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4th EUROSAI Congress, Paris, 1999
External Control of International Bodies and Institutions
Some Evaluations and Results of Controlling the Management of Humanitarian Aid
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EUROPEAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
Editorial

The complexity that nowadays characterises economic activities in their broadest sense, primarily as a consequence of current globalisation and integration processes, contributes without any doubt at all to broadening the horizons of public management and introduces new elements which, directly or indirectly, demand new control systems based on a continual learning and on certain values of creativity, flexibility, solidarity, integration and decentralisation.

The term independence thus takes on a new dimension. From the viewpoint of the present dynamic and complex activity of controlling public accounts, given that there is a greater number of institutions exercising or participating in this control (of one kind or another), and given the supranational extent that public economic/financial activities have acquired nowadays, so new limits need to be set on the principle of independence that will maintain and respect the institutional balance born out of the processes of integration and which will likewise permit a creative co-operation to be developed. In line with this new reality, challenges arise that are to be confronted if effective control over public management is to be achieved.

During the IV EUROSAI Congress, held in Paris in June 1999 and the preparatory seminars for it, which formed recent forums for studying the independence of the Supreme Audit Institutions (SAIs), the conviction was once again highlighted of the great value underlying that term, that there was a need to strengthen the SAIs at the institutional level, and that these bodies should achieve a sound functional autonomy and impartiality of action.

Only to the degree that the institutions carrying out external public control manage to maintain the necessary point of equilibrium between independence and objectivity of action and the desirable co-operation with other bodies will it be possible for them to take on new responsibilities being imposed on them by the era of complexity. Only in this way will the respective parliaments and society in general be able to be provided with a technical task in which the conditionings of the institutional framework are highlighted. Being subject to integration and globalisation processes in general has a very positive effect on the strengthening and independence of these institutions, a fact that contributes not just to economic progress but also to social and ethical development.

I would not wish to end this editorial without taking advantage of the opportunity that this forum provides me with to express my most sincere gratitude to the authors for the generosity and efforts of their contributions to this sixth issue of the EUROSAI magazine, and to encourage everyone to participate in the stimulating enterprise implied by the continuity of this common task.

Ubaldo Nieto de Alba
President of the Spanish Court of Audit
Secretary General of EUROSAI
CONCLUSIONS OF THE 4TH EUROSAI CONGRESS ON THE INDEPENDENCE OF THE SAIs

In the INTOSAI Lima Declaration (1977) the SAIs reaffirmed their commitment to independence, which is an indispensable condition for the efficient auditing of proper public accounts management.

Since then, there have been numerous social, technological and political changes. In particular, the opening up to democracy of the countries of Central and Eastern Europe has renewed demands for independence and transparency. Decentralisation, privatisations and deregulations have all changed public sector management.

It is for this reason that the members of EUROSAI, having met in the Lisbon Seminar (1998) and following their Paris Congress (1999), reaffirm that independence today rests on the following principles:

1. The SAIs must have the necessary resources for being fully independent.

The independence of the SAIs must be based on constitutional or legislative provisions that set down their institutional nature within the public powers. Independence also depends on the guarantees granted to the Presidents of the SAIs, so that they might perform their tasks in a sufficiently stable setting. Protection is needed against outside pressure, along with clearly defined powers of investigation when it comes to safeguarding the independence of auditors.

The SAIs must have sufficient resources at their disposal so that they can carry out their tasks. Budgetary autonomy constitutes another factor that can promote genuine independence.

Finally, in order to be fully independent, the SAIs must be free when it comes to planning and performing audits as they see fit.

2. Independence goes hand in hand with responsibility, which is manifested in various ways, depending on the institutional framework of the country.

The SAIs must comply with the same rules as they recommend others to introduce.

They must therefore establish internal audit procedures for ensuring the efficacy of their own work. Internal audits must be structured in such a way that they have the means for providing Presidents and top managers with a true and faithful image of the institution’s performance. This internal audit must provide a regular monitoring of the operational indicators and make assessments of the results of audit controls that the body carries out.
The SAIs are becoming increasingly subject to external audits. This procedure offers the public a guarantee that the SAIs use appropriate work methods and it must not imply any challenge to their independence.

By means of publishing their budgetary performance reports and the reports on audit activities, and by means of these being sent to Parliament, the SAIs must furnish the highest degree of transparency in matters related to the way in which they use the resources available and the results they have achieved.

3. Relationships with the communications media as another indicator of the independence of the SAIs.

The freedom of the SAIs to define their own communications policy with the media and the public within the existing legal and regulating frameworks is an essential component of their independence and efficacy. It must be assured that their communication process provides a fair and impartial view of their work and that it does not give rise to absurd controversies.

With the exception of those cases in which dissemination of information is obligatory in accordance with the legal or constitutional provisions, this freedom includes the possibility of deciding whether or not a particular report is to be made available to the public. The same philosophy can apply to the content, medium, format, date, periodicity and channels of dissemination.

Transparency with respect to the body being audited is essential. This has to be transmitted by means of a process where the facts are agreed with those bodies and/or by means of the public having access to assertions made by the audited body, possibly by means of these assertions being published along with the reports from the SAIs so that the public receives information that is full, balanced and fair.

The public always have to have direct access to the reports that the SAIs have decided to issue, with copies of them being made available. These reports must be provided by means of various information media, including a Web site.

18th GOVERNING BOARD OF EUROSAI

Following the proposal made by Mr. Voleňík, the last meeting of the Governing Board, prior to the one held the day before 4th EUROSAI Congress, took place in Prague (Czech Republic), since this country holds the Presidency of EUROSAI. This agreement once again offered an opportunity to enjoy the beauty of Prague and the warmth of our Czech hosts.

One of the main matters discussed by the Board was an analysis of the report prepared by the SAI of Norway and by the EUROSAI Secretariat on co-operation needs and agreements for training in EUROSAI. Moreover, given the proximity of the 4th EUROSAI Congress, various preparatory aspects of it were debated, basically consisting of the agreement for proposals to be put to Congress on the appointment of new members of the Governing Board, on the appointment of auditors, on the draft budget for the period
2000-2002 and on the headquarters for holding the 5th EUROSAI Congress.

Among the agreements adopted by this Governing Board can be highlighted the support given to the proposal from the SAI of Hungary to be appointed the headquarters of the 18th INCOSAI to be held in the year 2004. The Governing Board also approved the request from the SAI of Ukraine to become a member of EUROSAI.

19th GOVERNING BOARD OF EUROSAI

The 19th meeting of the Governing Board of EUROSAI took place on the same day as the start of the 4th EUROSAI Congress, held in Paris (France). M. Joxe, the host of the Governing Board and of the 4th Congress, welcomed everyone present. The works carried out by each member of the Governing Board in the time that had passed since its last meeting made it possible to approve a proposed resolution to the 4th Congress on training in EUROSAI and a proposal to set up a EUROSAI Working Group on Environmental Audit. As well as these proposals, the Governing Board drew up a balance of all the information and proposals which it would bring before the 4th Congress in compliance with the Statutes of EUROSAI.

The 19th Governing Board of EUROSAI approved the incorporation of the SAI of Armenia into the Organisation.

The Governing Board concluded its session with some speeches from several of its members who, expressing the general sentiment, stated their gratitude to Mr. Volenik for the efficient work carried out during his term of office as President of EUROSAI.

21st GOVERNING BOARD OF EUROSAI

The 21st meeting of the Governing Board of EUROSAI, which was held in Paris in November 1999, had as its central topic of debate the analysis of the responses to the questionnaire on “training in EUROSAI” drawn up by the SAI of France, as a continuation of the questionnaire that had previously been prepared by the EU-ROSACR Secretariat. The different possible alternatives were analysed for carrying out this training.

Standing out as the most significant conclusion was the decision not to consider creating a Training Centre, but nevertheless to study the possibility of setting up an Internet Resources Centre.

NEWS ON EUROSAI MEMBERS

NEW MEMBER AND NEW PRESIDENT ALGEMENE REKENKAMER

On the 15th of May 1999 the Queen appointed Mr Pieter Zevenbergen to the Netherlands Court of Audit and so the Court was completed with its third member. The other members are Mrs Saskia J Stuivelings (member since October 1984) and Dr Ad J E Havermans (member since August 1996).

On the same date Mrs Stuivelings was appointed by the Queen as the New President of the Court succeeding Mr Henk Koning.
Mrs. Stiiveleng, President of the Algemene Rekenkamer. Photograph by Vincent Merzela.

who retired from office on the 1st of April 1999. All appointments are for life.

The Secretary General of the Court is Dr Tobias A M Witteveen (since 1994).

The origins of the Court go back as far as 555 years ago, but more or less in its current form it dates from 1814 (185 years ago). Up to 1841 the Chair was held on a rotating basis. Mrs Stiiveleng is the 23rd President and the first woman.

Mrs Stiiveleng (1945) studied Law and holds a degree (1972) from the Erasmus University Rotterdam School of Management.

Saskia J Stiiveleng has held various posts in the Government, such as senior policy adviser to the Mayor of Rotterdam, member (for the Labour Party) of the Upper House of the Dutch Parliament and Secretary of State for the Interior.

From 1996 she has served as chairperson of the INTOSAI Working Group on Environmental Audit.

Outside the Court she holds a number of posts in the field of development cooperation, the arts and health.

Mr Havermans (1934) has a degree in Law (Leiden University, 1958) and a doctorate in Social Sciences (Nijmegen University, 1984). Before joining the Court, Ad Havermans was the mayor of Pannerden, of Druten, of Doetinchem and finally of the seat of government, The Hague. He is a member of the CDA, the Christian Democratic Alliance.

Mr Havermans was, amongst other posts, member of the executive committee of the International Union of Local Authorities (UILA).

Outside the Court he holds a number of posts in the community and in the field of education.

Mr Havermans was, amongst other posts, member of the executive committee of the International Union of Local Authorities (UILA).

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Mr Zevenbergen (1940) has a degree in public science from the Netherlands School of Economics (1969), now Erasmus University Rotterdam. Pieter Zevenbergen held various posts in the field of local government. Besides being Mayor of the island of Ameland, of Voorst and of Bergen op Zoom, he has also acted as arbitrator and adviser. Prior to joining the Court he served as the Dike Reeve of the Delfland Water Authority.

Outside the Court he holds a number of posts including vice-chair of the European Cyclist Union and member of the management committee of the International Cyclist Union (UCI) and president of the Trust Foundation of Erasmus University Rotterdam.

Mr Witteveen (1948) has a degree in civil law (University of Groningen, 1971) and a doctorate in law (1984).

After working in the Ministry of Foreign Affairs Tobias Witteveen joined the staff of the Lower House of the Dutch Parliament. From the mid-eighties he served Parliament as deputy clerk in charge of the Public Accounts Committee and the Finance Committee. Before becoming secretary-general of the Court of Audit he was secretary-general of the National Health Council for four years.

The brief of the Court is ex post both regularity and performance audit. The scope covers central government and related organisations in the field of health and social security.

During the coming years the Court will be placing extra emphasis on performance.
audits related to the core of government services: housing, education, income, care, safety and environment. Policies in these fields have a direct impact on the public and basic amenities are at stake. As a result, any shortcomings in the government’s actions have serious consequences.

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INTERNATIONAL SEMINAR IN MOSCOW

An International Seminar organised by the Chamber of Accounts of the Russian Federation was held in Moscow (Russia) from 30 June to 2 July 1999, dealing with the topic “Cooperation among federal and local Audit Institutions”. Participating in the work of the Seminar were the members of the Chamber of Accounts of the Russian Federation, representatives of the regional and local audit institutions of the Subjects of the Russian Federation, as well as representatives of the SAIs of Belarus, the United Kingdom, India, Republic of Kirgizstan, People’s Republic of China, Moldavia, USA and Ukraine.

The opening and closing speeches were given by the President of the Chamber of Accounts, Mr K Karmokov. The Vice-President of the Duma of the Russian Federation, Ms S Goryacheva, spoke some words of welcome to participants in the Seminar.

Reporting on the experience of cooperation in actions among Supreme Audit Institutions and the regional financial audit bodies were the President of the Court of Audit of Ukraine, V. Symonenko; the Vice-President of the National Audit Committee of the Republic of Belarus, A. Salikov; the assistant to the Comptroller and Auditor General of the United Kingdom, Caroline Mawhood; the Senior Advisor (with the rank of deputy minister) to the National Audit Office of the People’s Republic of China, Wang Daocheng; the Director of the National Audit Office of India, Jyotirmoy Mandal; the Director of the Audit and Protection of Computerized Information Group of the United States General Audit Bureau, Robert Dacey; and also the Deputy-Auditor General of the State of Florida, Sam McCall.

The entire documents from the Seminar will be published by the Chamber of Accounts of the Russian Federation.
CELEBRATIONS ON THE OCCASION OF THE 10TH ANNIVERSARY OF THE STATE AUDIT OFFICE OF THE HUNGARIAN REPUBLIC

On 28-29 October 1999 there was a festive celebration on the occasion of the 10th anniversary of the re-establishment of the State Audit Office of the Hungarian Republic in Budapest and Velence, with the participation of Hungarian guests and representatives of foreign SAIs.

The importance of the establishment of the State Audit office is, that among the former socialist CEEC countries Hungary was the first, where the establishment of a democratic institutional system, ensuring the constitutionality after a break of 40 years began, an integrate and determining element of which was the establishment of the State Audit Office, which ensures an independent control.

On the first day of the anniversary there was a professional session in Velence, in the Training and Methodological Centre of the State Audit Office.

Within the framework of the session after the opening words of Dr. Árpád Kovács, President of the State Audit Office lectures were given by Richard Maggs representing Sir John Bourn Comptroller and Auditor General of the United Kingdom, by Mr. James Bonnell regional Inspector General of the U.S. Agency for International Development, Mr. Patrick Everard, member of the European Court of Auditors on a high and excellent level, dealing with tasks facing the handling of new challenges and with the questions of the independence of audit. The lectures were received with a high approval.

Further lectures presenting the most important problems of the governmental and financial audit were delivered by the managers of the Hungarian Governmental Control and the Ministry of Finance.

The lectures were followed by a keen debate.

On 29 October Dr. Árpád Kovács President for the SAO offered a review of the most important work performed in the last 10 years, and outlined the tasks and challenges, to be solved by the Hungarian state audit in the early years of the next century.

A lecture was delivered by Dr. Franz Fiedler, Secretary General of the INTO- SAI, in which he presented the activity and tasks of INTOSAI and the work of its individual organs.

He emphasized the means with which the international organisation promotes the development of the activity of the SAIs in CEEC countries.

On behalf of the Hungarian Republic Dr. Árpád Göncz State President, the Vice- speaker of the Parliament, the Chairman of the Constitutional Court, on behalf of the Government and on the Prime Minister’s authority the Minister of Justice greeted and expressed appreciation of the significance of the activity of the State Audit Office and expressed their good wishes to further successful work.

The Presidents of the SAIs of the Czech Republic, Croatia, Poland, Italy, Slovakia and Romania participated in the celebration and greeted the Hungarian auditors.

During the celebration State President Dr. Árpád Göncz conferred a high state decoration on Dr. Franz Fiedler. In this gesture was recognised the continuous help given by the SAI of Austria to the development of the Hungarian public audit.

