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On the occasion of the holding of the First Euro-American Conference, in Madrid on 16 February 2000, participating SAIs had the opportunity of sharing experiences and broadening debates on cooperation strategies in the current processes of integration y globalisation.

Right now, cooperation requires a new scope and a new impetus aimed at the construction of integration spaces –integration of controls– in which the goal is to strengthen professional ethics, to consolidate the transparency of public management, which is essential for achieving efficacy of control activity in this process of generating common zones of audit, and to relocate competencies (delocating them in order to then relate them from a joint perspective) at all levels of the Control Network so that each of them can act in line with the new scope, in other words, with the new space considered globally.

Within the dynamic of cooperation, and as far as actions performed by our Organisation are concerned, I would not wish to omit the advances made by the Working Group on the Environment and the first steps starting to be taken by our Training Committee.

In the former case, as you all know, the 4th EUROSAI Congress (Paris, June 1999) approved the creation of this Working Group, which is currently made up of 19 SAIs plus the European Court of Auditors. The Group has already had its first meeting and is planning to hold a First Seminar in the coming spring with the primary objective of achieving a regional audit programme for previously selected environmental areas.

As far as the Training Committee is concerned, its objectives are directed towards designing a Web page within the EUROSAI’s own site. This page is going to be used for the exchange of information in general and will offer the possibility of accessing training programmes designed by the different SAIs, of holding seminars on those subjects that have been specifically selected by the SAIs following an initial questionnaire, and of encouraging cooperation with IDI, primarily for the long-term development of the Regional Training Programme.

With the wish that the best results are obtained in the progress made by these common actions, it is worth while recalling that current processes require creative reactions and therefore a complex learning, in other words, learning that is on-going and done in the group.

Finally, I once again end by extending my very sincere gratitude to the authors for the way in which they have collaborated with the Secretariat of EUROSAI, by permitting a new edition of the Magazine of this Organisation thanks to the generosity of their contributions, and I would like to encourage everyone to carry on participating in this common objective, for which I place myself at your disposal for any help that you might require.

Ubaldo Nieto de Alba
President of the Spanish Court of Audit
Secretary General of EUROSAI
GENERAL CONCLUSIONS AND RECOMMENDATIONS
OF THE FIRST EURO-AMERICAN CONFERENCE
OF SUPREME AUDIT INSTITUTIONS

Presentation of the General Conclusions and Recommendations by the Members of the Court of Audit of Spain

Eliseo Fernández Centeno and Ramón Muñoz Álvarez

PREAMBLE

On the occasion of the 1998 INTOSAI Congress held in Montevideo, the interest which had previously been demonstrated in intensifying communication between the European Organization of Supreme Audit Institutions (EUROSAI) and that of Latin America and the Caribbean (OLACEFS), by holding a meeting between both regional groups, was made more concrete. This Spanish-American initiative was well received at the Prague meeting of the Executive Committee of EUROSAI in February 1999, at which the Secretary General of EUROSAI presented the initial proposal of the President of OLACEFS. In June 1999, in Paris, the Executive Committee of EUROSAI approved the proposal to hold a joint conference for reflection in Madrid, coinciding with the twenty-second meeting of the Executive Committee of the Organization, in February 2000.

This First Euroamerican Conference to study the cooperation of Supreme Audit Institutions (SAIs) in integration and globalization processes was held under the auspices of the Spanish Court of Auditors, and assembled representatives of the SAIs of EUROSAI and OLACEFS in Madrid, offering them the opportunity to share experiences and discuss the perspectives for collaboration and cooperation in these processes.

The bonds between the SAIs of EUROSAI and OLACEFS are long-standing, and are added to those that have sprung up through their shared participation in INTOSAI and its Committees and Working Parties.

SAIs have always recognized, as reflected in the Lima Declaration, that cooperation and the international exchange of ideas and experiences favor the performance of their functions within the postulates which proceed from INTOSAI, of independence, professionalism, the promotion of good financial management, and information to public authorities and citizens through the publication of objective reports.

At this time, this cooperation presents a new scope and needs renewed momentum, in light of the experiences of SAIs and of the new political, social and economic realities that surround them, which demand expanded efforts and updated activities from audits.

This First Euroamerican Conference of Supreme Audit Institutions sought a concrete rapprochement between our regions and allowed participating SAIs to discuss and share experiences, recognize new problems and challenges, promote investigation and discover new cooperation strategies, as reflected in the following General Conclusions and Recommendations, which are the result of the task of synthesizing the papers presented and the discussions of the different sessions:

GENERAL CONCLUSIONS

1) The convergence of values, principles and objectives that takes place in integration processes, as well as the growing levels of interdependence, present SAIs with new opportunities for collaboration, in their work of offering the proper control of public management that civil society demands in modern nations.

The European Union, its expansion towards Eastern Europe and the eastern Mediterranean region, the evolution of
closed systems towards open systems, the different processes of regional rapprochement in Latin America—such as those of MERCOSUR, the Andean Community and the Central American Integration System—have generated new spheres of action for the SAIs of Europe and America and have given a new dimension to their cooperation.

2) Cooperation among the SAIs of EUROSAI and OLACEFS, in the heart of INTOSAI, allows better advantage to be taken of the opportunities that have arisen with the new millennium, promotes the building of integrated areas and constitutes a strategy to strengthen ethics and consolidate the transparency in public management that is required by globalization.

3) Sharing the values of the political, economic and social changes that result from integration processes, based on the equality of rights and on diversity, places the SAIs of EUROSAI and OLACEFS before a perspective in which it is essential to develop cooperation strategies directed towards supporting the work of auditing and towards increasing the synergy derived from inter-regional association.

4) The complex process of globalization affects not only the internationalization of markets, information, technological progress, culture and demands in the matter of human, social and ecological rights, but also affects audits, and it requires the action of SAIs as an element of balance in the system of national authority, the attainment of the consent necessary for cooperation, and the quest for effectiveness.

The new scope of this cooperation is gradually appearing, in accordance with the level of integration in which SAIs act, and allows simultaneous cooperation Networks to operate among them, with different degrees of intensity.

5) In the new institutional areas that arise when integration processes, such as that of the European Union, further evolve, it becomes necessary to manage the cooperation between SAIs itself so that their actions in the integrated system may be effective at all levels, local or regional, national, supranational and global.

In the globalization process, public audits, in their new dimension, cannot be considered to be detached from the institutional sphere in which they are immersed, as the latter is decisive in effective organizations and procedures in open, democratic systems and those integrated into larger areas.

6) It is the role of SAIs to promote good financial management, so that it contributes not only to economic progress but also to social and ethical progress, and generates new procedures that anticipate the most appropriate organizational and public management models, which obliges the audit to exceed its formal role in order to evaluate the risks that the regulations...
themselves contain and to set itself up as an element that promotes efficient organizations and responsible procedures.

7) SAIs are broadening their spheres of action, quantitatively and qualitatively, both in supranational integration and in the decentralization of the respective national public sectors; and the detection of errors and of the responsibilities of public administrators in matters of organization, internal management and control methods at all the different levels of the audit Network is moving to the forefront.

The integration of audits into a Network constitutes the guarantee that the overall system will maintain its effectiveness, allow more current auditing reports to be prepared, delimit the risks resulting from organizations, procedures and regulations, and give greater importance to SAIs in their role as support to the respective Parliaments, with the transfer of results to help make audit regulations more homogeneous.

8) SAIs need to establish methods of cooperation to carry out an effective audit of the application of the aid that International Organizations channel in the international field, and go beyond the mere auditing of the economic contribution of each member Country.

OLACEFS and EUROSAI can set themselves up as catalyst Organizations which facilitate achieving the integration of the SAIs of Europe and America in audits of the application of international aid funds and in achieving the development plans of the respective countries, as well as their economic and social progress, through promoting audit clauses in contracts between nations and trade contracts between both continents.

9) In Latin America, where union processes have been initiated to different degrees, without having culminated in the creation of Audit Institutions, OLACEFS constitutes an appropriate arena so that the SAIs of participating countries can foresee audits to assume the new challenges of integration and globalization and promote the cooperation which will allow the most appropriate audit Network for each stage to be configured and prepared.

The rapprochement between EUROSAI and OLACEFS facilitates a new area of joint cooperation for their mutual enrichment and collaboration in matters such as audits of the environment, bilateral and multinational projects, international cooperation funds, public debt, fraud and corruption, privatization processes and the functioning of decentralized public sectors.

SAIs have an important responsibility in this integration, whatever their formal level and the methods for collaboration that are foreseen may be. It is the role of OLACEFS and EUROSAI to support those efforts and fulfill the specific function of converting their SAIs into promoters of the disclosure of audit demands on the operative state of regional integration agreements, promoting the study of means for performing their functions in a supranational sphere, and adapting the human, material and technological resources to the specialization of the job of auditing.

10) In integration processes that already have an Audit Institution, such as the European Court of Auditors, it is necessary to integrate the audit Network formed by said SAIs, those of the member Countries of the Union, and—where decentralization processes of national public sectors are carried out at the same time—those of the respective Regional Audit Institutions.

Concurrent auditing areas of the European Court of Auditors, national SAIs and, as the case may be, Regional Audit Institutions, require necessary cooperation in integration and decentralization so that the overall system can function effectively, with said Institutions transferring audit results to the respective Parliaments (European, national and regional), without malfunctions or duplications.

11) Cooperation in integration and globalization refers to all types of activities intended to encourage the independence and the professional status of SAIs and to improve the performance of their functions, without limiting themselves to the exchange of information and experiences, and constitutes an appropriate methodology for analyzing shared problems and solutions and anticipating the performance of joint initiatives in the auditing area.

In integration processes, it is necessary to identify new fields of auditing so that SAIs, at the different levels of the Network they form and acting in relation to the whole, define scopes, objectives and methodologies to overcome the “grey
area” of static cooperation and move to a
dynamic process of institutionalizing co-
operation, after the study and preparation
of criteria, regulations and directives in
which shared values are reflected.

12) It is the job of the regional Orga-
nizations to create conditions favorable to
beneficial cooperation with SAIs that have
evolved from closed to open systems, fos-
tering opportunities for technical interac-
tion and institutional approximation.

13) Coordination, in those Countries
where audits are decentralized and there are
Audit Institutions of a more limited scope
than a national one, must be oriented to-
wards avoiding malfunctions or duplica-
tions in concurrent auditing, towards
strengthening control, towards transferring
the results to the respective Parliaments to
improve decentralized public management
and towards having the results allow na-
tional SAIs to effectively program and car-
ry out coordinated audits on specific areas
of the management process of the public
sector as a whole, with results of interest to
the national Parliament and which would
allow possible responsibilities to be filtered.

The existence of Regional Audit Institu-
tions facilitates the evaluation of the effec-
tiveness of public management in all its man-
ifestations and, through the approprate
coordination, permits the effectiveness of the
system considered as a whole to be evaluated.

