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EUROPEAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
editorial

the III eurosai congress was held in may, 1996, and proved to be a highly satisfactory occasion and a forum for mutual encounter, communication and professional advancement.

the relationships established with the new members of our organisation provided us all with an opportunity to exchange wide-ranging and rewarding experiences.

To a large degree, the prestige and resources of our organisation stem from the geographical and cultural blend of its members. On another level, the forging of a new Europe, building unity in diversity and setting up homogeneous and democratic political systems, requires the backing of uniform systems for controlling the management and disposal of public funds, over and above the diversity of the members.

In its capacity as a forum for piloting and debating technical aspects of audit activities in the public sector, eurosai represents a small but important step towards sealing a common cause: the future of a more prosperous and solidary Europe.

In keeping with the aims of our organisation, the eurosai magazine helps promote understanding and professional and technical cooperation among members. I would like to thank everyone who has participated in this edition for their contribution, and hope to encourage other members to follow suit. The publication of the magazine in five languages has proved to be a very rewarding effort, and has met with wide acceptance, in particular the Russian and German-language editions.

Finally, I would like to say that this new issue of the eurosai magazine consolidates the medium which year by year helps strengthen our relations; the journal provides an element for reflection, combining items of general interest with reports and studies that highlight individual experiences that are of particular interest to other members.

milagros garcía crespo, secretary general of eurosai.

president of the spanish court of audit.
EUROSAI ACTIVITIES IN 1996

1996 was a very active year at EUROSAI, and three Governing Board meetings were held.

The first was hosted by our efficient Swedish colleagues in Östersund (Sweden) on February 13-14. Among other items on the agenda, the meeting resolved the issue of the quotas pending from various member countries, and it was agreed that Croatia would be admitted as a member of the Organisation.

The Governing Board held two more meetings, on May 19 and 23, in the beautiful city of Prague. The meetings were staged within the framework of the III Congress. The programme for future activities of EUROSAI was one of the points for discussion at these meetings.

In addition to these high-level meetings, the Organisation has been active in other ways. Thanks to the effort and collaboration of many colleagues, and as scheduled, the third issue of the EUROSAI magazine was published, and in December, the first EUROSAI NEWSLETTER was drafted and distributed.

Throughout the year, the Secretariat has been attending to enquiries and providing information about EUROSAI. As an example of this, enquiries were received from lecturers at Spanish and foreign universities, seeking information for their theses on external audit in Europe, and from members of the Courts of Audit of other INTOSAI regional groups, and particularly from Spanish and Portuguese-speaking countries.

All in all, and assisted by the fluid communications link that has been established between all members, 1996 witnessed a further strengthening of the commitment of our Organisation.

III EUROSAI CONGRESS IN PRAGUE

The III Congress of the Organisation of European Supreme Audit Institutions - EUROSAI - was held in Prague from 20-23 May.

The president of the host supreme audit institution, Mr Lubomir Volenik, gave the opening address at the official inauguration, and thanked all the members for attending.

Mr Václav Havel, the president of the Czech Republic, took the floor and in his speech he emphasized that it was the first time that the EUROSAI Congress had been
held in a country that had witnessed an interruption of the normal development of its institutions over a span of two generations. He also stressed the importance of cooperation between supreme audit institutions as a major factor in the integration processes in hand. Finally, he underlined the importance of public audit activities in securing confidence in public institutions.

Mrs Inga-Britt Ahlenius, who is stepping down from the chair of EUROSAI, brought the session to a close.

Two items for debate were discussed at the Congress. The first main issue was "The Audit of Privatisation" as a continuation and development of the debates held at the Privatisation Seminar in Warsaw in 1995.

Mr Janusz Wojciechowski and Mr Pierre Joxe were elected to chair this session, and Mr Wojciech Jan Kattner and Mr Didier Gasse were responsible for reporting.

The following main conclusions were reached: privatisations had a very special impact on countries from Central and Eastern Europe, within their general process of democratic transformation.

Supreme audit offices can play a major role in these issues, not only by detecting irregularities but also by raising the degree of efficiency of the procedures, through implementing a series of measures. These measures include extending the scope of the audit control procedures, strengthening the position of the SAI by placing greater importance on the reports, improving procedures for auditing banks and financial agencies, and providing a means for the SAIs to exchange information and experiences at domestic and international level.

Privatisation of the banking sector poses a great challenge for control institutions, hence the importance of carrying out efficient auditing subject to the possibility of gaining sufficient access to bank information.

The perfecting of the auditing procedures of privatisation calls for greater cooperation among EUROSAI members, through, for example, the setting up of groups of experts.

The second item for debate at the Congress was "The Relation of the Courts of Audit with the Parliament, the Internal Audit, Jurisdiction and the Mass-Media".

The contributions made by several members at the seminar held in Neptun (Romania) in September 1995 were considered, as a basis for reviewing this question.

The session presidents elected to chair the second issue under debate were Mr Victor Lunca and Mr Giuseppe Carbone, and the reporters were Mr Victor Lunca and Mr Ennio Colasanti.

The following main conclusions were reached at the Congress on this second issue. It is essential to establish close relations between the internal audit institutions and the supreme audit offices, both for their mutual benefit and that of their countries, while respecting the autonomy of both bodies.

There should be a closer link between the SAIs and the judicial authorities, with a view to seeking improvements in the prevention and penalisation of fraud and corruption, and coordinating auditing and jurisdiction activities.

Finally, it is essential to make the SAIs reports available to the public.

At the first plenary meeting, the Secretary General of EUROSAI, Ms Milagros García Crespo, presented the Secretariat's report to the III EUROSAI Congress. She described the activities that had taken place since the last Congress, and in particular explained that a project for a basic glossary in the official EUROSAI languages had been drafted and distributed, and that national reg-

Mr N. Schmidt-Gerritsen, Director of Foreign Affairs at the European Court of Auditors (centre), Mr F. Fiedler, Secretary General of INTOSAI (right), and Ms Schmidt-Gerritsen, at the inaugural reception.
Mr Václav Havel, President of the Czech Republic, during his address at the III EUROSAI Congress. May, 1996.

Discussions had also been distributed to members. Finally, the Secretary General provided details of the Secretariat’s database, and referred to the distribution of Issues 1 and 2 of the EUROSAI magazine.

Mr Vecdi Gümül presented the auditors’ report for the period 1993-95, and confirmed that the accounts statement clearly reflect the financial position of EUROSAI for that period.

Ms Milagros García Crespo presented the draft proposal modifying the organisation’s statutes, and pointed out the changes in the number of members on the Governing Board. She went on to explain that, as a compulsory measure, members would be sent the draft of the modification of the statutes thirty days in advance. The proposal was passed by the Congress.

At the second plenary meeting, the conclusions of Issues 1 and 2 were passed, as well as the Governing Board’s recommendation for the French SAI to host the IV EUROSAI Congress in 1999. The SAIs of the United Kingdom and Estonia were also appointed as new members of the Governing Board of EUROSAI.

The Secretary General of EUROSAI, Ms Milagros García Crespo, presented the Congress with a proposal for increasing the membership fees of EUROSAI by 5 percent to cover the new budget. This would apply to all members.

Ms García Crespo also gave details of a draft budget proposal for the period 1997-99.

Both these proposals were passed by the Congress.

The SAIs of Turkey and Ireland were appointed as EUROSAI auditors for the next three years.

Mr Lubomír Voleník, who was appointed President of EUROSAI at the III Congress in Prague. May, 1996.

Congress closing address given by the Minister of Foreign Affairs of the Czech Republic, Mr Josef Zielene, and Ms L. Ahlenius, the outgoing President of EUROSAI; Mr L. Voleník, the newly-appointed President; and Ms M. García Crespo, Secretary General of EUROSAI.

The Minister of Foreign Affairs of the Czech Republic, Mr Josef Zielene, addressed the meeting, and finally Mr Lubomír Voleník announced the official closure of the III EUROSAI Congress.

Mr P. Joxe, President of the French Court of Audit, during the work sessions.
ADDRESS OF THE CZECH PRESIDENT, VÁCLAV HAVEL

Dear Presidents and guests, ladies and gentlemen,

The EUROSAI Congress is held for the first time in a country where the promising development of social institutions and bonds was forcibly severed for two generations. The Theresian tradition of an enlightened audit concept was smoothly picked up by audit institutions between the World Wars. However, all this was destroyed and rendered useless by the distorted concept of audit in the service of the power monopoly of party oligarchs, which was governed by the principle that “everyone is always guilty, but it does not matter as long as he or she obeys.”

Documents of the Congress indicate that cooperation among supreme audit institutions represents an important segment of those integration processes which do not take place in the limelight of mass media. It is a continuous and ongoing process - there are few exciting or breakthrough moments for journalists. It is not as visible as transport infrastructure projects or environmental programmes. However, all this probably makes the effects of the cooperation of auditors deeper and more efficient.

What constitutes cooperation here are everyday tasks and their results. By cross-examining the extent and substance of public finances in their respective countries, and then mutually comparing and fine-tuning the criteria they use in their critical reviews, supreme audit institutions are doing a lot of useful work, paving the way for more visible integration processes.

I wish your Congress and EUROSAI virtually the same as I wish my Czech and European fellow-citizens. Be as successful as possible in confirming the truth, so that audits do not become a tool of general mistrust, but propagate trust instead. A strengthening of the creditworthiness of public institutions is a way to improve the self-confidence of citizens as well.

Thank you for your attention.

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OFFICIAL LIST OF PARTICIPANTS AT THE III EUROSAI CONGRESS

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European Union

SPECIAL REPORT ON “THE IMPLEMENTATION OF INTERVENTION MEASURES PROVIDED FOR BY THE COMMON ORGANIZATION OF MARKETS IN THE SHEEP AND GOAT MEAT SECTOR”

The first special report which marked the close of 1995 at the European Court of Auditors examines the operation of the common organization of markets in the sheepmeat and goatmeat sector since 1989 and the achievement of its objectives, i.e. the stabilization of markets and the improvement of the living standards of the farming population concerned, all assessed from the viewpoint of sound financial management.

The Court carried out its enquiry both at the Commission and in the seven Member States, which together account for over 95% of the sector's expenditure, i.e. Greece, Spain, France, Ireland, Italy, Portugal and the United Kingdom.

It was thus able to observe the existence of disparate management procedures and weak internal control systems. The battery of measures introduced to manage the rapidly growing budgetary expenditure in this sector have only enjoyed partial success, which prompts the Court to recommend that the Commission review the present unsuitable CMO mechanism, which, moreover, is helping to increase competition with beef and veal, the surpluses of which are a great burden on the Community budget.

The Court believes that the premiums should be a lot more selective and aim mainly to support the income of producers whose livestock is located in a less-favoured region or where other activities are unprofitable.
THE MANAGEMENT OF THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND (EAGGF), “GUIDANCE” SECTION EXPENDITURE, IN PORTUGAL FROM 1988 TO 1993

The Accession Treaty for Portugal provided for the implementation of a specific programme (PEDAP) to assist the integration of Portuguese agriculture into the Community. In a special report adopted in October 1995 the Court assessed the soundness of the financial management of the Community resources intended for this programme with a view to determining whether the funds had been spent in due consideration of the criteria of economy, efficiency and effectiveness. It thus concluded that the results of certain major sub-programmes fell far short of meeting the requirements and objectives established. In particular, the effectiveness of certain measures proved to be completely inadequate.

The report also revealed other shortcomings affecting the administrative and control procedures implemented by the Portuguese authorities.

To conclude, the Court is of the opinion that both the Commission and the Portuguese authorities are to blame for the errors it detected, especially as regards the lack of attention paid to checking the economic viability of major commercial projects.

LIAISON OFFICERS’ MEETING OF APRIL 16-17, 1996 IN MADRID

At the invitation of the Spanish Court of Auditors, the meeting of the Liaison Officers of the National Audit Institutions took place in Madrid on 16 and 17 April under the chairmanship of Mr Delgado Sánchez.

The items on the agenda of this meeting included, amongst other things, the European Court of Auditors’ Statement of Assurance which was discussed at great length, mainly from the viewpoint of cooperation with the national audit bodies. Mr Wiggins, the British Member of the European Court of Auditors, was present on this occasion.

Mr Clemente, the Italian Member of the European Court of Auditors, took part in the discussion on joint audits, pointing out that two sectors (the Structural Funds and Development Aid sectors) were now ready to organize new joint audits.

Mr Schmidt-Gerritsen, the European Court of Auditors’ Public Relations Director and Liaison Officer, presented a paper on cooperation between the European Court of Auditors and the national audit bodies, which was multi-faceted and often gave rise to comments and questions as regards procedure. The NAIs were requested to make proposals to the European Court of Auditors in this particular area of EC/NAI relations with a view to drafting a resolution (which may include the possibility of setting up a working-party) to be submitted to the Contact Committee of NAI heads.

