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E-mail: postfach.eurosaiSG1@brh.bund.de
Preparing for the future

The world is changing rapidly and we are facing increasing volatility, uncertainty, complexity and ambiguity in almost all aspects of our societies. To fulfil its role as defined by the Treaties, the EU must support its citizens and Member States in order to face these challenges and take advantage of any opportunities. Being forward-oriented and investing the scarce political, human and financial capital in activities that will promote the future well-being of citizens is crucial for all EU institutions in this regard.

Although the ECA, the EU’s external auditor, might not spring to mind first when thinking about a future oriented organisation, this is also true for us. This becomes clear when looking at the ECA’s strategy, which is focussed on fostering trust in the EU through independent audit and providing insight into what works and what does not work in EU spending and other action.

Foresight at the ECA

In 2017, the College of ECA Members decided there was a need to improve the ECA’s ability to identify long-term policy problems and to make use of this information when formulating its strategic and operational priorities. To further develop this forward thinking capacity, the ECA launched a task force on future foresight.

In 2018, this task force engaged with the global foresight community to identify ways to make the ECA future proof. To support its strategic and operational priorities, the challenge was to identify future thematic areas of interest where the ECA could usefully contribute with audit or review work.

During its work, which included studying literature and building an international network of foresight experts, for example from the Government Accountability Office (GAO) in the USA, the OECD, and private audit firms, the task force also considered methodological aspects and technological opportunities and assessed the need for a permanent future foresight capacity in the ECA.

Box 1 - Foresight

According to the UNDP Global Centre for Public Service Excellence, foresight is “an umbrella term for methodologies and approaches that take volatility, uncertainty, complexity and ambiguity as their starting point, explore possible and probable futures, including a preferred one, and generate insights and ‘cross-sights’ that enable transformative actions in the here and now”.

Examples of foresight activities are (mega)trend analyses, horizon scanning and scenario building.

The latter is a very useful tool for policy makers to decide what the most desired future is and which steps and/or measures need to be taken to achieve that objective.

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ECA Foresight Ecosystem

The work of the ECA Foresight Task Force led to the decision to establish an ECA Foresight Ecosystem, which consists of the Strategy and Foresight Advisory Panel, or SFAP, foresight work across all Audit Chambers and a supporting Strategy and Foresight Team in the Directorate of the Presidency.

The SFAP is composed of ECA Members and will also involve external experts, and its main role is to advise the ECA College of Members and President on specific policy issues or foresight questions. The panel plays a key role in development of the 2021-2024 ECA strategy, and guarantees ownership of ECA Strategy and Foresight Ecosystem at top-level leadership.

Box 2 - Main outcomes of the ECA Foresight Task Force:

- Trend analysis: Identify main trends and drivers to get the ECA ready for future challenges. Set focus themes for future work programmes
- Create a Foresight Ecosystem at the ECA

The ECA Strategy and Foresight team will build foresight into the ECA’s work and this foresight work should lead to relevant strategic goals, which can be translated into the right products and effective communication, which in turn will lead to actual impact on EU policies.

Future foresight work: Basic principles

Foresight work focusses on an organisation's core business processes. It aims to have an impact on several levels, for example the strategy, the selection of audit topics, or the development of the right future capacity and knowledge. Foresight is used at key decision-making points, such as the multi-annual strategy, annual work planning, the further development of the applied audit methodology and the drafting of reports.

Box 3 - Main foresight questions:

1. **Foresight for the auditor:** What plausible future changes could impact the ECA – its role, capacities, etc.? How should the ECA’s multi-annual strategy and annual work programmes respond to that?
2. **Foresight in audit:** Building foresight into the audit work (e.g. foresight influences audit scope, questions and methods). E.g. using scenario planning for risk assessment and formulate recommendations that will still be valid in 3-5 years.
3. **Auditing for foresight:** How can the ECA support anticipatory governance practice by EU institutions and governments (i.e. assess if Commission services have considered relevant future scenarios)?
It is important to emphasize that foresight should be a fundamental aspect of the organisational mindset that requires top-level leadership support. Moreover, staff from all services have to be involved in the foresight activities to ensure broad engagement. Leveraging external resources and partners will be key, which helps the ECA to be more aware of outside signals and follow current and future developments closely.