14) The European experience confirms
that promoting cooperation among SAIs
means respecting independence and the
different legal and auditing systems. SAIs
must give great importance to cooperation
and furnish sufficient resources to carry it
out, by means of the creation of specific
units in charge of the relationship with oth-
er SAIs and establishing agile communcica-
tion and information procedures.

Solid institutional relationships serve
as support to SAI cooperation Networks
and facilitate the analysis of common
problems and the formulation of concrete
proposals. Their development requires that new initiatives be explored, profes-
sional training resources be shared, ex-
change programs for public officials be ap-
proved, agreements be finalized when in-
ternational projects and organizations are
audited, and evaluations performed by
auditors of other SAIs be introduced as an
element to guarantee quality.

RECOMMENDATIONS

1) The rapprochement between EU-
ROSAI and OLACEFS should be
strengthened through seminars, confer-
ences and participation in acts pro-
grammed by both Organizations, in which
the creation of the conditions and climate
favorable to mutually beneficial cooper-
ation and the exchange of auditing experi-
ences should be sought.

For this rapprochement process, it
would be very advantageous to provide in-
formation about audit methodologies that
may arise in the integration processes of
the European Union to all the SAIs that are
members of EUROSAI and OLACEFS.

2) OLACEFS and EUROSAI should
play a coordinating role between the SAIs
of Europe and America, in order to bring
together the realities and problems of au-
diting and those that are of shared interest
for both Continents.

3) EUROSAI and OLACEFS should
promote research in audit matters, request-
ing the preparation of shared conclusions
backed by experience and making their re-
results known to the SAIs of both Organiza-
tions, once the common areas of interest
for several SAIs of Europe or America
have been defined.

4) OLACEFS and EUROSAI should
carry out studies to identify the areas of
action which have priority so that audits
performed by SAIs have a preventive ef-
fect on any distortion of integration and
globalization processes and can anticipate
and avoid possible errors. Both Organiza-
tions should promote joint regional actions
in matters of international importance,
such as globalization and its effects on ex-
ternal public control, strategic audit al-
liances or on the fight against corruption.

5) EUROSAI and OLACEFS should
strengthen cooperation through the design
and execution of training programs, the
transfer of technology and the exchange of
experts in specific areas, so that the expe-
rience of the most advanced SAIs may be
known, globalization possibilities may be
identified, working parties in specific mat-
ters may be created and liaison agents for
coopration may be designated.

6) OLACEFS and EUROSAI should
jointly organize and carry out forums for
discussion, analysis and reflection on audit matters of national, regional and international interest and importance, and promote permanent communication of the activities of the SAIs of both Organizations which are of shared interest, through professional magazines and newsletters, the Internet and e-mail.

7) EUROSAI and OLACEFS should promote innovative research, adapting, creating and perfecting concepts and methodologies, with the aim of making auditing effective in light of new organizational realities in the public sector.

Keeping in mind the aim of EUROSAI and OLACEFS and the objectives considered in their by-laws, both Organizations should promote the creation of auditing professorships at Universities, to strengthen research and knowledge of the respective methodologies.

8) OLACEFS and EUROSAI should promote cooperation among SAIs, within the framework of INTOSAI principles, both in the regional sphere itself in integration processes as well as in an intercontinental and global context.

MINUTES OF THE XXI EUROSAI GOVERNING BOARD MEETING

Paris (France), 15 November 1999

In the latest meeting of the Governing Board – Madrid on 16 February 2000 – it was agreed at the proposal of the President of EUROSAI to send the minutes of Board meetings to all member SAIs of the Organization in order to ensure that they are accurately informed. In this way, these minutes will not just be distributed but will also be published in the EUROSAI magazine. For this reason, the minutes of the 21st Meeting are included below, since this is a document that has already been approved by the Governing Board in its meeting in Madrid last 16 February, along with a synthesis of the 22nd Meeting of the Governing Board, the minutes of which will be published in the coming issue of the Magazine.

The EUROSAI Governing Board met in Paris, at the headquarters of the Supreme Audit Institution of France, on 15 November 1999; it held its XXI meeting with the participation of the members who appear listed in Annex 1.

1. APPROVAL OF THE AGENDA FOR THE XXI EUROSAI GOVERNING BOARD MEETING

Mr. Joxe, President of EUROSAI, opened the session. Then, the Agenda for the XXI EUROSAI Governing Board meeting was approved.

2. APPROVAL OF THE MINUTES OF THE XIX AND XX GOVERNING BOARD MEETINGS

The Minutes of the XIX and XX Governing Board meeting (Paris - 31 May - 3 June 1999) were approved. They are attached as Annex 2.

3. ANALYSIS OF THE REPLIES TO THE QUESTIONNAIRE ON TRAINING AND CONSTITUTION OF THE TRAINING COMMITTEE

3-1. The replies of EUROSAI members to the questionnaire on training which was sent on 4 August 1999 demonstrate that SAIs do not wish to set up a Training Centre. This position had already been drafted in the Governing Board meeting held in Prague, in February 1999. These replies confirm that in EUROSAI there is a real need of training on multiple areas and show the practically unanimous interest of

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*Annex 3 includes a note dated 3 November 1999, where appears a synthesis of the 36 replies to the questionnaire.*
the Members of the Organisation to set up a Virtual Resources Centre (Internet).

3-2. Considering the replies, the Governing Board agreed not to take into consideration the idea of setting up a Training Centre and to study future ways of cooperation in the field of training:

3-2-1. Following a proposal of the President of the SAI of Portugal, Mr. de Sousa, the Governing Board agreed to organise an exchange of training programmes between the members of EUROSAI.

The representative of the Bundesrechnungshof pointed out that, in Germany, the majority of training seminars is organised for the whole federal administration by a central body. Only a small number of specific training seminars is organised by the Bundesrechnungshof itself. Such information is, on the whole, not suitable for exchange.

3-2-2. The Governing Board considered the creation of an Internet Resources Centre on training issues.

In order to define the contents and the structure of this Internet Resources Centre, the Governing Board agreed that a working group made up of representatives of the members and observers Supreme Audit Institutions of the Governing Board would meet in January 2000 to draft a proposal to be presented to the Governing Board during the meeting that will be held in Madrid on 16 February 2000. These proposals will have to provide an answer mainly to the following questions:

– The contents of the Resources Centre.
– The kind of information on training that will include (internal training of SAIs; training organised by the SAIs of EUROSAI for SAIs of other countries; framework for the exchange of training, etc.).
– The structure of the Resources Centre.
– Who and how will manage and update the Resources Centre.
– Language or languages that will be used in the network of the Resources Centre. The members or observers of the Governing Board suggest different possibilities: only one language among the official languages, two languages selected by each SAI, all the official languages.

3-2-3. The working group will meet in January 2000 in Frankfurt. Before the meeting, the EUROSAI Presidency will send to the members and observers of the Governing Board a document to be used as a basis for the debate.

3-3. The President of EUROSAI pointed out that the actions of the Organisation should be co-ordinated with the projects already existing in the area of the European Union (setting-up of a database about the SAIs of the member countries of the Union) and with those of the area of the INTOSAI Development Initiative (IDI). The Supreme Audit Office of Norway holds the Presidency of said organisation.

Mr. Engeseth (Norway) said that EUROSAI is the only regional Institution that lacks of a Training Committee. The creation of such committee would make easier the co-operation with IDI. Likewise, he informed about the human and material resources that the SAI of Norway is going to make available to IDI.

4. OBJECTIVES OF THE ORGANISATION: REFLECTION ON ARTICLE 1 OF THE STATUTES

The Governing Board began a reflection about the objectives of EUROSAI mentioned in article 1 of the statutes of the organisation.

The President of EUROSAI said that this reflection about the statutes is closely related to the previous item of the Agenda, as there are references to issues of training and information in article 1 of the statutes (article 1.3 and 1.6). He pointed out that the objective of exchange of information is accomplished with the publication and distribution of EUROSAI magazine and Newsletter. However, he considered that these means are not sufficient, particularly, for all the members to be informed about the legislative changes in the field of audit as well as in the areas of organisation and operation of the respective Institutions. He also highlighted sections 1.4 and 1.7 of the

Meeting that the SAI of Germany has accepted to organise in Frankfurt.
statutes where EUROSAI appears as responsible for the study of subjects and problems related to public finances. EUROSAI could develop these two objectives through the WEB page that could be used to exchange information among SAIs about theoretical and university questions set out in the field of public finances.

Finally, and in relation to section 1.2 of the Statutes, Mr. Joxe highlighted the need of a greater co-operation among the regional institutions existing in the area of INTOSAI.

After a brief description by the members and the observers of the Governing Board of the relations of their respective SAIs with universities, the Governing Board considered the idea of carrying out an exchange of information on this subject.

5. INFORMATION ABOUT THE EUROSAIL-OLACEFS CONFERENCES. FEBRUARY 2000, MADRID

Mrs García-Crespo informed about some aspects of the organisation of the coming EUROSAI-OLACEFS Conferences, that will take place in Madrid on 17-18 February, immediately after the XXII EUROSAI Governing Board meeting that will be held on Wednesday, 16 February.

The SAI of Norway will provide written information about IDI during the EUROSAI Governing Board meeting and the OLACEFS Conferences.

Subsequently, the Governing Board meeting was adjourned.

SYNTHESIS OF THE DECISIONS OF THE 22nd GOVERNING BOARD OF EUROSIAI
(Madrid - 16 February 2000)

On 16 February 2000, the Governing Board met in Madrid. The minutes of that meeting will be approved in the next meeting of the Governing Board, to be held in Slovenia in 2001, when they will be distributed to all members of EUROSAI, as agreed by that Board. Nevertheless, it seems useful to inform readers of the Magazine of the main results of the meeting.

1. The Governing Board has created a EUROSAI Training Committee composed of eight SAIs: Germany, Denmark, Spain, France, Poland, Portugal, Czech Republic and the United Kingdom. Under the authority of the Governing Board, this new Committee will concern itself with all training matters, for which purpose it has already held two meetings: one in Copenhagen on 10 May 2000 and the other in London on 10 October 2000.

In order to attend to the tasks assigned to it by the Governing Board, the Training Committee has been divided into various working subgroups.

The first subgroup, made up of the SAIs of Germany, France, Poland and the Czech Republic, is preparing the initial training action that EUROSAI wishes to organise for its members, and it has arrived at some concrete results: this training action will be dealing with one of the topics most requested by the SAIs in the questionnaire that they were sent in the summer of 1999: “Computing techniques and auditing”. Conceived as an exchange of experiences aimed at seasoned auditors, this action is going to be held in Poland, very probably on the dates 20 and 21 February 2001.

A second subgroup of the Training Committee is working on the creation of web pages on training, to be housed by the Cour des Comptes of France, with a link to the web site of our Organisation, housed by the Tribunal de Cuentas of Spain. This subgroup is composed of the SAIs of Denmark, Spain and France. The dummy for these web pages has now been defined and the project will be coming into operation shortly.