The other topics discussed included the record of activities and prospects for the “ad hoc” VAT working party, the report of the working party on the application of Articles 92 and 93 of the EEC Treaty and the report of the “ad hoc” working party on general auditing standards. The subjects of the certification of the EAGGF-Guarantee accounts and the transposition into domestic law of Community standards regarding public contracts were also raised.
1995 ANNUAL REPORT OF THE EUROPEAN COURT OF AUDIT

On November 12, 1996, the President of the European Court of Audit, Mr Bernhard Friedmann, submitted the 1995 Annual Report and Statement of Reliability to the European Parliament. This report contains numerous examples — which in many cases are identical or similar to those identified in previous years — of unsatisfactory accounts and financial management.

4,000 million substantial errors in payments transactions were identified in 1995. The errors were very varied and occurred mainly at Member State level (90%), and particularly among the local institutions responsible for handling the transactions (22%), and among the beneficiaries themselves (54%). 36% of the errors affected the FEOGA-Guarantee, and 42% per cent affected the Structural Funds.

The Commission’s management role was also criticised. The Court particularly emphasized the need to introduce procedures for reviewing accounts, and the need for the regulations governing the management of Structural Funds to be drafted clearly and fully.

In his presentation to the European Parliament, and in connection with the budget income item, Mr Friedmann pointed out the drop in VAT income as a result of the removal of tax boundaries on 1/1/93, and the Court’s dissatisfaction with the GNP calculation made by each Member State.

In expenditure, Mr Friedmann indicated that the common agricultural policy which was introduced in 1992, is beginning to reap results, although there are still problems in some production sectors. As far as the Structural Funds are concerned, the main comments referred to the need for an adequate criteria in assigning the funds, and, in particular, the corrective measures which should be applied to avoid differences between the value of payment credits and the payments actually made.

Within the scope of banking transactions, the European Court of Audit regretted that it had not been in a position to carry out a satisfactory audit of the European Investment Fund.

In the field of research, a large percentage of the payments made to certain institutions contained irregularities.

As regards the Central and Eastern European countries (CCEE), the contracts signed at the end of 1995 experienced a delay in meeting the commitments of approximately ECU 2 billion in the PHARE programme, and approximately ECU 644 million in the TACIS programme.

The audit of the funds for cooperation with developing and third countries shed light on major variances between commitment and payment credits, as well as the rise in the number of commitments in December, 1995.

In connection with the European Development Fund (EDF), the Court found that some countries had failed to fulfil their commitment to pay special attention to the most underprivileged groups, in particular as regards the use of readjustment funds.

Nevertheless, the Court’s Annual Report did have encouraging news. The Commission has, in several instances, made progress in the introduction the improvements required for achieving satisfactory accounts and financial management.

Finally, the Courts again insisted on the fact that the prevention of fraud and squandering was time far better spent than their detection and subsequent penalisation and recovery, which often presented difficulties.

In expenditure, the common agricultural policy which was introduced in 1992, is beginning to reap results.

In connection with the European Development Fund (EDF), the Court found that some countries had failed to fulfil their commitment to pay special attention to the most underprivileged groups.

SPECIAL REPORTS OF THE EUROPEAN COURT OF AUDITORS

In 1996, the European Court of Auditors passed three special reports.

Special Report 1/96: MED Programmes

The MED programmes involve action in conjunction with other Mediterranean countries, aimed at promoting the development of an area of prosperity in the Mediterranean and, on a political level, at boosting the process of democracy and regional integration in these countries. In 1992 and 1994, the European Community financed five MED programmes, for a total ECU 75.8 million.
As a result of its auditing work in this field, the Court detected substantial irregularities and deficiencies in financial management, due both to the weakness of the design of the programmes and to the inadequacy of the tools created to assist both their management and monitoring. The Court has advised the Commission to review the way the programmes are designed, managed and performed, and for its part, the Commission has decided to implement adequate corrective measures.

Special report 2/96: AMUE (Mostar)

This second Special Report was passed in July, 1996, and deals with the European Union’s administration of the city of Mostar in former Yugoslavia. In this connection, in May, 1994, the Board decided to take common action within the framework of the Common Foreign Policy and Security Plan (FPSP), designed for the administration of Mostar, one of the cities most affected by the fighting in Bosnia-Herzegovina.

In its report, the Court emphasized that the political objectives, which include the re-establishment of peaceful relations between sectors of the city, had taken time to achieve, because of the difficulty in securing the cooperation of the parties concerned.

However, the results of the economic objectives (the re-building and new development of the city’s infrastructures) were more or less in line with initial intentions.

The Court indicated that there had been some weaknesses and anomalies in both the financial management and the control of Community funds destined to be used for the administration of the city. The signing-on of staff to help the Administrator also posed some problems.

Special Report 3/96: Tourism policy and its promotion

In this field, the European Union’s activity had focused on specific actions aimed at promoting tourism (direct actions) and on specific Community structural actions mainly devoted to the development of infrastructures for tourism.

While the direct actions for tourism amount to less than 1 per cent of the budget resources earmarked for this area, the Court’s report focused on them in particular, because of their specific characteristics and because of suspected irregularities encountered in this sector in recent years.

Thus, the Court maintained that the Commission had been slow to react to the problem of alleged irregularities. As regards the management of the action plan for tourism, among other matters the Court highlighted the Commission’s lack of transparency in the selection of the projects, and the inadequacy of its audits.

The report came to the conclusion that a review of the management of the direct actions was called for, and that the Community’s actions to promote tourism should be better coordinated and evaluated, particularly within the framework of the Structural Funds.

The Court has advised the Commission to review the way the MED programmes are designed, managed and performed.

The Court indicated that there had been some weaknesses and anomalies in both the financial management and control of Community funds destined to be used for the administration of Mostar.

MEETING OF THE CONTACT COMMITTEE OF PRESIDENTS OF THE EUROPEAN UNION SAI

On November 19 and 20, 1996, the annual meeting of the Contact Committee of European Union SAI Presidents (national Courts of Audit from the Fifteen countries and the European Court of Auditors) was held at the European Court of Auditors in Luxembourg. At their meeting in Luxembourg in September, 1996, the Liaison Agents had drafted the items for the agenda, which included, in addition to the ad hoc working party reports (on VAT audit, sections 92 and 93 of the EEC Treaty, public contracts, general rules for controlling and coordinating the audit works) the following aspects:

- the evolution of the Intergovernmental Conference (IGC) work
- the Statement of Assurance drafted annually by the European Court of Auditors.
- cooperation between the ECA and the national Courts of Audit
- joint audit ECA-European Commission cooperation
- international fraud

At the request of the Italian Court of Audit, the question of monitoring the applica-
tion of the Maastricht parameters to Member States' budgets was also raised.

For his part, Mr Bernhard Friedmann, President of the European Court of Auditors, raised the subject of the CIG, vis-à-vis the proposals made by the Court in its report to the study group:

1) Confirmation in the Treaty of the European Court of Auditors' right to ensure that its auditing powers were respected, if necessary by lodging an appeal at the Court of Justice.

2) Recognition of the Court as the "Court of Audit for the European Union as a whole".

3) To include in the Treaty its right of access to all the information held by every institution responsible for managing income and expenditure on behalf of the Community.

The Contact Committee also agreed to set up a new working party to study the practical aspects of the relationship between the European Court of Auditors and the National Audit Institutions (NAI) in the Member States. Thirteen NAIs agreed to join the ECA on the working party. The German Court was appointed unanimously to chair the group.

At the close of the meeting, Mr Friedmann thanked all the participants for their support, and urged them to continue to give the European Court of Auditors their much-needed backing.

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**SEMINAR HELD IN LUXEMBOURG ON OCTOBER 21, 22 AND 23, 1996 ON COOPERATION BETWEEN THE EUROPEAN COURT OF AUDITORS AND THE 13 SUPREME AUDIT INSTITUTIONS FROM THE CENTRAL AND EAST EUROPEAN COUNTRIES (CEEC)**

A seminar was held at the headquarters of the European Court of Auditors in Luxembourg on October 21-23, 1996 at the request of the 13 Supreme Audit Institutions (SAI) from the Central and East European countries (CEEC), within the framework of their development and their integration in the European Union.

For this purpose, the President of the Court of Auditors, Mr B. Friedmann, chaired the meeting: "Actions to assist the CEECs, the new Independent States (former USSR and Mongolia)". and in conjunction with the member of the Court responsible for the audit section, Mr P. Everard, they welcomed the 13 delegations (35 people including the President of the CEEC Supreme Audit Institutions) and representatives of the European Commission, the European Parliament and EUROSAI.

Two introductory speeches were given at the seminar:

- "Perspectives and evolution of the relationships between the European Union and the CEEC (pre-adhesion strategy)", by Mr F. Lamoureaux, Deputy Director General of the European Commission (DGIA).

- "The role of EUROSAI in the European environment, and specifically in the CEEC", by Mr L. Volenik, President of EUROSAI.

Ms L. Ventura, who is an auditor at the European Commission (DGXX), gave a talk on the Commission's initiative "SEM 2000" (Sound Efficient Management - a programme to improve financial management-) and its repercussions on de-centralised management, and Mr S. Clark, the representative of
the European Parliament, gave a talk on the financial position after six years' cooperation with the PHARE countries (the PHARE programme is the main financial support tool for the CEEC strategy of pre-adhesion to the European Union).

The following three specific subjects were then discussed:

- The role of the SAIs in the framework of the pre-adhesion strategy, presented by Mr H Weber, member of the European Court of Auditors. Mr J. Uszkiewicz, Vice-President of the Polish Supreme Audit Chamber, completed this item with an explanation of how his institution has dealt with this matter in collaboration with the Hungarian Court of Audit (mainly at legislative level).

- The evolution of the PHARE programme towards a structural fund. Mr A. Castells, member of the European Court of Auditors and Mr J. M. Gavanier, Head of Division at the European Court of Auditors, went into greater depth on the functioning and the auditing methods of both programmes. Thereafter, the President, Mr B. Friedmann, analysed the repercussions of transforming the PHARE programme into a structural fund.

- The cooperation between the SAIs of the CEECs and the European Court of Auditors. This was presented by Mr G. Clemente, member of the European Court of Auditors, and Mr I. Sandor, Vice-President of the Hungarian SAI. In this context, the philosophy and experiences of joint audits were analysed.

Thereafter, the participants discussed the problems that the SAIs of the CEECs were encountering within the framework of preparations for adhesion (report by Mr J. Bogdan, President of the Romanian Court of Audit). In his capacity as Director of Foreign Affairs and of the Legal Service, and as Liaison Agent of the European Court of Auditors with the National Audit Institutions, Mr N. Schmidt-Gerritzen talked about the functioning and objectives of the structures introduced by the European Court of Auditors and the European Union SAI.

Representatives of the Commission (Mr H. Lohan, Head of the DGHA Unit) and of the SIGMA Programme (PHARE-OCDE, Mr Larsson) reported on their experiences in terms of institutional cooperation among the CEECs and the possibilities of cooperation with the SAIs.

At the close of the seminar, all the presidents of the different Delegations signed a declaration of cooperation, which will serve as the basis for the creation of a permanent collaboration structure, to help step up cooperation.
The Office of the Auditor General of Norway (Riksrevisjonen) and its place in the structure of government

BJØRG SELÅS
Vice Auditor General

Within the constitutional structure of government, OAG has always been part of the legislative branch. It stands independent of the executive branch and is answerable and subservient only to the Legislature (the Storting).

Origin and background

The Office of the Auditor General (OAG) is the controlling agency of the Norwegian Parliament - the Storting. Its origin goes back to the Norwegian Constitution of 1814 which provides that the Storting, for its four year term, shall elect five auditors general with a mandate to examine the annual financial statements of the Government which make up the Public Accounts of Norway.

The Audit Act of 1918 conferred upon OAG the full responsibility for auditing and certifying the accounts and records of all underlying agencies and institutions, which previously had been performed by a special ministerial auditing body within the Government itself. The act also requires OAG to examine and scrutinise all activities and dispositions undertaken by the Government or underlying agencies with respect to public funds and property of any kind. For this purpose OAG shall be provided with any and all information it requires and deems necessary to do its job.

These five Auditors General, one of whom is designated as chairman of the group, constitute the Board of the Auditors General, with overall directive and supervisory authority in all matters of general policy. Responsibility for the day to day management of the organisation rests with the chairman and the Deputy Auditor General. The Deputy Auditor General is the senior officer of the OAG with a special responsibility for co-ordinating and giving priority to the use of audit resources within the organisation.

The annual budget estimate of OAG itself is passed through the presidency of the Parliament before being forwarded to the plenary session for final appropriation.

Within the constitutional structure of government, OAG has always been part of the legislative branch. It stands independent of the executive branch and is answerable and subservient only to the Legislature (the Storting).

