open communications will help the partners adapt to changing needs and priorities.

- The leadership of the accession country institution should endeavour to communicate that they are committed to the project. They may do this by advocating the project as a way of improving the institution, personally involving themselves in project activities; encouraging their staff to become involved in the project; allow them time to do so; and thanking them in some way.

Meeting Donor Requirements

- Involve donors in all stages of the audit activity and keep them informed of progress, successes and challenges.

- Be fully aware of donor contractual requirements, reporting and communication needs, and financial regulations

- Be prepared to acknowledge support from the donor in reporting results of the project

- Give accurate feedback on the progress and results of the activity, including problems overcome.

Pilot and/or Parallel/Joint Audit Activity Case Studies

1) A Performance Audit

This pilot audit was carried out under the auspices of the twinning project. It involved an examination of the extent to which the organisations were aware of the property held in the Land Registry. Notwithstanding the different legal arrangements under which the recipient SAI operates it proved very possible to adopt the methodology and good practice of the partner SAI into this audit.

In particular the audit demonstrated the importance of

- careful audit design and a thorough understanding of the subject.

- the use of brainstorming and issue analysis techniques to identify the key issues to be examined and what constituted performance in this particular subject. Audits have traditionally been very wide ranging and seeking to review the whole organisation's compliance with legal regulations rather than key aspects of its performance in delivering services. This has tended to lead to reports which provided a list of criticisms rather than adding value by providing practical recommendations aimed at improving performance.

- working together as a team rather than a group of individuals. Typically the SAI's audits have involved large groups of individuals working on specific aspects of the audit rather than a genuine team approach.

- the use of audit methodologies such as focus groups to gather appropriate evidence to support findings. This involves bringing together individuals from different parts of the audit entity together with clients and customers to discuss problems in performance and to seek to identify solutions.

- regular communication with the client and a "no surprises" policy.

- thinking beyond the regulations and looking at whether the regulations are actually sensible in value for money terms.

- flexibility of approach including the need to regularly re-examine the detailed audit plan.

- the SAI carrying out a full review of the way in which the audit was carried out and the lessons learned and practical experience have been transferred into a new audit manual.

2) *A Financial Management and Control Systems Audit*

The joint audit project covered "Performance audit of the internal control and audit systems of project management in the Ministry of Transport and Communication and Performance audit of the internal control and audit systems of project management in the Ministry of Environment".

The issues that should be considered to improve the quality of the next audits are:-

- There should be clear tasks and responsibilities not only for the team members but also for the staff responsible for quality control.
- The plan should include milestones and points when the decisions should be made and there should be enough time planned for them to perform their duties more thoroughly. Everybody should know what they have to do within the timetable.
- The audit programme should be divided specific weekly or two-weekly plans.
- There should be a vision of the main message in the planning phase of the audits.
- During the fieldwork a skeleton of the report should be prepared and written at the same time as when the fieldwork is conducted.
- Communication with the auditee should be improved; especially an informal way of communicating should be developed.
- There should only be one joint or pilot project at a time for each audit manager.
- The plan should include more time for translation and for the comments of the experts. More detailed plan should be prepared that would include milestones when documents should be sent to experts and when received back. The plan should also include more time because a new methodology is being implemented.
- The process of consultation with the experts has to be improved, for example shorter but more frequent visits and e-mail communication.
- Communication with the experts might also be improved by: short, weekly progress reports; more documents being prepared directly in English to avoid translation errors. Also the terms and definitions should be agreed at the beginning of the audit.
- There should be a clear connection of the audit proposal to the report of findings and then with the report. It has always to be kept in mind to whom the report is addressed: civil servants, the minister or Parliament. Depending on the situation, the addressee of the main message can vary (the minister, Parliament or both) and the message should be written in the most appropriate way.
- There should be some way of ensuring the prompt issue of the report, so that it is not released after major changes have been implemented by the auditee.
- If the reports are on financial management, the findings and messages should be more clearly related to money.

3) An Attestation Audit

Joint or pilot audits were carried out in each of the main audit areas together with SIGMA, namely State Ministries (two); Hospitals (initially 2) and Local Authorities (all those specified in annual audit plan). The scope of these audits involved the attestation of the annual financial statements of the selected entities in accordance with international auditing standards and utilising the SAI's audit manual.