Finally Dr. Árpád Kovács together with Dr. Franz Fiedler laid flowers on the grave of Dr. István Hagelmayer, the first President of the State Audit Office.
MEETING OF THE PRESIDENTS OF SUPREME AUDIT INSTITUTIONS (SAIS) OF CENTRAL AND EASTERN EUROPEAN COUNTRIES, CYPRUS, MALTA, AND THE EUROPEAN COURT OF AUDITORS

After Berlin (1993), Luxembourg (1996), and Warsaw (1998), the Presidents of the SAIs of Central and Eastern European Countries and the European Court of Auditors met in Prague on 25 and 26 October 1999 for the fourth time to discuss matters of common interest. It was, however, the first occasion in which the Presidents of the SAIs of Cyprus and Malta had also participated in this meeting. Their presence was due to the fact that a number of subjects being discussed were related to the accession process of candidate countries to the EU. The meeting was also attended by representatives from EUROSAl, SAIs of the EU Member States, the Financial Control of the EU Commission, and SIGMA.

The Presidents discussed the results of the two working groups that had been created in their Warsaw meeting. Based on these reports, the Presidents approved eleven recommendations concerning the functioning of Supreme Audit Institutions in the context of European Integration as well as guidelines for an active role for SAIs in the framework of the adoption and application of the «acquis communautaire». They also decided that, following the reports from the first two working groups, a single working group will be created to follow up the implementation of the recommendations and strategies adopted in that meeting.

Besides the reports from the working groups, the Presidents exchanged views on co-operation between the SAIs of Central and Eastern European and candidate countries and the European Court of Auditors, and they agreed that the existing form of co-operation is essential not just with regard to the accession process but also with regard to the auditing of EU funds. Co-operation will therefore be intensified through more joint audits, internships and training activities. At the same time, SAIs of candidate countries and the national SAIs of EU Member States will intensify their co-operation.

SIGMA, which has assisted the SAIs of candidate countries in various aspects in the past, presented its programme and its new Information Exchange Network for external audit and financial control. The Presidents welcomed the assistance provided by SIGMA and expressed their wish that SIGMA should continue its activities in the area of financial control and external audit in the future as well.

The second day of the meeting was devoted to reports from individual SAIs on
their experiences with different aspects of auditing such as the introduction of the European Implementing Guidelines for INTOSAI Auditing Standards (Poland), value for money auditing (Slovenia), the transformation of state control into an independent external audit system (Estonia), developing an independent audit system (Bulgaria), or the present situation of external audit (Romania). In addition to these audit subjects, the Hungarian SAI presented the next IC Conference 2000.

All participants seemed to enjoy their stay in Prague. This was not only the case for the official part of the meeting but also in the evenings where personal friendships could be build up – something not to be underestimated while building a new Europe.

MEETING OF THE CONTACT COMMITTEE OF THE HEADS OF THE SUPREME AUDIT INSTITUTIONS OF THE EUROPEAN UNION,
DUBLIN 20-21 OCTOBER 1999

The 1999 annual meeting of the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union and the European Court of Auditors took place in Dublin on 20 and 21 October 1999. The meeting was chaired by Mr John Purcell, Comptroller and Auditor General of Ireland. Mr Purcell changed the format for the 1999 meeting by introducing, for the first day of the meeting, a discussion on a particular EU related topic and by having invited speakers to make presentations to the Contact Committee.

The theme chosen for the Dublin meeting was the implications that fraud in the EU had on the role of the Supreme Audit Institutions.

Presentations were made to the Contact Committee by Mr Per Brix Knudsen (acting director of the EU anti-fraud office), Mr Jan O Karlsson, President of the European Court of Auditors, Ms Deimut Theato, Chairperson of the European Parliament Budgetary Control Committee and Mr John Palmer, former journalist and Director of the European Policy Centre.

In recognition of the important role that the Supreme Audit Institutions and the European Court of Auditors play in the control of European Union finances, the Prime Minister of Ireland, Mr Bertie Ahern, was pleased to attend a dinner, held on the evening of 20 October 1999 in the State Apartments in Dublin Castle, as guest of honour.

The Contact Committee expressed intense interest in the subject and have decided to address it again in the future.

On 21 October 1999 the Committee considered topics which had already been discussed by the liaison officers and the ECA, including proposals for co-ordinated audits in the field of aid granted by member states, the progress report from the working group on co-operation with accession countries, VAT controls, joint audits of structural funds and the role and activities of the Liaison Officers.
A social programme for accompanying persons was also provided with the Irish weather being very kind for the occasion.

The Contact Committee will meet again in November 2000 under the chairmanship of the president of the European Court of Auditors.


European Union

ELECTION OF THE NEW PRESIDENT OF THE EUROPEAN COURT OF AUDITORS

On Thursday, January 14 1999 the fifteen Members of the European Court of Auditors elected their new President. The successor to Mr Bernhard FRIEDMANN, the German Member of the Court, is Mr Jan O. KARLSSON, Swedish Member of the Court. Mr Karlsson’s term of office will start on Monday, January 18 1999 (in accordance with the 4th subparagraph of article 188b (3) of the EC Treaty).

Jan O. Karlsson was born in Stockholm in 1939 and is a graduate of the University of Stockholm.

Mr Karlsson was appointed a Member of the European Court of Auditors on March 1, 1995. He has been responsible for the audit sector: “Cooperation with developing countries and non-Member States”.

Prior to his nomination to the Court Mr Karlsson was Director General of the Ministry of Foreign Affairs in Sweden in 1994 and Negotiator and Adviser on economic, financial and budgetary matters to the Secretariat of the Social Democratic Group in the Swedish Riksdag from 1992 to 1994.

From 1990 to 1991 Mr Karlsson was Adviser and Co-ordinator at the Prime Minister’s Office and was also appointed Personal Representative of the Prime Minister in the concerted reappraisal of cooperation between the Nordic countries in anticipation of Sweden’s accession to the European Economic Area and to the EU. From 1988 to 1990, Mr Karlsson was Chairman of the Committee on Large Towns in Sweden and from 1982 to 1988, he was Secretary of State responsible for cooperation between Scandinavian countries and Secretary of State at the Ministry of Finance.

From 1977 to 1982 Mr Jan O. Karlsson was Assistant Secretary to the Presidium of the Nordic Council and Secretary to the Member of the Town Council responsible for the finances of the city of Stockholm from 1973 to 1977. From 1968 to 1973 he was Policy adviser to the Prime Minister’s Office in Sweden and first Assistant Secre-

In parallel with his professional activities he has held various positions on the boards of public bodies of a financial, commercial, cultural and social nature.

The role of the President of the European Court of Auditors is that of a primus inter pares and he ensures that the various departments of the Court operate smoothly and that the institution discharges its duties correctly. He is also the institution’s representative in its external relations, especially with the Union’s other institutions and the National Audit Institutions.

The European Court of Auditors is organized and functions in accordance with the principle of collective responsibility of 15 Members, who are appointed by the Council of the European Union, acting unanimously after consulting the European Parliament.

The Court of Auditor’s main task is to monitor the European Union’s finances and

Mr. Jan. O. Karlsson : President of the European Court of Auditors
point out areas where the management can be improved. The EC Treaty stipulates that the Court is to assist the European Parliament and the Council of the European Union in exercising their powers of control over the implementation of the budget and it may submit observations on specific questions and deliver opinions at the request of the other European institutions.

The European Court of Auditors, as the independent external auditor of the European Institutions, has an essential and constructive role to play in contributing to the progressive improvement of financial management across the whole range of European Union activities. It looks forward, with the new President, to further developing its work in order to meet this challenge.

For details on the European Court of Auditors, its publications, organisation and its work in general, please consult the Court’s Internet site:

http://www.eca.eu.int.

OFFICIAL MEETINGS
MEETING OF THE LIAISON OFFICERS OF THE AUDIT INSTITUTIONS OF THE EUROPEAN UNION

Over a period of 20 years, the European Court of Auditors, which was founded in 1975 and started work in October 1977, has developed close relations with the National Audit Institutions (NAIs) of the Member States of the European Union.

It is within this framework that the Liaison Officers of the European Court of Auditors and of the National Audit Institutions meet regularly to examine important subjects of mutual interest. The results of these discussions between Liaison Officers are submitted to the Heads of the Supreme Audit Institutions (SAIs), who meet once a year.

This year, after a preliminary meeting in London in May 1998, the Liaison Officers met once again on 14 and 15 September in Luxembourg, at the Court’s headquarters on the Kirchberg plateau, in order to prepare the meeting of the Heads of the SAIs, which took place in Dublin on 20 and 21 October 1999.

The meeting was conducted in two phases, the first devoted to the work of the Liaison Officers and the “ad hoc” Working Parties and concentrating more particularly on controls on VAT, which finances a very substantial part of the budget of the European Union, controls on the use of aid granted by Member States within the framework of Articles 92 and 93 of the Treaty, cooperation with countries which have applied to join the EU and cooperation possibilities in the Structural Funds sector. The question of drawing up guidelines so as to harmonise auditing methods and the desirability of creating a new working party on performance auditing for the common agricultural policy were also discussed.

The second part was devoted more particularly to relations between the Court of Auditors of the European Union and the NAIs of the Member States, including topics such as the improvement of procedures for the presentation of the Court’s Annual Report. During the meeting the development of computerised communication between the NAIs, performance auditing of the common agricultural policy and the next Intergovernmental Conference were also discussed.

Meeting of the Liaison Officers of the European Member States in Luxembourg on 14 - 15.09.1999
WORKING MEETING WITH THE EUROPEAN PARLIAMENT’S COMMITTEE ON BUDGETARY CONTROL AT THE EUROPEAN COURT OF AUDITORS ON 13 OCTOBER 1999

On Wednesday 13 October 1999 the Committee on Budgetary Control, newly formed following the European elections of 13 June 1999, came to the European Court of Auditors on the Kirchberg for a working meeting.

During this meeting, the Chairwoman, Mrs Theato, and the Committee members had the opportunity to exchange views with the President, Mr Karlsson, and the Members of the Court on cooperation between the two institutions, and in particular the rôle conferred upon the Court of Auditors by the Treaties. The latter stipulate that the European Court of Auditors “shall assist the European Parliament and the Council in exercising their powers of control over the implementation of the budget”. The Committee on Budgetary Control and the Court welcomed this cooperation and explored the possibilities of strengthening it further in future. Mrs Theato and Mr Karlsson stressed the importance of even closer cooperation as a prerequisite for effectively following up Court reports, and still more importantly, in order to achieve the objective of improving, in concrete terms, the financial management of the European Community.

The most senior members of the Court’s audit groups gave presentations to the new Committee on Budgetary Control of their group structures and organisations. They outlined the main aspects of recently published reports and those still being drafted. The MEPs were more especially interested in the Court’s audit methods, i.e. the way in which the Court examines whether Community revenue has been received and Community expenditure incurred in a lawful and regular manner and whether the financial management has been sound. In other words, how the Court measures the impact and results of the Community policies implemented by the Commission. With regard to the latter point, the Court stressed that assessing Community policies was very often rendered a difficult task when the objectives and measuring instruments were not clearly defined beforehand.

The utility, and even the necessity, of financial reform within the European Community was also broached. The reforms announced and those currently under way were favourably received. On the other hand, a thorough and well-thought out review of the Financial Regulation and the Community accounting and management systems was required. It would be desirable for this review to be carried out with the close cooperation of all the European Community institutions.
WORKING MEETING BETWEEN THE COMMITTEE OF PERMANENT REPRESENTATIVES OF THE MEMBER STATES AT THE EUROPEAN UNION (COREPER) AND THE EUROPEAN COURT OF AUDITORS ON 8 OCTOBER 1999

On 8 October 1999 a working meeting took place between COREPER and the European Court of Auditors at the institution’s headquarters in Kirchberg, Luxembourg.

During the meeting, the Ambassadors and the President and Members of the Court had the opportunity to exchange views on cooperation between the two parties and, more particularly, on the rôle that the Treaties give to the Court of Auditors.

Another topic dealt with was the advisability, and even the necessity, of financial reform of the European Community. The reforms that have been announced and that are now in progress have been greeted positively. As far as the Community’s Financial Regulation, accounting and management systems are concerned, the Court considers that a thorough revision is needed.

Finally, an exchange of views took place concerning the next Intergovernmental Conference. The subjects discussed included the broad guidelines adopted by the Finnish Presidency of the Council and the issues to be discussed.

VISIT BY HIS ROYAL HIGHNESS PRINCE PHILIP OF BOURBON TO THE EUROPEAN COURT OF AUDITORS

On Tuesday 23 February 1999, His Royal Highness Prince Philip of Bourbon visited the European Court of Auditors.

His Royal Highness was welcomed by Mr Jan O. Karlsson, President of the Court, Mr Castells, Spanish Member of the Court and Mr Edouard Ruppert, Secretary-General.

At the ensuing extraordinary Court meeting Prince Philip of Bourbon, the President and the Members of the Court discussed, amongst other things, the Court of Auditors’ position and role in Europe today and the activities of the Court’s various sectors.

His Royal Highness had the opportunity to meet Spanish members of the Court’s staff during informal talks.

Mr. Castells, Member of the Court, His Royal Highness Prince Philip of Bourbon, Mr. Karlsson, President of the Court
External Control of International Bodies and Institutions

MIGUEL A. ARNEDO ORBAÑANOS
Member of the Court of Audit of Spain

The existence of a wide diversity of International Bodies and the lack or insufficiency of standards setting down the manner and procedures for carrying out external control of their management is creating a great deal of confusion. On occasions, this is leading to a complete absence of auditing. The author first synthesises the possible control models and then highlights the urgent need for measures to be adopted that will eliminate this kind of imprecision.

I. INTRODUCTION

The Supreme Audit Institutions are entrusted with controlling the management of public funds, with different scopes of mandate. In a fair number of cases, their competencies include control of national bodies and corporations in which the public sector has a majority stake or holds effective control. On the other hand, the Court of Auditors of the European Communities (normally also known as the European Court of Auditors) is concerned with checking the handling of public funds in the European Union. It therefore audits the revenues and expenditure of European institutions as well as those of a series of bodies created by them.

In international terms, there is a wide range of bodies and institutions whose constitution and operation involves the participation of different States via their appropriate monetary contributions. One may thus ask how the participating States make sure that there is external control over the accounts or management of these multilateral international bodies and institutions (from now on we will refer to both to as bodies).

The public or private nature of the funds handled by the multilateral international bodies may be an element that defines the competency of the national Supreme Audit Institutions. It is nevertheless very difficult to find theoretical arguments based on the rules of these institutions that would justify the public nature of the funds managed by those bodies, beyond matters related to the contributions made by the member countries. In practice, the forms of external control adopted by the different bodies are very varied, and extend from entrusting this task to a Supreme Audit Institution to hiring private audit firms. On the other hand, the juridical instrument used for assigning this task varies greatly from one body to another. Sometimes the procedure that the mandate has to follow, or the terms to which its exercise is subject, are not even set down in writing.

This article proposes a systematic, transparent and well-defined involvement by the Supreme Audit Institutions in the external control of the multilateral interna-

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* I wish to express my appreciation for the decisive collaboration provided by Mr Juan Carlos López López, Head of Legal Advice in the Audit Department of State Economic Administration, at the Court of Audit of Spain. I also wish to thank Mr Antoni Castells and Mr Hubert Weber, members of the European Court of Auditors, for the bibliography and information that they have provided me with. Mr Castells was also so kind as to read a draft version of this article, which has been much improved by his comments and suggestions. Nonetheless, the opinions expressed in this work, as well as any shortcomings it might contain, may only be attributed to the author.
tional bodies. With this in mind, section II below provides a brief review of the competencies of the Supreme Audit Institutions in this field, taking as fundamental reference the Court of Audit of Spain and the European Court of Auditors. Section III provides an analysis of the different ways in which external control is organised by the international bodies for which information has been found. Finally, section IV contains the main conclusions of this work.