Audit Operations
Financial auditing

It is still an important part of OAG’s responsibilities to examine the annual financial performance auditing the emphasis is less on the amount of public expenditures and more on how and with what results.
statements of the Government, and to prepare and publish certified extracts of the Public Accounts of the nation.

This requires and presupposes a continuing process of current examinations and audits throughout the year of accounts and records of individual government entities (ministries, agencies, institutions, etc.), all of which ultimately are to be included or reflected in the Public Accounts.

Today, the financial audit is directed towards verifying that accounting procedures and financial statements conform to the stated accounting policies and principles of the Government, and that:

- individual transactions are duly authorised and correctly recorded
- accounts and statements properly and reliably reflect the underlying actual dispositions
- accounts and statements give a true and informative picture of the economic result for the period covered

Performance audit

In performance auditing the emphasis is less on the amount of public expenditures and more on how and with what results. Performance auditing involves a systematic evaluation of overall use and management of public funds and assets, based on a critical analysis of objectives, use of resources and results achieved. Financial and performance audit must not be viewed as mutually exclusive or contradictory, but rather as complementary. Traditional financial auditing will often provide a good and even necessary starting point for the more extensive and intensive performance audit. While performance audit has been executed since the beginning of the 1980's, a new department specialising only in performance audit was established in 1996.

Advisory activities

When irregular or doubtful dispositions have been uncovered, OAG may find it expedient and also sufficient to advise corrective measures for the future. The same limited reaction may also be suitable in cases where internal control routines and work procedures are unsatisfactory or need improvement.

In this respect OAG can act as a channel of information, by being able to provide ad-

visory circulars and guidelines used by other government entities and offices. It will also make available, where needed, its own knowledge of and experience with systems, procedures and routines which have been observed to work properly and satisfactorily elsewhere.

OAG is often solicited for hearing purposes in preparation of proposed legislative action, issuance of official regulations and ordinances and in matters of organisational changes within the Ministries.

Monitoring government revenue

An important responsibility for the OAG is to ensure that government revenue is computed and recorded in consistency with the budget and as provided under existing laws and regulations.

The major revenue items are:

- value added tax
- income and property taxes
- petroleum taxes - production royalty on oil and gas
- national insurance tax (health and pension)

In addition to checking accounting and computations, the auditing procedures also include examining and evaluating internal control routines within the ministries concerned and their revenue collecting agencies.

Government owned property and landed rights

The management of public assets involves the safeguarding, use and maintenance of government property and the handling of sales and purchases, transfers of property by deed of exchange, rent income, income from long term leases, etc.

Real estate owned by the Government includes buildings and building sites, agricultural and forest land, national and regional parks and vast mountain areas, all equal to about 30% of Norway's land area. The property rights of the Government include oil, gas, minerals, waterfalls and hunting and fishing rights, among others. Ensuring that these national resources, on the mainland and on the continental shelf, are administered in accordance with the resolutions, premises and intentions of the Storting, is a major task in which the basis for evaluation may include also such factors as ecology and
environmental protection. At the same time the OAG will endeavour to make sure that these assets are managed efficiently and economically, by for instance examining and evaluating contractual settlements and operating results as reflected in the annual statements of accounts.

OAG's supervisory responsibility connected with oil and gas is primarily related to the government ownership rights on the continental shelf and is specifically aimed at the Ministry of Industry and Energy as accountable to the Storting, also for the activities of the government wholly owned oil company, the Norwegian State Oil Company (Statoil).

Auditing government enterprises, companies and banks

Some government enterprises are in reality “instruments of public policy” and are part and parcel of the government administration itself, with revenues and expenditures included in the budget and in the financial statements of the Government. Enterprises of this type are mostly part of the economic infrastructure of the country, such as railroads, postal service, telecommunications, electric power system, etc. The activities and the accounts of these entities are subject to the same type of OAG audit as the traditional government agencies.

As mentioned earlier, we also find the Government as sole or dominant owner of a number of industrial and commercial companies as well as some financial institutions, many of which are far removed from the traditional public policy domain, both in terms of purpose and objectives and operationally. A few of these have been established under special legislation, but most of them are organised as limited liability companies under the general Business Corporation Act and must operate under the provisions of that statute. One well known company in this category, also internationally, is Statoil.

As observed earlier, OAG does not here audit the companies as such, but rather monitors the performance of the relevant minister (and his department) in his capacity as sole or main shareholder on behalf of the Government, for which he is constitutionally (and of course politically) accountable to the Legislature. The means and methods necessary to enable OAG to do a proper job have been provided through a series of amendments to certain provisions in the Business Corporation Act, applicable only to wholly owned government companies and wholly owned subsidiaries thereof. The main object of these pieces of legislation was to establish and secure the necessary channels of information and make available to OAG all facts and figures it deems necessary or pertinent for control purposes. First of all OAG shall receive, as a matter of routine, the annual report and financial statements of the company, as well as any interim reports and statements which may be issued. OAG may also request that it be provided with, on a current basis, minutes of all meetings of the Board of Directors, the Board of Representatives and the General Assembly of the shareholders. Finally, the OAG may request any information or explanations it deems necessary, both from the Ministry and from the company itself and its auditor, and if need be it may itself go in and examine the financial affairs of the company.

Reporting to the Storting

The results and conclusions based on the OAG audit of the Government’s financial statements and on the continuous audit throughout the year of the individual ministries and numerous agencies, institutions and other entities, are presented annually in a final report, officially designated as Document No. 1. The report is normally submitted to the Storting in the fall after the summer recess, and covers the preceding fiscal/calendar year.

A great many irregularities and discrepancies of more or less minor consequences which may have been uncovered during the fiscal period, are usually corrected or settled as part of the auditing process directly between OAG and the party involved. This means that Document No. 1 can be reserved for cases of importance, either because of their economic ramifications or because important questions of principle are involved, such as, inter alia:

- excess expenditures or deficient revenue compared to budget
- divergent interpretations of existing legislation or established practices
- unauthorised or improper dispositions
- matters of significance on which the OAG wishes to inform the Storting

For each case or item presented in the report, the OAG will give a summation of the underlying circumstances together with any clarifications or explanations submitted by the ministry concerned. Finally, the OAG will then add its own recommendation for what it
believes to be a proper and suitable reaction on the part of the Storting. Such reactions or “judgements” are classified as “Passes”, “Can pass” and “For observation”, depending upon the degree of criticism intended.

“Passes”

Is used where OAG recommends approval, even though the transaction may be encumbered with minor flaws.

“Can pass”

Implies stronger criticism, the nature of which will be apparent from the premises.

“For observation”

Is being used where OAG feels the situation has not been sufficiently clarified and perhaps needs further investigation. Again, the premises will usually express what is intended.

Much of the significance attached to the OAG report and its recommendations is determined by the opinions and viewpoints expressed in the preliminary committee hearing and during the subsequent full debate in the Storting. Statements and suggestions which emerge during these stages may well be important for reference and guidance purposes in the future, both for the government administration and OAG itself.

The results of auditing or monitoring the performance of the responsible minister and his department as related to the activities of government owned or controlled independent corporations are normally not included in Document No. 1, but are reported on separately. According to rules and regulations, the minister concerned shall submit to OAG the annual report of the company or companies for which he is responsible together with audited financial statements, copy of the minutes of the relevant shareholders’ meeting as well as any supplementary comments the minister himself wishes to add. OAG in turn will forward these documents to the Storting together with its own observations, not only of a critical nature, if any, but also on other matters which it feels may affect the situation of the company and which therefore might be of interest to the Storting.

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**The OAG does not audit the companies as such, but rather monitors the performance of the relevant minister (and his department).**

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**The Chamber of Accounts of the Russian Federation**

**JACHIM M. KARMOKOV**

President of the Chamber of Accounts of the Russian Federation

The federal law relating to the “Chamber of Accounts of the Russian Federation” came into force on January 14, 1995. In accordance with this law, the Chamber of Accounts holds the status of “a permanently operational state regulatory agency, dependent on the Federal Assembly”.

**Status**

The creation of the Chamber of Accounts of the Russian Federation is contemplated in Article 101 of the Russian Federation’s Constitution which expressly states: “With a view to exercising control over the fulfilment of the federal budget, the Federal Council and the National Parliament shall constitute the Chamber of Accounts, the composition and functions of which shall be determined by Federal Law.” The federal law relating to the “Chamber of Accounts of the Russian Federation” came into force on January 14, 1995. In accordance with this law, the Chamber of Accounts holds the status of “a permanently operational state regulatory agency, dependent on the Federal Assembly”. Its status, powers, functions and obligations are in keeping, in general terms, with the INTOSAI declaration in Lima.

**Autonomy**

To ensure that the tasks with which it has
been entrusted are efficiently fulfilled, the Chamber of Accounts enjoys full independence, as far as its organisation and operation are concerned. This means that no person outside the Chamber of Accounts may interrupt the audits, intervene in the exercise of same or alter their results. This autonomy is supported by financial independence, and the expenses for its upkeep are set out in a special federal budget item.

The dissolution of the national Parliament shall not lead to the interruption of the activities of the Chamber of Accounts.

In addition, the law guarantees the independence of the President, Vice President and the 12 auditors. These offices are designated and approved by the Parliament for a term of six years, a period longer than the mandate of the Parliament.

Criminal responsibility may only be attributed to these persons with the consent of the House of the Federal Assembly which designated them.

They may be dismissed from their position by a vote in favour of such a resolution passed by two thirds of the total number of members of the House of the Federal Assembly.

Organisation and Functions of the Chamber of Accounts

In April 1995, the Federal Assembly of the Russian Federation established, on a basis of equality, the governing board of the Chamber of Accounts, comprising 14 members. The governing board appointed the President and six of the auditors, whilst the Federal Council was responsible for naming the Vice President and the other six auditors.

The first assembly of the governing board was held on April 12, 1995. As of that date, the Chamber of Accounts began to fulfil and execute the obligations set out for it in the Constitution.

The principal function of the Chamber of Accounts is as follows: to organise and exercise control of the fulfilment, on the date forecast, of the income and expenditure of federal budget items, as well as of the federal budgets for non-budgetary funds; to determine the effectiveness and rationality of the administration of state funds and the use of state property.

Moreover, the Chamber of Accounts carries out a series of functions that complete and broaden the scope of those obligations normally attributed to a superior regulatory and audit agency.

In particular, the Chamber presents an operational report to the Parliament, on a three-monthly basis and in the established manner. This report reflects the true figures corresponding to income and expenses, compared with those established by law in the federal budget for the current year.

The Chamber of Accounts prepares a specialist report and presents its conclusions on the draft federal budget, the bills proposed by the national Parliament on budgets and finance, plans for international conventions which might pose legal problems for the federal budget, the federal programmes envisaged, as well as other documents related, in some way, to the federal budget.

Authority of the Chamber of Accounts

The Chamber of Accounts has full authority to exercise control over all state bodies (including their administrative machinery) and institutions within the Russian Federation and over such non-budgetary federal funds as: the Russian Federation Pension Fund, Russian Federation Social Security Fund, Russian Federation National Employment Fund and the Compulsory Medical Insurance Federal Fund. In addition, the Chamber of Accounts exercises control over locally-administered bodies, firms, organisations, banks, insurance companies and other financial/credit institutions, as well as their different associations, irrespective of the kind and nature of the property they possess, but which receive, transfer or avail of funds from the federal budget, or make use of or administer federal property and which, through provisions of the federal legislation or federal bodies belonging to the Government, enjoy tax and duties benefits.

In a similar fashion, the Chamber of Accounts exercises its functions with respect to the activities of the political parties, trade unions and other organisations, and funds which are neither commercial nor state-run.

In accordance with the results obtained from the audits effected, the Chamber of Accounts may communicate the criteria of same to the directors of the organisations in question so that they may take the steps required to clarify the infringements and determine responsibilities, as well as to ensure that the rules are kept.

Controls and Audits

Control and auditing is carried out by the auditors of the Chamber of Accounts in
twelve sectors. Each of the auditors has a team of inspectors (approximately 50) to carry out the audit operations in the area assigned to them.

Chamber of Accounts Inspectors

The team of inspectors plays the leading role in executing the regulatory measures and forms the basis of the machinery of the Chamber of Accounts. The records drawn up by the inspectors in the course of their audits represent the legal basis for almost all the documents subsequently issued by the Chamber of Accounts with respect to this principal activity. In keeping with current legislation, these inspectors are personally answerable for the authenticity of the results obtained as a result of the audits and verifications effected. The legislators have even provided for the necessary measures to protect the employees of the Chamber of Accounts from the pressures to which they might be subjected and which could prevent them from fulfilling their obligations. The current penal code, in effect as of 1997, also includes a special section that determines the sanction for withholding the documents required for the audit from the Chamber of Accounts’ inspectors.