A third subgroup is in charge of cooperation between EUROSAI and the INTO- SAI Development Initiative (IDI). This cooperation was in principle agreed by the Governing Board de EUROSAI and has
been assigned to the Training Committee. This subgroup, made up of the SAIs of Norway, the future Secretariat if the IDI, Spain, France, Poland and the Czech Republic, has been making progress in this cooperation and has been preparing the bases for a Long-term Regional Training Programme (LTRTP) for EUROSAI. This is a wide-ranging programme whose content will have to be decided by EUROSAI. The search for funds to finance the programme is now underway.

2. The Governing Board decided to send SAIs a questionnaire on relations between them and universities, given that the promotion of such relations appears in Article 1 of the EUROSAI Statutes as one of the objectives that the organisation must pursue. The results of this questionnaire will be presented in the meeting of the Governing Board in 2001.

3. The SAI of the Russian Federation presented the Governing Board with a report on preparations for the 5th Congress, to be held in Moscow in 2002. The Governing Board decided that the subject for this Congress would be: “The role of the SAIs in control over the execution of State budgets”. The sub-topics have yet to be defined.

For the previous Congress (Paris, 1999) a seminar was organised a year beforehand (Lisbon, 1998). In the same way, the Governing Board has decided to organise a seminar prior to the Moscow Congress. The SAI of Poland will be hosting that seminar in 2001, the topic for which will be “Computing techniques in control by SAIs over the execution of State budgets”.

4. The Governing Board decided to organise a conference on the topic “The different scopes of control over public funds (national funds and Community funds)”. The SAI of Portugal has agreed to host this conference in Madeira. It will be held on 31 May and 1 June 2001. The preparation work for this conference, in which EURORAI will also be joining in, are already underway.

5. The SAI of Poland presented the Governing Board with the tasks carried out by the Working Group that it chairs, a group that it was decided to create in the 1999 EUROSAI Congress. Various meetings have been held, or are planned to be held (coordinating meetings in Bucharest in February 2000, meeting of the member SAIs of the Working Group in Warsaw in October 2000, and a meeting in Oslo in the spring of 2001). The many results of these works are going to be reported to the meeting of the Governing Board in 2001.

The next meeting of the Governing Board will be held in Slovenia in 2001.
NEWS ON EUROSAI MEMBERS

THE CHAMBER OF ACCOUNTS

OF THE RUSSIAN FEDERATION: NEW PRESIDENT

HAS BEEN APPOINTED

On April 19, 2000 the State Duma of the Federal Assembly of the Russian Federation appointed Mr. Sergey Vadimovich STEPASHIN to the post of President of the Chamber of Accounts of the Russian Federation for a period of six years.

Mr. S.V. Stepashin was born in March 1952 in the city of Port Arthur. In 1973 he graduated from the Leningrad Higher Political College of the Ministry of the Interior of the USSR, and in 1981 from the Military Political Academy named after V.I. Lenin, in Moscow. He is a Doctor of Law and Professor. Married with one son.

In 1973-1989 Mr. Stepashin served in the system of the Ministry of the Interior in the cities of Leningrad and Moscow. From 1989 to 1993 he was Deputy of the Supreme Soviet of the Russian Soviet Federative Socialist Republic (RSFSR), where he first headed the Subcommittee on Questions of Military Servicemen and then the Committee on Defence and Security of the Russian Parliament.

In the years of 1993-1998 Mr. Stepashin occupied high state posts in the Government of the Russian Federation: First Deputy of the Minister of Security, Director of the Federal Counter-Intelligence Service, Director of the Federal Security Service, Director of the Administrative Department of the Government Administration, Minister of Justice and Minister of the Interior of the Russian Federation, consecutively.

In 1999 S.V. Stepashin carried out supreme governmental functions, first as Member of the Presidium of the Government, First Deputy Chairman of the Government of the Russian Federation, and Minister of Interior, and after that, as Chairman of the Government of the Russian Federation.

After being elected to the State Duma of the Federal Assembly of the Russian Federation in December 1999 he became Chairman of the State Duma Commission on the Fight against Corruption.
The first International Conference on Internal Control was held in Budapest in 1997.

One of the main results of this first conference was that a second conference needed to be held for clarifying important question of management responsibilities in establishing and maintaining internal control systems.

The INTOSAI XVI Congress approved the programme prepared by the INTOSAI Internal Control Standards Committee, which constituted the basis of the second International Conference on Internal Control.

In order to plan for and implement this second international conference within the Internal Control Standards Committee, a Subcommittee was established to discuss and execute both the theoretical and the organisational tasks. The Subcommittee organised several working group meetings in the Hungarian State Audit Office’s training facilities in Velence.

We would like to mention that these Subcommittee meetings were attended by representatives from Austria, Belgium, the United States of America, the United Kingdom, Egypt, Lithuania, Hungary and the Russian Federation. A representative from the Supreme Audit Office of the Czech Republic also participated and, despite the fact that this organisation is not member of the INTOSAI Internal Control Committee, it actively participated in the preparation work for organising this second conference.

Approximately 200 participants from about 50 countries took part in the Conference, which was also attended by representatives of several significant international organizations: NATO, OECD, European Union, etc.

Dr. Árpád Gönez, President of the Republic of Hungary opened the conference. In his opening remarks he emphasised the importance of internal control for ensuring the efficient utilisation of public money.

Dr. Franz Fiedler, Secretary General of the INTOSAI, in his message sent to the conference, announced the significant importance of the Conference in the coordinating the development of internal controls.

Mr. Árpád Kovács, Chairman of the Internal Control Standards Committee, reported on the results of the first International Conference on Internal Control and on the importance and justification of holding the second International Conference on Internal Control.

Mr. Gene Dodaro, Principal Assistant Comptroller General of the US General Accounting Office, greeted the participants on behalf of top-level GAO officers and also emphasised the importance of internal control.

In the framework of the Conference the programme approved by the Internal Control Standards Committee was accomplished.

The excellent moderators, Dr. Kurt Grüter, Director of the Swiss Federal Audit Office, Dr. Václav Perich, Vice-President of the Supreme Audit Office of the Czech Republic, Mr. James R. Bonnell, Regional Inspector General of the US Agency for International Development, and Mr. Bernhard Kratschmer, Counsellor of the Austrian Court of Audit, performed their tasks at a very high level.

All the speakers invited to the conference represented a high quality and knowledge of their profession. Among others, Mr. Michel Herve, Chief of Cabinet to the European Union, Mr. Heinz Pfoest, Member of the German Federal Court of Audit, Mr. Boaz Aner, Deputy General Director of the State Comptroller’s Office of Israel, Mr. Toby Jarman, Assistant Inspector General for Audit of the US Agency for International Development, Mr. Pjotr Chernomord, Auditor of the Russian Chamber of Accounts, Dr. József Róoöz, Professor of the Budapest College of Economics. Some supplementary speakers also had the opportunity to present papers, such Mr. Graham Joscelync, Auditor General of the World Bank.

The presentations and the workshops that followed them greatly helped towards explaining management responsibilities in establishing and maintaining internal control.
controls. During these workshop discussions some new issues arose that drew attention to those problems and questions which the INTOSAI Internal Standards Committee will have to discuss and determine how best to deal with them.

The issues that possibly warrant additional study are:

• What is the significance of the Audit Committee? How is it functioning, and how does it ensure management responsibility in connection with internal control?

• Another question arose concerning the regulation of internal control of state-owned companies, mainly with regard to determining the management responsibility for establishing and maintaining internal controls.

• Some countries pointed out that there were problems in coordinating connections between external and internal audit, and what the role of management was in this respect.

• An important issue was how to regulate the adoption of compulsion in connection with internal controls from the viewpoint of management responsibilities and activities.

• Mention was made in several respects of how to ensure independence of internal control.

• A question arose in the form of a demand for a system to be worked out for protecting control data against hackers.

• The Russian Chamber of Accounts brought up an issue dealing with how to ensure the protection of auditors. It was recommended that the INTOSAI Internal Control Standards Committee should take steps to regulate the rights and protection of auditors in a separate declaration.

• Finally, there were several interesting questions on the possibility of modifying the INTOSAI Guidelines for Internal Control Standards. In connection with this issue the Conference resolved that any possible modifications will have to be discussed during the next INTOSAI Internal Control Committee meeting.

As part of the process of compiling the results of the Conference, the Internal Control Standards Committee determined the implementation of the following recommendations and the execution of the following activities:

1. A task force will be established, led by the US General Accounting Office, which will produce a document for managers summarising the most important requirements of management responsibilities in establishing and maintaining internal control activities.

2. The Hungarian State Audit Office, the organisation hosting the two conferences on internal control, will prepare a summary including the entire text of each speech and all the comments made by the moderators and supplementary speakers. This detailed summary will be sent to all INTOSAI member countries.

The next meeting of the INTOSAI Internal Control Standards Committee will deal with the issues that were raised during the Conference. The question on producing a declaration on protection of auditors has already been passed on to the Secretary General of INTOSAI by the Committee. The other important issue on the protection of control data against hackers was forwarded to the Chairman of the INTOSAI EDP Committee.

We would like to thank the US Agency for International Development for providing the equivalent of $2000 for helping the Hungarian State Audit Office in connection with hosting the 2nd International Conference on Internal Control.

SEMINAR OF THE SAIS OF THE RUSSIAN FEDERATION AND GERMANY

On 11 April 2000, a seminar was held on Moscow on “Cooperation between Parliament and the Accounts Chamber for the preparation, execution and control over the execution of State Budgets”.

K.M. Karmokov, former President of the Accounts Chamber of the Russian Federation, explained on behalf of that Institution the unique system of controlling the execution of State budgets and the differ-
ent facets of cooperation between the Accounts Chamber and the Federal Assembly within this system.

The President of the Federal Court of Audit of Germany, Hedda von Wedel, gave a speech titled “The role of the Court of Audit of Germany in preparing the draft State budgets and in controlling their compliance. Models of cooperation with Parliament”.

Following that speech, Juta Tize-Stehir, President of the Auditing Sub-Committee of the Budgetary Committee of the German Bundesrat, focusing on the topic of the role of Parliament in drawing up, executing and controlling the State Budgets.

Participating in the debate were the area chief auditors of the Accounts Chamber of the Russian Federation: V.G. Panskov, M.I. Besjmelntsyn and I.G. Dajov, who, in that order, referred to the following topics: the problem of strengthening operational control over tax revenues of the Federal Budget; improving the control activities carried out in response to requests from the Chambers of the Federal Assembly; and the efficiency of the recommendations made by the Accounts Chamber of the Russian Federation as a result of controlling the execution of the Budget in terms of non-budgetary state funds and final budgetary state funds, during the years 1998-1999.

Having drawn up the conclusions of the Seminar, the Delegation from the Federal Court of Audit of Germany held an interview with G.Y. Semiguin, Vice-President of the State Duma of the Russian Federation, and with A.D. Zhukov, President of the Budgetary and Fiscal Committee of the Duma.