II. EXTENT AND SCOPE OF THE AUDITING COMPETENCY OF THE CONTROL INSTITUTIONS

As has just been stated, this section will distinguish between national Supreme Audit Institutions and the European Court of Auditors, with special attention being paid among the former to the Court of Audit of Spain. The reason for choosing these two institutions is not just because the author of this article is closer to them. By choosing them, the aim is to show, on one hand, the possibilities of intervention by a Supreme Audit Institution equipped with very broad competencies, as is the case with the Court of Audit of Spain, and, on the other, those of a Court of Audit of a multilateral nature that in some way therefore has something of the nature of the multilateral international bodies.

A. National Supreme Audit Institutions

If there is a common feature among national Supreme Audit Institutions it is the substantial difference in the organisation and competencies of each one of them. This diversity of models is due to the different responses each Institution has given to important questions concerning organisation and competency, as correctly pointed out by Antoni Castells1. One may say, however, that all of these have the common mission of control – though with different scopes and means – over the use of national public funds.

In Spain, the auditing function of the Court of Audit concerns subjecting the economic-financial activity of the public sector to the principles of legality, efficiency and economy. The concept of public sector is considered on a very extensive scale in the legislation on the Court, and ranges from State Administration to State-owned corporations companies, including Regional and Local Governments on the way. Thus, by legal mandate, the Court of Audit regularly audits the companies in which the public sector holds a majority stake. The competency of the Court is therefore not affected by the fact that these companies carry out their activities subject to private law. On the contrary, it is the public nature of their majority shareholding that, according to the law, allows them to be audited by the Institution. The auditing capacity of the Court of Audit also extends to relations between the Spanish public sector and other countries. Indeed, the funds that Spain receives from abroad or sends to the rest of the world are subject to control by the Court if they involve operations with the Public Treasury or management of any firm in the Spanish public sector2. On this line, the Court of Audit of Spain can audit the regularity, efficiency and economy of the contributions of funds from the Spanish State to international bodies. However, its competency goes no further than its own contribution, so its scope does not include auditing of the bodies themselves, nor the activities carried out by them. Any possible exercise of control over them must therefore be based on reasons beyond the actual rules of the Court (such as for example acceptance of an express mandate received from any of these bodies).

B. The European Court of Auditors

Pursuant to the Treaty of Brussels (not amended in this aspect by that of Amsterdam), the Court of Auditors of the European Communities is concerned with examining both “the accounts of all revenues and expenditure of the Community” and “the accounts of all revenues and expenditure of any body created by the Community, to the extent that the constitutional act of that body does not exclude that examination”. By virtue of that rule, control of the European Court of Auditors is currently exercised over the budgetary revenues and expenditure of the three European Communities; on their borrowing and lending activity; on their non-budgetary expenses; on the expenses of the European Development Fund, which draws on the contributions from Member States; and on the execution of the budgets of a series of decentralised bodies created by the Treaties or by acts of derived law. This competency includes control of the legality and regularity of those revenues and expenditure, as well as ensuring the proper financial management of the European Union.

Moreover, the European Court of Auditors is responsible for controlling certain bodies created by agreements among member states, independent of the Community institutions. Thus, pursuant to the constitutional acts or other provisions of the European Schools and the common research venture Joint European Torus (JET), the accounts of both these bodies are subject to control by the European Court of Auditors. Lastly, the Court also intervenes directly in external control of EUROPOL by appointing three trusted external auditors. To sum up, the scope of control of the European Court of Auditors covers the following: Community finances, whether part of the budget or not; the bodies subsidised by the European Union; and certain independent bodies of Community institutions whose regulations appoint the Court for verifying their accounts or management. Control by the European Court of Auditors does not cover operations carried out by the European Investment Bank (EIB) with its own resources, and the competency of the Court over the Bank’s activity is restricted to checking the operations it performs with Community funds. Nor may the Community Court of Auditors verify the financial statements of the European Central Bank.

As provided in article 27 of the Protocol on the Statutes of the European System of Central Banks and of the European Central Bank, the accounts of all these must be controlled by independent external auditors. The same article also provides that the competency of the European Court of Auditors will be limited to an examination of international bodies formed by different States, by monetary contributions, raises the question of the procedure for assuring that these States exercise effective external control over the accounts or management of those bodies.

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5 See de Crouy-Chanel, Imre y Perron, Christophe: "La Cour des comptes européenne". Que sais-je?
6 In other words, the European Union (EC), the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (Euratom).
7 The European Development Fund (EDF) is the outcome of an agreement among member states of the European Union and finances part of Community policy in certain non-EU countries.
8 These include: the EURATOM Supply Agency, the European Centre for the Development of Vocational Training, the European Foundation for the Improvement of Living and Working Conditions, the European Agency for Safety and Health at work, the Environmental Agency, European Agency for the Evaluation of Medicinal Products, the Translation Centre for the Bodies of the European Union, the European Training Foundation, the European Monitoring Centre for Drugs and Drug Addiction, the Community Plant Variety Centre and the Office for Harmonisation of the Internal Market. In the first of the bodies mentioned, the recipient of reports from the Court is the Commission of the European Communities; in the following two the recipients of both are the Council and the European Parliament; and in the remaining eight bodies, they are the Governing Board or the Budget Committee of each body.
9 In both cases, the recipients of reports from the Court are the respective Boards of each body.
10 Which pass on the results of their work to the Council of the European Union.
11 Indeed, article 14 of the Protocol on the Statutes of the EIB establishes that “a Committee formed by three members, appointed by the Governing Board, by virtue of their competency, shall check the regularity of the operations and books of the Bank each year”. And after the modifications introduced by the Treaty of Amsterdam, article 248 of the Treaty of the European Union establishes that “regarding the activity of the European Investment Bank in managing the income and expenses of the Community”, the right of access by the European Court of Auditors shall be governed according to an agreement entered into between it, the EIB and the Commission.
of the operational efficiency of management of the Central European Bank.

III. MODES OF EXTERNAL CONTROL ESTABLISHED BY THE MULTILATERAL INTERNATIONAL BODIES

The number of multilateral international bodies in existence is very high. Their juridical nature is also very diverse, as is the external control modes to which they are subject. Another notable circumstance is the disparity of the juridical instruments used for assigning the external control. In many bodies the procedure for that mandate is not even formalised in a written document. Moreover, except on a very few occasions, the mandate is sufficiently vague so as to allow various interpretations as to who the ultimate recipient of it is. Lastly, in most cases, there is no reference to the auditing criteria by which the recipient of the mandate must act.

In view of all this, there is not much sense in trying to provide an exhaustive description of the way in which external control is organised for each one of the international bodies for which information is available. It would undoubtedly be an incomplete task that would in turn be beyond the limits established in this article. For this reason, we have preferred to run the risk of presenting a schematic description, however general and arguable it may be, of the various models under which the different ways in which external control is assigned in those bodies can be grouped.

By resorting to their founding treaties or to the financial regulations of the different international bodies for which this information is available, as well as knowledge of the practical situation of some others, three groups of bodies can be distinguished according to the procedure for appointing their external auditors. One group would be formed from all those that commission external control of their accounts or management to a national or supranational Supreme Audit Institution. Another would be formed from the international bodies that commission external control of their accounts or management to an audit team formed by experts from different member countries, whether or not they belong to the respective Supreme Audit Institutions. And the third would be formed from the bodies that assign external control to private audit firms.

A The first group mentioned one may in turn be broken up into four theoretical subdivisions according to the ultimate recipient of the mandate. Thus:

1) Theoretically, the external control could be assigned to a Supreme Audit Institution, so that it could carry out its task following the procedures governing its general actions. Such a mandate may, however, raise severe problems of execution in practice in the case of national Supreme Audit Institutions formed as collegiate bodies. Perhaps due to this reason there is no known multilateral international body whose external control is thus entrusted to a national Audit Institution of a collegiate nature. The practical difficulties must undoubtedly be less in the case of Supreme Audit Institutions directed by a body consisting of a single person, though there are no known cases of this kind either. On the contrary, no difficulties seem to have arisen when the holder of the mandate is the European Court of Auditors. Indeed, the latter is entrusted with the external control of the bodies created by the European Communities, with the sole exception of those whose constitutional act excludes this. As has already been stated, these exceptions to the European Court of Auditors include operations charged to the own resources of the European Investment Bank (EIB) and the regularity of the financial statements of the Central European Bank. Conversely, the European Court of Auditors is assigned external control of some bodies that are indepen-

9 The absence of difficulties for verifying these bodies lies, of course, in the very nature of them, which makes them form part of the subjective scope of activity of the European Court of Auditors.
dent of European Institutions, as in the case of the European Schools and the common research venture, the Joint European Torus.

2) In some international bodies the person in charge of external control is the Auditor General, or equivalent office\(^1\), of a Member State. This is the general model of external control in the United Nations and its Specialised Agencies. When the rules are analysed for the appointment of an external auditor by these organisations, it may nevertheless appear that the difference between the procedure applied by them and that presented under heading 1) above is purely nominal. This impression may also be backed up by two rules that usually form part of the regulations governing the appointment of the person in charge of external control of these bodies. One of these rules establishes that resignation from office by the Auditor General or equivalent in the country entails the termination of his mandate as the person in charge of external control of the Body, and he is replaced in these duties by the new Auditor General. The other rule expressly empowers the person in charge of control to use the support from officials in the Audit Institution that he directs (as well as the support of anyone else that he considers appropriate, moreover). Nevertheless, there is a circumstance that substantially differentiates these two forms of appointment. In the case recorded under this section 2), whoever is in charge of the auditing must carry out the activities in accordance with the principles and rules stated in the mandate or, if nothing is stated therein, following the general principles of auditing and his own criteria. He therefore does not need to follow the procedures of the Institution to which he belongs, even less so if this were to lead to any hindrance or impediment to the auditing.

3) A third subdivision would be formed by the international bodies that commission the external control of their accounts or management to a variable number of auditors from a Supreme Audit Institution appointed by it. This is the case, in practice, with the European Centre for Nuclear Research, with the European Laboratory of Molecular Biology and with the Western European Union\(^2\). The Body EUROPOL would also form part of this group, the control of which is entrusted to three auditors appointed by the European Court of Auditors, whether from inside or outside of it, though the first and only appointments there have so far been to members of that Court. In the model considered in this section, the auditors, once appointed, must also carry out their activity in accordance with the auditing criteria established in the statutes or the rules of the Body and, if no such reference is available, then in accordance with general auditing principles and the best of their knowledge and belief. It can nevertheless be considered that the Supreme Audit Institution will, on occasion also take on a certain responsibility “in vigilando” as a consequence of having proposed the auditors. This is not the case of EUROPOL, where the European Court of Auditors merely appoints the people who are to hold office.

4) The fourth and last subdivision would be formed by the international bodies that commission their external control to officials from different Supreme Audit Institutions appointed by these latter. This is the case of the organisations INTOSAI and EUROSAl (as well as their equivalents in other territories)\(^3\). The Statutes of

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\(^1\) In my opinion, in the case of Supreme Audit Institutions of a collegiate status, the President or any of the members of the association that it appoints.

\(^2\) In these bodies, the founding agreements or the respective financial rules only state that a team of auditors will be appointed to review the financial statements. Thus, there is no juridical obligation to maintain the acquired custom of appointing, for a set period, a number of auditors belonging to a same Supreme Audit Institution from a Member State.

\(^3\) As is known, these are organisations formed by Supreme Audit Institutions having different geographic groupings, set up to encourage the exchange of ideas and experiences among them in order to achieve a better understanding of the problems and topics related to public auditing.
IV. CONCLUSIONS

The main conclusions that can be drawn from this analysis are as follows:

A. The existence of international bodies formed by different States, by monetary contributions, raises the question of the procedure for assuring that these States exercise effective external control over the accounts or management of those bodies.

B. There are no theoretical arguments based on the actual regulations of the Supreme Audit Institutions of the Member States that justify their competency to exercise external control of multilateral international bodies, beyond concerning themselves with the contributions made by those States. Thus, any possible participation by those Audit Institutions in the external control of international bodies must have a basis other than the regulations of those bodies (for example, acceptance of a mandate received from the bodies).

C. Pursuant to the terms of the Treaty of Brussels, the European Court of Auditors must examine the accounts of all the revenues and expenditure of any body created by the Community, as long as the constitutional act of that body does not include such an examination. Moreover, the Community Court of Audit controls certain bodies created by intergovernmental agreements that are independent of European institutions, as set down in the constitutional acts or other provisions of those bodies.

D. The modes of external control established in the different international bodies are varied. There is also a great disparity among the juridical instruments used by each one of them for assigning external control. Sometimes, no rule exists establishing the procedure for appointing external auditors. On other occasions, the mandate is formulated in a way that is highly vague, allowing different interpretations of

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11 In the case of Spain, the Court of Audit fully maintains its competencies to audit the Bank of Spain, pursuant to the Act of 28th April 1998, amending the Act of 1st June 1994, on the Autonomy of the Bank. As the decision was taken to commission the auditing of its accounts to a private firm, the Bank of Spain (and probably other counterparts of its in the Community) is thus subject to a double competency in terms of external control.
who receives the mandate. Lastly, most mandates contain no reference to the auditing criteria by which the recipient of the mandate is to be governed.

E. Within the variety of procedures ruling over the external control of the international bodies, three groups can be established:

1) One of these groups would be formed from bodies that commission this task to a Supreme Audit Institution. Within that group, there are four sub-divisions according to whether the recipient of the mandate is:

a) A Supreme Audit Institution, so that it can carry out the task according to its own internal procedures.

b) Whoever holds the highest representation of a Supreme Audit Institution, so that he or she can act according to the principles, procedures and rules of auditing contained in the mandate (which may or may not coincide with those of the Institution he or she heads).

c) A variable number of auditors from a Supreme Audit Institution, appointed by it but not subject to its internal principles, procedures and rules of auditing.

d) A team formed by auditors from different Supreme Audit Institutions, appointed by each one of them.

2) The second group would be formed from the international bodies that commission the control of the accounts or management to an auditing team formed by leading figures from different member countries in the field of auditing (whether or not members of a Supreme Audit Institution).

3) The third group would be formed from the bodies whose external control is assigned to a private audit firm.

F. It would be advisable for the international bodies to take the appropriate measures for putting an end to the lack of precision generally surrounding the appointment of external auditors. In this regard, it would be appropriate if the mandate for exercising external control of their accounts or management were in future to meet the following requisites:

1) To be based on a rule having the rank of a statute, regulation or any other so long as this is binding upon the body.

2) To determine clearly the recipient of the mandate for the audit.

3) To specify the extent and scope of the mandate, as well as the criteria and procedure by which the external auditing is to be governed.

It would be appropriate if the mandate for exercising external control over the International Bodies were to be based on a binding rule and that this rule were to determine with clarity the extent and scope of the mandate, the procedures for exercising it and who is to be its recipient.
The Principles of «Good Public Auditing Practice»

MORTEN LEVYSOHN
Assistant Auditor General of the National Audit Office of Denmark

The National Audit Office of Denmark has produced and published a guideline specifying a set of standards for the professional services which auditors have to meet when they carry out audits in the area covered by the principles of good public auditing practice. The common principles are especially necessary in the area of subsidies.

NEW GUIDELINE FROM THE NATIONAL AUDIT OFFICE OF DENMARK

The National Audit Office of Denmark (NAOD) has produced and published a guideline specifying the requirements and conditions of the principles of “good public auditing practice”. NAOD has published the guideline in order to establish a set of standards for the professional services which auditors have to meet when they audit an area covered by these principles.

These principles have been made because the audit of public accounts is carried out by the NAOD, municipal auditors and private auditors, and the audit is part of the state accounts. There is a great need for common principles particularly within the area of public subsidy. Such subsidies are a very large part of the Danish state accounts. Subsidies, in particular for social security, pensions, and unemployment relief, are much higher than the amount used for the state’s current and investment expenditure.