Relationship between the Chamber of Accounts and the Regions

The Chamber of Accounts is a federal regulatory agency and does not possess regional departments in some territorial administrations of the Russian Federation. For this reason, whenever rules of procedure are drawn up that could affect the relationship between the federal budget and those of certain federal territorial administrations, it is advisable, and sometimes even necessary, to ensure collaboration with the regional regulatory agencies. In order to establish such collaboration, the Chamber of Accounts has signed agreements with the regional parliament of Samara, the Chamber of Accounts and Control of Voronazh and the Chamber of Accounts and Control of the district of Jany-Maslysk. Similar agreements will be signed in the future with a broad spectrum of regional regulatory agencies.

Management principles: combination of sole and joint administration

Just like any regulatory agency that carries out its functions in a period of transition, the Chamber of Accounts faces the difficult task of providing the effectiveness and objectivity required of such work whilst, at the same time, evading the external pressure exerted by the parties interested in the results of their control operations.

The current federal law on “The Chamber of Accounts of the Russian Federation” establishes the conditions that prove essential for solving this problem. This is achieved through a flexible combination of the principles of sole and joint administration in the running of the Chamber of Accounts. The Law clearly determines the powers of the President, the auditors and the governing board. For example, any questions relating to personnel are the responsibility of the President; however, the governing board approves the work schedules of the Chamber of Accounts. Moreover, the corresponding section of the Law stipulates that the auditors enjoy wide-ranging powers when it comes to managing the day-to-day practical work in their respective sectors.

This system enables the Chamber of Accounts to operate successfully in the complicated conditions that reign in Russia, due to the constant political and economical transformations that frequently provoke crisis situations in numerous aspects of daily life, such as the increase of crime within Russian society and the spread of acts of corruption.

In 1995, the Chamber of Accounts took 303 regulatory measures directed at 400 objectives at all levels.

The steps taken by the Chamber of Accounts have enabled 1.13 billion roubles to be returned to the federal budget.

Some practical results of the work of the Chamber of Accounts

The recently published report on the work of the Chamber of Accounts presented before the Federal Assembly, provides information that clearly depicts its activities throughout this first year in existence.

In 1995, the Chamber of Accounts took 303 regulatory measures in all the sectors in which it operates, directed at 400 objectives at all levels (including the economic/administrative bodies of certain territorial administrations within the Russian Federation). The Chamber of Accounts carried out 69 audits in accordance with the resolutions of the Chamber’s governing board, petitions from the President of the Russian Federation, recommendations from the Federal Council and state Parliament, provisions made by the various committees and commissions of the Houses of the Russian Federation Federal Assembly, requests from at least one-fifth of the total number of members of the Federal Council and of the members of the state Parliament and petitions from the Government.
of the Russian Federation, governmental bodies belonging to certain territorial administrations of the Russian Federation and other bodies which the governing board has included in the work schedule of the Chamber of Accounts.

The results of the work carried out clearly demonstrated serious infringements in the financial activity of several economic organisations. These irregularities had a negative effect on the application of the federal Law: "The federal budget for 1995", as regards the establishment of the budget income base and the fulfilment of the expenditure items.

In respect of the irregularities detected by the Chamber of Accounts, the order was given for 164 appearances to be made, and 27 orders were sent out to directors of firms, institutions and organisations. A total of 213 resolutions and communiqués have been addressed to the Federal Council, the state Parliament and to the Government of the Russian Federation, and 15 conclusions were issued by the Chamber of Accounts addressed to the law enforcement agencies.

The losses derived from the infringements revealed by the Chamber of Accounts amount to a grand total of more than 5.79 billion roubles.

The steps taken by the Chamber of Accounts have helped put an end to irregularities in matters concerning financial discipline in the objectives subjected to controls. This has enabled 1.13 billion roubles to be returned to the federal budget.

All the documentation relating to the regulatory measures adopted was, of necessity, made available to the Houses of the Federal Assembly.

International relations

In keeping with section 32 of the federal Law: "The Chamber of Accounts of the Russian Federation", the Chamber collaborates with the courts of audit and parliamentary regulatory agencies in foreign countries and in their international forums.

In 1995, the Chamber of Accounts became a member of EUROSAI and participated in a series of activities organised by this international organisation, such as the seminars: "The Audit of Privatisation" (Warsaw, May 1995), "Supreme Audit Institutions and the internal control of the government administration" (Warsaw, March 1996), "The Relation of the Courts of Audit with the Parliament, the Internal Audit, Jurisdiction and the Mass-Media" (Bucharest, September 1995) and the III EUROSAI Congress (Prague, 1996).

The Chamber of Accounts takes part in the work of a series of INTOSAI committees.

Moreover, the Chamber of Accounts of the Russian Federation collaborates with foreign regulatory agencies on a bilateral basis. A certain degree of experience has been gleaned from constructive collaborations with the Courts of Audit of Belarus, Brazil, England, Hungary, Germany, India, Poland and the United States. The following issues are of common interest: work methodology for control and audit operations, interaction, in practice, between the regulatory agencies and the parliaments of their respective countries, problems arising from the interaction of the internal and external control operations, and the organisation of effective controls in the priority sectors over the expenditure of state resources.

Relations with the German Federal Court of Audit have developed most successfully. In accordance with the collaboration programme, four seminars have been held in 1995 and 1996, alternating the venue between Moscow and Berlin. There was one common theme: "Certain aspects of state financial control". The participants at these seminars - auditors and inspectors from the Chamber of Accounts - had the opportunity to learn from the experience of the control and auditing work of one of the oldest courts in Europe. The staff of the Chamber of Accounts reinforce and broaden their knowledge base acquired in these seminars by means of practical experience in Germany. These practicals focus on the issues currently of most interest to us, such as: the audit of fiscal agencies, verification of social expenditure, audit of state banks and organising the work of the Chamber of Accounts.

In accordance with the collaboration programme established with the United States audit agencies, two bilateral seminars were held in Moscow on the control of budget fulfilment and of the banking system. In the months of March and November, several employees from the Chamber of Accounts gained practical experience in the United States, working on the analysis and evaluation of budgets.

We are convinced that this increase in the exchange of experiences and information between international organisations on a bilateral basis will contribute towards raising the quality and effectiveness of our work.
Financial Audit in Austria: an introduction to the Austrian Court of Audit

Dr. EDITH GOLDEBAND
Head of Public Relations of the Austrian Court of Audit

The Court of Audit is organised in a monocratic manner. Its tasks and organisation are governed by the federal constitution and set out in greater detail in the Court of Audit Act of 1948.

Historical Development

Financial control in Austria has a long tradition behind it. The forerunner of the Court of Audit, the Rechen Cammer (Accounts Chamber) was founded in 1761 "to reveal weaknesses detected in everything related to financial matters, but in particular in expenditure".

Today the Court of Audit has to deal with a diversity of different needs and, as of January 1997, a new task will be entrusted to it, that of monitoring the financial management and operations of the statutory professional representations.

Organisation

The Court of Audit is organised in a monocratic manner. Its tasks and organisation are governed by the federal constitution and set out in greater detail in the Court of Audit Act of 1948.

The Court of Audit is immediately subordinate to the National Council and in organisational terms is an independent institution of the Federal State. Since Austria is a federal state with nine different provinces or Länder, for functional purposes, supervisory activities entail performing either a federal or a provincial task. The Court of Audit is therefore active both as a National Council body and also a Provincial Diet body, depending on whether it is supervising the financial management and operations of the federal state or a particular province. In both cases, it is part of the legislative power, is independent of the executive (particularly the administration) and is only accountable to the legislative bodies (National Council and Provincial Diets), which enjoy budget sovereignty, i.e. the right to budget approval. The position of the Court of Audit as a watchdog of the National Council or Provincial Diets (and therefore part of the legislative) is derived from their budget sovereignty, which includes the right to review state expenditure, and thus “supervisory sovereignty”.

President and Officials

The Court of Audit personnel is made up of the President and, currently, 313 members of staff, whose task it is to supervise activities with financial consequences of about 750,000 employees in the administration and public undertakings.

The President is elected by the National Council for a 12-year term of office; re-election is not permitted. In the event that he is unable to be present, he is represented by the most senior official.

The President (or his representative) is accountable to the same degree as members of the federal government or the relevant provincial governments, depending on whether the Court of Audit is acting as a body of the National Council or of a Provincial Diet. He can be brought before the Supreme Constitutional Court and accused of infringing a law by the National Council or the relevant Provincial Diet.

Tasks

The following are the main tasks of the Court of Audit.

1. Control of the financial management and operations of the federal state, provinces and municipalities

Control of federal financial management and operations includes, in particular, the following:
The entire public sector economy of the federal state, the financial management and operations of all foundations, funds and institutions which are either administered by federal bodies or by individuals which they appoint.

Furthermore, the financial management and operations of undertakings which are managed by the federal government, either alone or in conjunction with other legal entities, and which are subject to the control of the Court of Audit, or in which the federal state, either alone or in conjunction with the aforementioned legal entities, possesses at least 50 per cent of the original, nominal authorised or equity capital. This type of financial stake held by the federal state is treated in the same way as "domination" of the undertaking by financial or other economic or organisational means.

The financial management and operations of bodies under public law which receive federal state resources and any other legal entity defined by law, such as the Austrian radio broadcaster ÖsterreichischerRundfunk.

The financial management and operations of bodies in charge of social security.

Audit of Länder (provinces) includes, in particular, the following:

The financial management and operations of provinces, including that of foundations, funds and institutions, provincial bodies or bodies administered by individuals which they appoint for that task.

The financial management and operations of undertakings which are managed by the province, either alone or in conjunction with other legal entities, and which are subject to the control of the Court of Audit, or in which the province, either alone or in conjunction with the aforementioned legal entities, possesses at least 50 per cent of the original, nominal authorised or equity capital, or which "dominates" the undertaking in question by any other equivalent means.

The financial management and operations of bodies under public law run on provincial resources.

Audit of the Gemeinden (Municipalities) includes, in particular, the following:

The financial management and operations of municipalities with at least 20,000 inhabitants as well as the foundations, funds and institutions, municipal bodies or bodies administered by individuals which they appoint for that purpose.

The financial management and operations of undertakings which are run by a municipality with at least 20,000 inhabitants, either alone or in conjunction with other legal entities, and which are subject to the control of the Court of Audit, or in which the municipality, either alone or in conjunction with the aforementioned legal entities, has a holding of at least 50 per cent. "Domination" by the adoption of other means is also deemed equivalent to this type of financial holding.

The financial management and operations of bodies under public law run on municipal funds.

The provisions on municipal auditing must also be correspondingly applied to audits on associations of local governments. The financial management and operations of a municipality with fewer than 20,000 inhabitants may only be audited by the Court of Audit when it is called upon to do so by the appropriate provincial government.

2 Audit of the financial management and operations of statutory professional representations

This type of monitoring is only valid for financial management proceedings after December 31, 1994, and covers the auditing objectives of "numerical accuracy", "correspondence with existing provisions", "economy" and "efficiency", but not the "system based" auditing objective which is specified for all other audits.

3. Drawing up the Federal Statements of the Accounts

In its day, the Rechen-Cammer was also responsible for the book-keeping departments, and even today, the Court of Audit is in charge of drawing up the Federal statements of accounts, and submitting these to the National Council at the latest eight weeks before the end of the following financial year. The statement provides a comparison of the revenue and expenditure actually transacted during the financial year with the estimated revenue and expenditure which had been provided for in the federal budget. It is therefore a comparison between the target and actual situations and represents the execution of the federal budget. The National Council must then either approve the federal statement of accounts by passing a federal law or refuse its approval by means of a resolution.

4. Income Inquiry in the Public Sector Economy

Every two years, the Court of Audit collects data on the average income situation
and additional payments made for staff pensions of both the supervisory and executive bodies of those federal government undertakings and establishments which come under its control. It then reports back to the National Council.


In 1981, the National Council drew up a resolution in which all draft laws and statutory instruments from ministries would be sent to the Court of Audit for an opinion. In this manner, matters of economy, efficiency and expediency can have greater influence over legislative activity and parliamentary decision-making, since the Court of Audit mainly delivers opinions on the financial consequences of the planned legal provisions.

Auditing Procedure

The Court of Audit plans its auditing procedures independently. It is even responsible for determining the nature of the audits itself, with the data usually being collected on the spot. The local inquiry concludes with a final discussion in which the respective views of each participant are voiced. The result of the audit is delivered in writing to the places concerned for the parties involved to give an opinion; the Court of Audit may also give an answer in response to this opinion.

Special Audits on Financial Management and Operations

It is, in principle, the Court of Audit which takes the initiative to carry out an audit of financial management and operations. If a resolution is passed by the National Council and a justified application made by the federal government or a federal minister, the Court of Audit may carry out what are known as special acts of financial management auditing. A National Council resolution of this type is not required if 20 members of the National Council make an independent application, demanding that a particular procedure of federal financial management and operations be reviewed. Where three such reviews are already pending, no further demands may be made.