**Implementing foresight**

The next steps for the SFAP and the Strategy and Foresight Office will be to develop the foresight ecosystem and make foresight part of the ‘way we work’ at the ECA. Mainly by identifying which processes and products could add value – both internally as for our stakeholders – to the already existing portfolio of ECA products, and by promoting strategic foresight as key component of ECA culture and mind-set.

Another element of the foresight work is related to the ECA’s ambition to make optimal use of available technology and to take advantage of innovative digital technologies, for which we will continue to closely monitor global technological developments.

Finally, the ECA will engage in trend watching, which is the backbone of general foresight activity. This recurrent scanning of our environment, using written sources and expert contacts, will feed into multiannual strategies, and help the ECA to make informed choices for strategic goals, described in terms of impacts we want to achieve.
In the Finnish epic Kalevala, a powerful blacksmith Seppo Ilmarinen forges a legendary artifact called Sampo in return for marrying the daughter of the Mistress of North. In Finnish mythology, Sampo often reflects to an artifact that brings riches and wealth to its holder. Although we are not blacksmiths of any kind, a Sampo of our own was exactly what we wanted to bring to the National Audit Office of Finland (NAOF). In the end, our team of four ended up creating a rather good draft version of one, and we were also able to break the myth of innovating new ways of working in the conservative world of auditing.

In May 2018 NAOF launched the Young Professionals’ program, in which the four of us started our careers in the field of auditing. Besides working in various auditing tasks, we were assigned an ambitious project by our Auditor General Tytti Yli-Viikari. Her modest request was to “Bring Artificial Intelligence to the office”. As most of us had just graduated from university, without any expertise in AI or data analytics, the one-year project sounded exactly like something only a powerful blacksmith from Northern mythology could pull off. Nevertheless, we decided to stay open-minded and started working on our own AI-artifact bringing wealth and fortune.

So, where to start when the only beacon guiding the way is an ambitious goal? We knew that we had to deepen our understanding of data analytics and AI. At the same time, we also had to learn about the environment that we were working in, and the sort of AI solutions that would benefit the organization in question and hopefully even support audit work.

What you do first, is that you gather information. We attended seminars and trainings on data analytics and AI. We reached out to the staff of NAOF, we asked them about their work and the existing data analytics solutions, and the auditors’ thoughts and needs regarding technical solutions. We also met up with experts within different governmental sectors and discussed the bigger picture; how could we track and utilize real-time data on different public projects? We also met up with our colleagues from Norway, The Netherlands and ECA. Especially the meetings with our international colleagues gave us a lot of inspiration and confidence. We saw that it is possible to work in a somewhat unorthodox way within an audit office and that there are plenty of possibilities to utilize data analytics in the field of auditing.

While working as a tight group for six months, gathering information and throwing ideas at each other, we quickly realized that the four of us together form a broad set of skills. Our knowledge were maybe not the typical skills which by themselves could code and deploy the perfect AI-based auditing tool. Our skills were soft skills, like the capability to innovate and respect each other, motivate, and most importantly: courage to try and possibly even fail. These skills alone make a good team, however unfortunately, one cannot code nor understand the needs of auditing solely relying on these skills.

We had reached a point in where we had a rather comprehensive idea of what AI could look like in a SAI environment. We also we that we were brave enough to give some kind of a solution a try. What we still needed was someone who spoke code, another one who spoke auditing especially the data utilized in audits, and most importantly a problem to be solved. Finding an operator on the first field and fixing them up with our auditors, was exactly what we needed.

It was our soft skills that brought these experts together. Technology is rapidly changing the skills needed in the future, and soft skills have been highlighted to be more important than ever. (The
Future of Jobs Report 2018, World Economic Forum). Soft skills can find answers to questions such as: do we understand each other and are we talking about the same thing, what do you need from us in order to succeed, what can enable us to find answers and ideas, how do we make an environment where everyone feels safe to express their ideas and opinions in order to utilize all our potential?