COMMON FRAMEWORK OF REFERENCE

Very often, audits of local accounts are carried out by local private auditors or municipal auditing bodies. Therefore it is important that all parties, the ministries, agencies, citizens and auditors, apply the same principles of “good public auditing practice”. The auditing task includes financial and performance audit in accordance with good public auditing practice. When drawing up the principles, the National Audit Office of Denmark has, in addition to Danish legislation, taken its point of departure from INTOSAI’s auditing standards and from the “European guidelines for using INTOSAI auditing standards”. The European guidelines have been worked out among the Supreme Audit Institutions in the European Union and the European Court of Auditors. The principles of good public auditing practice were thoroughly discussed with the NAOD’s professional partners of co-operation, the national auditor associations and the municipal auditors.

The principles of “good public auditing practice” set out both the requirements and the conditions which form the basis for the conducting of the audit, and for the content of the audit, of the state accounts, public agencies, and accounts of agencies where the state has given subsidies or guarantees. In accordance with the Act of the Auditor General, the NAOD audits the state accounts and accounts of agencies where the state has an interest similar to that of an owner. Accounts of agencies that are partially financed by the state by means of subsidies, guarantees or loans are audited by private or municipal auditors. However, the NAOD can carry out a review of the accounts and of the audit that has taken place. The legal status of the audited units is of great importance in relation to how the principles of good public auditing practice are to be employed. The auditor must always ensure that the accounts are correct, in other words that the accounts have no significant errors or defi-
ciencies, and that the actions taken are in accordance with appropriations and laws. This legal-critical audit is primarily of importance when carrying out public auditing.

**DISTRIBUTION OF RESPONSIBILITY BETWEEN MANAGEMENT AND AUDITOR**

It is a significant requirement for good public auditing practice that the responsibility between the management and the auditor is well defined. The point of departure is that the management is responsible for and in charge of preparing the accounts, but it is the auditor’s responsibility to make an assessment of how the management of an agency has managed this task.

It is the responsibility of the management that goals, strategies and plans of action are available, and that performance follow-up is carried out. The management must ensure that sound financial considerations have been taken into account. It is the responsibility of the management to establish appropriate administrative systems, and an appropriate internal control system. Management includes performance, activity, resources and financial management. In other words, an administration should be organised to include the necessary financial management, accounting systems and internal controls, in order that accurate and reliable accounts may be presented, documenting that the funds have been applied in accordance with the requirements, and that the results that were sought have been achieved. The management must also report by way of accounts, reports and so forth.

Taking this into consideration, it is the auditor’s responsibility to plan and carry out an audit, and to review and assess whether the management has complied with the aforementioned obligations to ensure a reliable and financially sound account. The task of the auditor is hereafter to plan, carry out the audit, and to report accordingly.

The audit is divided into financial audit and performance audit.

**FINANCIAL AUDIT**

When carrying out a financial audit the auditor verifies the accuracy of the accounts (in other words, that the accounts have no significant errors and deficiencies) and verifies whether the actions taken are in accordance with appropriations and laws.

The goal of a financial audit is to obtain reasonable assurance of the quality of the individual organisation’s accounts and of the internal control system. The auditor must plan the audit in order to ensure a balance between quality and an economic way of carrying out the audit. The design of the auditor’s strategy will depend on an assessment of the risk of significant errors or deficiencies in the accounts. If the auditor has previously established that the system’s internal controls are working satisfactorily, and if the auditor is convinced that no material changes have been implemented in the system compared to earlier years, then the auditor does not have to test the system every year. All material systems and internal controls should be reviewed and tested within a reasonable fixed number of years. The goals, scope, and expected results of the audit are established in the audit plan.

Systems audit is applied as the aggregated audit principle, though combined in varying degrees with substantive audit in accordance with the auditor’s assessment of materiality and risk. “Good public auditing practice” also includes conditions for the documentation of audit proof and of quality management.

**PERFORMANCE AUDIT**

The aim of performance audit is:

- to assess whether sound financial considerations have been taken into account;
- to assess the validity and reliability of indicators on efficiency and effectiveness in the reports of the agencies;
- to assess whether the organisation does enough to identify areas of improvement; and
- to assess whether sound public financial management has been applied.

The goal of a financial audit is to obtain reasonable assurance of the quality of the individual organisation’s accounts and of the internal control system.
When making performance audit examinations the following may be examined:

a. the extent to which the agency has actually been economic, efficient and effective;

b. whether the agencies’ systems ensure that sound financial considerations have been taken into account when administering the funds.

Performance audit work will include an examination of whether the agency has established an appropriate steering system which contributes to making the agency economic, efficient, and effective. This kind of examination will often be a financial management examination. Under item a the auditor will examine the actual efficiency and effectiveness, whereas under item b the auditor will examine the steering systems.

In relation to the steering systems, goals, strategies and actual performance targets have to be established, supplying information on whether the goals of the organisation are achieved using the planned amount of resources, and the reliability of information systems including among others a time registration system. Furthermore, a reporting system must also be established conveying to the public, the appropriation authority and the subsidy donor, what has been achieved and with what efficiency and effectiveness.

It is important that this kind of information is well balanced so that it focuses primarily on economy, efficiency and effectiveness, as well as on quality and service.

Performance audit may be carried out as an integrated part of financial audit, or concurrently with the financial audit of the annual accounts, or it may be organised as a separate examination of a public expenditure programme.

When making examinations of public expenditure programmes, an analysis will be made of an audit area without any necessary connection with the annual accounts. A preliminary study is made, resulting in a presentation which includes an analysis of financial, judicial and management related matters. The auditor shall, in accordance with the principles of good public auditing practice, make a written report. The report must set out its purpose, methodology, basis of assessment, and results of the examination. The conclusions and any recommendations must be supported by evidence and documented. In the principles of good public auditing practice a lot of emphasis is placed on the viewpoints of the audited agency - any comments from the audited agency are faithfully incorporated in the report and the reporting should clearly present the questions and problems which the decision makers should act on.

THE GUIDELINE’S EFFECT ON THE AUDIT OF SUBSIDIES

After completing the principles of good public auditing practice, the NAOD has worked out recommendations for the standard audit instructions for all ministries. This was carried out in co-operation with the national professional audit bodies. The instructions are based on the principles of good public auditing practice. When auditing subsidies an additional factor is included, namely the organisation providing the subsidy (the donor of subsidies). The donor of subsidies is responsible for the goals and results of the subsidy scheme, and for ensuring that the intended legislative effect is obtained. Therefore the donor is responsible for making operational, legislatively established goals and for outlining the basic criteria of success for the whole area of subsidy.

For the individual subsidy, the donor must establish tangible performance goals and conditions for the reporting by the beneficiary of the subsidy on performance targets. The management is responsible for administrating the tasks and for presenting the accounts. The standard audit instruction’s point of departure is therefore that the auditor may base his work on the information which has been produced by the subsidy beneficiary on request of the subsidy donor. In this way, the subsidy donor may best and most economically obtain confirmation that the long-term effects of a subsidy scheme have been achieved.

As mentioned, the European guidelines for using INTOSAI’s auditing standards have been a source of inspiration when drawing up the principles of good
Some evaluations and results of controlling the management of humanitarian aid

Supreme Audit Institution of Albania

This article sets out the results obtained by the Supreme Audit Institution of Albania concerning the verification of humanitarian aid managed by this country due to the arrival of Albanians expelled from Kosovo. Delays in managing the aid, breaches of procedures, diversions of funds, disappearance of provisions, improper enrichment,..., are all revealed as alarming signs requiring rapid intervention from the Public Powers so that this aid does not become corrupted.

In order to handle the emergency situation created by Albanians being forcibly expelled from Kosovo and seeking asylum in our country, the Supreme Audit Institution of Albania, in compliance with its constitutional and legal tasks, is engaged in a process of supervising and controlling the use of humanitarian aid within the framework of that specific aim.

So that its work can be effective and impartial, the following main points have been defined as the object of this control:

1. Verification of whether the actions being carried out are legal and proper.
2. Monitoring of the tasks being performed by official bodies.
3. Checking on whether public funds are being used efficiently and for the purpose they are intended for, irrespective of their source.
4. Managing the goods in customs houses, their transit, and the implementing of legal provisions in this regard.

In compliance with these points and as a result of controls carried out in the period March-June 1999, the Supreme Audit Institution of Albania has introduced the following:

A) IMPLEMENTATION OF LEGAL PROCEDURES IN CROSS-BORDER CUSTOMS HOUSES

The General Council of Ministers has recently drawn up certain legal acts and regulations determining the institutions, instruments and duties of the bodies dealing with the management and administration of aid. Special bodies have been created and are functioning in close coordination with the Council of Ministers, for example, the Central Government Emergency Commission, which is charged with specific tasks concerning the refugee problem.

But, apart from the measures that have been taken, we notice that these bodies still display a lack of coordination and cooperation when it comes to the prompt and swift delivery of aid.
1. The Government Aid Commission does not operate as a single body, with internal regulations and tasks determined for every stage of the process.

This has led to procedures being implemented in a way that is informal and uncontrolled, along with delays and misunderstandings in the implementation of legal provisions. All these actions have led to abuses and have created problems in waiting for and delivering aid. Blank authorisations have been given by the Head of the Aid Commission which have been sealed without any signature or protocol number. Given that, according to law, humanitarian aid is supposed to be handled by the customs authorities, such irresponsible acts have allowed profiteering by certain people, with the goods being diverted from the purpose that they were intended for.

2. There is a lack of coordination in the task of providing information at the right time for the reception, management and distribution of aid.

The Refugees’ Office at the Ministry of Local Government, which has been nominated as the initial body for receiving humanitarian aid on behalf of the Albanian Government, is not in a position to perform its duties. Delays are still occurring during the procedures for reception and dispatching of goods to their destination, due to recipients failing to turn up at the appropriate moment in the customs houses (seaports, airports and borders).

In addition to blockages and delays in delivery, this situation creates the right conditions for losses or appropriations of aid. This is what happened to three loads of flour, medicines and clothes sent by plane from Belgium on the 8, 12 and 14 of April respectively for the Albanian Government, which were not received by the appropriate representatives. They were unloaded at the airport and, apart from a quantity of medicines that were withdrawn by the Ministry of Health, we know nothing about the rest of the delivery.

3. Due to lack of control, there are evident discrepancies between the quantities stated in the customs certifications and those declared by the recipients of the goods.

The Supreme Audit Institution has reported this problem to the Attorney’s Office so that it can conduct the appropriate investigations. Situations in which the recipient’s representatives have failed to turn up to receive aid in the seaports of Durres and Saranda have also occurred.

4. There are irregularities or inaccuracies in the addresses for the recipients of goods, with the result that they fail to reach their destination.

We have noticed that loads sometimes arrive unaddressed and unaccompanied by the relevant documents. Consequently, some of them fail to be received by their recipients, and nor can they be documented in the transit centres.

This has occurred in the case of 1,380 mattresses and sleeping bags coming from Italy, and 1,250 blankets, 150 tents and 10,000 m² of insulating materials from Turkey for the State Reserves, which were not received. And it has yet to be confirmed whether or not two loads from the Italian Red Cross, sent on 10 April 1999 and intended for military troops of the CRI Kukes, have actually arrived at their camp.

* One dollar is equivalent to 140 Albanian leks.
5. There are breaches of the legal provisions for goods entering the customs houses

The customs bodies have permitted the entrance of goods without authorisation from the Government Commission. This has happened for five invoices in the Kapshica customs house, including goods sent by foreign associations. In this customs house 36 unauthorised transits of aid have been made, while three transfers of goods with transit documents have taken place in which the payment of customs duties in Korça was not declared. This latter case has been denounced by the customs house so that the Attorney’s Office in Korça can conduct the appropriate investigations.

We have asked the Ministry of Finance for the tax authorities to keep a closer eye on what is going on in the market, since it has been noticed that goods coming from humanitarian aid are being sold by speculators, or they are being smuggled by them, with the financial consequences that this implies.

B) MANAGEMENT OF GOODS IN THE TRANSIT CENTRES

The Directorate of the State Reserves and FUFARMA are the two main bodies responsible for the task of managing the goods on behalf of the Albanian State, and for dealing with any emergency situation. In general, the management of goods in these centres is, apart from some exceptions, being carried out in conformity with legal provisions in force.

The goods are controlled, confirmed and evaluated by the commissions established for this purpose, while delivery is carried out on the basis of authorisations given by the relevant bodies.

However, checks and comparisons made of documents have revealed the existence of certain discrepancies. In these cases, it is recommended for proof of this to be kept so that, if it is confirmed that goods have become lost or appropriated, then charges can be brought.

We can mention here the discrepancies that occurred in the hospitals and health centres of the districts of Bilišta, Vlora and Puka, respectively, involving 26.9, 45 and 26.8 thousand Leke; and also in the Council of Pogradec district involving 440 boxes of meat, 356 packs of fruit yoghurts, 50.4 kg of cream of chocolate etc. for which the intervention of the authorities is being sought so that liabilities can be demanded of those responsible.

Procedures are being applied for the procurement of public funds for the administration of aid by local government authorities and for establishing storehouses for reception and distribution, in addition to running the evaluation commissions. Groups are also being set up in the registration centre for refugees from Kosovo for the reception of goods and their distribution among Albanian families.

During controls carried out on some warehouses, goods – especially medicines – have been found to have passed their sell-by date, or almost so. These cases, though rare, have to be brought to the attention of the Ministry of Health and also of the Ministry of Agriculture and Food, so that other subordinate bodies working in the field of quality can be informed.

C) MANAGEMENT OF BUDGETARY FUNDS AND FINANCIAL CONTRIBUTIONS

The funds provided from the state budget, even including amounts donated by voluntary contributions from institutions, donors and various citizens inside and outside Albania, amount to around 475 million Leke. These funds are specific and separated from the sums given by the Ministry of Local Government to the Prefectures.

In general the funds mentioned above, which have been given to alleviate the emergency situation, are being used by local government authorities in accordance with their destination and the regulations determined for their administration. However, during the control that was carried out, two questions appeared that the respective state bodies have to tackle.

First: In some prefectures, districts and municipalities delays are occurring in the implementation of procedures, in accessing the funds and in their being managed effectively. This has occurred in pre-
fectures such as Vlora Gjirokaster, Durres, Lezha, etc.

The Ministry of Local Government needs to increase its control and intervention in order to achieve a fairer redistribution of funds among prefectures. This requires a deeper study of the geography of placing refugees from Kosovo, of the absorbent capacities of different areas and of the immediate needs that are being met with funds. It also requires the collaboration and cooperation in these tasks of NGOs operating in the prefectures, so that the funds can be distributed objectively.

**Second:** In some prefectures, illegal initiatives have been undertaken in the use of funds and aid, which are being siphoned off from the main destination that they are intended for, or they are being used for secondary purposes. So, blankets intended for the needy have been distributed by the prefecture of Shkodra to the personnel in its Police Department, while the Municipality of Shkodra has authorised the buying of a computer for its own needs from funds intended for emergencies.

Some remarks and recommendations that have recently been put to the Council of Ministers are being assessed and have been taken on by means of appendices to acts and regulations already in force. Meanwhile, cases of discrepancies and losses following checks and confirmations, with their subsequent liabilities, are going to be passed on to the Attorney’s Office.