Provincial governments also have the right to institute special acts of financial management auditing by making justified applications. The Provincial Diets are also entitled to submit special audit applications to the Court of Audit.

Auditing Aims

The audit must cover the numerical accuracy, compliance, economy, efficiency

and, except in the case of statutory professional representations, expediency. Furthermore, those principles enshrined in constitutional law such as environmental protection in all its different shapes and forms, or the safeguarding of that macroeconomic balance for which the federal state, provinces and municipalities must aim in their budget management, have also to be taken into consideration.

Reporting

The Court of Audit must draw up a report for the National Council, Provincial Diets and Municipal Councils on the results of its activities in the preceding year (Annual Activities Report) by December 31 each year. It can also report to the National Council and the Provincial Diets on individual matters at any time and submit special reports. Once they have been presented, the Court of Audit’s reports must then be published, although any type of business or trade secrets contained in them must be safeguarded.

The National Council has a standing committee (Court of Audit Committee) which deals with the negotiation of the Court of Audit’s reports. The President of the Court of Audit provides members of parliament with more detailed information during parliamentary discussions and representatives from the sites audited are questioned, particularly in connection with any improvements made as a result of the Court of Audit’s reports.

After consultation in the Court of Audit Committee, the Court of Audit’s reports reach the plenary of the National Council, which may or may not place these on record in a resolution. To date, however, it has never failed to take note of a report. The President of the Court of Audit has the right to take part in the negotiations on his reports and may take the floor in the Court of Audit Committee and the plenary at any time.

In the provinces, the reports are dealt with in the financial and supervisory committees of the provincial diets, in the municipal councils and at the meetings of the associations of local governments and - as at federal state level - are generally placed on record by the respective provincial diet by means of a resolution.

When passing resolutions on Court of Audit reports, the National Council and Provincial Diets can address resolutions to the government or to individual members of the government, the subject of which are the recommen-
The State Audit Office of the Republic of Latvia

RAITS CERNAJS
Auditor General of the Republic of Latvia

The State Audit Office (SAO) is composed of the Auditor General, the Council of the SAO, audit departments and the Secretariat.

The Constitution of the Republic of Latvia states that the State Audit Office of Latvia is an independent collegiate institution.

Historical background

The State Audit Office of Latvia is a relatively new organisation.
The structure, scope and duties of the SAO are determined by the Act on the Renewal of the State Audit Office Act of August 2, 1923, passed on November 4, 1993 and the amendments to the Act passed on April 4, 1996. The activities of the SAO are governed by the Audit Regulations passed by Parliament on September 26, 1995.

Role and duties of the Auditor General

The Auditor General is responsible for the activities of the SAO. The Constitution requires that Parliament should nominate and elect the Auditor General for a fixed term, during which time he can only be removed from office by court order. The Auditor General is elected for 4 years, by secret ballot. The Auditor General is accountable to Parliament for the audit of Latvia’s financial and material resources. His rights are similar to those of a minister. He is entitled to attend Cabinet meetings in an advisory capacity.

Organisation and staffing

The SAO is composed of the Auditor General, the Council of the SAO, audit departments and the Secretariat.

The Council of the SAO consists of the Auditor General and six members. The Auditor General is the Council’s Chairman. Council member candidates are nominated by the Auditor General and elected for a fixed term of 4 years by Parliament, by secret ballot. The Auditor General appoints audit department directors and their deputies from the pool of Council members. The Council members are full-time officers of the SAO.

The main objectives of the Council of the SAO are as follows:
- to examine and make decisions on complaints concerning resolutions of the collegiate bodies of the audit departments.
- to examine and make decisions on complaints concerning resolutions of the collegiate bodies of the audit departments.

The Audit departments of the SAO are:
- the Audit Department for the State Budget,
- the Audit Department for State Economic Activities,
- the Audit Department for the privatisation process.

The Audit Department for the State Budget audits the collection and use of the State Budget and special budget resolutions, and the use of state assets.

The Audit Department for Economic Activities audits the collection and use of state assets in all public and local government enterprises and organisations, as well as economic activities concerning companies, banks and individuals, if they hold any state assets for their own use, or state-guaranteed resources of the Republic of Latvia, or if they fulfil government orders and deliveries.

The Audit Department for the Privatisation Process was established to ensure that the privatisation of state and local government assets is legal, efficient, effective, economic and correct.

The Secretariat is headed by the Office Manager, who reports directly to the Auditor General. The Secretariat consists of the following structural divisions, reporting to the Office Manager:
- the Legal Affairs Division
- the Information Division
- the Personnel Division
- the Clerical Division
- the Financial Division
- the Services Division

Nature and scope of work

Our SAO reviewed the previous year’s State Budget results concerning both income and expenditure, and supervised the correct, effective and legal use of state assets.

The SAO of Latvia audits the raising, management and use of state funds, state-owned enterprises as well as the use of state budget resources allocated to local governments for particular purposes. The scope of the SAO is to supervise the privatisation process so that it is carried out according to legislation, and to review the use of state assets in this process.
Powers of the SAO

As per the State Audit Office Act, the Auditor General has the right to impose penalties under the Administrative Codex, if responsible officials at auditable bodies and enterprises do not comply with legal demands by auditors in a timely manner, according to the appropriate Sections of the Administrative and Criminal Codex.

Nevertheless, it can be said that, according to administrative legislation, the Auditor General does not have the right to judge misdemeanours and impose penalties.

The State Audit Office only has the right to draw up a statement on the contravention of a Section of the Administrative Codex, but penalties are imposed by an administrative judge. The above mentioned procedure hinders the SAO in the performance of its statutory functions.

The SAO of the Republic of Latvia does not have the right to initiate legislation. Nevertheless, certain amendments to administrative legislation are prepared and submitted to the Ministry of Justice for subsequent submission to the Cabinet.

As per the “State Audit Office Audit Regulations” Act, surcharges shall be applied to auditable bodies by the SAO if they have resulted in losses to the State as a result of improper and illegal transactions with government property, funds and securities. All surcharged amounts shall be accounted for as public revenue.

Educational activities of the SAO

Auditors take responsibility for carrying out the SAO’s direct duties. This calls for special professional training and good work experience. Specialists in auditing are not trained at Latvian higher education schools; it is therefore very important to maintain a balance between experienced and new employees. In the SAO of the Republic of Latvia, auditors have the possibility of improving their qualifications.

In two modules, 74 auditors have finished the accounting course (156 hours): basis of commercial law, accounting, rights and duties of qualified auditors, audit techniques. Auditors have also mastered the program (40 hours): “Psychological aspects of decision-making”. Employees of the Secretariat have studied the program “Psychology of practical management and etiquette”.

Auditors have also attended the program organised by the public administration school. The program includes the following: “The basis of market economy”, “Management, work organisation and record-keeping”, “The basics of legislation”, “Latvian history and loyalty”, “Computers and their application”, “Communication: ethics and psychology”.

As per the cooperation program in 1996, Danish colleagues have visited the SAO of Latvia and given lectures on basic principles of activities by state audit offices, basic conditions for public budget and accounting systems, computer application in auditing, audit planning and priorities, audit methods, report writing etc.

In regular seminars at which Latvian and foreign specialists take part, our employees have been informed of new developments in tax, accounting and rights legislation.

Reporting

According to the Budget and Financial Management Act, the Ministry of Finance submits an annual report to the SAO on the previous year’s State Budget results. The SAO reviews the report and prepares a submission based on its review. Both the Annual Budgetary Report and the SAO submission are reviewed by the Cabinet and submitted for consideration to Parliament. Subsequently, the Auditor General submits to Parliament the review on the actual budget performance for the previous year, as well as his opinion on the collection and use of state financial resources and use of state assets.

International cooperation of the SAO of Latvia

The State Audit Office of the Republic of Latvia today participates in structures of international cooperation. The SAO of Latvia joined the programs of international cooperation of the Supreme Audit Institutions immediately after it began to function. The SAO of Latvia began cooperation with the following national audit offices: Estonia, Lithuania, Poland, Germany, France, the United Kingdom, Denmark, Norway, USA.

Article 2, paragraph 3 of the Statutes of INTOSAI resolved to accept the SAO of Latvia as a member of INTOSAI on October 17th, 1994. The SAO of Latvia has been a member of the regional organisation, EUROSAI, since May, 1995. The SAO of Latvia functions within the framework of the INTOSAI and EUROSAI statutes.
The aim of international cooperation is the exchange of experience in the field of economic auditing, the exchange of information concerning legislation, the methodology of auditing, and the development of relations between national and international institutions.

On October 14, 1994, the trilateral agreement was signed by the Latvian, Lithuanian and Estonian State Audit Offices, which includes cooperation in the form of the exchange of information on auditing, training and mutual help in actual audits.

The SAO of Latvia is interested in cooperation with audit institutions in all countries, with the international institutions, INTOSAI and EUROSAI, as well as on bilateral and trilateral levels.

Relations between the Netherlands Court of Audit and Parliament. A Dutch perspective

Dr. TOBIAS WITTEVEEN
Secretary, Netherlands Court of Audit

The audit office's precise constitutional status differs from country to country. However, they all share one common, universal and essential feature - independence.

On December 5, 1996 the Secretary of the Netherlands Court of Audit responded to an invitation from the French Court of Audit and the French Public Finance Association to explain the relationship between the Court and the Dutch Parliament. The Secretary's address was delivered in Paris on the day devoted to the theme of "Court of Audit and Parliament". The text of the address has been slightly edited to make it more interesting to a wider public.

1. Unity in diversity

The constitutional framework in every democratic state provides for an independent auditing body which forms a link between ministerial accountability and parliamentary scrutiny. Although its exact position along the Government-Parliament axis may vary - in some countries it may be closer to the government than to parliament, in others vice versa - it invariably operates independently. Its purpose is to monitor the executive, and Parliament is the body to which it reports. In most countries the auditing agency is a popular body. The public sees it as the custodian of the public interest. Its relationship with the government is often a love-hate one: its investigative activities may be useful, but they may also be threatening. And what about Parliament? It usually regards the Court of Audit as an ally, though not unreservedly so. A Court of Audit has a mind of its own and often proves to be something of a loose cannon in the political process.

The audit office's precise constitutional status differs from country to country. Some have "Courts of Audit", others have opted to set up audit offices. The differences also extend to organisation and structure, right of appointment and the fixing of the budget. However, they all share one essential feature - independence. Subject to the statutory restrictions imposed on their structure, they are basically free to determine:

The relationship between the Netherlands Court of Audit and the States-General is dynamic rather than static.
1) the object of their audit;
2) their method of auditing;
3) their method of reporting and the contents of their reports.

These three components form the essence of every audit office’s independence. The other factors, which differ from country to country, may influence this independence, but they are not integral to it. This also means that audit offices the world over essentially have so much in common that they can constructively communicate with and learn from one another. The picture is one of unity in diversity. It is reinforced every time the different offices meet.

2. The relationship between the Netherlands Court of Audit and the States General

I shall outline below the main developments regarding the relationship between the Court of Audit and parliament in the Netherlands. These developments are determined by three starting points which in my opinion also apply in other countries. In order to put you fully in the picture, I shall first say a few words about the Netherlands Court of Audit.

2.1. The Netherlands Court of Audit: a brief survey

The Netherlands Court of Audit is a High Council of State consisting of three members appointed for life. It is assisted by a staff of 320 civil servants headed by a Secretary General. This gives it the semblance of a court, which it originally was, although its judicial function has since disappeared. The Court of Audit has the statutory duty of certifying the accounts of the government departments. This is a major task. However, as the Court is able to rely heavily on the ministerial audit departments, certification accounts for only a third of its activities. The remaining two thirds consists of audits to assess organisational and policy efficiency, the quality of decision-making, policy effectiveness and the monitoring of policy implementation. These activities are conducted according to an annual programme, along the lines of those drawn up by research institutes, and culminate in a few dozen public reports. The Court submits these reports to the States-General (Parliament) and the Government. Its principal parliamentary interlocutor is the Committee on Government Expenditure, which coordinates parliamentary contacts and ensures that parliamentary handling of the Court’s reports is satisfactory.

2.2. Starting points for a dynamic relationship

The relationship between the Netherlands Court of Audit and the States-General is dynamic rather than static. In recent years it has undergone a number of developments. There are three starting points which exert a considerable influence on this relationship. These can summarised as follows:

1. The Court of Audit sees Parliament as its most important customer. This means that while the Court maps out its own course when drawing up its work programme, it takes account of what Parliament considers important. Besides endeavouring to submit audit reports to Parliament at the right time, it also attempts to produce them in a format that is both accessible and manageable. In other words, the Court seeks to be customer-oriented.