In the bilateral seminar held in Moscow on 22 and 23 June 2000, experts from the Accounts Chamber of the Russian Federation and their colleagues from the National Audit Office of the United Kingdom held an exchange of experiences from the viewpoint of control over executing the budget for tax revenues.

During the seminar a total of 16 reports and speeches were presented.

In their respective papers, the two chairmen of the seminar – V.G. Panskov, member of the Accounts Chamber of the Russian Federation and Tim Berr, head of the British delegation and Comptroller and Assistant Auditor of the National Audit Office (NAO) of the United Kingdom – described the tax systems and legal frameworks for tax gathering in the two countries, emphasising the role of the SAIs as far as control over compliance with fiscal legislation is concerned.

During the course of this exchange, the area chiefs of the Russian Accounts Chamber referred to the problems that they have had to tackle in organising that control when it comes to tax gathering and they explained the tax system existing in the autonomous regions of the Russian Federation. They also delved into other topics such as the methodology for calculating the tax basis; refunds and the effective collection of taxes; compliance by banks with the rules of collaborating with the Public Treasury; the gathering of federal taxes in the field of foreign trade and in relation to public goods; and the organisation of cooperation among the control, fiscal and financial bodies and the Treasury in order to make it possible to execute the federal budget for tax revenues.

British participants focused on the problems of the practical administration of the tax system and made an in-depth study of the details of audits that have to be conducted when tax management is computerised, the auditing of budgetary revenues and the different types of control on these audits, including the rendering of accounts to Parliament.

In the interview that the delegation from the NAO held with S.V. Stepashin, President of the Accounts Chamber of the Russian Federation, the future lines of bilateral relations between the SAIs of both countries were marked out.

RUSSIAN-BRITISH SEMINAR IN MOSCOW
The European Court of Auditors (ECA) has welcomed four new Members to its institution from March 1, 2000 for a term of six years. They are Mr. Robert REYNDERS (Belgium), Mr. Juan Manuel FABRA VALLÉS (Spain), Mrs. Máire GEOGHEGAN-QUINN (Ireland) and Mr. Vítor Manuel da SILVA CALDEIRA (Portugal):

• Mr. Robert REYNDERS has been a Director and a Member of the Board of the National Bank of Belgium since 1991, including responsibility for the bank’s Inspection and Audit Division and Statistics Department. Before this he worked as Head of the Private Office of the Federal Minister for the Budget from 1988 until 1990. He has been a Committee Member at the European Central Bank for implementation of the EURO from 1991 until 1999.

• Mr. Juan Manuel FABRA VALLÉS was a Member of the Spanish Parliament from 1982 until 1994. From 1991 until 1994 he was Member of the Western European Union’s Parliamentary Assembly. He has been a Member of the European Parliament since 1994, and Member of the Committee on Foreign Affairs, Security and Defence Policy, a Member of the Committee on Budgets from 1994 until 2000 and Member of the Committee on Budgetary Control from 1994 until 1999 (including Rapporteur on the 1997 budget of the European Union).


• Mr. Vítor Manuel da SILVA CALDEIRA has held various positions at the Portuguese Ministry of Finance since 1984, and most recently as Deputy Inspector General of Finance at the Inspectorate General from 1995 until 2000. His specific responsibilities have included co-ordination of the European Community controls and internal control system of the Portuguese State’s Financial Administration. He has participated in various working groups of the European Community for the protection of the financial interests of the European Union.

In addition, Mr. Jørgen MOHR (Denmark), Mr. Giorgio CLEMENTE (Italy), Mr. Aunus SALMI (Finland) and Mr. Jan O. KARLSSON (Sweden), Members of the Court of Auditors, whose term of office expires on February 29, 2000, have had their mandates renewed from March 1, 2000 until February 28, 2006. Mr. Jan O. KARLSSON’s term of office as President of the ECA continues until January 2002.

In accordance with the Treaty, these Members of the European Court of Auditors were appointed by the Council of the European Union in its decision of December 17, 1999, having acted unanimously.
after consulting the European Parliament. The Members of the Court are independent in their functions representing solely the interest of the European Community.

The Treaty confers upon the European Court of Auditors the main task of auditing the accounts and the implementation of the budget of the European Union, with the dual aim of improving financial management and reporting to the EU citizens on the use made of public funds by the authorities responsible for their management.

The European Court of Auditors in its new composition has adopted the allocation of its audit and other responsibilities between the Members. This new organisation chart is available on the Court’s Internet site: http://www.eca.eu.int/EN/coa.htm.

The new Members of the European Court of Auditors gave a solemn undertaking on their independence and integrity before the Court of Justice during its formal sitting on Wednesday March 8, 2000 in the presence of the other Members of the ECA and representatives from other institutions.

THE EUROPEAN COURT OF AUDITORS ON A WORKING VISIT TO THE ALGEMENE REKENKAMER

Mr. Jan O. KARLSSON, President of the European Court of Auditors (ECA) and Mr. Maarten B. ENGWIRDA, Dutch Member of the ECA, accompanied by Mr. Chris KOK, Director of the Department for External Relations of ECA, visited the Algemene Rekenkamer, the Dutch national audit body, on Monday February 14, 2000.

The ECA’s delegation were received by Mrs. Saskia J. STUIVELING, President of the Algemene Rekenkamer, Mr. Peter Zevenbergen, Member of the Algemene Rekenkamer and Mr. Tobias WITTEVEEN, Secretary General of the Algemene Rekenkamer.

In accordance with the Treaty on the European Union, the European Court of Auditors is to carry out its audits in liaison with the national audit bodies and/or the competent national departments. In this context, the following topics were discussed during the meeting:

- the role and powers of the Algemene Rekenkamer relating to the EU revenue and expenditure;
- the ECA’s recent audit reports;
- Possible closer co-operation of the Algemene Rekenkamer with the ECA in the context of the ECA’s Statement of Assurance and the perspectives of the coming Intergovernmental Conference (IGC).

WORKING MEETING WITH MRS. MICHAELE SCHREYER, COMMISSIONER RESPONSIBLE FOR BUDGET, AT THE EUROPEAN COURT OF AUDITORS (ECA) ON MARCH 23, 2000

On March 23, 2000 Mrs. Michaele SCHREYER came to the headquarters of the European Court of Auditors on Kirchberg for a working meeting.

During this meeting, Mrs. SCHREYER and the Commission delegation had the opportunity to exchange views with the President, Mr. Jan O. KARLSSON and the Members of the Court in its new composition as well as with senior staff of the Court.

The purpose of the meeting was to discuss the reform of the European Union’s Financial Regulation which the Commission is preparing for adoption by
the Council. In view of the objective, shared by both Commission and the Court of Auditors, of optimising the protection of the financial interest of the European Community, the European Commission needs to strive, through fundamental reform of the Financial Regulation, for more efficient (“best practice”) financial management, speedier payment systems, greater accountability and all in all, better value for money. Please see the Opinion 4/97 of the ECA on the matter for further details.

MEETING OF THE LIAISON OFFICERS OF THE SUPREME AUDIT INSTITUTIONS OF THE EUROPEAN UNION IN LUXEMBOURG
ON 3 AND 4 OCTOBER 2000

This year, after a meeting in Brussels in May, the Liaison Officers met once again on 3 and 4 October 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 Luxembourg on 21 and 22 November 2000.

The meeting was conducted in two phases, the first devoted to the work of the Liaison Officers and the “ad hoc” Working Groups and concentrating more particularly on: a) co-operation with candidate countries, where Mr. Jacek Mazur of the Polish Chamber of Control and Mr. Rein Söörd of the State Audit Office of Estonia gave a presentation of the state of play of the Working Group; b) the co-ordinated audit of State Funds.

The second part was dedicated more particularly to parallel audits on the management of Structural Funds, the intergovernmental Conference, the reform of Financial Regulations and the state of play of the implementation phase of a digital network between SAIs of the EU Member States and the ECA under the TESTA Community programme.

WORKING VISITS TO CANDIDATE COUNTRIES

In view of enlargement, the European Court of Auditors aims to improve and intensify further the co-operation with the Supreme Audit bodies of the candidate countries. In accordance with the Treaty on the European Union, the ECA is to carry out its audits in liaison with the national audit bodies and/or the competent national departments. Moreover, the setting-up of national internal control systems and the audit of EU funds to candidate countries requires closer co-opera-
Working Visit to the Hungarian State Audit Office (SAO) on May 12-15, 2000

Mr. Jan O. Karlsson, President of the European Court of Auditors (ECA), lead a delegation from the Court of Auditors on a visit to the Hungarian State Audit Office (SAO) in Budapest on May 12-15, 2000.

The ECA’s delegation was received by Dr. Arpad Kovacs, President of the Hungarian State Audit Office, Mr. Istvan Sandor and Dr. Lazlo Nyikos, Deputy Presidents of the SAO.

Mr. Karlsson’s delegation also met representatives of the Auditing and Integration Committees of the Hungarian Parliament, discussing, among other points, the follow up of audit observations and the transposition and implementation of the body of EU law ("acquis communautaire").

Mr. Peter Gottfried, State Secretary for Integration of the Hungarian Ministry of Foreign Affairs, received the ECA’s delegation in order to exchange views on the negotiation process. The ECA delegation also met Ms. Ibolya David, Minister of Justice, as well as Mr. Imre Boros, Minister responsible for the Government co-ordination of the PHARE programs, in order to discuss, among other topics, the implementation of the PHARE programme.

Working Visit to the Polish Supreme Chamber of Control on April 3 and 4, 2000

Mr. Jan O. Karlsson, President of the European Court of Auditors (ECA), accompanied by his Head of Cabinet Mr. Michel Herve and Mr. Chris Kok, Director of the Department for External Relations of ECA visited the Polish Supreme Chamber of Control (SCC), the Polish national audit body, on April 3 and 4, 2000.

The ECA’s delegation was received by Mr. J. Wojciechowski, President of the Polish Supreme Chamber of Control (SCC), Mr. Jacek Uczkiewicz and Mr. Zbigniew Wesołowski, the Vice-Presidents of the SCC.

The President of the European Court of Auditors, Mr. Jan O. Karlsson also met the President of the Republic of Poland, Mr. Aleksander Kwasniewski together with Mr. J. Wojciechowski, President of the SCC in the afternoon of April 3, 2000.
EUROPEAN COURT OF AUDITORS ON A WORKING VISIT TO THE ESTONIAN STATE AUDIT OFFICE (SAO) ON SEPTEMBER 4-5, 2000

Mr. Jan O. KARLSSON, President of the European Court of Auditors (ECA) and Mr. Maarten B. ENGWIRDA, Member of the Court, lead a delegation from the Court of Auditors on a visit to the Estonian State Audit Office (SAO) in Tallinn on September 4-5, 2000.

The delegation met Mr Tunne KELAM, Vice-speaker and the Chairman of the European Affairs Committee of the Riigikogu (Parliament), and Mr Kalle JÜRGENSON, Chairman of the Finance Committee of the Riigikogu discussing, among other points, the follow up of audit observations.