From our experiences during this period and the conclusions we have reached as a result, we have presented the following recommendations to the Council of Ministers in order to make operations and control in this field more effective:

1. To prevent the irregularities and delays that can occur when the representative of the recipient of the goods fails to turn up, the Council of Ministers ought to make the Department of State Reserves responsible for managing these goods in storage, at least for a short period of time, independently of the source of the goods and of their recipient. This would be done with the authorisation of the Customs bodies having competencies according to Customs Regulations.

2. Even within a single district, the daily food rations given out to refugees from Kosovo in camps are very unequal, even though it is known that the population structure and essential needs are the same. To prevent these imbalances, we recommend that the Government Aid Commission ought to define a single consumption standard per person, which would be obligatory for all local government bodies.

3. To strengthen control over the implementation of legal provisions providing for the management of aid. It would be useful in current cases to establish an operational control group coming under the Central Government Commission to observe, review, and control the implementation of certain regulations in this field.

These are some of the most important conclusions that have been confirmed from the controls carried out on implementing the regulations on the management of public funds and humanitarian aid destined for the needs of refugees from Kosovo.

These conclusions, along with certain recommendations for further improvements, have been presented to the Council of Ministers, as well as to the Presidency of Parliament and the Parliamentary Commissions for Economy and Privatisation, and to the Special Commission for Refugees.
Information on the SAO SR Project within the framework of the programme PRE INS FUND PHARE – The Fight against Corruption and Organised Crime

The Supreme Audit Office of the Slovak Republic

These tasks will be carried out by means of training sessions and seminars, organised in line with the Action Programme for the Fight against Corruption, presented by the Council of Europe and accepted by the Council of Ministers in Strasbourg in 1996.

The efforts being made by the Slovak Republic for gaining access to European and world-wide structures is, in addition to other factors, conditioned by its achieving legislative compatibility and the introduction at a practical level of EU and NATO legislation, respectively.

This means that the SAO SR has to initiate and share in the transformation of the audit system and appropriate legal standards in Slovakia, and ensure that they are put into practice.

The SAO SR participates as a member in the activities of EUROSAI and INTO-SAI and it co-operates with Poland, United Kingdom, France, U.S.A., Hungary, Czech Republic, Germany, Egypt and China.

The training activity of the SAO SR has seek to achieve a level of performance audit that is compatible with the EU. This objective resulted in the creation of the SAO SR Project for the setting up of training centres within the framework of the programme PRE INS FUND PHARE – "Fight against corruption and organised crime".

This Project recognises and fulfils the Programme declaration of the Slovak Government, Acquis communautaire, and our other commitments to the EU.

The Project was finally approved in Brussels in 1998 by means of signing a Financial Memorandum with the European Commission.

The Project PRE INS FUND – "Fight against corruption and organised crime" includes the following tasks:

- revision of the present training system for auditors and controllers and modernisation of legislation with the help of EU audit experts in order to make it compatible with the EU countries; and
- completion of the Project study on the setting up of training institution for auditors and controllers following the system of access to international and European standards that will be the base for:

1. The founding of a training institution oriented towards strengthening the effectiveness of the audit process in the fight against corruption;

2. Preparation of a major scheme for training and seminars in Slovakia in accordance with the "Programme of the fight against corruption" presented by Council of Europe, aimed at strengthening the effectiveness of auditing as an instrument in fighting against corruption in public administration;
3. Educating the group of trainers which will continue in the training activities once the Project has ended; and

4. Assistance from international cooperation in the area of creating institutions by means of partnerships between the SAO SR and other institutions in EU countries.

These tasks will be carried out by means of training sessions and seminars, organised in line with the Action Programme for the Fight against corruption, presented by the Council of Europe and accepted by the Council of Ministers in Strasbourg in 1996, as well as in accordance with the recommendations of IN-TOSAI and EUROSAI concerning the fight against corruption, organised crime and the laundering of money.

Experienced specialists from the EU will have the mission of providing advice, lectures, discussions and seminars on practical themes and will share experiences in matters concerning auditing, control, accounting and state treasury.

Within the framework of this Project, PHARE will also provide maintenance for the SAO SR in terms of technical facilities (hardware and software) and by means of modernising the existing communications network, which will ensure the efficiency of the SAO SR’s activities.

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The principles of sound financial management

JENS LUND ANDERSEN
Head of Section of the National Audit Office of Denmark

The National Audit Office of Denmark (NAOD) has started applying new principles when carrying out financial management examinations on the state. These principles have been developed as part of the NAOD’s strategy of carrying out examinations of financial management in all major areas within a ten-year timeframe.

I. PREFACE

In 1999 the National Audit Office of Denmark (NAOD) started applying new principles when carrying out financial management examinations on the state. These principles are called sound state financial management and are used as benchmarking. The NAOD compares financial management in state agencies against these principles. An internal guideline on how to organise an examination in practice has been produced to complement the principles of sound financial management.

The principles of sound financial management have been developed as part of the NAOD’s strategy of carrying out examinations of financial management in all major areas within a ten-year timeframe. Previous financial management examinations have been dissimilar in scope, and the focus has been on various areas of state financial management. Some examinations have focused on the administration of appropriations or the assessment of various procedures, whereas others have included performance audit aspects. The principles of sound financial management have been made in order to ensure that agencies are examined in accordance with consistent principles.

Trends from the most recent developments in public financial management, such as New Public Management, Activity Based Management and Performance...
Based Management, have been a great source of inspiration. However, this is not meant as the NAOD’s way of encouraging a certain administrative philosophy or as a way of pressurising agencies towards a more modern kind of financial management. In this past decade, the Danish Ministry of Finance has sought to adapt state financial management in accordance with these new trends, and as such has shown the way for agencies. The principles of the NAOD ensure that agencies choose the way which is most appropriate for their administrative sphere.

The principles of sound financial management have been discussed with the Ministry of Finance and presented at a seminar for state financial managers within the sphere of the Agency for Financial Management and Administrative Affairs. Usually, the NAOD does not publish its internal guidelines, but for these particular principles, the NAOD decided that it would be most appropriate to inform agencies of the principles against which they could be compared.

II. THE PROCESSES AND MANAGEMENT TASKS OF FINANCIAL MANAGEMENT

There are a number of definitions of financial management but the NAOD has decided to base the principles of sound financial management in accordance with the most frequently used definition in Denmark.

Financial management is defined as follows:

the management processes that the management has initiated with the aim of maximising resources and organising the activities so that the objectives of the organisation are complied with in the best possible manner.

Financial management includes the processes that make it possible for the management of the agency to assess costs, production and performance targets.

Financial management is a part of performance audit. According to “the European implementing guidelines for the INTOSAI auditing standards”:

performance audit may also include a management examination of the individual unit, organisation, activity or the programme which is covered by the audit. Auditors will thus primarily focus on how management carries out strategic and other planning, and how management implements, controls, assesses and follows up on the activities.

In the principles of sound financial management, financial management is divided into seven processes and four steering tasks. The processes deal with the various phases: target setting, planning, budgeting, implementation and management control, presentation of accounts, follow-up and reporting and evaluation. Steering tasks include performance management, activity management, resource management and financial management.

The connection between the individual processes and the steering tasks is shown in Figure 1.

Not all processes are equally relevant for all agencies and not all examinations are carried out with the same frequency. For example, the processes of target setting and evaluation do not have to be implemented every year. However, there is an interconnection, and if the result of one process is less satisfactory, it will influence the subsequent processes.

This also applies for the individual steering tasks. Performance management includes management of the production on the basis of outlined objectives or performance targets for an agency. Performance management is consequently aimed more directly at the effect of the implemented activities, rather than the activity itself. Activity management includes organisation of the production, so that the planned number of activities are implemented in accordance with the quality that is decided. Resource management concerns the use of resources and includes procurement, allocation and making use of the individual inputs. Financial management is included in the administration of appropriations and making payments.

Dividing financial management into processes and steering tasks may be quite difficult to apply directly. A manual has therefore been produced for the principles of sound financial management explaining in detail the conditions that may be re-
**FIGURE 1: Processes and Steering Tasks of Financial Management**

<table>
<thead>
<tr>
<th>Processes</th>
<th>Performance management</th>
<th>Steering Tasks</th>
<th>Resource management</th>
<th>Financial management</th>
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</thead>
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<tr>
<td>Target setting</td>
<td>Performance targets</td>
<td></td>
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<td></td>
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<tr>
<td>Planning</td>
<td></td>
<td>Activity plans, production planning</td>
<td>Investment plans, staff frame, etc.</td>
<td></td>
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<tr>
<td>Budgeting</td>
<td></td>
<td>Activity budgets</td>
<td>Resource budgeting</td>
<td></td>
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<tr>
<td>Implementing and management control</td>
<td></td>
<td>Activities</td>
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<tr>
<td>Presentation of accounts</td>
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<td>Activity statistics</td>
<td>Account of receipt and expenditure accounts</td>
<td>Presentation of accounts</td>
</tr>
<tr>
<td>Follow-up and reporting</td>
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<td>Key figures for efficiency</td>
<td>Key figures for use of resources</td>
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<tr>
<td>Evaluation</td>
<td>Measuring effectiveness, re-stating performance targets</td>
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The conditions are not absolute, as the requirements are based on an assessment of the individual agency and its financial management need.

### III. FINANCIAL MANAGEMENT ON VARIOUS ORGANISATIONAL LEVELS

Financial Management is to be organised on various organisational levels, and examinations of financial management are to be planned accordingly. The departments' management of the whole ministerial area should for example primarily focus on the processes; target setting and evaluation, and on the steering task; performance management. The agencies' financial management will, however, primarily focus on the other processes and steering tasks. The NAOD is considering whether the principles can be expanded to cover the steering processes better if the event of there being several organisational levels.

### IV. Lessons learned

Since the principles were drawn up in the beginning of 1999, three public programme examinations have been carried out, and two more will be following shortly. The lessons learned from the three initial examinations have shown that by using the principles the possibilities of implementing an examination have improved, and it is ensured that the agencies are assessed on the same basis.
At the present time, the principles include nothing on how reporting of an examination should take place at the political level. Two examinations have been reported by means of a description of the individual steering tasks in the agencies, whereas the third examination based its reporting on a review of the individual problem spheres. Lessons learned have shown that reporting based on a review of the individual problem spheres is preferable. A review of all steering tasks in an agency may give a balanced description of the management, but these reports tend to be too long for the political level. The challenge of future examinations will therefore be to carry out a well-balanced reporting focusing on the problem spheres.

Lessons learned have shown that there is room for potential improvements in the examined agencies, but that it is difficult to assess the financial consequences of the individual initiatives of improvement. The NAOD will therefore in the near future seek to minimise the scope of the examination, and seek to a greater degree to implement the examination within a well-defined area. Future examinations thus will concentrate on one or two steering tasks instead of all four. But all examinations will be combined with calculations showing the potential financial profit of any recommendations.

In 1999, a financial management examination was carried out of Todeașkate including management of the Ministry of Taxation. The examination was conducted in accordance with the principles of sound financial management, and therefore with a broad review of all steering tasks. However, it has been combined with a traditional efficiency analysis – the Data Envelopment Analysis. In the next edition of EUROSAI the NAOD will give a short description of the investigation and its results.

Subsequent Control Performed by the Romanian Court of Audit

DR. IOAN CONDOR
President of the Romanian Court of Audit

The subsequent control competencies of the Court of Audit can be classified into two kinds, namely:

- checking of the annual presentation of the accounts of public budgets,
- checking of the quality of economic and financial management of public and private patrimony of the state and of the administrative-territorial units... The first is accomplished through a procedure called “the procedure for checking the accounts”. The second is accomplished using “the procedure for management control”.

I. INTRODUCTORY CONSIDERATIONS

The Romanian Court of Audit was established by means of the Law of 24 January 1864. After many changes this Law of 1864 was replaced by the Law of 31 July 1929 on the reorganisation of the High Court of Accounts adopted on the basis of the new Constitution of 1923. This modern law remained in force until the High Court of Accounts was abolished by Decree No. 352 of the 1st of December 1948.

Based on the Constitution of 1991, Law No. 94 of 9 September 1992 re-established the Court of Audit, which really started to work on the 1st of March 1993.
The 1991 Constitution stipulated the reintroduction of two functions of the Court of Audit, namely: financial control and jurisdictional activity in the financial field.

The internal structure of the Court and its main duties and competencies are regulated by Law No. 94/1992.

The Court has a unitary structure consisting of: Preventive Control Section, Subsequent Control Section, Jurisdictional Section and General Secretariat, at the central level. In the administrative-territorial units the Court exercises its functions through the Financial Control Directorate, Financial Control Department and Jurisdictional Board. Attached to the Court of Audit there are the Financial Public Prosecutor General and the financial public prosecutors. The financial public prosecutors exercise their powers via the administrative-territorial units. The supreme management of the Court of Audit is exercised by the plenary session of the Court, composed of 24 audit counsellors appointed by the Parliament.

In this article, we are going to refer only to subsequent financial control competencies and procedures.

II. MAIN COMPETENCIES OF SUBSEQUENT CONTROL

The subsequent control competencies of the Court of Audit can be classified into two main kinds, namely:

- checking of the annual presentation of the accounts of public budgets, mainly of: the annual general execution account of the State budget, the annual execution account of the State social security budget, the annual execution accounts of the local budgets, the annual execution accounts of the budgets of special funds, the accounts of the treasury funds, the annual account of the State public debt and the situation of the Governmental guarantees for internal and external credits received by other legal persons and the power to discharge the management;

- checking of the quality of economic and financial management of public and private patrimony of the state and of administrative-territorial units, performed by the legal persons stipulated by art. 18 of Law No. 94/1992 (the state and the administrative-territorial units in their capacities as legal persons of public law, with their public services and institutions, whether or not autonomous; the National Bank of Romania; autonomous and national companies; and trading companies in which the State, administrative-territorial units, public institutions or autonomous companies hold alone or together the entire or more than 50% of the registered capital).

As a consequence of these two kinds of subsequent control competencies there are two control procedures having distinct and specific stages. The first is accomplished through a procedure called “the procedure for checking the accounts”. The second is accomplished using “the procedure for management control”.

II.1. The procedure for checking the accounts

This procedure begins with the submission of execution accounts to the Court of Audit so that they can be checked. The deadline for the submission of budgetary execution accounts is 1st of June of the year following their execution, according to Law No. 72/1996 on public finance. In this stage, those legal persons that are legally obliged to draw up annual budgetary execution accounts submit these accounts so they can be checked with respect to “Subsequent control standards” drawn up by the Court of Audit (and published in Informative Bulletin of the Court No. 2/1993). The accounts are submitted to the following structures of the Court:

- Subsequent Control Section:
  - general execution account of the State budget and of special funds budgets;
  - execution accounts of the main official persons entitled to authorise credits from the state budget and of special funds budgets;

The effective checking of budgetary execution accounts is done by financial comptrollers appointed by the leaders of the three internal bodies of the Court of Audit.
- execution account of the State social security budget;
- annual execution accounts of social funds;
- state treasury funds account;
- general account of the State public debt and the situation of Government guarantees for internal and external credits received by other legal persons.

• Administrative-territorial Directorates for Financial Control:

- execution accounts of the secondary and tertiary official persons entitled to authorise credits from the State budget, of special funds budgets and of the state social security budget coming within its field.

• Financial Control Departments in administrative-territorial units:

- annual execution accounts of local and county budgets;
- execution accounts of treasury county funds.

Annual execution accounts are submitted for checking in accordance with the structure stipulated by Law No. 72/1996 on public finance and Law No. 189/1998 on local public finance, for the accounts referring to state budget execution, and according to the structure stipulated by the methodology drawn up by the Ministry of Finance for the local budgets execution accounts. The other budgetary execution accounts are submitted in the manner laid down by their holders, since no legal provisions for them have been established.