2. The Court sees Parliament as essential to its own effectiveness. It has authority, but no power. Power, including the power to enforce the Court’s recommendations, rests with Parliament. The Court derives its authority from the quality of its audits, yet the effectiveness of its reports is enhanced if Parliament is skilled at assessing their practical value for its political activities. This means that the Court attempts to interest Parliament in its reports by means of good presentation and by providing proper guidance.

3. Parliament approves the Court’s budget on a motion put forward by the Government. Before it can do so, it must be able to evaluate the Court’s performance. This also enables Parliament to safeguard the Court from unjustified cutbacks proposed by the Government. The Court therefore endeavours to be transparent and to provide an insight into its policy and its way of working. It also opts to lay itself open to scrutiny (which therefore makes it vulnerable).

2.3. Recent developments

All in all, what results has this produced?

In recent years the starting points enunciated above have in one way or another led to policy changes, particularly on the part of the Court of Audit. There have also been changes in Parliament. I shall mention the five main ones below.
1. The Court of Audit has set about making its internal policy public. It shows how its audit programme is arrived at, how audits are conducted and how conclusions are reached. In addition, it recently started publishing its full audit programme. This gives Parliament the opportunity to take account of proposed Court audits and make suggestions regarding the audit programme. However, the Court retains control over its own work programme.

2. The Court of Audit has adapted its publication policy to the needs of Parliament. It has broken with the tradition of issuing one voluminous annual report detailing all its audit activities. Apart from its annual regularity report relating to all government departments, it publishes about 30 reports every year, one for every audit. Even more important, each report contains a clear message to the government concerning the purpose of the report and how Parliament can use it. In fact, the desire to tailor the report to this end forced the Court to modify its auditing methods; once the actual audit is completed, the main points of the message component are discussed before the report is drawn up. The US General Accounting Office, which has developed something similar, describes this as "message agreement". Court of Audit reports are adapted thus to take account of Parliamentary procedure and can be more easily dealt with.

3. The Court of Audit provides detailed explanatory information about its reports. Three times a year it provides Parliament with an overview of its planned publications which it discusses with the Committee on Government Expenditure. Each report is presented to the Committee and the relevant Standing Committee in a closed briefing shortly before publication. In this way MPs on the committees gain an accurate picture of the report’s contents and can assess its political value. As a result, members other than those who sit on the two committees come into direct contact with the Court. This strengthens its parliamentary support base.

4. In its annual report the Court of Audit provides information explaining its operations, its performance and the effects of its work. This method of providing information is in need of further refinement but it means that the Court lays itself open to parliamentary scrutiny. This modus operandi also includes plans to organise external inspections to assess the quality of the Court’s work. Openness along these lines may entail risks, but it has the particular advantage of providing incentives to perform efficiently.

5. Parliament has responded favourably to the policy changes. There has been a marked increase in the attention paid to the Court’s reports at the political level. They are dealt with quickly and thoroughly. Ministers are compelled to make pledges. Appreciation for the Court of Audit’s work has patently increased, even if the contents of its reports are by no means always welcome from the political point of view.

3. Independence and openness

Under the Netherlands Constitution, the Court of Audit and Parliament are both High Councils of State and therefore enjoy equal status. This does not automatically mean that they enjoy good relations. That has to be worked at. In recent years the Court has discovered that combining independence with openness presents few difficulties. The open approach which it decided to introduce has produced good results, particularly in its relations with Parliament. What is more, its independence has certainly not been undermined. The Court of Audit is still a bastion, but a bastion with open doors.
Fraud and abuse of the Welfare System in Sweden

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Audit Director

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The Swedish government has given the National Audit Office (RRV) the task of identifying the frequency of abuse of social benefits and allowances.

The issue of fraud and the abuse of the social welfare system has become increasingly topical in many industrial countries with the increasing difficulty in funding public sector expenditure. With large budget deficits, low economic growth and high unemployment, tolerance for different forms of abuse generally decreases. This trend also applies in Sweden.

In 1994, the Swedish government gave the National Audit Office (RRV) the task of identifying the frequency of the abuse of social benefits and allowances.

The RRV's report in 1995 covered a broad range of various issues and subject areas. The types of social benefits which were primarily studied were early retirement pensions, unemployment insurance funds/unemployment cash allowances, advances on maintenance allowances, housing benefits, sickness benefits and parental allowances. Furthermore, the RRV studied the occurrence of double disbursements of different types of social welfare contributions, fraud among medical doctors as well as the appropriateness of controls and control systems both in Sweden and in certain other relevant countries.

In the study, the term “fraud” is used to describe the situation when the claimant for a particular social benefit, intentionally or not, submits incorrect or incomplete information in order to satisfy the criteria for obtaining the benefit in question. According to the directives given, the study should not just cover fraud, but also abuse and system deficiencies. However, our study indicated that it, in many cases, was difficult to differentiate between these aspects.

A comprehensive study was carried out by the RRV and a series of other agencies - about ten different background studies were conducted in connection with this assignment. Six months after the main report another audit report concerning housing benefits was published. Its findings are included below. Many different methodological approaches were used to cover the whole assignment.

How extensive is fraud?

Even if each type of fraud, in itself, as a percentage of total amounts disbursed or number of fraudulent individuals, is not particularly large, the outcome will still represent billions of Swedish kronor, due to the large volume of benefits involved.

The types of fraud and the estimated amounts involved were classified as follows:

- Working in the “white” economy. An individual is employed quite openly. The employer pays the individual’s taxes, at the same time that the individual receives some form of benefit which does not allow the individual to hold employment or earn an income over a certain level, e.g. the combination of early retirement pension and income from employment. Working in the “white” economy (with an income exceeding 6,000 kronor per year, £=11 kronor) which involves work carried out by early retirement pensioners and individuals receiving unemployment benefits in accordance with the current regulations: 800 million kronor per year or 1 percent of the total disbursements for 1993/94.

- Working in the “black” economy. An individual is paid for work carried out without charges for taxes and national insurance contributions being added to the amount paid. Working in the “black” economy (with an income exceeding 6,000 kronor per year) involves work carried out by early retirement pensioners, sick-listed individuals and individuals receiving unemployment benefits: 1.5 to 3.3 billion kronor or, on average for all
of these benefits, 2 - 4 per cent of the total disbursements for 1991. However, the figures for these different groups vary considerably: early retirement pensioners 1 - 3 per cent, sick-listed individuals 1 - 2 per cent as well as individuals receiving unemployment benefits 6 - 10 per cent.

- Other fraud and abuse including deficiencies in the system and different types of abuse are estimated to amount to 3.8 billion kronor. This can be broken down as follows: advances on maintenance/maintenance allowances 1 billion kronor, 40 per cent, housing benefits 1.5 billion kronor, 15 - 20 per cent, early retirement pensions 400 million kronor, unemployment insurance funds/unemployment cash allowances 800 million kronor (which are mainly system deficiencies), double disbursements 200 million kronor as well as "emigrated" immigrants 400 million kronor.

In total, fraud, abuse and system deficiencies are estimated to represent 6 and 8 billion kronor per year or more than 5 per cent of the benefits involved 1994. But the spread in percentage among the different types was considerable. The really big deficiencies, e.g. maintenance allowances and housing benefits, were related to inadequate and obsolete income information given to the authorities.

The study on housing benefits mentioned above illustrates the comprehensive nature of the Swedish studies on fraud. In this study the RRV found that housing benefit is not very effective as an instrument of housing and social policy.

The reason for this is that the payments do not adequately attain either the objectives of the benefit or other general objectives established by the Government and Parliament. Nor is the system cost-effective.

Three main objectives were identified for the housing benefit system:

- Raising the housing standards of low-income households.
- Raising the living space standard so that children are guaranteed a room of their own.
- Raising the level of consumption for low-income households with children.

The RRV found that these three objectives were satisfactorily attained, but that the cost to the state was too high. The state pays a total of 9 billion kronor per year in housing benefit. The RRV estimates that approximately 1.5 billion kronor too much is paid to households that give inaccurate information about their income and/or composition. In other words, wrong payments of housing benefits amounts to 15 - 20 per cent of total expenditure.

The wrong payments of 1.5 billion kronor were made up as follows:

- Clients provided false information about their incomes. The benefit is inversely related to income. RRV found that in general most clients gave a figure that was too low. This resulted in the state paying 1.1 billion kronor too much each year.
- Clients provided false information about where they live. The RRV visited a random sample of households to determine whether or not the information provided by clients was correct. This survey revealed that approximately 5 per cent of recipients did not live at the location stated to the Housing Benefit Agency. The most common form of abuse concerned couples who had informed the agency that they were living apart, whereas they were actually still cohabiting. According to the RRV's calculations the resultant wrong payments amounted to 0.4 billion kronor per year.

An interesting revelation was that owners of small businesses were most likely to commit the first form of abuse, shown above, whereas other recipients tended to commit the second form of abuse, shown above.

The RRV considers it essential to minimise both payments to households that are not entitled to them and the risks of incorrect payments, which in most cases means payments that are too large. Several measures must be taken in order to increase accuracy by eliminating the incentives to exploit and abuse the system and by improving the effectiveness and efficiency of administration.

In brief, the RRV proposes the following measures:

- The introduction of a new means testing system.
- The amendment of certain rules, e.g. rules about cohabitation.

The National Insurance Board's recommendations to the social insurance offices should be improved, in particular as regards the interpretation of the clause in the Housing Benefit Act which can be used to refuse payments to households that are not in need of them. As regards checks, the National Insurance Board has failed to give the social insurance offices proper instructions as to what to do. The National Insurance Board should design a program for the organisation of effective checks at the social insurance offices.

Improvement of the effectiveness and ef-
ficiency of the social insurance offices' procedures. New technology should be used to provide clients with service. The offices should organise their review procedures so as to focus on increasing the possibility of acquiring accurate information about the composition of households. Home visits should become routine procedure.

Enhancement of the skills of the social insurance offices when it comes to processing applications from self-employed persons. In the RRV's view, these applications should be examined by experts who have effective methods of assessing such persons' real financial circumstances.

In conclusion, the RRV considers that the state pays too much to achieve the desired goals. Public expenditure could be reduced by approx. 1.5 billion kronor, in particular by improvements in administration, without jeopardising attainment of the declared objectives.

The overall conclusion drawn by the RRV is that very large amounts are involved which are of tangibles significance with regard to the work on deanimg up the state finances.

Are the existing controls and control systems appropriate?

Traditionally, benefit payment systems have been based upon the assumption that the claimant is honest and will submit information that is correct. It is seldom that the claimant's information is more extensively controlled.

The RRV's study shows that the resources which are pooled into countering direct fraud are small and often more or less negligible. This is the case, in spite of the fact that, every year, unjustifiable disbursements are made for the sum of several billions of kronor. The random efforts made indicate that the financial yield from control and follow-up work is often high. This is something which clearly indicates that controls should be increased.

The current legislation imposes limitations with regard to the use of computer-aided follow up and control systems. Furthermore, the exchange of information between agencies in the event of suspected fraud is severely restricted. The result of this is that the control methods which the agencies disbursing the benefits are currently allowed to use are not sufficiently effective, which results in a less than reasonable level of control.

An international survey shows that several other countries have developed or are currently developing extensive programmes to detect and counteract fraud. Norway, Finland, the Netherlands, Germany and Canada are a few such examples. One common characteristic of measures to counteract fraud is the use of different types of computer-based systems to compare the information submitted by an individual in different official contexts. Furthermore, these countries have introduced tangible penalties in the event of detected fraud. The type of penalty which has been prioritised is primarily the temporary withholding of benefits, closure and offsetting the state's claim against other benefits received, i.e. a purely administrative consequence.

In the RRV's view, there are strong reasons why Sweden should adopt the corresponding type of measures which have been implemented or are being implemented in these countries.

The RRV's proposals involve balancing the public interest in exercising control against the need to protect the integrity of the individual. The ones mentioned here are just a few samples, altogether it was roughly 50 proposals, to illustrate the types of measures.

- Review the co-ordination of statutory and contractual social benefits. The structure of incentives, in the form of the size of the benefits which are determined by government and which are intentionally incorporated into the state-guaranteed early retirement pension, are completely or partially eliminated by the fact that the parties in the labour market can supplement the benefits at a negligible cost. In such cases, the pressure upon individuals to opt for early retirement remains or increases.

- In order to reduce and keep the level of work carried out by individuals in the black economy down to a minimum at the same time that these individuals receive different benefits, either the employee or the employer can be tracked. The RRV recommends a method with controls which target workplaces, preferably within sectors where problems have been found to commonly occur. For a successful investigation to be carried out, it must be possible to check the identity of the employees at a workplace.