The ECA delegation also met Mr Siim KALLAS, Minister of Finance, to discuss the implementation and the internal control of EU funds in Estonia.

MEETING OF THE WORKING GROUP OF SAIS OF CENTRAL AND EASTERN EUROPE, CYPRUS, MALTA AND THE ECA IN RIGA

At their meeting in Prague last year in October, the heads of the above mentioned SAIs decided to create a working group that should follow-up the implementation of the recommendations concerning the functioning of SAIs in the context of European integration and the active approach of SAIs with regard to accession. This working group, which is under the chairmanship of the Presidents of the Estonian and Slovenian SAIs, Mr Juhan Parts and Dr. Vojko Anton Antoncic, met for the first time in Riga on 4th and 5th April 2000. Representatives of the EU Contact Committee Working Group and SIGMA were also present at the meeting.

The objective of the working group is to monitor in the first place the implementation of the recommendations and to exchange experiences SAIs have made. It should also report specific problems with the implementation of the recommendations and give if possible further recommendations to SAIs. Last but not least should the working group prepare a means to communicate the needs of the SAIs to other SAIs so that technical assistance projects could be identified and ideally launched.

In order to reach these ambitious objectives, the working group decided during this meeting to split-up its task into four areas and to nominate two co-rapporteurs for each of these areas. The areas and co-rapporteurs are:

- Implementation of the recommendations of the meeting of Presidents in Prague on the functioning of SAIs in the context of European integration Co-rapporteurs: Poland-Cyprus
- Implementation of audit standards, audit manuals and audit methodology Co-rapporteurs: Czech Republic-Malta
- The active role of SAIs in the process of enlargement Co-rapporteurs: Latvia-Bulgaria, assisted by the ECA
- Needs assessment of SAIs for co-operation with Member States SAIs and Technical assistance Co-rapporteurs: Hungary-Romania, assisted by the EU Contact Committee Working Group and SIGMA
The results of this working group will be discussed at the next meeting of the working group in October 2000 in Prague, before the report will be presented to the heads of the above mentioned SAIs at their next meeting in December 2000 in Sofia.


On 21 November 2000, the Heads of the Supreme Audit Institutions (SAIs) of the Member States of the European Union gathered in Luxembourg for their annual meeting, presided over by Mr. Jan O. KARLSSON, President of the European Court of Auditors (ECA).

The Contact Committee meets annually, alternating between Luxembourg and the capital city of another Member State. The 1999 meeting was held in Dublin.

The meeting was conducted in two phases.

• The first part was devoted to the “ad hoc” Working Groups and their discussion centred on:
  – co-operation with the candidate countries;
  – the parallel audit of Structural Funds management (creation of a working group);
  – the co-ordinated audit of State Aid;
• In the second part, the meeting discussed audit of state-owned companies and the Intergovernmental Conference (IGC), particularly the exchange of information and the examination of Member States’ proposals.

Group Photo of the Meeting of the Contact Committee of the Supreme Audit Institutions of the European Union, Luxembourg 21 November 2000.
The Presidents of the SAIs of Albania, Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia and the European Court of Auditors met on 7 and 8 December 2000 in Sofia. The objective of the meeting was this time twofold as the annual meeting of the Presidents were linked to the official ceremony of the 120th anniversary of the first Bulgarian Audit Act.

The first part of the meeting was dedicated to the discussion of the report on the implementation of the recommendations adopted by the Presidents at their previous meeting in Prague. A working group chaired by the Estonian and Slovenian SAIs had prepared this report. Mr Juhan Parts, Auditor General of the Estonian State Audit Office, and Dr. Anton Antončič, President of the Slovenian Court of Auditors, presented the observations and recommendations of the working group. Other contributions from the Bulgarian SAI, Romanian SAI, the representative of the working group of the EU Contact Committee, EUROSAI, IDI, and SIGMA illustrated the progress and the deficiencies in implementing these recommendations. After discussion, the Presidents agreed to create two new working groups: one to assist in the preparation and implementation of audit manuals and the another to initiate action on specific audit activities. These two working groups will provide concrete assistance to the practical implementation of the recommendations of Prague.

The second part centered on more general and political aspects of auditing in the European and international context. Presentations from Ms Michaele Schreyer, Commissioner of the EU, Dr Franz Fiedler, Secretary General of INTOSAI, Mr Jacques Magnet on behalf of Mr Pierre Joxe, President of EUROSAI, Mr Tim Burr, Deputy Comptroller and Auditor General of the United Kingdom National Audit Office, and Mr Maarten B. Engwirda, Member of the European Court of Auditors, laid the foundation for an interesting panel discussion which was led by Mr Jan O. Karlsson, President of the European Court of Auditors. The panel discussion was followed by the adoption of the recommendations.

The second day were closed with the official ceremonies for the 120th anniversary of the first Bulgarian Audit Act. Dr Georgi Nikolov, President of the Bulgarian National Audit Office invited the participants to an evening about the history and future of the Bulgarian Audit Office and the traditions of the Republic of Bulgaria. The following day the participants also had the possibility to visit the old town of Plovdiv and the Bachkovo Monastery, two important sites for Bulgarian history.

Further meetings of the Presidents will be held 2001 in Cyprus and 2002 in Romania.
1. THE COMMONWEALTH OF MUNICIPALITIES IN AUSTRIA

The concept of commonwealth of municipalities applies solely to those administrative bodies which have their own legal capacity and undertake certain tasks on behalf of the Municipalities they represent, but under their own responsibility. According to article 116.a. of the Constitutional Act of the Federal State of Austria such commonwealths can be created either on the basis of juridical foundations or on the basis of the free wishes of the municipalities in question, and the responsibilities and undertakings transferred to them can be of a sovereign nature (e.g., tax gathering) or they can have a private economic content (e.g., water supply). The transfer of such responsibilities cannot lead to the very existence of the municipalities being brought into question. It is therefore inadmissible to transfer all their undertakings and responsibilities to one or several commonwealths.

2. CONSTITUTION AND ORGANISATION

The constitution of commonwealths of municipalities, in other words, the fundamental decision on the tasks and undertakings of municipalities that are going to be transferred, or which can be transferred as the case might be, are determined according to the general distribution of powers between the Federal State and the different provinces. If the Federal State has the power to legislate, it will be able to transfer certain tasks and authorities to the municipalities and, in so doing, provide that these municipalities can form commonwealths in order to guarantee compliance of the tasks entrusted to them.

According to the provisions on the distribution of powers determined by the Constitutional Act of the Federal State of Austria, it falls to the latter to issue regulations relating to the civil status of citizens and to nationality. By means of the appropriate legislation, the Federal State has, with respect to those powers, provided for the possibility of municipalities forming themselves into commonwealths so that they can better comply with the undertakings transferred to them.

For their part, the regulations relating to social welfare must be issued by the provinces. The Federal State of Upper Austria (Oberösterreich) has provided in this respect that the powers relating to this must (with three exceptions) be held at the regional level by commonwealths of municipalities.

The organisation, in other words, the regulation of the organs and structures of commonwealths of municipalities, is the exclusive concern of the autonomous legislating authority. Pursuant to the Constitutional Act of the Federal State of Austria, the necessary provisions must be issued relating to assemblies of commonwealths, to the powers of the president of the commonwealth, and (to the degree that commonwealths of municipalities have been constituted by means of agreements) the entry into and leaving of the commonwealth and its dissolution. Assemblies of commonwealths are made up of representatives of municipalities which, irrespective of their size or importance, have been granted the right of co-decision. Similarly, the representatives of municipalities formed into the commonwealth, who are elected by a vote, must perform their duties themselves, and any possibility of their being represented by, or of their du-
ties being performed by, other officials or employees of the State is rejected outright.

The president of the commonwealth has a category similar to that of the mayor of a municipality: he represents the commonwealth, he chairs the assemblies and meetings of it and of other associations, he acts as the main person in charge of the employees, etc. The establishment of other administrative bodies is at the discretion of the autonomous legislating authorities. Certain of these authorities provide that the management of the commonwealth is performed by a president and a small group of officials.

The main tasks of the commonwealths of Austrian municipalities consist of the creation and running of hospitals, schools, water supply utilities, pipelines, refuse disposal, assurance of social welfare, local health policy activities, matters related to the civil status and nationality of citizens, management of health, pensions and retirements, and prevention of accidents among employees and mayors of municipalities.

In 1980 there existed 295 commonwealths of municipalities in Austria. Since then, their number has multiplied: the data bank of the Austrian Court of Audit currently records the existence of more than 2,000 commonwealths (as of August 1999).

<table>
<thead>
<tr>
<th>Commonwealths for refuse collection</th>
<th>86</th>
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<tbody>
<tr>
<td>Commonwealths for tax gathering</td>
<td>14</td>
</tr>
<tr>
<td>Commonwealths for running of hospitals</td>
<td>3</td>
</tr>
<tr>
<td>Commonwealths in charge of health</td>
<td>436</td>
</tr>
<tr>
<td>Commonwealths for social welfare</td>
<td>52</td>
</tr>
<tr>
<td>Commonwealths in charge of civil status</td>
<td>248</td>
</tr>
<tr>
<td>Commonwealths of civil registers</td>
<td>248</td>
</tr>
<tr>
<td>Commonwealths of schools</td>
<td>326</td>
</tr>
<tr>
<td>Commonwealths for water supply (elimination of sewerage, prevention of floods and swells, water supply)</td>
<td>522</td>
</tr>
<tr>
<td>Other commonwealths</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,005</td>
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* 305 commonwealths according to Austrian legislation on water, to which can be added not just the municipalities, but also other entities or bodies.

3. COMMONWEALTHS OF MUNICIPALITIES AND THE COURT OF AUDIT

Since the passing of the reform of the Federal Constitutional Act of 1948, it falls to the Court of Audit to conduct audits on the accounts of commonwealths of municipalities, with application – mutatis mutandis – of the provisions in force for the auditing of accounts of municipalities with more than 20,000 inhabitants (large municipalities). In this case, the Court of Audit acts as an organ of the autonomous parliament of the province in which the particular commonwealth of municipalities being considered has its headquarters. The powers of the Court of Audit extend to all the commonwealths of municipalities, without it being necessity for any particular large municipality to be a member of it.

As well as the commonwealths themselves, the Court of Audit must also audit the foundations, institutions, funds and companies in which those commonwealths, either on their own or together with other bodies subject to the control of the Court of Audit, have at least a 50% holding in the share capital, the subscribed capital or the capital itself of those companies, and of companies in which the commonwealth has a dominant position from the financial, economic or organisational point of view.

4. SUBJECT OF THE AUDIT

The auditing and control powers of the Court of Audit extend to the financial management of the appropriate commonwealth of municipalities. According to the Constitutional Tribunal of Austria, “financial management” is to be understood as “behaviour that goes beyond the simple handling of financial means and which has repercussions of a financial nature”. As this behaviour is applicable de facto to any administrative action, the exercise of the broadest powers by the Court of Audit is thus made legitimate.