The effective checking of budgetary execution accounts is done by financial comptrollers appointed by the leaders of the three internal bodies of the Court of Audit: the directors of Directorates within Subsequent Control Section, the directors of county control Directorates and the chiefs of financial County Departments.

If submitted accounts do not meet the requirements for being checked, meaning that they do not contain all receipts and payment operations of the budgetary year they refer to, or they do not respect the structure stipulated by law, the comptrollers return them to their holders (according to art.35, Law No. 94/1992), setting a deadline for their completion of no more than one month.

If the holders of the accounts fail to complete them, then this will be done by a chartered accountant appointed by the Court of Audit according to Subsequent Control Standards of the Court, with the holders bearing the expense. Following the check on the accounts, the appointed financial comptrollers are obliged to issue findings referring to the objectives stipulated in Law No. 94/1992.

For example:

- whether the accounts submitted for checking are exact and correspond to reality and whether the public and private patrimony of the state and of administrative-territorial units have been inventoried within the stated terms and in line with the conditions stipulated by law;

- whether the incomes of the state, administrative-territorial units, state social security and of public institutions that are financed entirely or partially through extra-budgetary means have been legally set up and received within the legally permitted periods;

- whether payments have been registered and made according to legal provisions and in compliance with budgetary stipulations.

The financial comptrollers are entitled to ask any legal or natural person being audited by the Court to submit documents and information connected to certain expenditures or operations reflected in the execution account, and these are obliged to provide them. Failure to do so is considered a civil offence and is penalised.

After checking the accounts, the appointed financial comptrollers prepare their reports containing their findings and conclusions and they issue proposals on the measures that have to be carried out in connection with the state of the accounts. At the same time, the report contains the measures adopted by the account holders.

They prepare their reports containing their findings and conclusions and they issue proposals on the measures that have to be carried out in connection with the state of the accounts.
er, during and as a result of performance control.

Some examples of proposed measures, as detailed by Subsequent Control Standards of the Court of Audit, are the following:

- discharge of management;
- the submission of the case to Jurisdictional Board of the Court, or to the County Jurisdictional Board depending on the case, in order to establish the juridical responsibility under the law;
- issuing criminal prosecution bodies with a notice so that they can institute specific proceedings;
- suspending the application of measures, due to their being in violation of the legal provisions in the financial-accounting and fiscal field;
- cutting off of budgetary or special funds in the event of their being used illegally or inefficiently;
- dismissal of persons;
- adoption of conservation measures.

The most important stage is the examination of the account, referred to in Law No. 94/1992 as "the examining procedure of the account". In this stage, the report concerning the accounts is examined by a panel composed as follows:

a) Three audit counsellors from the Subsequent Control Section, appointed by the President of the Section. This panel examines the reports concerning the accounts checked by the financial controllers of Subsequent Control Section and of County Financial Control Directorates.

b) the chief of county financial control department and two financial controllers from the same department. The panel examines the reports referring to the accounts of local official persons entitled to authorise credits from the State budget.

Following an examination of the reports on budgetary execution accounts, the panel thus constituted pronounces an interlocutory decision. The solutions offered by these interlocutory decisions may be:

a) discharge of management when irregularities referring to objectives stipulated in Law No. 94/1992 are not found, according to Subsequent Control Standards, for example: damages or financial infringements have not been found; incomes have been legally calculated and received under the legal terms; expenditures have been made in compliance with their destination and under the conditions stipulated in Law No. 72/1996 on public finance and in the annual budgetary law.

Discharge of management does not constitute grounds for exoneration from juridical responsibility.

b) submission of the case to the Jurisdictional Board of the Court or of the county, as the case might be, in order to establish the juridical responsibility under the law. This solution is the one chosen when findings show that events have occurred that have caused damages or financial infringements, including situations in which sums owed to the state, the interests and the corresponding late payment penalties have not been transferred according to law.

At the same time, the panel may decide to return the report for completion or rewriting, as the case may be. If it is found that actions have been committed that are considered to be offences under criminal law, the panel orders that the competent criminal prosecution bodies be notified, and they adjourn the examination of the case.

During the examination of the report, the panel may ask for further explanations from the holders of accounts or from other persons able to supply them. If there is a danger of alienation of the goods belonging to the responsible person, the panel may request the Jurisdictional Board that is to be in charge of hearing the case to give its approval to the measures of conservation within the limits of the damage found. The financial public prosecutor may participate in the sittings in which the reports on the budgetary accounts are examined.
The interlocutory decision ordering the submission of the case to the jurisdictional board or the discharge of management shall be communicated to the interested parties and to the financial public prosecutor, within three days after the pronouncement of the interlocutory decision.

A complaint may be lodged with the jurisdictional board, within 30 days from the communication against the interlocutory decision ordering the discharge of management.

For well-founded reasons, the examination procedure of the account can be re-opened any time within one year from the pronouncement of the interlocutory decision ordering the discharge of management.

II.2. The procedure for management control

This procedure consists of checks performed during budgetary execution and on the capitalisation of findings.

As a result of the check made during the execution of the budget on the legal persons mentioned under art.18 of Law No. 94/1992, the control bodies of the Court of Audit ascertain certain facts giving rise to damages or financial infringements, if any, and they draw up minutes on their findings. The essential elements of the minutes are indicated in the Subsequent Control Standards elaborated by the Court. The minutes include situation reports, charts, documents, deeds - copies or originals - and written explanations necessary for supporting the findings - as enclosures. Written explanations are in all cases required to be made to persons responsible for damages and infringements found and written down in the minutes, as well as to other persons with the aim of clarifying the reasons and circumstances that gave rise to the breach of legal provisions. The procedure for written explanations and the elements of the document comprising them are detailed in the Subsequent Control Standards of the Court of Audit.

Another stage of this procedure consists in capitalisation of findings, which are set down in minutes stating the events that have led to damages or financial infringements. According to Law No. 94/1992, this capitalisation is accomplished through financial prosecutors to whom the documents on the findings are sent within five days, together with the appropriate suggestions. The financial public prosecutors are notified by the audit counsellors of the control sections or by the chiefs of the financial control departments in the counties, as the case may be.

The financial public prosecutor pronounces his opinion on the minutes on the findings within ten days of receiving the documents. According to Law No. 94/1992, the main solutions adopted by the financial public prosecutor may be:

- notification of the competent jurisdictional board;
- notification of criminal prosecution body;
- annulment.

The financial public prosecutor may order, with reasons, the return of the minutes on the findings so that they can be completed or rewritten.

In all cases, the act of notification of the jurisdictional board and the act of annulment are communicated to the interested parties.

When there is a danger of alienation of the goods belonging to the responsible persons, the notified financial public prosecutor may request of the jurisdictional board that is to be in charge of hearing the case that it agree to conservation measures being taken within the limits of the damage found.

Against the act of annulment the interested parties can lodge a complaint within 30 days following the communication. The complaint is settled by the Financial Public Prosecutor General. If the complaint is admitted, the Financial Public Prosecutor General may order:

- the notification of the jurisdictional board;
the notification of the competent criminal prosecution body;

- the return of the file so that the audit can be completed or performed again.

Law No. 94/1992 introduces the possibility of lodging a request for re-examination. The interested party can lodge a request for re-examination against the resolution of the Financial Public Prosecutor General concerning the act of annulment, within 30 days following the communication. The re-examination request deed is judged by a panel made up of five audit counsellors from the Jurisdictional Section of the Court of Audit. If the Court of Audit accepts the request for re-examination it orders the notification of the jurisdictional board competent to judge the case in first instance, or of the competent criminal prosecution body, as appropriate.

Going to law through re-examination represents a novelty in Romanian legislation. Indeed, it is the first time that the annulment decision formulated by the prosecutor can be submitted to judicial control and, furthermore, to a panel consisting of five audit counsellors. Thus, the possibility of committing or maintaining potential errors or abuses in the prosecutor’s activity, which, as is known, is performed in closed sittings, is removed.

It is the first time that the annulment decision formulated by the prosecutor can be submitted to judicial control and, furthermore, to a panel consisting of five audit inspectors.

Auditing Public Contracts

CEVAD GÜRER
Head of International Relations Group, Turkish Court of Accounts

One of the functions that is the responsibility of the Turkish Court of Accounts is the pre-auditing of certain areas of public economic-financial activity. This study focuses on carrying out that function with regard to public contracting. It highlights the advantages that such control represents in preventing deficiencies, though the control has to be done with rigour and care on account of the risks that it entails.

1. INTRODUCTION

The purpose of this article is to acquaint our colleagues with the pre-audit of public contracts performed by the Turkish Court of Accounts (TCA). The following can only shed a small amount of light on contract audits. Consequently, it briefly discusses the question: why does the TCA pre-audit public contracts? And it discusses how the audit is performed.

2. FROM THE PRE-AUDIT OF PAYMENTS MADE IN THE CAPITAL TO THE PRE-AUDIT OF PUBLIC CONTRACTS

Law 2514, replaced by the current Law on TCA in 1967, stipulated that all the payment and advance payment authorisations, with the exception of the ones listed by the General Accounting Law # 1050 and other relevant legislation, issued in the Central Government Offices should be subject to the approval / visa of TCA.

In parallel with modern thinking on external audits, which assigns the duty of taking correct actions to the auditee, TCA has gradually scaled down its pre-audit activities. At the moment, according to sections 30 to 37 of Law 832 (TCA Law), the pre-audit activities of the TCA fall into three main areas: pre-audit of contracts, budgetary appropriations and staff.

Before going further into the pre-audit of public contracts it would be beneficial to touch on the other two types of pre-audit mentioned above.
2.1. Budgetary Appropriations

The TCA records the appropriations appearing in the annual budget law and their distribution amongst budgetary institutions. It also records changes in appropriations (e.g., transfers) that may occur during the year. Payment orders of budgetary institutions are also recorded against the related appropriation. The TCA is thus able to know the exact amount of unused appropriations for all budgetary institutions at any moment throughout the financial year.

2.2. Staff Positions

Under section 30 of the TCA Law, the TCA authorises in advance the distribution of posts to general and annexe budget agencies. Posts granted to these agencies under decree-law 190 are recorded by the TCA. The record shows details of each post by class, title, level and number. It also records whether the post is at headquarters or in the field. Records are regularly updated for changes, for instance when new posts are created or old ones cancelled. By maintaining an accurate record of authorised posts, the TCA prevents staff being paid by payment offices when no post exists.

3. ENDORSEMENT / APPROVAL OF THE CONTRACTS

Section 30 of the TCA Law provides that contracts and any other commitments involving expenditure by government offices and institutions coming under the auditing of the Court of Accounts shall be subject to endorsement. It also stipulates that commitments and contracts together with their supporting documents should be sent to the TCA within three days from their finalisation and they shall not become effective unless endorsed by the TCA.

"Should the SAI pre-audit the contracts, since ensuring correctness of contracts and their compliance with the law is the responsibility of management?" is a question that is frequently asked. In fact, there are two points of view on this function: one is that checking the soundness of the contract is the task of management and should not be done by the SAI, the other; which is held by the TCA, is that this activity is an integral part of audit work and cannot be removed from the SAI’s responsibilities unless a system is introduced that will be able to prevent defective actions in advance. The alternative would be to correct the actions caused by defective contracts during or after implementation, which may be costly or even too late.

Thus the "Lima Declaration" recognises that conditions in a particular country may result in some of its members carrying out pre-audits. It comments: "Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent any harm before it occurs, but has the disadvantage of creating an excessive amount of work and blurring responsibility under public law" (para 3, section 2).

As far as it can, the TCA tries to streamline further its pre-audit of contracts in order to ensure that this work is conducted as efficiently as possible and with the least inconvenience to the parties concerned.

4. SUBJECTS OF CONTRACTS

The subjects of contracts sent to the TCA are as follows:

• Purchase of personal and real properties, all kinds of materials, goods, services and rights

• Construction: All types of construction, preparation, manufacturing, drilling, installation, repair, demolition, replacement, improvement, renovation and erection works

• Leasing: Renting or leasing of personal and real properties and of rights

• Transportation: Loading, carrying, unloading, storing and packing

5. CONTRACTS EXEMPT FROM TCA APPROVAL

Paragraph 4 of section 30 of the TCA Law provides: "...the following shall not be subject to endorsement: contracts that are exempt from visa in accordance with Budgetary Laws and section 64 of the..."

As far as it can, the TCA tries to streamline further its pre-audit of contracts in order to ensure that this work is conducted as efficiently as possible and with the least inconvenience to the parties concerned.
General Accounting Law No. 1050; those issues which are held exempt from tendering by a decision of the Council of Ministers due to reasons of urgency; and contracts from abroad.”

Pursuant to the above provision the annual budget law establishes monetary limits governing how the TCA is to deal with such contracts. The limits set for 1999 are:

One final point on this issue, according to section 36 of the TCA Law, even contracts exempted from endorsement should be sent to the TCA within seven days from when they are drawn up. Such contracts are also registered.

6. PROCEDURE

The TCA examines a contract from two aspects: compliance with laws and regulations; and fairness towards those who can tender for the contract.


The main legislation on government procurement is the “Government Procurement Law” (GPL) which came into force in 1984 and replaced the old one that had been in force since 1934. This Law provides not only general principles of good business practice but also states the ways and conditions of conducting procurement activities, providing a detailed explanation of the processes to be followed. There are also a number of decrees and by-laws adopted by the Council of Ministers by virtue of the GPL for governing different types of procurement activities. The State Economic Enterprises (SEE) and some autonomous administrations are not subject to the GPL since they have their own regulations which, in many respects, include provisions that are parallel to those of the GPL.

The auditor examines a contract to see whether it has been drawn up in compliance with the above-mentioned laws and regulations as well as administrative and technical specifications, which may encompass the following points or others:

- Scope of work to be performed or the goods to be supplied
- Place, date and time of the bidding
- Bidder(s)’ eligibility to bid
- Method of bidding
- Preparation of bids
- Deadline for bid submission
- Procedure for bid opening
- Criteria for bid evaluation
- Definition of employer/contractor and rights and obligations of both parties
- Starting and completion dates of work
- Procedure for measurement, inspection and acceptance of work performed
- Terms of payment
- Price adjustment procedure
- Procedure for damages, penalty for delay
- Procedure for termination of contract
- Force majeure
- Settlement of disputes

Furthermore, he or she also checks that the relevant objectives set out by the GPL as listed below have been observed:

- Competition
- Most advantageous offer
- Procurement under the most suitable conditions and during the most suitable time of the year
- Relevant procurement process (method)
- Neutral & objective specifications
- Rational & non-discriminatory qualifications
- Lucid rules

* At the time of writing TL 430,000 is equivalent to $ 1 and 60 billion is around $ 139,000

EUROPEAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
• Criteria stated in bid documents
• Advertisement
• Responsibility of decision makers
• Measures to prevent corruption
• General guidance for contracting agencies

If the contract is considered to satisfy the requirements when examined against the audit checklist, such as the one above, then it is endorsed by the auditor and his or her supervisor, the group chief. Those that fail to do so are returned to the forwarding government office to be corrected or completed together with a letter in which the opinion of the auditor and the group chief is stated.

Depending on the response from the government office, the contract and related documents are either approved/endorsed or passed on to the President together with a memorandum.

If the contract has not been endorsed but instead sent to the President, then he or she relays it to one of the eight chambers for its opinion.

In the chamber, the contract, the auditor’s opinion and the response from the government office are examined. Finally, the chamber decides whether the contract and related documents should be endorsed or not.

In cases where the contract has not been endorsed but instead returned to the government office which prepared it, the disbursement officer of the government office may appeal to the Board of Chambers, a college within the TCA, against the decision of the chamber. In this case the decision of the Board of Chambers is final.