Experiences gained during the audit:

- Audit teams must always ensure that audited entity is fully briefed about and persuaded of the need for the revised approach to the audit processes.
- Audit teams must meet regularly with other audit teams to discuss problems encountered with the methodology and, hopefully, the solutions applied. Regular workshops/seminars are a very useful mechanism.
- A central audit methodology team must be kept informed of audit findings to ensure that revisions to the methodology can be considered and adopted centrally.
- Audit team members need to have good presentational skills to ensure that 'the lessons learned' can be communicated effectively to other auditors.
- The use of an external specialist with a broad practical experience of international audit methodologies provides the basis for an independent 'quality assurance' process as the joint or pilot audits progress. With increased experience of audit team's quality assurance can be assured by mutual evaluation of each others audit files.
- Audit teams must be prepared to be flexible in their approach to fulfilling audit programmes as the initial audit procedures might not be the most effective in practice at the entity being audited.
- Considerable time is needed to clarify the meanings of international audit terminology in the country concerned.
- The selection of audited entities must involve important areas for audit to show that the SAI is serious about the implementation of the revised methodology but not too complex an area so as to unnecessarily complicate the audit procedures required.
- It is important that the key stakeholders, eg parliamentarians, are kept informed of the proposed changes to the audit methodology so that their expectations are addressed.
- The audit opinions were approved by the SAI and made public.
- Management of the audited entities were informed by letter of weaknesses in their systems of internal control.
- A number of workshops disseminated the findings of the audit teams within the SAI.
- Amendments to the audit methodology were considered by the SAI's audit methodology team and implemented.
- The audits showed that international auditing standards could be applied, with some success, to the financial statements of publicly funded entities within countries whose economies are in transition.

4) A Budget Execution Audit

The audit of the budget and separate audits of individual Ministries and an audit of the consolidated budget statement all fell under the pilot audit umbrella in this audit activity with a twinning partner. The objective was to develop methodology and skills through formal training (workshops) and on-the-job training (pilot/joint audits). The methodology developed would then form the basis of manual or detailed instructions that could be adapted and developed to incorporate other types of audit.

The main lessons learned in respect of running pilot/joint audits are as follows:

- The importance of clear role definition in the management of the audit. Where one has a senior member of staff responsible, in organisational terms, for the audits and an External Adviser responsible for training and methodology advice, the responsibilities should be clearly delineated. This helps the decision-making process and prevents auditors being confused about whom to go to for advice.
- The twin objectives of training/methodology development and the delivery of audit outputs to time and budget do not necessarily work together and, in some cases, can conflict. It is important to have agreement at each stage which is the more important objective.
- The importance of training supplemented by written instructions for the auditors. It is not enough to rely on a training event (workshop etc) as the sole means of transferring knowledge (even with training materials, worked examples etc). It is important that training is supplemented by detailed written guidance. This is particularly important when introducing a new concept or technique.
- The need to build in to the audit processes some "checkpoints" where the progress of the application of the new or revised methodologies can be assessed. These should be set as necessary to ensure that misunderstandings or misapplications can be identified and remedied in time. The key stages will tend be at the end of the planning, during the fieldwork and at the draft report stage.
- The level of audit skill has increased. The auditors involved in the audits have a broader knowledge of audit and new skills in some particular areas.
- The scope of the audit has increased. The scope of the audit of the budget now encompasses a more detailed review of systems and procedures that it had done before.
- Pilot/joint audits are a very good training and development tool. However audit training and development is an iterative process. It cannot be expected that these audits alone will ensure that methodologies are developed and people trained effectively. They should be seen as part of a wider, longer term (phased) process of audit development. But the audits have resulted in a transfer of knowledge- for example the audit materials generated will be used in the audit manual.

5) *An EU Funds Project Audit*

The subject of the pilot audit was the PHARE-project in the Ministry of Education, Science and Technology. The objective of the audit was to establish the legality, expediency and reliability of the use of the allocated EU-funds. By doing so, the SAI judged the compliance with EU-regulations (including the procurement Act).