These soft skills were critically important when we invited twenty auditors and several coders and AI specialists to create a Sampo together with us in a workshop. Here, we could combine all the knowledge needed. We were able to help the auditors to understand the capabilities of data analytics and the coders to understand the needs of NAOF. This workshop method in cooperation with a private technology company was a completely new way of working in our office, and it proved to be fruitful. Since our main task was to create a new tool that could be used by auditors in their everyday work, we really wanted a diverse group of people engaged in the project from the beginning. During this workshop, we managed to phrase a problem our auditors continuously needed to solve, and we realized that data analytics and AI just might be the solution.

The tool that we created analyzes procurements. Although still a rough prototype, the tool detects risky procurements for auditors. This enables auditors to find the interesting cases without having to go through all the huge masses of data. Data on procurements are shown in relevant dashboards and visualizations. We also added an AI-based network analysis of all the procurements. This network gives the auditors a bigger picture of the products and services that are procured, from which providers, and to whom.

The process of creating our Sampo was a true success story. At the same time, this was a very demanding project. Luckily our team consisted of four determined personalities that each had a lot of Finnish ‘sisu’, meaning persistence or guts. We were fortunate enough to have the full support of our supervisors and Auditor General, who gave us the mandate to develop new audit technology. Eventually, it was our talent to cooperate with different stakeholders and willingness to learn, that helped us to overcome all the obstacles that were between us and the goal.

Whereas Ilmarinen forged Sampo, our Sampo was glued together. It consists of bits and pieces. The bits were the fantastic people that we met along the way and the pieces were the amazing ideas and expertise that our passionate colleagues had. As for the Young Professionals, we were the glue bringing the people and ideas together.

Although Sampo often symbolizes an artifact, in this case the Sampo bringing wealth to NAOF was not the tool we created, but the way in which we all worked together. The tool itself will not bring wealth nor riches to NAOF. But if we manage to utilize this way of working again and again, we can truly become wealthy in ways that cannot be measured in money but measured in knowledge, the value of true cooperation and enthusiasm to push through, innovate and see possibilities instead of obstacles.
RECIPE FOR EXPERIMENTS

INGREDIENTS:

4 pieces recent graduates
1 liter hunger for learning
7 dl open-minded leadership and colleagues
a dozen interesting stakeholders
99 problems (if you can’t find problems in your cupboard, you can use challenges as well)
0 fear of failing

STEPS:

1. Give the team free rein to experiment even if they don’t know anything about auditing
2. Allocate required resources and time
3. Bake for a year in the SAI auditing oven 80°C (But watch out for burnouts!)

THE END RESULT SHOULD LOOK SOMETHING LIKE THIS:
RELIANCE ON PRIVATE SECTOR AUDITORS IN ASSESSMENT OF COMPLIANCE ISSUES AS A PART OF FINANCIAL AUDITS (RENUMERATION OF MUNICIPAL COUNCILLORS)

Already for a number of years, the State Audit Office of Latvia (further in the text – SAO Latvia) relies on opinions of private sector auditors, when auditing the Annual Consolidated Financial Statement of the State. The latter includes, among others, financial statements of 119 municipalities. When auditing the ‘municipal part’ of the consolidate statement, the SAO Latvia acts as the Group auditor, while private sector auditors perform tasks of Component auditors as per ISSAI 26001.

The above cooperation mechanism seemed for the SAO Latvia to be the most efficient solution, simultaneously fulfilling requirements of relevant national laws. Namely, the law requires municipal financial statements to be annually audited by private sector auditors, while another law mandates the SAO Latvia to perform financial audits of Annual Consolidated Financial Statements of the State, where municipal financial statements are consolidated.

Up to the year 2019 private sector auditors touched upon the compliance issues only to the extent required by ISSAI 22602, namely – verifying compliance assertion in terms of focusing on laws and regulations directly affecting financial statements. When planning audits of municipal financial statements for the year 2018 the SAO Latvia as the Group auditor decided to invite private sector auditors to expand the scope of compliance issues. This was done for the following reasons.