7. CONCLUSION

Pre-auditing of contracts is an effective and useful tool when used to prevent defective actions in advance. But it is also a delicate tool that should be used very carefully and skillfully. In fact, in this field the SAI deals with a matter of exceptional delicacy, so it should expertly strike the balance between the interested parties, even sometimes between the world of rules and the real life, and at the same time it should not embarrass itself by contradictory decisions or practices. As far as the TCA is concerned, the latter is of the utmost importance as its Law provides that the approval or endorsement of a transaction (contract) shall neither bind the responsible officials nor restrict the judicial power of the Court of Accounts. This means that a contract endorsed by the TCA at the pre-audit stage may be questioned later by the auditor at the regular post-audit phase, and eventually such transaction may be judicially decided as not complying with law. Under the TCA Law, a contract is the supporting document of the expenditure and therefore an inherent part of the account to be post-audited regardless of its being endorsed or not. In other words, previously endorsed contracts are audited twice (pre- and post-audited) in TCA practice.

A contract endorsed by the TCA at the pre-audit stage may be questioned later by the auditor at the regular post-audit phase, and eventually such transaction may be judicially decided as not complying with law.
Court of Audit of Ukraine

BY MR VALENTIN SIMONENKO
President of the Court of Audit of Ukraine

On 11 July 1996 the Ukrainian Parliament, the Supreme Rada, gave its approval to the Court of Audit Act. Subsequently, at the instance of the President, the Constitutional Court of Ukraine restricted the powers of the Court of Audit, which were regarded as unconstitutional.

On 14 January 1998, the Supreme Rada of Ukraine ratified the new version of the Act reflecting the decision taken by the Constitutional Court. The Act then came into force. The Act defines the Court of Audit of Ukraine as a standing body for financial and economic control of the State, which conducts its activities in an autonomous fashion, independently of all other bodies of State power.

BACKGROUND

Until recently, Ukraine lacked any independent system for financial or audit control due to the fact that such a system would have been incompatible with the principles that ruled over the running of the State.

The system of ministerial, popular and Party control over the use of public (the people’s) funds was set up during the socialist period and came under the top officials of the State (as it still does today). It was unable to guarantee any objective, exhaustive and transparent control over the legality and efficacy of the use of public funds. So it seems natural, on the one hand, that the highest financial body of the country, the Ukrainian Ministry of Finance, would be unable to carry out self-auditing and self-sanctioning correctly and efficiently. On the other hand, it is precisely this Ministry, together with the entire Ministerial Cabinet of Ukraine, that is currently the leading offender when it comes to breaching the budgetary laws of the country. The ministerial control bodies that used to exist beforehand, and still exist now, are primarily restricted to carrying out review tasks, detecting infringements post factum. Hence the creation of a Court of Audit in Ukraine was a logical and necessary consequence of the democratic transformations undertaken in the country.

The creation of the Court of Audit is provided for in article 98 of the Ukrainian Constitution, which reads as follows: “The control over the use of budgetary funds of the State is assigned to the Court of Audit, which acts in the name of the Supreme Rada”.

The Court of Audit of Ukraine undertakes its activities pursuant to the Court of Audit Act of 11 July 1996, with modifications introduced on account of the decision of the Constitutional Court of 23 December 1997. This Act defines the Court of Audit as a standing body of financial and economic control over the State, set up by the Supreme Rada of Ukraine to which it is accountable. The juridical system of the Court of Audit of Ukraine guarantees its functioning as an independent body of financial and economic control which does not represent the interests of the executive power but instead of all citizens of the country, acting in an autonomous fashion independently of whatsoever other bodies of the State.

PRINCIPLE OBJECTIVES

The principle objectives of the Court of Audit of Ukraine are as follows:

organisation and carrying out of control over compliance with public spending and the use of budgetary resources, including national funds having a special destination in terms of their volume, structure and allocation;

control over the creation and cancellation of Ukraine’s domestic and foreign
debt, determination of the efficacy and viability of spending State resources, foreign currencies, credits and financial funds;

control over the legality of loans and economic aid provided for in the State Budget, which Ukraine grants and lends to foreign countries and international organisations;

control over the legality and appropriateness of the movement of budgetary resources, as well as special funds that do not form part of the budget, via the offices of the National Bank of Ukraine and other authorised banks;

analysis of deviations detected in the parameters defined in the State Budget and drawing up of proposals for correcting those deviations, as well as for improving the entire budgetary process as a whole;

regular information to the Supreme Rada of Ukraine and its parliamentary committees on the progress of compliance with the Budget, on the state of Ukraine’s domestic and foreign debts and on the results of other controls carried out;

undertaking of other tasks assigned to the Court of Audit by Ukraine’s existing legislation.

Starting from these objectives, the Court of Audit channels its activities in two directions: on the one hand, control and auditing, and on the other, analysis and expert appraisal. If control over the legality of the use of State funds is a vital part of its work, then no less so under conditions of scarcity of public funds is the continual analysis of the efficacy of spending in order to search for better solutions. Nor do the investments made by the executive power escape the attention of the Court of Audit.

One of the most important functions of the Court of Audit consists of the prior analysis of reports presented by Antimonopoly Committee and the Public Goods Fund of Ukraine, as well as those drawn up by officials elected or appointed by the Supreme Rada concerning the efficacy with which the goods constituting the main national wealth of the country and which are owned by the people of Ukraine are administered.

The stipulations of the Act currently in force includes the particular feature of not permitting the Court of Audit of Ukraine fully to carry out the control functions over compliance with State Budgets as a whole since budgetary incomes lie outside its scope of action. This situation means that the powers conferred on the Court of Audit need to be extended at the legal level.

CREATION OF THE COURT OF AUDIT

At the end of April 1997, once its Collegiate Body had been created and its members ratified by the Supreme Rada, the Court of Audit of Ukraine started to function actively.

The results of these two years of intense control and analysis activity entitle one to state that, as an institution, the Court of Audit of Ukraine has been a success. In a relatively short period of time, society has become used to thinking of the Court of Audit as a body that acts independently and transparently in the interests of the citizenry. The majority of people providing their services in the Court of Audit are qualified officials. Out of a total of more than 200 technical staff working here, 97% are graduates with considerable working experience. Twenty of these technical experts hold doctorates or are in the process of obtaining such a degree. The Court of Audit has been furnished with modern material and technical means and its work posts are equipped with advanced technology.

The Court of Audit possesses its own information and analysis system which, making use of the latest technological advances, guarantees the automation of the processes of gathering, storage, analytic processing, maintenance and output of the data necessary for the institution’s work. As provided for in the Act concerning the national computerisation programme, this system must become a basic element of the sole system for State control over compliance with the State budgets, funding of programmes at the national scope, conservation and use of credit resources and activities undertaken by institutions in the banking system. The Court of Audit has designed and put into practice a local area network based on modern computing technologies and composed of over a hundred hardware and software installations.
Entry in November 1998 into the International Organisation of Supreme Audit Institutions (INTOSAI) under the aegis of the United Nations signified world recognition and a further confirmation of the utility of the Court of Audit of Ukraine. On 31 May 1999, during the IV Congress of EUROSAl, approval was given to the decision of the XVIII Governing Board regarding acceptance of the Court of Audit of Ukraine as a member of EUROSAl.

With the aim of achieving better compliance with its tasks, the Court of Audit of Ukraine has been structured into Departments covering the following work areas:

- control over public and national defence spending;
- control over spending related to the State's economic activities;
- control over the use of Pension Funds, State funds having a special destination, and budgetary funds;
- control over social spending;
- control and analysis of budgetary spending;
- control over financial and economic operations in banking and at the inter-state scope;
- control and analysis of the budgetary process.

The control and auditing activities and those of analysis and expert appraisal carried out by the Court of Audit of Ukraine are, pursuant to the powers of the body, orientated towards performing three tasks that are organically related to each other and which are as follows:

- analysis of the compliance with the State Budget for the latest financial year closed and with the project for the Budget for the following financial year;
- control and analysis of certain sections and items of the State Budget, and of particular matters of a budgetary, financial, monetary and credit nature;
- analysis of laws and regulations on the scope of competence of the Court.

With this aim the Court of Audit undertakes continual control over compliance with the law concerning the State Budget and observance of the law and regulations governing over the budgetary process. One of the most important results of the Court of Audit consists of the fact that this body has been the first such to make the population aware of the problem of Ukraine’s national debt.

In June 1998, the Juridical Regulation Department of the Court of Audit was also created.

All the members of the Court of Audit – its President, Vice-Presidents, the chief auditors and the secretary – have to be confirmed in their posts by the country’s Parliament. They are elected for seven years. Ukraine’s legislation provides for certain liabilities for those who are found to be guilty of exerting pressure on officials of the Court of Audit, including their immediate superiors, with the aim of obstructing their duties or achieving a decision that goes against the current legislation of Ukraine, as well as any violent action, injury or calumny directed towards them.

The President of the Court of Audit, its First Vice-President, its Vice-President, the chief auditors and the secretary are guaranteed professional independence. They can be removed from their posts prior to the completion of their mandate at the instance of the President of the Supreme Rada of Ukraine in the following cases: when they break the law or abuse their posts, provided that this is so determined by the Supreme Rada; by virtue of their own wish to resign; in the event of serious illness preventing them from undertaking the activities inherent to their post, and confirmed by the corresponding medical authority; and when they reach the age of 65. The decision of the Supreme Rada regarding the removal of those officials is taken by a majority vote of the entire constituent assembly of representatives of the Supreme Rada of Ukraine. This juridical system provides professional protection for the officials of the Court, helping them to preserve sufficient autonomy and equidistance with respect to all branches of power, given that it is neither a parliamentary, nor a presidential nor a governmental body but instead an independent constitutional body.

The President of the Court of Audit has designed and put into practice a local area network based on modern computing technologies and composed of over a hundred hardware and software installations.

The Court of Audit undertakes continual control over compliance with the law concerning the State Budget and observance of the law and regulations governing over the budgetary process.
Supreme Rada and is recorded in a special entry in the Budget.

In accordance with the law, the control functions exercised by the Court of Audit also cover the apparatus of the Supreme Rada, the bodies of the executive power and their respective apparatus, the Administration of the President of Ukraine, the National Bank, the Public Goods Fund and other State bodies and institutions.

Pursuant to the legal stipulations, as part of its activities the Court of Audit of Ukraine is entitled to request and receive information from the body of the State and local self-government, companies, institutions and organisations, both public and private.

The Court of Audit Act grants this body the right if necessary to bring into its audits technical staff from any other control body, including those from the Control and Review Directorate of the Ukrainian Ministry of Finance, from the Tax Administration, the State Customs Service and other institutions, defining according to its own criterion the tasks which those technical experts are to undertake. The relations between the Court of Audit and the bodies constituting the object of its work are regulated by the existing legislation.

According to article 3 of the Court of Audit Act, legality is one of the basic principles of the Court. The Collegiate Body of the Court does not adopt decisions without having previously studied their legality and established the juridical foundations of the infringement detected.

Over its not very long history, the Court of Audit of Ukraine has felt that it has the support and the understanding of the country’s parliament, the Ukrainian people and the information media.

The results of the work performed by the Court of Audit are used in the process of drawing up operative reports on the progress of compliance with the State Budgets which are periodically provided for the Supreme Rada of Ukraine and are included in the reports from the President of the Court during its plenary sessions. The documents related to the task of permanent control over compliance with the State Budget are published in the information media.

The activities of the Court of Audit are undertaken on the basis of six-monthly and quarterly work plans.

RESULTS ACHIEVED

In 1998, among the activities planned, commissions and individual requests made from the President of Ukraine, the Supreme Rada and its committees, and requests from the people’s representatives, the Court performed 234 audits and checks, as well as the study of 434 topics. Virtually everywhere it detected infringements of the existing laws and examples of the illegal or ineffective utilisation of budgetary resources or funds having a special non-budgetary destination, as well as examples of their utilisation for purposes other than those for which they were provided for. The harm caused to the State Budget that the Court of Audit of Ukraine managed to detect in 1998 amounted to a total of 1,381 million grivnas.

Measures taken on the basis of controls made by the Court helped to correct some infringements and abuses, and they also helped to modify the conditions that had fostered them. A total of 545 million grivnas managed to be recovered for the State Budget.

Basing itself on the results of its controls in 1998, the Court of Audit of Ukraine presented 250 reports, conclusions and papers that year: 114 to the Supreme Rada, 29 to the President of Ukraine, 29 to the Ministerial Cabinet, 16 to the Ministry of Finance and 34 to other ministries and institutions.

Around 20 reports were presented to the State Attorney’s Office so that it could decide on the restitution of damages caused to the State and demand liabilities from the offenders.

One of the most important functions of the Court of Audit of Ukraine consists of publicising the results of the controls it performs. This means informing the voters, the citizens of Ukraine, on how the State’s money is being spent (which is the citizens’ money) and on what the distribution and utilisation of these resources are based: on Ukrainian legislation (which, though imperfect, is founded on the objective laws of economic development) or on
personal stances based on a subjective perception of the current state of the country and on a personal interpretation of the laws. In 1998 alone, 180 informative reports and articles were published in the press, along with interviews with the President of the Court of Audit, its Vice-Presidents and Heads of Department, on the results of the Court’s work. Nevertheless, it is in this field that the ill-will can be most clearly seen among certain high-ranking officials towards the very essence of the Court’s activities, which are at all times orientated towards the utmost transparency, accuracy and explicitness.

With the aim of improving its work, the Collegiate Body of the Court of Audit is ceaselessly searching for new methods and procedures, though without ignoring those that have already been drawn up by other professionals in the sector.

The technical staff of the Court of Audit have participated in the work of international seminars held on control and auditing in Poland, Hungary and the Russian Federation.

A task of organisation has been carried out in order to establish agreements on collaboration, cooperation, exchange of experiences and staff training with the Supreme Audit Institutions of Bulgaria, Latvia, Lithuania, Moldavia, Poland, the Russian Federation and France. Collaboration conventions have been signed with the Higher Court of Audit of the Republic of Poland and with the Court of Audit of the Russian Federation.

Work contacts have been established with the coordinators of international technical aid programmes and the representatives of foreign organisations in Ukraine, in particular with the TACIS Programme of the European Union and the UN Development Programme. Agreements have been reached so that the Court of Audit of Ukraine can receive advice, information and aid for staff training. In the summer of 1999 in Kiev, the Court of Audit of Ukraine, in cooperation with the UN’s RAST Programme and with the support of the United Nations representation in Ukraine, organised an international symposium with the participation of the Supreme Audit Institutions from a range of countries.

The future measures of the Court of Audit directed towards achieving greater efficacy in its work are not so much concerned with the problem of legislation (though this area also raises major challenges) as with improving the modes and methods of functioning of the Court. The need is defined to carry on optimising the authorities attributed to each Department of the Court. It would be advisable to strengthen relations between the Court and the judicial bodies, the administrative jurisdiction bodies and the tax administration. In other words, the aim is to increase the real pressure that the Court exerts on those who break the financial rules in order to achieve the maximum level of restitution of losses that they cause to the public treasury.

In general, all the activities of the Court of Audit are aimed at eradicating, in a transparent manner, the conditions that promote abuses and infringements in the area of the creation and utilisation of budgetary funds and public goods, and in the field of an efficient antimonopolistic policy.
Court of Audit of the National Assembly of the Republic of Armenia

ASHOT A. TAVADYAN
Chairman of the Court of Audit of the National Assembly of Armenia

The Court of Audit of Armenia is an institution that has recently been created with the aim of constituting a solid pillar on the path of changing the economic and political systems that our country is currently pursuing. Based on principles of independence and professionalism, and on a structure that is departmentalised and collegiate, it seeks to consolidate itself as a genuine body for control, a guarantee for the National Assembly and for the citizenry, doing so under the auspices of the International Organisations of Supreme Audit Institutions.