Key experiences and lessons learned:

- Elaborate the audit programme in detail (objectives, scope and risk analysis including control-environment);
- Select and define audit objectives clearly, either regularity audit or performance audit. The objective of the audit might not be considered as a performance audit, although it was mentioned that way. A performance audit can only be effective, if the auditee is able to measure performance itself;
- Ensure the planning of the audit is sufficiently detailed and will assist the audit team in allocating its capacity in an efficient way. Participation of the members of the audit team will enhance the acceptance of the planning;
- Be aware of changed and changing government priorities;
- Pay attention to critical moments in the procurement procedure (e.g. shortlist and standard setting, composition of the evaluation committee);
- See to it that all members of the audit team have access to all relevant audit information;
- Use a summary of the legislation so that all members of the audit team can study the most relevant articles;
- Use available expertise as much as possible. The audit team under review didn't ask the PHARE-expert to engage in the audit;
- Use an experienced auditor of the SAI who can act as a soundboard for the audit team;
- Reconsider the procedure by which the president of the SAI approves the audit. The present procedure makes it impossible for an audit team to gain relevant information at the premises of the auditee in the planning phase;
- Include in the report all critical conclusions. On the whole, findings and conclusions were positive, but in some aspects too positive (e.g. delay in the execution of the programme as a result of insufficient service by the contracted consultants wasn't mentioned);
- Provide a management summary and try to avoid large descriptive parts in a report. Avoid including information which is only relevant for the SAI (e.g. composition of the audit team);
- Enhance accountability of the audit team towards the president and the board of the members of the SAI (e.g. by allowing others to perform a review or by giving a presentation); and
- The main output was a published report to the minister concerned. Moreover the report has been distributed to all auditors in the SAI. Also seminars about the audit were held in the regional offices of the SAI.

6) A joint/parallel audit of EU Funds

The ECA led a multilateral audit of environmental expenditure in the context of the PHARE programme involving all SAIs from candidate countries. In the preliminary study three options for further co-operation were proposed:

a) The SAI simply accompanies the ECA during its on-the-spot missions to gain a better understanding of how the ECA carries out audits. Typically, for project visits within beneficiary countries, two teams would be formed; each composed of an auditor from the ECA and an auditor from the SAI.

b) The SAI performs its own audit of national and Phare aid to the environment sector, taking into account the ECA's approach. The SAI joins the ECA for its on-the-spot audit using the team approach described in a) above (**Parallel audit**)

c) The ECA manages the audit under their Audit Planning Memorandum (APM) with auditors from the SAIs being assigned to the ECA audit team leader. (**Joint audit**).

According to the resources available, SAIs participated in the audit on a joint or parallel basis. In addition, the ECA organised a seminar in Brussels, where most of the participants met to discuss the preliminary study, the APM, the sample of projects as well as the further common approach. Each audit involved inception and concluding meetings with the SAIs. During the reporting phase of this audit a second seminar with all participating SAIs as well as the SAIs of Malta and Cyprus took place, where the results of this co-operation were discussed.

Key experiences and lessons learned:

- Discuss and agree the audit objectives and audit programmes in detail with all SAIs before the audit takes place and ideally before the work programmes are established
- Sharing of experience and knowledge, especially that of the different national and EU legislation, strategies and implementation structures was very beneficial,
- Despite different methodologies and legal remits, it is possible to agree on a common audit approach and to audit the projects in the same way.
- Holding a central workshop to discuss the implementation of the audit before starting it, was considered as very beneficial, in particular for the co-operation on-the-spot.
- Audit teams should include "working level" auditors/experts
- Participation of auditors from the national SAI and the ECA was very positive for different reasons. From the practical point of view the language skills of auditors who at the same time understand the audit topics. From the audit point of view as systems knowledge about EU and national procedures could be combined in a way that allowed all parties to better understand and audit those systems.
- Results of the audit missions should be discussed immediately after the missions. A final workshop to discuss the overall observations with all active auditors was very beneficial.
- Continuity of staff is highly desirable (although not always possible). Auditors sent to the preparatory workshop should also implement the audit and contribute to the reporting workshop. It would be ideal to work in the same teams from the beginning to the end.