5. AUDIT AND INSPECTION OBJECTIVES

The objectives of auditing set down in the Federal Constitutional Act are the same as for inspections made of the Federation,
the provinces, the municipalities and the commonwealths of municipalities, and they extend to checking the accuracy of arithmetical calculations, checking the compliance of existing regulations, checking the economics, the efficiency and the efficacy.

When one talks about the accuracy of the arithmetical calculations, one is making reference to the historical starting point that gave rise to the birth of auditing. The verification of the degree to which the management accords with the existing standards aims to check that the administration in Austria solely acts in accordance with the laws (principle of legality). The legal stipulations constitute directives guiding the actions of the Administration and they represent the standards on which the Court of Audit conducts its work.

The criterion of economy refers to the minimisation of spending; the criterion of efficiency seeks to achieve the best possible relation between income and spending, and efficacy pursues the optimisation of tasks and undertakings that have to be performed. These criteria constitute a unit that has to be interpreted within the framework of the relationship between objectives and means. They authorise the Court of Audit to exercise the broadest control over the actions and activities of the administration: the available resources must be employed in such a manner that – depending on the objectives that it is sought to attain – they provide the utmost usefulness that can be achieved.

6. INSPECTION MEANS AND PROCEDURES

The law concerning the Court of Audit lists the following as control instruments: the requirement of information, the handing over of accounts ledgers, receipts and any other document, the right to turn to experts and also – as the most important means and the one with the greatest practical relevance – in situ inspection by the bodies of the Court of Audit.

In accordance with the distribution of powers of the Court of Audit, the auditing of commonwealths of Austrian municipalities is currently conducted by seven departments. One of these is responsible for school commonwealths, two are responsible for hospital commonwealths, two are concerned with commonwealths of water supply, refuse and sewerage treatment, and another is in charge of the remaining commonwealths.

In the case of in situ inspections, the concerned commonwealth is notified of the control one or two months in advance. Once the audit is completed, the appropriate report setting out the results obtained is drawn up and passed on to the president of the commonwealth within a period of three months, so that he can issue his opinion in this regard and so that it can serve as notification of the measures adopted.

The report, the president’s statement and the reply from the Court of Audit are all then handed on to the Regional Government and to the Federal Government. The audit procedure ends with the publication of an abridged version of the results of the report, bearing in mind the statement and the reply, which must be presented before the plenary session of the commonwealth. Until that moment, the results and reports on audits conducted are confidential.
INTRODUCTION

Between 1984 and 1996, United Kingdom Governments carried out a programme of privatisation that transferred substantially the whole of the telecommunications, gas, water, electricity and rail industries from public to private ownership. At the same time they created a regulator for each privatised industry to protect customers of privatised companies from potential abuse of their monopoly position.

WHO ARE THE REGULATORS?

Before the first major privatisation, of British Telecommunications in 1984, the Office of Fair Trading (established in 1973) were responsible for overseeing the protection of consumers and the enforcement of competition law in the UK economy as a whole. They still retain this role, and indeed are being encouraged to be more proactive, but with the privatisation of the utilities and rail came the formation of bodies dedicated to the regulation of specific industries, as detailed in Table 1.

WHY REGULATORS WERE CREATED

The utility companies were privatised as monopolies or near monopolies, either on a national basis, as in the case of telecommunications, gas and railway infrastructure, or as regional monopolies (water and electricity). In the absence of regula-

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<thead>
<tr>
<th>Industry</th>
<th>Name of regulator</th>
<th>Date created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>Office of Telecommunications (OFTEL)</td>
<td>1984</td>
</tr>
<tr>
<td>Gas</td>
<td>Office of Gas Supply (OFGAS)</td>
<td>1986</td>
</tr>
<tr>
<td>Water</td>
<td>Office of Water Services (OFWAT)</td>
<td>1989</td>
</tr>
<tr>
<td>Electricity</td>
<td>Office of Electricity Regulation (OFFER)</td>
<td>1989</td>
</tr>
<tr>
<td>Rail</td>
<td>Office of the Rail Regulator (ORR)</td>
<td>1993</td>
</tr>
<tr>
<td>Postal services</td>
<td>Postal Services Commission (Postcomm)</td>
<td>2000</td>
</tr>
</tbody>
</table>

1 The Postal Services Commission has been created in shadow form. It will regulate the Post Office, which is still in public ownership.
tion, such companies would be in a strong position to exploit their monopoly power. Customers would be unable to change their supplier if prices were too high or if quality of service was too low. Also, monopolies suffer from limited incentives to operate efficiently, whether they are in public or private ownership, until competition can be introduced to provide a market incentive to operate efficiently. And even when competition is introduced, dominant companies may act in an anti-competitive manner.

The regulators were created, therefore, to protect the public from the risk of such abuses. Each Act of Parliament privatising an industry specified the duties and functions of the regulator it created. These duties and functions are not the same for all regulators, but generally similar principles apply:

- to protect customers of the privatised utility companies from exploitation of monopoly power, where it exists; this includes protection in respect of price and quality of service, promotion of economy and efficiency in production, and protecting equal access to services for different groups of customers;
- to facilitate or promote the development of effective competition in their industry, including the enforcement of competition law; and
- to ensure regulated companies are able to finance their activities.

Some regulators have additional duties. The electricity regulator, for example, has a duty to promote efficiency in the consumption of electricity, and the rail regulator has a duty to promote use of the rail network. To carry out all these duties and functions, regulators have a range of powers, many of which derive from the licences that allow regulated companies to operate, most notably the power to order a company to take action required to comply with its licence. By monitoring companies’ compliance with licences, regulators are able to gain assurance that they are meeting their own objectives and duties.

**NATIONAL AUDIT OFFICE EXAMINATIONS OF THE REGULATORS**

Since 1993 the National Audit Office have examined how effectively the regulators meet their duties and exercise their functions (Table 2).

Such a wide range of duties and functions across so many regulators means that in each year the National Audit Office have to choose which aspects of the regulators’ work should be covered. The National Audit Office therefore draw up a work programme by identifying important areas of regulation that may warrant an investigation. The National Audit Office focus in particular on subjects where they can add value for Parliament, customers of regulated companies, and the regulators themselves.

**THE NATIONAL AUDIT OFFICE APPROACH TO EXAMINATIONS OF THE REGULATORS**

In approaching the audit of the economic regulators, the National Audit Office strive to:

- focus on outcomes for the customer, society and the environment;
- add value by identifying improvements to the regulatory process;
- keep pace with developments so as to direct their scrutiny to topics where it would be most valuable; and
- maintain and develop sufficient skills to meet each of these three challenges.

Some examples of this approach follow.

The primary focus of National Audit Office studies is on the outcomes the regulators achieve. For example, the National Audit Office’s report in 2000 on the rail regulator examined how well he ensures that the railways are maintained and renewed. Railtrack is the company that owns and operates the rail network, and has a duty under its licence to maintain and renew the network. The National Audit Office therefore focused on how well the rail regulator does his job, which is to ensure Railtrack meet their duty, and not on how well Railtrack did their job. Through doing so, the National Audit Office were able to identify ways in which the regulatory process could be improved.

The National Audit Office can add value by identifying ways in which the regu-
The National Audit Office can add value by identifying ways in which the regulator’s approach to achieving regulatory objectives can be improved, in a practical and cost-effective manner.

The range of duties and functions that a regulator must perform calls for a wide range of specialist skills (legal, statistical, economic and accounting) in each regulatory office.

### TABLE 2 - Published National Audit Office reports on the regulators

<table>
<thead>
<tr>
<th>Regulator</th>
<th>Date</th>
<th>Title</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>OFTEL</td>
<td>1993</td>
<td>Licence Compliance and Consumer Protection</td>
<td>Licence compliance</td>
</tr>
<tr>
<td>OFGAS</td>
<td>1996</td>
<td>The Regulation of Gas Tariffs: The Gas Cost Index</td>
<td>Price controls</td>
</tr>
<tr>
<td>OFWAT</td>
<td>1997</td>
<td>Regulating and Monitoring the Quality of Service Provided to Customers by the Water Industry in England and Wales</td>
<td>Quality of service</td>
</tr>
<tr>
<td>OFTEL</td>
<td>1998</td>
<td>Countering Anti-competitive Behaviour in the Telecommunications Industry</td>
<td>Enforcing competition law</td>
</tr>
<tr>
<td>OFFER</td>
<td>1998</td>
<td>Improving Energy Efficiency Financed by a Charge on Customers</td>
<td>Environmental protection</td>
</tr>
<tr>
<td>OFGAS</td>
<td>1999</td>
<td>Giving Customers a Choice - The Introduction of Competition into the Domestic Gas Market</td>
<td>Promoting competition</td>
</tr>
<tr>
<td>OFTEL, OFGAS, OFWAT, OFFER</td>
<td>1999</td>
<td>How the Utility Regulators are Addressing the Year 2000 Problem in the Utilities (plus an update report)</td>
<td>Security of supply</td>
</tr>
<tr>
<td>OFT</td>
<td>2000</td>
<td>Protecting the Consumer from Unfair Trading Practices</td>
<td>Protecting consumers</td>
</tr>
<tr>
<td>ORR</td>
<td>2000</td>
<td>Ensuring that Railtrack Maintain and Renew the Railway Network</td>
<td>Monitoring investment</td>
</tr>
</tbody>
</table>

Lator’s approach to achieving regulatory objectives can be improved, in a practical and cost-effective manner. A methodology commonly used is to survey regulated companies and customers for their views and experiences on the impact of regulation. For example in preparing the 1999 report on gas competition, the National Audit Office surveyed customer awareness of their choice of gas supplier, and their experience of changing gas supplier, which provided valuable evidence on how the regulator can help to improve the information available to customers.

Rapid technological advances and market structural change are now a feature of the regulated industries, most notably telecommunications, and both the regulator and the auditor must keep pace with developments. For example, in 1999 the National Audit Office produced two reports on how the regulators were addressing the Year 2000 problem in their industries. And the restructuring of markets to permit competition has been the theme of several recent National Audit Office reports.

...
mists and statisticians, in addition to its traditional core skill base of accountants, or by appointing consultants for expert advice. For example, the National Audit Office appointed engineers to assist on the report on the rail regulator, and specialist competition economists and lawyers in the 1998 examination of how the telecommunications regulator tackles anti-competitive behaviour.

In addition, reports on the regulators contribute to the National Audit Office corporate target of generating savings of £8 for every £1 the Office spends. The 1998 study on the electricity regulator’s scheme under which electricity companies help their customers use electricity more efficiently led to recommendations that saved customers £2.8 million in 1999, more than ten times the cost of the study. And the recommendations contributed to the extension of the scheme, and to further savings rising to some £25 million a year from April 2000.