Already when auditing municipal financial statements for the year 2017 the SAO Latvia had identified quite diverse approach by municipalities when 'interpreting' the law with regard to determination of the level of remuneration for municipal councillors.

The SAO Latvia had sampled 30 municipalities, where compliance with relevant laws3 was examined in detail. As a result, a number of inconsistencies with laws and regulations were identified in both - determining the level of remuneration and applying internal regulations in practice. It is also worth mentioning that two state authorities - the State Chancellery being responsible for developing remuneration policies in public sector and the sectoral ministry4 being responsible for monitoring municipalities had issued

1 ISSAI 2600 “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors”).
2 ISSAI 2250 “Consideration of Laws And Regulations in an Audit of Financial Statements”.
3 The Law on Remuneration of Officials and Employees of State and Local Government Institutions.
4 The Ministry of Environmental Protection and Regional Development.
differing guidance, therefore differing approaches to remuneration policies at the municipal level did not come as a surprise. Consequently, the SAO Latvia issued recommendations to sampled municipalities to remedy shortcomings and ensure compliance with the law.

Given the significance of the issue and when planning the audit of 2018 financial statements, the SAO Latvia defined remuneration for municipal councillors as the compliance issue to be audited in detail in all 119 municipalities. In 2018 audits the above task was entrusted to private sector auditors as Component auditors.

This cooperation led to series of more elaborate conclusions that complemented our initial findings and would be useful for future audits as well.

Namely, said cooperation allowed us to avoid sampling and ‘cover’ 100% of auditees, as well as scrutinize verifications by getting deeper understanding of the particular control environments.

In a result of our cooperation we also learned some lessons. For example, careful and scrupulous methodological management of the ‘group work’ and timely guidance for Component auditors are crucial to obtain a consistent and consolidated view to base our own opinion on.

We also got another assurance that self-assessments after any ‘pilot exercises’ and/or tests are essential, as making mistakes and errors is a usual practice while developing any new performance models and tools. We must learn from mistakes to ensure better result in the future.

The process of cooperation between the SAO Latvia and private sector auditors in the assessment process of the compliance issue was as follows:

![Diagram showing the process of cooperation]

**Note to the figure:**
LAPSA – Latvian Association of Private Sector Auditors

The Terms of Reference for Component auditors included several documents:

- Guidance for assessing the compliance issue, including the process description, description of potential outcome and sources of information;
- Template in Microsoft Excel format to be filled-in by Component auditors;
- Template for auditor’s report and opinion.

In order to answer the **key question** “Does the procedure for determining the level of remuneration of municipal councillors complies with the law and whether the amounts paid to municipal councillors do not exceed the limits defined in the law?”, the auditors were mandated to assess:

01 Compliance of the procedure for determining the level of remuneration for municipal councillors and the applied practices in calculating remuneration amounts; and

02 Corrective actions by municipalities in eliminating inconsistencies, if any, and ensuring compliance with laws and regulations.
When assessing the answers to both sub-questions and considering the type of compliance opinion, the SAO Latvia used the following ‘materiality’ assumptions:

<table>
<thead>
<tr>
<th>Sub-question 1</th>
<th>Sub-question 2</th>
<th>Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complies fully</td>
<td>Complies fully</td>
<td>Unmodified opinion</td>
</tr>
<tr>
<td>Complies partially</td>
<td>Complies fully</td>
<td>Unmodified opinion with ‘emphasis of matter’</td>
</tr>
<tr>
<td>Complies partially</td>
<td>Complies partially</td>
<td>Qualified opinion</td>
</tr>
<tr>
<td>Complies partially</td>
<td>Does not comply</td>
<td>Adverse opinion</td>
</tr>
<tr>
<td>Does not comply</td>
<td>Complies fully</td>
<td>Qualified opinion</td>
</tr>
<tr>
<td>Does not comply</td>
<td>Complies partially</td>
<td>Qualified opinion</td>
</tr>
<tr>
<td>Does not comply</td>
<td>Does not comply</td>
<td>Adverse opinion</td>
</tr>
</tbody>
</table>

In addition, the criteria were set for the assessment of each sub-question. Eight criteria (with several sub-criteria for each of them) were set to assess the sub-question.