- The RRV proposes that payment systems for housing benefits and other benefits should also be redesigned in line with the study allowance system model so as to allow for an automatic reconciliation of given information about their income against the actual outcome in the tax assessment at a later
stage. Too big benefits due to surplus income should be repaid.

- The EDP support for the follow up and control of social benefits must be improved. The methods which the agencies can use today are inefficient and outdated and make it almost impossible to maintain a reasonable level of control.

- The agencies disbursing benefits should be issued directives to disclose, in their annual reports to the Government, the concrete measures which have been adopted during the year to counteract fraud as well as the results which have been achieved and the rough estimates (hidden figures) of the total amounts involved.

The impacts of the RRV's reports

The Swedish Parliament, government and media have all shown considerable interest in the RRV’s reports. As a result of the RRV’s studies of the housing benefits system and the system for maintenance allowances, changes are planned which are expected to save at least three billion kronor a year. The changes proposed for the housing benefit system include cross-checking benefits received against taxed income.

Stiffer penalties have also been introduced for benefit claimants found to be working in the "black economy". Such claimants will now be excluded from receiving unemployment benefits until they have re-qualified for the subsidy by having undergone a period of employment.

In their 1996 supplementary budget bill, the Swedish government proposes that Parliament allot 350 million kronor over the next three years for counter measures against fraud and corruption within welfare systems and against economic crime in a broader sense. Fraud may also be committed by companies as well as individuals.

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Auditing Standards in the UK Public Sector

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The Auditing Practices Board (APB) was formed in April 1991 by all the accounting bodies as a new board responsible for developing and issuing professional standards for all auditors in the United Kingdom and the Republic of Ireland.

Background to the Auditing Practices Board

In the late 1980s there was widespread criticism of auditors in the United Kingdom and growing public scepticism about the value of the audit function. The profession recognised the need for a more independent and authoritative standard setting body than the arrangements which had operated for
many years. The Auditing Practices Board (APB) was formed in April 1991 by all the accounting bodies¹ as a new board responsible for developing and issuing professional standards for all auditors in the United Kingdom and the Republic of Ireland.

The APB has twenty-two members comprising equal numbers of auditing practitioners and non-practitioners. The practitioners are mostly senior partners from the larger auditing firms. Non-practitioners include senior figures from industry, commerce, the legal profession and the academic world. The participation of non-practitioners is fundamental to the Board operating as a truly independent standard-setter. The UK National Audit Office (NAO) are able to nominate a Board member. I was nominated as the NAO Board member when the APB was formed in 1991 and my appointment was renewed for a further three years in 1994.

The international environment

The APB fully supports the International Federation of Accountants in its aim of improving the harmonisation of auditing practices throughout the world. All of the Auditing Standards issued by the APB are developed with due regard to international developments, in particular the International Standards on Auditing issued by IFAC Compliance with APB Auditing Standards by auditors in the UK ensures compliance with the basic principles and essential procedures specified by IFAC.

How the Board works

Meetings of the APB are held once a month (sometimes more frequently). At these meetings the Board formulate policy, agree the adoption of new projects and the principles that should drive them, review progress and approve documents for publication either as final documents or exposure drafts on which comments are invited. The agenda papers for each meeting are formidable and call for substantial preparation.

For most projects, including all auditing standards, practice notes and bulletins, responsibility for investigating the subject and developing detailed proposals is delegated to small working parties of the Board which then submit recommendations to the main Board. Given my particular public sector audit interest, I worked with two APB colleagues to produce SAS 110 (Fraud and Error) and SAS 120 (Consideration of Law and Regulations). Each involved working party meetings and a number of consultations back to the main Board before and after the ‘exposure’ stage when the drafts were released for a period of public comment.

All detailed proposals and draft documents developed by working parties are subject to penetrating technical review by small panels comprising APB practitioner members. This helps to identify problems and reduce the work of the full Board.

So what has been achieved since 1991?

Without doubt, the biggest single achievement of the APB to date has been the “Revisions Project”. This was launched in September 1992 to review and update all of the standards and guidelines issued by the predecessor body prior to 1990. The Board’s aim was to produce a comprehensive set of Statements of Auditing Standards (SASs) which met the requirements of current international auditing standards but were tailored to UK circumstances. This was a truly Herculean task, involving the publication of 21 SAS exposure drafts in 1993. The project was completed and the definitive volume of SAS published in 1995.

Another important achievement has been the action taken by the Board to stimulate public debate on the role of auditing and the way it should develop to meet the needs of users of financial information. The Board’s “consultation paper” on Future Development of Auditing triggered that debate and led to the 1994 paper “The Audit Agenda” which set out a proposed framework for further action. The Board have established working parties to take forward the work on five specific themes in 1996.

Although these two matters have tended to dominate the Board’s activities over the past four years, there has been a constant traffic of other important outputs to inform and provide guidance to auditors. These have

¹ There are 6 accounting bodies in the United Kingdom and the Republic of Ireland. They represent accounting specialisms or reflect differing national Finance legislation. They are: Institute of Chartered Accountants in England and Wales; Institute of Chartered Accountants of Scotland; Institute of Chartered Accountants of Ireland; Chartered Association of Certified Accountants; Chartered Institute of Management Accountants; and Chartered Institute of Public Finance and Accountancy.
included, for example, a range of Practice Notes and Bulletins on such matters as Corporate Governance Disclosures, Small Company Audit Exemptions and Report to Regulators in the Finance Sector.

And the future work programme?

In addition to taking forward the work on ‘The Audit Agenda’ and governance-related initiatives, the Board has now embarked on a number of new projects including:

• reviewing all industry-specific audit guidance which explains how the Auditing Standards should be applied in particular industries or sectors;
• provision of improved guidance on auditing in a computer environment;
• guidance for internal auditors.

The first of these represents quite a challenge given that there are eighteen existing industry specific guidelines that require fundamental overhaul. Some of these are especially relevant to auditors operating in the public/government sector - for example, charities, public housing, banking etc. To ease the burdens on the Board we have enlisted the help of the accountancy bodies who will provide the chairman and secretariat support for each of the eighteen working parties on most of which there is just one APB member who act as vice-chairman.

What about auditing in central government?

The Auditing Standards issued by the Board are, of course, intended for application to all audits whether in the private or public sector. But auditors require guidance on the way that they are to apply in the Central Government sector. The APB has therefore been engaged on a joint project with the UK National Audit Office to review the applicability of SASs to the external audit of Central Government accounts.

A working party was established in 1994, chaired by the UK Deputy Auditor General and included representatives from HM Treasury, the Northern Ireland Audit Office, the Audit Commission and APB. The intention was to develop Practice Notes describing the special features of Central Government audits and to provide guidance on how the SASs should be applied - whether undertaken by UK National Audit Office staff or auditing firms under contract. Following an exposure process during the summary of 1995, the guidance to all auditors working in the central government sector was issued in February 1996 (this guidance includes the specific requirement for public sector auditors to consider the regularity of expenditures). Specific guidance on matters such as the audit of charities and public housing will be issued later this year.

Without doubt, the biggest single achievement of the APB to date has been the “Revisions Project”.

The Auditing Standards issued by the Board are, of course, intended for application to all audits whether in the private or public sector.

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1 The Audit Commission is responsible for auditing the accounts of local authorities, the National Health Service and certain other public bodies in England and Wales, and helping them to ensure that their services provide good value for money.
State Accounts Balance Sheet
ingnovations forming the object of Parliamentary Study

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Board Member of the Italian Supreme Audit Institution

The reconsideration of the structure of the balance sheet and the reclassification of the revenues and expenditure in the budgetary balance sheet, as well as, consequently, in the closing balance sheet, have been subjects of great topicality for some time among professionals in the field, and they have become the object of parliamentary study.

The State accounts balance sheet, consisting of the statement of revenue budgets and the statements of expenditure budgets for each of the administrations, is currently characterized in Italy by being a mere catalogue of the headings making up the basic unit of the balance sheet in itself, and it is difficult, particularly in the expenditure headings, to identify the functions and objectives of public expenditure.

The reconsideration of the structure of the balance sheet and the reclassification of the revenues and expenditure in the budgetary balance sheet, as well as, consequently, in the closing balance sheet, have been subjects of great topicality for some time among professionals in the field, and they have become the object of parliamentary study.

On this subject, the Audit Office has provided elements of evaluation on the occasion of appearances before the Balance Sheets Committee of the Senate regarding the "Reclassification of the State balance sheet", and before the Balance Sheet, Treasury and Planning Committee of the Congress, as part of the fact-finding investigation on the reform of the balance sheet structure.

On 24 June 1995, the Audit Office also deliberated on a particular topic of structure and reclassification of the budget balance sheet and accounts summary in response to a request made by the President of the Senate, in order to develop the topic referring to the existing link between the rationalization of the balance sheet options and the rationalization of the structures and of the administrative procedures.

With the Report on the General Summary of State Accounts for the 1995 financial year (session of 25 June 1996), the Audit Office presented a structured and detailed analysis of the accounts summary and of the results of those accounts in terms of the target functions (vol II, book 1).

As has been underlined by the Chairman of the Audit Office himself, Giuseppe Carbone, the new way of drawing up the structure of the balance sheet does not, as it used to do, present an analysis solely in terms of headings assigned to the administrations but instead it is restructured in terms of expenditure laws, programmes and projects in such a way that the result obtained can be isolated and compared with the forecast, being in mind suggestions provided by the International Monetary Fund.

Mr. Carbone has emphasized the importance of reforming the balance sheet, to which an efficient contribution has been made by the innovative form prepared by the Audit Office since it grants greater transparency and clarity to the balance sheet, allowing a reference table to be used with more precise ideas of who has to decide on the expenditure (Government and Parliament).

The new draft balance sheet drawn up by the Audit Office is based above all on the reorganization of the administrative structure, identifying the centres of management responsibility with the aim of relating the activities to the targets set by the Public Administration in the general framework under the term: "target functions". This would also facilitate an effective evaluation when it comes to auditing the results, within the framework of administrative action and of the correlated financial management.

By assessing the existence of a connection between functions and targets for the division of resources and of management re-
sponsibilities, the structural scheme of the expenditure balance sheet confers a practical way of carrying out the principles of administrative organization defined in Italy by laws and decrees, even at the level of drawing up the budget and of displaying the data on financial management in the closing balance sheet. It also provides the criteria for the assignment of resources, with the consequent different and more profound evaluation of the results related to the new “target functions” model, as well as with the specific duties of management responsibility.

One feature of the new structure of the expenditure budgets statements is the linkage by “target functions” (that is, groups of homogeneous administrative activities under the profile of the proposed aim), to which is connected the management of the financial resources, in close contact with the development of the administrative action.

In their turn, the “target functions” are linked up in second-order (also called micro-functions) and third order functional groups, in line with the fields of activity and the correlated financial resources, which are increasingly more restricted.

As far as the sharing out of resources is concerned, the target functions are, in turn, linked up in operational units that coincide with the Directorates General of the various ministries and which constitute cost centres, that is, management responsibility centres. The operational units correspond to the particular sectors of activity provided for carrying out the expenditure.

These therefore take on the dimensions of more extended groups, classified by the programmed functions and by the identification of the decision responsibilities.

What is thus obtained is that this structure implies a direct and immediate relation between the balance sheet management and the actual administrative structure that has to be reorganized and adapted, in order to correspond to the new and different requirements of the balance sheet.

In this way, a unity of principle is achieved between the rationalization of the balance sheet structures and the organizational structures.

The scheme in terms of operational units replaces the classification in terms of headings (that is, the grouping of revenues or expenditure in accordance with the bodies that administrate them) and in terms of sectors (grouping of expenditure on the basis of a functional analysis of them) of the common balance sheet in force, while the differentiation in terms of categories (grouping of revenues according to their nature and of the expenditure depending on the functional analysis) lies within the operational units.

The linking up by “target functions”, as well as the classification by operational units and by lower levels of grouping, does not just concern the final functions to which the products and services provided for citizens correspond. It also concerns intermediate functions such as those of planning, coordination, information, etc.

The aims of the balance sheet scheme and of the accounts summary stated here are to increase the significance of Parliamentary decisions or of the structure of the balance sheet, to reinforce the function of planning and assignment of resources, and to measure the scope of the administrative action and of financial management, thereby allowing control to be conducted over the management, which Law N° 20 confers on the Audit Office and which is aimed at the evaluation of the results obtained both in terms of economic saving and efficiency and in terms of correspondence between the results obtained and the budgeted targets.

The reform of the balance sheet is a response to the basic requirement of instituting a rational system of decisions in which it is possible to locate administrative actions and the management of the public powers capable of drawing up reliable and realistic budgets - above all for those sectors of the Public Administration that are constantly characterized by situations of deficit; in particular, health, social security and transport. The aim is to achieve a progressive elimination of the differences between the forecasts of available resources and the financial results obtained, and also, as a consequence, of the creation of hidden deficits.