NATIONAL AUDIT OFFICE FINDINGS FROM AUDITING THE REGULATORS

As a result of the reports listed in Table 2, the National Audit Office have provided Parliament with a solid base of knowledge and experience of how regulators work, the issues they face and how these issues can be addressed. This experience is useful in a number of ways:

• Comparative examinations of the approaches of a number of regulators on a particular issue allow the National Audit Office to identify areas of best practice and areas of weakness in the approach of one or more regulators. For example, the examination of how the regulators addressed the Year 2000 problem identified areas where all regulators would benefit from a common approach to the independent checking of regulated companies’ systems readiness by consultants.

• Examining how one regulator has dealt with a subject provides a platform for examining how other regulators tackle the same problem. Having already reported on how the gas regulator introduced competition into the domestic electricity supply market,

• Knowledge and experience of how other regulators tackle a problem is useful in making recommendations to the regulator being examined, even when the National Audit Office have not previously carried out an examination directly related to that problem. For example, knowledge of how the water regulator use independent reporting engineers to verify information from regulated companies pointed to a recommendation as to how rail regulator could secure similarly reliable information from a regulated company.

REACTION TO NATIONAL AUDIT OFFICE REPORTS

The National Audit Office’s primary audience are the Public Accounts Committee of the House of Commons, which report to Parliament on how well government departments spend their money. The Committee have appreciated the reports on the regulators, and have welcomed the opportunity to question regulators at parliamentary hearings, on the basis of National Audit Office reports. Reports also receive wide coverage in the press and media. Regulators themselves welcome National Audit Office reports that add value.

The findings in National Audit Office reports have also influenced Government, regulators and consumers. The 1996 report on all of the regulators, for example, was notable because it was the first comprehensive review of the activities of the regulators of its type, and the Government acknowledged the value of its findings in the subsequent review of utility regulation. The regulators have accepted the recommendations made in all of the reports to date. And the 1999 report on the gas regulator emphasised the financial savings which consumers could make, simply by switching to a different gas supplier.

As part of the INTOSAI Working Group on the Audit of Privatisation, and an active member of EUROSAI, the National Audit Office have contributed to INTOSAI’s development of a set of guidelines for auditors of regulatory organisations. The Working Group was greatly assisted in this work by other Supreme Audit Institutions, who responded to a survey of the audit of
economic regulation in 1999, and who assisted in developing draft audit guidelines with their comments, and with examples of experience of auditing regulators around the world. The draft guidelines are now available on the Working Group’s website [http://www.nao.gov.uk/intosai/wgap.home.htm].

**FUTURE NATIONAL AUDIT OFFICE WORK ON THE REGULATORS**

Part of the challenge for the National Audit Office in the future will be to add value in an environment where the regulators are now well established - the telecommunications regulator was established over 15 years ago for instance. The regulators have a better understanding of the companies they regulate, and the techniques and conventions of regulation are now well established. But as long as National Audit Office reports continue to add value, regulators will welcome them.

While some industries that were monopolies at the time of privatisation have opened up to competition, regulation remains important, and regulators must monitor developments to ensure that competition is effective. And some parts of the regulated industries will always be monopolies, requiring the attention of regulators. Legislation currently passing through Parliament will add to the duties of at least some of the regulators, in particular by increasing their duties towards the consumer. Also, the Government have merged the offices of the gas and electricity regulators, to reflect the fact that a number of companies operate in both these industries, and are creating new regulators, such as the Postal Services Commission to regulate the postal industry.

These changes present the National Audit Office with both challenges and opportunities. The National Audit Office will continue to aim to produce reports that provide Parliament with valuable information on the way regulatory powers are used, while helping the regulators themselves, through assisting the spread of good practice, helping the industries they regulate, and the consumers they protect.

In preparing this article, I have been greatly assisted by the National Audit Office’s economic regulation team, most notably Simon Banner and Chris Shapcott.

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**The Audit of complex IT infrastructures**

MIKE GILBERT  
Audit Manager  
UK National Audit Office

Mainstream financial audit staff deliver most of the IT audits undertaken by the UK National Audit Office (UK NAO). However, the UK NAO also has a group of around 20 specialist IT auditors who undertake complex IT audits and provide advice and guidance to both financial and value for money audit specialists. This article looks at how and why the UK National Audit Office has entered into a three year partnership with Ernst & Young, a leading firm of chartered accountants, to develop our specialist IT audit skills and extend our audit coverage to reviews of complex IT infrastructures.

**INTRODUCTION**

The UK National Audit Office has recently let a three year contract with Ernst & Young to undertake a series of audits of the Inland Revenue’s IT infrastructure. The purpose of the contract is to audit the way in which EDS (UK) Ltd, the Inland Revenue’s IT partner, manages complex infrastructure services on their behalf. These audits, which are an integral part of the UK NAO’s IT audit of the Inland Revenue, cover capacity, interface, network and change control management across...
ICL, IBM, UNIX and NT platforms. The main focus of our programme of IT audits supports our examination of the regulations and procedures used by the Inland Revenue to assess and collect tax and our examination of the Department’s financial accounts. We therefore obtain assurance that the Department’s business critical systems are available when required, process information securely and with integrity.

EXTENDING OUR AUDIT

Until recently, our IT audit of the Inland Revenue included annual reviews of the operation of the main computer installations, business critical applications, IT and data security and the development of new applications and systems. However, the Department’s increasing reliance on complex interrelated IT systems, the introduction of electronic service delivery, paperless trading and the modernising government initiative has led the UK NAO to extend their audit coverage to the management of the risks associated with the Department’s IT infrastructure. This is because the proper functioning of business critical systems requires the complete and accurate transfer of information between related applications, data centres and local offices and effective control over key management procedures such as capacity and change management.

THE CONTRACT WITH ERNST & YOUNG

The principal aims of this contract are for the UK NAO and Ernst & Young to undertake the required audits in partnership together. This means that, although Ernst & Young have full responsibility for delivering these audits to the required standard, NAO staff are working with them in the planning and execution of key audits and in the delivery of the final reports. Consequently, under the terms of the contract, Ernst & Young have undertaken to provide both training and support to UK NAO staff and to share their knowledge and techniques with them under licence. In return, UK NAO staff working with Ernst & Young have acquired a base level of expertise in IT audit and are willing to undertake further study or training as required.

Working together, both parties hope to use the best of private and public sector practices to add value to their knowledge bases and audit techniques and, in addition to obtaining assurance about the proper operation of the tax systems, provide a stream of internal high quality reports containing recommendations for Inland Revenue management.

Audits under this contract are being conducted in accordance with UK Accounting Practices Board statements and Information Systems Audit and Control Association (ISACA) statements and standards. Audits are also required to have regard to COBIT objectives and to best practice as defined the UK Central Computer and Telecommunications Agency (CCTA) in their Infrastructure Library (ITIL) series of publications, where relevant.

Participation in the audits covered by the contract is not restricted to UK NAO staff working on the audit of the Inland Revenue. We have offered other NAO staff the opportunity to work with Ernst & Young and have also extended this opportunity to the Inland Revenue’s own Internal Audit service. In discharging our obligations under the contract, both the UK NAO and Ernst & Young wish to ensure that the public service receives the maximum benefit for the sums invested.

Both parties have recognised that, for the contract to work as intended there needs to be full and open communication between them. This involves liaison officers on both sides and protocols for resolving any differences constructively and quickly. The success of the contract also depends upon the Department and EDS having confidence in the contractor’s ability to safeguard the confidentiality of their information and conduct the work to appropriate professional standards in away that minimises disruption to the Department and EDS (UK) Ltd.

On security and the confidentiality of information, Ernst & Young have undertaken a number of measures to ensure that their working practices are secure and have had these accredited by the Inland Revenue’s Departmental Security Unit. These measures include the re-vetting of all staff working on the contract, the registering of all documents received, the storage of all papers under lock and key and the use of all staff working on the contract, the registration of all documents received, the storage of all papers under lock and key and

The principal aims of this contract are for the UK NAO and Ernst & Young to undertake the required audits in partnership together.
the dissemination of a bespoke security policy to all staff working on the contract.

To ensure that each audit goes as smoothly as possible, the UK NAO has established liaison points within both the Department and EDS (UK) Ltd who co-ordinate activity within their own organisations and channel any concerns via the UK NAO liaison officer. This not only allows for the timely resolution of requests for information and problems by both sides, it also provides for full and open communication between auditors and auditees; which is a pre requisite for success in a contract such as this.

Consequently, both the Department and EDS (UK) Ltd contributed to an induction day for Ernst & Young which gave them the background to the Department, its contract with EDS (UK) Ltd and other useful information prior to the start of work. For their part, Ernst & Young have agreed to: share audit programmes with EDS (UK) Ltd prior to the start of work; keep them regularly informed of progress and emerging issues as the audit proceeds; present the findings of the audit prior to the drafting of the report; and, to issue the final report in draft for comment. Ernst & Young have also agreed to give significant notice of any intended penetration testing; including the use of specialised software. This is to ensure that EDS (UK) Ltd have the opportunity to test any software prior to use and to arrange for “cloned” systems and data to be made available for testing.

Ernst & Young have allowed for flexible working, to ensure that: innovative techniques are used when required; work programmes are tailored to the individual circumstances of each audit; and, that work is undertaken, where possible, at times that are convenient to EDS (UK) Ltd. This, together with the NAO UK’s policy of involving both the Department and EDS (UK) Ltd as observers in key stages of the procurement process, has led both these parties to adopt an open and constructive attitude to this work.

TIPS FOR OTHERS WISHING TO REPEAT THIS EXERCISE

Letting this contract has been a complex operation and was conducted with the advice of KPMG. It involved a survey of the Department’s entire IT operation and the infrastructure which links it together. This was a major undertaking that took over nine months to complete and required a significant amount of co-operation from both the Department and EDS (UK) Ltd. This was forthcoming from the outset mainly because: the exercise was explained to our clients in detail prior to the start of work; it was carefully planned from the start, and thus reduced the load on third parties to a minimum; and, because it undertook to present the information collected in a way which would be useful to EDS (UK) Ltd and the Department.

Once the survey had been completed, the drafting of the Invitation to Tender was relatively straightforward. To ensure that the cost of individual assignments was tightly controlled, the ITT provided sufficient technical and other material to allow bidders to make a fixed price bid for each of the assignments on offer. This was only possible due to the Inland Revenue’s agreement to make this information available. To protect the confidentiality of the Inland Revenue’s systems unsuccessful tenderers were required to return all tender documentation and certify that they had retained no copies on any media. Bidders were also given the opportunity to ask the NAO, Department and EDS questions prior to the submission of tenders and the Department and EDS also attended post tender presentations to the UK NAO. Finally, the UK NAO ensured that neither party had any objections to the letting of the contract to the eventual bidder.

The tender process was, therefore, time consuming and complex. Other SAIs wishing to let a similar contract should not underestimate the time needed to complete this phase of the procurement exercise.