THE COURT OF AUDIT

Faced with a situation of a decentralised administration of the economy and new political and economic relations which are now being formed in Armenia, it was considered necessary to create a fully-developed financial-budgetary system which could be useful to both the state and to society.

The Court of Audit was created as part of this system. The Court of Audit is an institution of financial and economic control formed by the National Assembly and is accountable only to the National Assembly. The activity of the Court is regulated by the Constitution, the “Law of the Republic of Armenia on the Court of Audit of the National Assembly of Armenia” and the Statute of the Court.

Since the creation of the Court was a new step for the country, the first thing that was needed was to organise its technical and operational methods, to correct its jurisdictional foundations, select the staff, define its fields for working in, and so on.

One of the first steps was to select a highly skilled and a professional staff.

The main problems that appeared during that initial period were solved both by our own means and with the help of international organisations. With the participation of foreign specialists, various seminars were organised for the members of the Court of Audit in Armenia. Field trips were held to the Supreme Audit Institutions of different countries so that the members could become acquainted with the work of other institutions. Some of our employees have participated in conferences organised by INTOSAI (International Organisation of Supreme Audit Institutions).

Thanks to all this and to the efforts of the staff of the Court of Audit, it was possible to establish a state auditing body and reach a high level of effectiveness within the space of two years.

When it came to determining the organisational structure and jurisdictional status, international experience was taken into consideration.

The main principles of the Court of Audit are that it should be independent of the executive power, that it should be a collegiate body and that it should have public openness. The independence of the supreme organisation of financial control is one of the principles on which most countries on the path towards democracy are based. Simultaneously, the independence of that organisation is guaranteed by the independence of the controllers authorised by that body.

Trust in the national government depends on the appropriate reports being presented to the National Assembly. This is important for the process of adopting the state budget and in relation to the work that is planned being based upon facts.

The main role of the Court of Audit is to supervise and analyse the work done by
the Government and the reports it produces. The Court presents its own independent report (summaries, protocols, conclusions and reports) to the National Assembly concerning facts that it has discovered and its conclusions, and it also informs on any mistakes noticed during the work, pointing out the way in which they could be put right.

Using the reports of the Court of Audit, the National Assembly is given the opportunity of having a better view of the financial activity of the Government and having more efficient control in accordance with the Constitution.

The illustration below shows relations between the Government and the Court of Audit of the National Assembly.

AUDIT

This figure clearly shows that the Government has been given the responsibility to manage the financial affairs of the country and to report back to the National Assembly.

The Court of Audit serves the National Assembly, it publishes its conclusions indirectly as well, and it serves the inhabitants of Armenia.

The principles of providing Parliament and society with such information are typical of advanced systems of financial control and they are also stipulated by law.

The first official programme for the first year of activity of the Court of Audit was passed by the National Assembly in 1997. Suggestions for the deputies and the standing committees were taken into consideration when organising the annual plan.

Each year the Court of Audit publishes a report on its activity. After being ratified by the decision of Parliament, the report is published in "The Official Bulletin of the Republic of Armenia". As well as that, all the reports resulting from audits are published after being discussed at the Council of the Court. Sessions of the National Assembly are broadcast by the national radio and television, thereby enabling society to become aware of the activities or the Court of Audit. So, all interested persons have the opportunity of becoming acquainted with the discussions of the reports of the Court of Audit in the National Assembly. Given the increasing interest shown by society and its citizens in the work of the Court of Audit, the news broadcasting media and the Court of Audit itself periodically give explanations, interpretations and analyses on specific activities. This means that all sides interested can get to know the analytical discussions.

The Court of Audit has already received favourable recognition through its effective results.

OBJECTIVES

The Court of Audit is the controlling body of the legislative power of the Republic of Armenia. The aims of the Court and of the controlling bodies of the executive power as well as their authorities are different, in line with the different objectives of each.

According to the Law the responsibilities of the Court of Audit are as follows:

a) To submit the results of its audits to the National Assembly of Armenia and to inform the Government of the results.

b) To submit its conclusions to the National Assembly of the Republic with regard to:

- The annual Government report on the implementation of the State Budget.
- The Government report on the implementation of the annual programme of privatisation and denationalisation of state enterprises and unfinished construction.
- The annual report from the Central Bank.

c) To submit a report on a half-yearly basis to the Deputies of the National Assembly of the Republic of Armenia on the implementation of the State Budget, and on the use of loans and credits coming from other states and international organisations.

d) To provide the Committees and Deputies of the National Assembly with methodological and professional assistance.

The main principles of the Court of Audit are that it should be independent of the executive power, that it should be a collegiate body and that it should have public openness.
It is important to mention that the activity of the Court is based on the analysis of documents, jurisdictional acts, declarations and protocols.

THE STRUCTURE

There are 28 employees in the Court of Audit, 25 of whom are auditors and three are administrative staff.

Four structural departments (subdivisions) have been created within the Court, which act according to professional principles. These structural departments, created in order to achieve the aims of the Court, include senior specialists and leading specialists, supervised by the head of the department.

The Chairman of the Court of Audit, and in his absence the Deputy Chairman, is in charge of the activities of the Court.

THE COUNCIL

The Council of the Court of Audit is established for the purposes of organising and planning the activities of the Court of Audit, for discussing matters of audit methodology, as well as approval of references, protocols, conclusions and reports submitted to the National Assembly of the Republic of Armenia.

The members of the Council are: the Chairman of the Court of Audit, the Deputy Chairman, and the Heads of the Departments. Sessions of the Council are convened and directed by the Chairman.

STRUCTURAL SUBDIVISIONS

The structural subdivisions (departments), with their different fields, present the results of the state audit and their conclusions to the Court of Audit so that they can be discussed in the Council session and then be presented to the National Assembly. In addition, the departments prepare material for the annual report from the Court and they present suggestions on the appropriate matters to be covered in the annual programme.

STATE BUDGET AUDIT DEPARTMENT

There are currently five employees in this department, which is headed by Mr. Artavazd Gasparyan. The State Budget Audit Department is authorised to conduct audits on:

- The implementation of the state budget, in particular, income and expenditure items (book entry of State Budget incomes), State Budget resources, use of state extra-budgetary funds, maintenance expenditure for state bodies, deviations expected in the state budget and the actual implementation.
- The allocation of the means of state property, financial means to enterprises, institutions and organisations (irrespective of the form of property) for the undertaking of state projects and state orders;
- The use of budgetary appropriations to state government bodies and local government bodies.

The department:
- Carries out the state audit in its appropriate fields.
- Prepares its conclusions concerning the Government report on the implementation of the State budget.
- Prepares quarterly and half-yearly reports on the process of implementing the state budget.

FOREIGN LOANS AND CREDITS AUDIT DEPARTMENT

There are currently five employees in this department, which is headed by Mrs. Ruzan Zazyan. The Foreign Loans and Credits Audit Department is authorised to conduct audits on the use and redemption of loans and credits received from other states and from international organisations.

The department:
- Carries out audits in its appropriate fields.
- Monitors loans and credits given to the Government of Armenia and the Central Bank.

The Council of the Court of Audit is established for the purposes of organising and planning the activities of the Court of Audit, for discussing matters of audit methodology, as well as approval of references, protocols, conclusions and reports submitted to the National Assembly.

The departments prepare material for the annual report from the Court and they present suggestions on the appropriate matters to be covered in the annual programme.
PREPARES QUARTERLY AND HALF-YEARLY
REPORTS ON THE USE AND REDEMPTION OF
FOREIGN LOANS AND CREDITS.

PRIVATISATION AND
DENATIONALISATION AUDIT
DEPARTMENT

There are currently four employees in
this department, which is headed by Mr.
Vladimir Margaryan. The Privatisation
and Denationalisation Audit Department is
authorised to conduct audits on the imple-
mementation of the programme of privatisa-
tion and denationalisation of state enter-
prises and unfinished construction, on the
implementation of the jurisdictional limi-
tations of the appropriate ministries, de-
partments and regional bodies of state
government on enterprises undergoing pri-
vatisation and denationalisation, and the
issuing, delivery and redemption of pri-
vatisation vouchers.

The department:
• Carries out state audits in its approp-
riate fields.
• Draws up conclusions concerning
the Government report on the implemen-
tation of the annual programme of privatisa-
tion and denationalisation of state enter-
prises and unfinished construction.
• Prepares quarterly and half-yearly
reports on the process of implementing the
programme for privatisation and denation-
alisation

COMMUNITY BUDGETS AUDIT
DEPARTMENT

There are currently four employees
within this department. The Community
Budgets Audit Department is authorised
to conduct audits on the implementation
of the community budgets, in particular,
on income and expenditure items (book
entry of community budgets income), res-
ources of community budgets, expendi-
tures of maintenance of community
bodies, deviations expected in the com-
munity budgets and the actual implemen-
tation.

BRIEFING, ANALYSIS, METHODOLOGY AND INFORMATION DEPARTMENT

There are currently five employees
within this department, which is headed by
Mr. Ashot Thevikyan. The Briefing,
Analysis, Methodology and Information
Department is authorised to participate in
the activities of other departments of the
Court of Audit or carry out its own control.
This department monitors the methodolo-
gy of the Court and provides information.

The department:
• Draws up its conclusion on the annu-
al report from the Central Bank.
• Provides the state audit with infor-
mation on the use of state appropriations
in local government bodies
• Prepares the annual programme of
activities for the Court of Audit.
• Prepares the Court’s annual report.
• Provides methodological and profes-
sional assistance to the Deputies of the Na-
tional Assembly and standing committees.

INTERNATIONAL RELATIONS

In performing its activity, the Court of
Audit relies on the principles of the “Lima
Declaration”, passed in 1977 at the IX
seminar of INTOSAI held in Lima, Peru,
as well as on the standards of INTOSAI.
Those standards have been translated into
Armenian and given to the members of the
Court. Using the standards of INTOSAI in
practice guarantees the objectiveness of
the Court of Audit toward the body being
audited.

In November 1998, at the XVI INTO-
SAI Congress held in Montevideo,
Uruguay, the Court of Audit became a
member of INTOSAI. And in May 1999 at
the meeting of the Governing Board of
EUROSAY, held in Paris, France, the Ar-
menian Court of Audit became a member of
EUROSAY.

Since its creation, the Court of Audit
has been cooperating with the correspond-
ing bodies and organisations of foreign
countries. It is authorised to sign coopera-
using the standards of INTOSAI in practice guarantees the objectiveness of the Court of Audit toward the body being audited.
tions agreements and to send its employees to work in other international audit bodies.

During these two years, relationships with the SAIs of other countries have been forged within the framework of the UNDP, as well as with the SAIs of the Netherlands, Italy, Spain, Belgium, Czech Republic, India, Slovakia, Cyprus and the Russian Federation.

In 1997, conferences were organised in Yerevan with the participation of international experts, in which the experiences of the SAIs of different countries were presented. Members of the Court of Audit also participated at the seminar “The role of SAI in governance” in Bratislava, organised by the UN.

In 1998, it broadened its international relations. In that year, the members of the Court of Audit participated in international seminars held by INTOSAI and the UN in Vienna and Budapest. At the invitation of the SAI of Italy, the delegation of the Court of Audit and the UNDP visited that country where specific programmes of cooperation were discussed with managerial staff. The Court of Audit also established relationships with the SAIs of Great Britain, Norway, China, Denmark, Iran, Egypt, Germany and other countries.

CONCLUSION

We hope that this article will allow readers to be more informed about the activities of the Court of Audit of the National Assembly of Armenia and that it provides a more accurate view of the work it is carrying out.

Although the Court of Audit is a newly created body, it has developed rapidly, and will continue to do so in the future.

We understand that the use of new methods and the introduction of changes, though a lengthy process, is nevertheless quite an experience. This is why we have chosen to introduce the changes gradually.

For that reason, it is very important for the Court of Audit to include in its short and long-term development programmes all the basic elements needed so that it can perform its task successfully.

We have no doubt that by increasing the quality and quantity of auditing and review activities, and having also the trust of the National Assembly and the other government bodies as well as of the media, then a cooperative and positive atmosphere will emerge.

Initial results clearly show that the Court of Audit is on the right track towards achieving its goals.

The use of new methods and the introduction of changes, though a lengthy process, is nevertheless quite an experience.
Functioning of the Supreme Audit Office of the Slovak Republic from the aspect of current social needs

The Supreme Audit Office of the Slovak Republic

Following the transformation of the economic and social area and other fields of social life, other entities (statutory institutions and bodies, funds, banking institutions etc.) have appeared that are handling public finances. And there are also communities (towns) which, apart from their own revenues, are recipients of tax collections and handle public funds and public property.

The political and economic changes that took place in our society at the end of the eighties and beginning of the nineties have been gradually reflected in the legislation of the state. The Constitution of the Slovak Republic, adopted in September 1992, established in Articles 60-63 the Supreme Audit Office of the Slovak Republic (SAO SR) under the system of supreme audit offices. For us, it was new type of state organ set up with the aim of assuring the consolidation and development of democracy through an independent audit institution that would ensure the interests of the state in the field of auditing and managing of public means. Act No. 39/1993 Coll. on the SAO SR introduced further modifications on the functioning of the body, the criteria of audit activity, creation of other bodies, means for remedying deficiencies found by audits, disciplinary penalties, framework of mutual rights and duties between SAO SR and the audited body and certain other issues, following the constitutional principles of the National Council of the Slovak Republic. This Act arose out of the effort to synchronise the legal regulation of social relations arising from audits conducted by the state in the financial-economic area with the current modification of these questions in EU countries, at the same time showing the maximum respect for the evolution and current situation of legal bodies that are valid in our system of law.

An objective evaluation of the last few years shows that there can be no denying the positive effect that the newly constituted state organ has had on the correspond-
munities (towns) which, apart from their own revenues, are recipients of tax collections and handle public funds and public property.

In INTOSAI countries, these public funds are normally audited by independent audit institutions. In our situation, however, it is reasonable for audits of public funds to be performed by internal control bodies and also by the state (the competent ministries), and it is in the public interest to allow these institutions to be audited by the SAO SR. Funds lawfully collected in favour of public institutions and other corporate bodies do not count as state budget revenues but they are similar in their nature and purpose because they are gathered and paid as taxes and other payments made in accordance with the law. So they are used as revenues from taxes for public consumption in the guaranteed state area.

A necessary assumption for broadening the role of the SAO SR is to change Article 60 of the Constitution of the Slovak Republic so that this state organ can audit the management of public means, public property, public property rights and liabilities.

And also it is necessary to broaden this audit role to those fields established by special law or international agreement. This could thereby lead to the creation of an area for independent performance audits on corporate bodies that handle funds coming from the international community (by means of aid, grants and other financial means) and institutions, which would be conducted by the SAO SR as an independent state organ.

The role of the SAO SR would be enlarged as a co-ordinating, methodical and training centre for audit activity. With that, a current need will be met, given that there does not exist any independent body in the Slovak Republic for carrying out these activities.

The modification of the appropriate articles of the Constitution would enable a major review to be undertaken of Act No. 39/1993 Coll. of the National Council of the Slovak Republic, in which not just the problems outlined above would be solved but so too would legislative modifications arising from current social needs. The final objective of legislative changes would be the creation of more regular legal assumptions for the functioning of the SAO SR within the system of Supreme Audit Offices.

A necessary assumption for broadening the role of the SAO SR is to change Article 60 of the Constitution of the Slovak Republic.