On the basis of the indications shown by the experimental balance sheet presented by the Audit Office, the Council of Ministers has recently presented a draft law for the reform of the State accounts balance sheet inspired by the criteria of simplicity, flexibility, rationality and transparency.

The new balance sheet is characterized by reducing expenditure items from six thousand to four hundred, as well as by replacing expenditure headings by budgetary units of the balance sheet, which should allow the logic of continually growing expenditure to be overcome, making the managers of the public administration responsible and making it possible to have effective control over the results.
A Working Aid to Performance Control in Germany

Dr. BERND WINTRICH
Ministerial Counsellor Member of the Federal Court of Audit

There are a good many parallels between planning and performance control. Indeed, performance control could be seen as the mirror image of planning. If there has been a total lack of planning, or certain major steps have been omitted, performance control will necessarily fail too.

I. The need for performance control

In the last few years, states have increasingly developed from liberal states governed by the rule of law into welfare states, social partners, entrepreneurs and business regulators. Since practically all these state operations are also economic activities and states are facing considerable financing problems, they also fall into the category of what is known as the economic principle, i.e. whatever the field, the relationship between the attainment of targets and the application of resources must be as favourable as possible. And this is the task which performance control sets out to accomplish. According to present-day thinking and practice, performance control can be defined as a systematic procedure with three stages, whose aim is to check that measures with financial consequences attain their ends (efficiency) and are effective (causality) in order to determine whether they have been cost-effective (efficiency). In contrast to the legal nature of the compliance control, this is an economic-oriented, material control of a specific area. This is not the place to deal individually with the different terms used to designate this concept - Evaluation, Output Control, Operations Analysis, etc. The current state of affairs in scientific theory and practice is reproduced in the series of reports by the Thuringian Minister for Affairs of Federal Jurisdiction in the state chancellery, published by Hartmut O. Ries in Erfurt, 1996, entitled Verbesserung der finanzwirtschaftlichen und fachlichen Steuerung öffentlicher Maßnahmen durch Evaluation?1. Performance control is always a retrospective (= ex post) control, whether it takes place alongside the implementation of the measure or on its completion.

There are a good many parallels between planning and performance control. Indeed, performance control could be seen as the mirror image of planning. If there has been a total lack of planning, or certain major steps have been omitted, performance control will necessarily fail too.

To complement performance control, administrative profitability must also be considered, i.e. gauging efficiency of performance by using the smallest possible number of human, financial and material resources and by optimising organisation. Taking this as a basis, the following is a clear list of test questions which provide a three-stage system that can be easily applied to almost any field. Certain additions and amendments may be required to cater for the needs of particular specialist areas.

II. Test Questions for the Application of Performance Controls

Given the large number of items which may potentially require performance control, the focus of the examination will differ depending on the measure being dealt with. Only once all the following questions have been asked can one be sure that no essential angle of the specific measure in question has been overlooked. However, only the answers to the difficult, more crucial questions need to be recorded in writing.

0: Was performance control provided for in the planning at this point? Is performance control possible and useful at this moment?

1. Questions for Controlling the Achievement of Targets

Taking as a basis the target description defined during planning (structure, operationalization and weighting), the extent to

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1 "Improving public financial and professional control of public measures through evaluation", EUROPEAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
which targets have been achieved should be established.

1.1. What targets should have been achieved with this measure?

No programme can be audited unless the matter of targets has first been clarified. The goals (desired situations) should have been established by politically legitimate decision-makers and submitted to the administration. An examination of the actual targets behind the measures and value decisions based on rationality would therefore be out of place. The targets intended may have been set down in reasoning on laws and programme descriptions, but could also be found in other documents such as government policy statements, important speeches or parliamentary printed matter.

1.2. Was a clear distinction made between targets and measures?

As targets are not always disclosed, there is sometimes an attempt to substitute a description of these by explaining the measures themselves. Targets and measures must be clearly separated from each other during planning and must not be treated as equivalents, e.g. the target of development aid is not the building of a dam, but the improvement of the food situation and living standards of the affected population.

1.3. What was the relationship between the different targets (target structure)?

Where a measure or set of measures was related to several different targets, the target order should be established. The targets may be established separately from each other or may be subject-related. With an increasing range of measures, sets of targets and target trees may sometimes be determined using subject-related, logically-defined major divisions and sub-categories. Structured partial targets often correspond to the "benefit" of the measure, quantified in economic terms. Identical targets with positive and negative characteristics should only be taken into account once.

1.4. What were the identification numbers, indicators or other gauges used to describe the targets (target people, target characteristics, target period)?

Once the order of targets has been established, the next step is to determine the extent to which these targets should actually have been accomplished – this is called operationalization (who, how many, when, where?). Especially where qualitative targets are concerned (e.g. the improvement of living standards), the idea is to find out by what indicators and criteria the planner had intended to gauge the improved situation.

1.5. Were the targets compatible with the targets of other measures? What weight was given to the respective targets?

We need to establish the relationship between several different targets. In particular, the targets found should be compatible with the targets of other programmes, as their usefulness would otherwise be reduced. Where no monetary evaluation was possible, the different targets will have had to be weighted. They may either be positioned beside each other and given the same weight, or placed in order of priority (e.g. obligatory targets - optional targets, or by means of a points table or target matrix).

1.6. Have the targets altered and if so how?

As the state's targets develop, there is a need to establish whether the original targets for which the measure was intended and its relationship to the targets of other measures are still valid at the moment when the performance control is carried out, or whether there have been any changes.

Once the order of targets has been established, the next step is to determine the extent to which these targets should actually have been accomplished - this is called operationalization (who, how many, when, where?). Especially where qualitative targets are concerned (e.g. the improvement of living standards), the idea is to find out by what indicators and criteria the planner had intended to gauge the improved situation.

1.7. To what extent have the targets been reached?

Assessing the attainment of goals is relatively simple in the case of measures whose targets can be gauged in monetary terms, especially when this can be done by subsequent operational calculation. However, where there are larger programmes which have individual elements of a qualitative nature, different indicators must be used in an attempt to represent the extent to which the objectives have been met. To assess the targets achieved, the following comparisons should be made:

- a comparison between the target and actual status where the situation the measure was intended to achieve (i.e. planned situation) should be compared against the actual situation.

- a before and after comparison, where measurements should be recorded for the situation at the outset and that which exists at the moment when the performance control is carried out. The two values should then be
compared (where necessary chronological examinations should also be carried out). The size of the change indicates the effect the programme is having.

- a comparison between the actual and reference situation relates the hypothetical situation, i.e. that which would have existed had the measure not been applied, with the actual situation ("Zero-hypothesis: what would have happened if nothing had happened"). In this manner, for example, a comparative group concept can be used, where a comparison is made between an experimental and control group (where difficulties arise from the causal flow: see No. 2.2.4. below).

2. Questions for Controlling Effects

As every measure taken by the state is closely interwoven in a network of other measures, the next step is to consider the implementation of these measures and then their influence on the associated area.

2.1. Questions for Controlling Implementation

2.1.1. Have the resources earmarked actually been used as planned? Were they objectively matched to the targets to be achieved?

Implementation control (or input control) is the next step in establishing whether and how the planned measures have actually been applied within the term allocated. To assess if this is the case, the first requirement is to examine whether the resources designated have actually been used and then whether, on the basis of actual experience, they have proved appropriate for attaining the targets desired. The application of precepts and prohibitions is particularly relevant where behavioural changes were intended among very different population groups (averting risks). Incentive programmes make knowledge of the structure of the recipients, and their motivation, a prerequisite.

2.1.2. Have those responsible for enforcement accepted the measure and/or changed it?

When a federal state measure is being implemented, no obstruction, postponement or hold-ups should be allowed to occur (by the use of so-called "Veto positions") as a consequence of the administrative structures of the federal state itself, or those of the provinces and municipalities involved. Only an adequate number of positively motivated, well-trained personnel can prevent deficits at all levels of the implementation process.

2.1.3. Did the measures live up to the recipients' expectations?

The target groups at whom the measures were aimed should perceive the arrangements to be in keeping with their concerns (this is known as "accountability") and/or to be economically beneficial to them. Where regulatory programmes are concerned, the sanctions adopted should be deemed a deterrent; in incentive programmes, cost-benefit considerations should have been fulfilled.

2.2. Questions for Controlling Effectiveness

2.2.1. Can the attainment of the target be directly attributed to the measure planned?

In causality controlling, the extent to which the resources applied are responsible for the attaining of the target is examined, or, in the event that the targets were not or were only partially attained despite the use of financial or other resources to attain them, this controlling investigates the causes behind the failure. First of all, the direct or immediate effects (effects occurring directly on the spot where the instrument was used) are examined.

2.2.2. Have the indirect effects occurred as planned or otherwise?

Establishing indirect or more remote effects is particularly difficult as these are hard to recognise. Important indirect effects include the following:

- the mere announcement of certain measures gives rise to frequent reactions from those affected, even during the transitional phase;
- diversion (shifting and deflection): where the party directly affected by the measure is able to deflect a disadvantage on to someone else or to appropriate an advantage that was intended for someone else;
- substitution: a typical sequence of effects in the failure of a measure is where the affected party is able to evade the burden planned (e.g. a tax) or is able to acquire artificially, either legally or illegally, an additional and favourable situation which was not intended by the body responsible for the measure;
- capitalisation (a change in assets): where a measure leads to an increase or loss in the capital of the affected party, whereas this change in asset value was not the primary goal of the measure (e.g. rehabilitation of historic districts of cities).

2.2.3. Was the measure (also) intended to produce other positive or negative effects, and if so which?
In addition to the effects predicted, other effects can also frequently be established (e.g. dying forests, stone degeneration) as a result of simultaneous encounter with other outside (exogenous) factors. These side effects can - as with the main effects - affect every conceivable area, and may be particularly of the following type: legal, social, medical, mental or psychological, economic, ecological, cultural, technological, safety-related, spatial and structural, traffic-related, demographic and political.

2.2.4. Have other events influenced the effects, and if so to what extent? Would the development have occurred in the same way, or would it have been aggravated or improved without the measure?

When retracing the causal chain, check whether the attainment of the target was hampered or prevented by unforeseen circumstances, e.g. a dramatic change in fuel prices, and/or whether there is overriding causality, i.e. whether the target would have come about in a similar or identical manner even without the measure adopted (examination of the hypothetical causality or the reference developments). In the case of subsidies, there is a need to establish whether trigger effects existed and/or to what extent there were spin-offs resulting from the action.

3. Questions for Controlling Cost-Effectiveness

Since the fact that a target was attained is not the decisive factor in every measure, but rather the fact that it was attained in a cost-effective manner, performance control must include the concept of efficiency, i.e. the relationship between the total social benefit and the total social cost of the measures adopted, irrespective of the decision-making level at which they came into being (public and private budgets, enterprise, etc.).

3.1. What individual costs and benefits resulted from the measure?

The first step is to record the personnel and material costs, those required for costing purposes and grants, subsidies and consequential charges, as accurately as possible. In so doing, the major and side effects should be arranged into benefits (advantages) and costs (losses).

3.2. How important were the spin-offs?

Spin-offs should be left out of benefits unless they have produced positive results in some other way.

3.3. Can the monetary and non-monetary benefits and costs be evaluated?

The evaluation of benefits and costs corresponds to the procedure model for a cost-benefit analysis or cost-effectiveness analysis. Monetary and non-monetary benefits and costs should be separated out here. Elements of uncertainty and their repercussions on the result (sensitivity test) should be represented and, where possible, evaluated.

3.4. Can the benefits and costs of the measure be compared?

Although the benefits and costs resulting from a measure are usually seen at different points in time, a comparison of these must be given. Monetary effects in the cost-benefit analysis can be compared at the same time by using the capital value method (addition or deduction of unaccrued interest at an established reference point in time) or the annuity method (calculation of the same annual amounts). In examining non-monetary effects, in a cost-effectiveness analysis, the time differences between benefits and costs are considered in accordance with the weighting of the targets.

3.5. What would be the state of developments without the measure? Would the application of another measure have had better results?

This investigation should show whether the alternative chosen was the best possible option. Competing potential actions (known as alternative or opportunity costs) should therefore be listed. Particularly where subsidies are concerned, the opportunity costs should be given. In the event that they cannot be established, this absence should be clearly pointed out to the decision-makers.

3.6. Can the relationship between expenditure and revenue be justified overall?

If the measure adopted is to be fully assessed, the details of the values obtained from the calculations must be compared. The result should be given in verbal form. If there are substantial discrepancies between the target and actual situation or other crucial points to be raised, attention should also be given to the before-after comparison and the actual-reference developments comparison.

4. Comprehension Questions

Finally, we would like to put the following questions to our readers:

4.1. What caused the good/bad target outcome?

4.2. What recommendations can be made for further action?