**01**
Compliance of the procedure for determining the level of remuneration for municipal councillors and the applied practices in calculating remuneration amounts’ while one criterion (with two sub-criteria) was set to assess the sub-question.

**02**
Corrective actions by municipalities in eliminating inconsistencies, if any, and ensuring compliance with laws and regulations.

To facilitate the work of Component auditors, the SAO Latvia developed a Microsoft Excel file to be used as guidance:

<table>
<thead>
<tr>
<th>Identification of the audit (title, number, compliance issue) and table of contents;</th>
<th>Sheet 1</th>
<th>Sheet 2</th>
<th>Sheet 3</th>
<th>Sheet 4</th>
<th>Sheet 5, 6, 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instructions, explanation for completing the questionnaire, ‘materiality of sub-questions and criteria (scores);</td>
<td>basic information (municipality, auditor, list of councillors, laws and regulations, sample size, period);</td>
<td>questionnaire; data from the municipality (totals of the components of the councillor remuneration during the audited period);</td>
<td>examples of how to fill-in the questionnaire.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Component auditors had to mark the appropriate answers in the Microsoft Excel file by adding their justification/explanation in the notes, thus obtaining the total score serving as the basis for opinion.

The output of the work of Component auditors was formalized in a specific template, developed by the SAO Latvia, and submitted to the SAO Latvia and the relevant municipality.
However, certain audit procedures were still to be performed by the SAO Latvia as the Group auditor in order to finalize the assessment of the compliance issue.

Private sector auditors of three big cities refused to perform the task assigned to them by the Group auditor without additional payment. Consequently, the SAO Latvia obtained the necessary data from those municipalities in order to perform its own assessment. Furthermore, verification of the quality of work of Component auditors was another pending task to be performed by the SAO Latvia as the Group auditor.

It is worth mentioning that the SAO had noticed differing interpretation of laws and regulations among Component auditors as well. This was the issue to be discussed and clarified to avoid any negative impact on the SAO Latvia opinion.

The SAO Latvia, as the Group auditor, learned certain lessons and concluded that cooperation with private sector auditors should be improved, more guidance to Component auditors given already during the audit planning phase and responsibility of the SAO Latvia as the Group auditor strengthened.

To this end, the SAO Latvia disseminated information on forthcoming compliance issue to be audited during the audit of the financial year 2019 already in the beginning of 2019. This information was supported by more detailed methodological tool-kit developed by the SAO Latvia and aimed at supposed to ease the fulfilment of the task. While after issuing the compliance opinion for the financial year 2018, we followed the regular procedure and held a meeting with Component auditors to discuss the audit results and questionable issues, and draw future cooperation opportunities.
To develop audit professionals and ensure a more efficient synergy of audit methodology and practice, in 2019 the National Audit Office of Lithuania (NAOL) launched an internal internship programme for principle auditors.

On rotating basis auditors will be able to join the audit methodology team for a period of one year to improve their knowledge and acquire new one.

Such internships are an excellent opportunity to develop a practice-based learning system and allow both parties to gain new experiences and skills. The auditors who will have used this opportunity will encourage the dissemination of new audit methods and practice in the institution. They will be able to consult on introduction and application of audit methodology, will conduct analyses necessary for audit methodology and quality assurance system as well as facilitate the quality assurance procedures – methodological reviews during ongoing audits.

Director of Audit Development Department Inga Tarakavičiūtė notes that this initiative has been considered for several years now as the idea to more
closely connect and integrate methodological and practical audit knowledge has always been the NAOL goal. We believe that there may be no division between them. Having invited an auditor practitioner to methodology team we want to broaden our knowledge and ensure a feedback - to share our methodological skills with auditors. After one year of internship auditors will be able to transfer the new knowledge to their colleagues. This will be like a possibility to try on another professional hat allowing an auditor who receives methodology consultations to become the one who provides the consultations to others.

It is also a valuable experience for a team of audit methodologists who are not directly involved in audit process to take an intern on board. Principal Auditor Aušrinė Asanavičienė, the first NAOL auditor to take part in internship programme, will be offered a unique possibility to daily interact with audit methodology practitioners and to consistently analyse how the highest methodological requirements are applied in various stages of audit process. Furthermore, with the advantage of both practical and theoretical knowledge, Aušrinė and other NAOL auditors will be able to discuss the improvements in audit process so that it meets the most recent and efficient practices.

“Audit quality assurance aimed at increasing audit impact is the main objective of any auditor. Rotation to the Methodology Division not only directly reflects the institutional values – cooperation, professionalism, responsibility, and innovation, but also allows to contribute to introduction of innovations tested in practice to the development of new ways of conducting audits or audit approaches. I think that a prolonged execution of one task poses a risk of getting stuck in one process and putting your creativity to sleep. The rotation experiment will allow to enhance my audit skills and competencies as well as acquire new ones the development of which becomes a challenge in the repeated audit process”.

There is no doubt that after one year of internship both methodologists and audit practitioners will have developed their competencies. The methodology team will acquire “an ambassador of methodology” in audit departments while the new partnership in day-to-day work and cooperating in projects linking both sides will continue thereby ensuring a smoother audit quality assurance process in the institution.
ARE THERE TWO SOULS WITHIN YOUR BREAST TOO?

Michel Huissoud, President of the Swiss Federal Audit Office

As auditors, we are the champions of financial regularity, compliance and risk reduction... The more control, the happier we are. But we tend to neglect the cost-effectiveness of administrative activity. However, financial control is never for free. Introducing a new reporting system or reinforcing the second line of defence can entail considerable expenses. So are they really necessary and profitable?

We have come to understand that some of our auditees’ objections were probably legitimate. Like when we were accused of having recommended a control system with no benefit whatsoever; or the costs of which stood in no proportion to the meagre risk reduction. How should we discuss such issues peacefully with our auditees?

On the other hand, we are aware that some recommendations can be useful but at the same time dangerous. Here is a typical example: Raising the threshold for two signatures to trigger payment of an invoice from 500 to 5000 Francs may well reduce the workload and costs involved in the process. However, are we willing to accept the heightened risk involved?

Besides, how should our internal quality assurance deal with this dilemma?

In 2018, we created the chart below as an instrument to help assess our recommendations. Its axes represent our conflict of objective: The vertical axis is the axis of compliance (therefore c-axis): The higher up a recommendation ranks, the lower the risk of error and fraud entailed. The horizontal axis represents economisation (therefore e-axis): The more to the left, the higher the costs, and the more to the right, the more we help save money because the costs of implementation remain below the increase in efficiency.
Line not to be undercut

For e-axis:
Take all costs into account, including those for other agencies, but do not include any hypothetical indirect costs such as possible liabilities vis-à-vis third parties due to poor oversight.

At any rate, do take into account all benefits, including those for other agencies, but do not include indirect financial benefits such as those resulting from better prevention.

An imaginary red line marks our objective to issue recommendations that help increase performance while at the same time saving costs.

In the upper right square, you might find for example the ideal recommendation to merge three minor legal recovery services, thus enabling a reduction in staff, standardizing the IT tool and even hiring an excellent financial recovery specialist.

The situation on the top left is more delicate: Typically, you will find the recommendation for better IT access control here. There is the initial investment in an automated control system, resulting in significant risk reduction at no further costs.

On the bottom right, we have the courageous recommendations: «No risk, no gain». While this is usually the square least favoured by auditors, it also holds the greatest potential. This has to do with the central philosophical question: What should the role of an SAI be in the evolution of their public administration? Is it that of an obstacle to innovation and to the simplification of processes or do we prefer that of a motor of change, identifying inert and complicated procedures and useless requirements?

Whenever arguing the surplus value of a recommendation, our chart is now part of our internal discussion and of that with our auditees. And even when we don’t reach a consent, the discussion is always enriching!

There is no copyright on the «Swiss Red Line Chart» and we encourage you to test it. Your feedback is very welcome!