The key to a successful contract of this nature is, therefore, agree the concept with client departments and their outsourcing partners at the outset, allow plenty of time for the preparation of the ITT and the technical annexes which accompany it and keep interested third parties informed of developments. When drafting the Invitation to Tender it is often helpful to look beyond the immediate tasks to be achieved and consider how the contract can be designed to allow for a skills transfer so that the commissioning authority is in a posi-

Both parties have recognised that, for the contract to work as intended there needs to be full and open communication between them.

Ernst & Young have also agreed to give significant notice of any intended penetration testing; including the use of specialised software.

Letting this contract has been a complex operation and was conducted with the advice of KPMG.
The Accounting Chamber of Ukraine regards expansion as one of the main factors contributing to the development of that institution. During the three years in which the Chamber has existed, its specialists have participated in numerous international seminars focused on the problems of controlling and auditing of accounts, held in Poland, Hungary and the Russian Federation. Work visits have also be made to the USA, France, Bulgaria, Hungary, Poland, the Russian Federation and Moldavia in order to learn the valuable experience of these countries, so necessary for the young Ukrainian SAI.

The Accounting Chamber of Ukraine has carried out a considerable task of organisation in order to establish working relations with the SAIs of France, Bulgaria, the Russian Federation, Latvia, Lithuania and Moldavia. These relations enable us to expand our cooperation, share professional experience and train our staff.

By becoming a member of the international organisations of SAIs – INTOSAI and EUROSAI – the Accounting Chamber of Ukraine found itself included in a well-coordinated and controlled system of professional exchanges among auditors at the world level. Since its initial steps, the Accounting Chamber of Ukraine has felt supported and served by the executives of INTOSAI and EUROSAI, as well as by the collegiate audit bodies of a great many countries. We have established contacts with the coordinators of international technical aid programmes and the representatives of foreign organisations in Ukraine, in particular with the executives of the European Union’s TACIS Programme and the UN development aid programme. We have reached aid agreements with them for the training of the Chamber’s employees, as well as for receiving advice and information.

On the occasion of his recent visit to the Chamber, Leonid Kuchma, President of Ukraine, rated very highly the contribution made by this institution to such topics as budgetary control and the efficient management of public funds.

Bearing in mind the experience of other countries, the Accounting Chamber of Ukraine is working on the creation of an

*International contacts of the Accounting Chamber of Ukraine: becoming wider and wider*

VALENTIN SIMONENKO

President of the Accounting Chamber of Ukraine

By becoming a member of the international organisations of SAIs – INTOSAI and EUROSAI – the Accounting Chamber of Ukraine found itself included in a well-coordinated and controlled system of professional exchanges among auditors at the world level.
information and analysis system for control over compliance with the State budget. On this point we are not just basing ourselves solely on world practice; we are also making use of technical innovations coming from within the country. So, the automated computing system currently used by the Accounting Chamber of Ukraine provides our technicians with the possibility of quickly and efficiently processing large amounts of information related to the activities of assessment, analysis, and auditing of accounts, in such a way that they are capable of solving very complex economic problems. Apart from serving as an instrument of analysis for the budgetary process, this system also constitutes a guarantee of transparency, glasnost, of the State’s budgetary policy. The Accounting Chamber of Ukraine has, within the framework of the information and analysis system just mentioned, prepared and implemented a systematised method for the storage and conservation of operating information of an economic, financial, statistical and socio-political nature of up to 950 Gb. This technology fully accords with modern technical standards and international regulations, as well as with the norms governing intellectual property rights.

Even though there exists a certain juridical framework on which the Accounting Chamber of Ukraine bases its activities, we cannot consider that the liabilities for failing to comply with the legal requirements of the Chamber are sufficient. At this moment we cannot directly bring to justice those people who refuse to provide information requested by the Chamber. Nor do we have the right to apply measures of an administrative nature. Apart from the judicial power, the Ukrainian legislation reserves these competencies solely for a small group of what are known as the de facto powers such as the Ministry of the Interior and the State Security Service.

If the Chamber’s inspectors were able to issue reports on administrative offences and make charges in a court of law, then we would not have to beg for information like we have to do now. In the case of a refusal, we could issue a warrant of infringement and go to court so that it can decide on the sanction to be imposed. The Accounting Chamber of Ukraine is currently working on a draft bill which, if it becomes law, would grant us those powers.

There is another unsolved problem that concerns the Chamber: the problem of repairing the damage caused to the State budgets. So, over the period 1997-1999 the Accounting Chamber passed on 25 audit reports to the State Attorney’s Office for a sum of damages totalling 200 million grivnas. Nevertheless, that Office filed suits for 4.5 million, just 2.5% of the total abuses that were detected. This means that the system that grants the State Attorney’s Office the main role in recovering diverted public funds is not functioning. In this regard, the Supreme Council of Ukraine has already approved a first reading of a series of amendments that are radically going to change the competencies of the Accounting Chamber.

Most of the Accounting Chambers of other countries would not find anything novel in these examples. Nevertheless, for the Accounting Chamber of Ukraine the adoption of each juridical norm contributing to its activities means a milestone on the path being taken towards perfecting its control over the management of public funds.

The Chamber’s database is continually being added to with documents of a legal and methodological nature thanks to the fruitful work being carried out by our foreign colleagues.

The data that we receive on electronic medium from the National Bank, the Finance Administration, the Public Treasury and ministries and departments, as well as organisations and bodies of a private nature or otherwise, are distributed to the 134 work stations of the Chamber, depending on the competencies of each employee.

In January 2000 the Chamber of Commerce of Ukraine inaugurated its Web (www.ac-rada.gov.ua) which informs citizens of how the State budget is being complied with and the work being carried out by the Ukraine SAI. This is a further step towards intensifying our ties with other Courts of Audit and for strengthening professional links that join Ukrainian auditors with our colleagues in other countries.

Our relations are traditionally strong with the auditors of neighbouring Poland. One of the first visits abroad made by the
President of the Accounting Chamber of Ukraine was indeed to that country, at the invitation of Mr. Janusz Wojciechowski, President of the Supreme Accounting Chamber of Poland. One of our first cooperation agreements was the one that we signed with our Polish counterparts. Within the framework of this agreement, whose content is constantly being renewed, we are carrying out exchanges of delegations and information.

A reciprocal interest led us into establishing contacts of friendship and professional cooperation with the Court of Audit of Bulgaria. During the interviews, the President of that Court informed us of his desire to share information, methodologies, experience and control activities, and even to conduct joint audits in a crossed fashion. He was above all interested in the proposal for cooperation within the framework of the Agreement of member countries of the Parliamentary Assembly of the Economic Community of Black Sea. The Cooperation Agreement that we signed with the Court of Audit of Bulgaria enables us to exchange delegations, experiences and information. The visit to Bulgaria in June 2000, paid by the delegation of the Accounting Chamber of Ukraine, headed by the Secretary of the Office, Mr. B. Khropatiy, was very complete and pleasant. The Accounting Chamber of Ukraine is currently still putting into practice the different clauses of that Agreement which we consider has a very good future.

Our agenda of joint activities with foreign colleagues is now much busier than it used to be in previous years. Very close contacts have been established with the SAI of Sweden (RRV). In February 2000, and with the aid of the representative of the Swedish International Institute of the State (SIPU) in Ukraine, Ms. K. Falander, the Accounting Chamber of Ukraine held a seminar on the topic: “Assessment of the efficiency of public auditing. The Swedish auditing model” with the participation of the Audit Directors of the RRV, Messrs. N. Anqlerud and G. Arnell, members of a group of advisors who are working on administrative reform in Ukraine. Their aid programme to our country grants an important place to the Accounting Chamber which, according to them, can and must contribute to the administrative reform being carried out in Ukraine.

The Swedish specialists, who at all times took an interest in the practical results of the seminar, started their work with a study of the activities of the Accounting Chamber of Ukraine and later on reported to listeners on the activities and authorities of the SAI of Sweden, sharing with us their experience in the field of controlling and analysing revenues and spending of the State budget and offering practical recommendations to their Ukrainian colleagues.

Specialists from the Accounting Chamber of Ukraine participated in a training course titled “Assessment of the functioning of public organisations” given by the RRV and SIPU in Kiev in March 2000, which was then continued in Sweden during May and June of this same year. Ms. Inga-Britt Ahlenius, Auditor General of Sweden and President of the INTOSAI Committee for auditing standards, provided the Accounting Chamber of Ukraine – a recent member to that Committee – with numerous data for being studied and applied in the Chamber.

The activities of the Accounting Chamber of Ukraine within the INTOSAI Committee for auditing standards started with the invitation extended by Arpad Kovacs, President of the SAI of Hungary and of the INTOSAI Committee for internal control standards, for a representative from the Chamber to take part in the 2nd International Conference of INTOSAI in May 2000, held in Budapest.

Our fruitful collaboration is continuing with the General Accounting Office (GAO) and the Technical Assistance Office of the Treasury Department of the US. In March 2000, we held a series of seminars in the Accounting Chamber of Ukraine, along with these two institutions, on the topic of “Viability and budgetary analysis”, with the participation of Mr. V. Zafra, the standing representative in Ukraine for budgetary affairs.

In July 2000, the Accounting Chamber of Ukraine held a seminar titled “Auditing of public aid programmes for agriculture” with the participation of Messrs. D. Wolden and D. Jones, specialists in the study of problems in the agrarian sector in the US. Topics were debated related to aid programmes for farmers in the US and their possible introduction into Ukraine. A draft of the audit plan was prepared focused on...
the management of public funds intended for Ukrainian farmers by way of compensation for having used the credits of private banks that had been financing a range of agricultural activities. The outcome of the seminar was the presentation of that project.

In June 2000 a delegation of the Accounting Chamber of Ukraine, headed by its President, Mr. Valentin Simonenko, visited Moscow at the invitation of Mr. Sergey Stepashin, President of the Accounts Chamber of the Russian Federation. The visit by the Ukrainian delegation was of a constructive kind and was in response to the interests of both countries with regard to the study of the details of financial auditing, the role of the Ukrainian and Russian Accounting Chambers in their respective societies and their place in the system of public powers. Members of the Ukrainian delegation had the opportunity to get to know and study a series of special methods and procedures used by the Accounts Chamber of the Russian Federation. The most important outcome as a result of this visit was the decisive advance made in the creation of an agreement between the two institutions and the agenda for future cooperation was defined. During the course of a sincere dialogue our Russian colleagues were informed about the working principles applied in the Accounting Chamber of Ukraine.

With the aim of strengthening and developing the friendly and professional relations between the Accounts Chambers of Russia and Ukraine, their Presidents signed a joint action paper having the aim of tightening the financial discipline in their common fields. This document opens up an important stage in the creation of an Agreement that will bind two good neighbours together.

The Accounting Chamber of Ukraine is continually working with representatives of the UN, the European Commission and other international organisations housed in Ukraine, drawing up projects for joint action. The Ukrainian auditors have taken their first steps towards establishing personal and professional contacts with their colleagues in India and China, countries with which we are tied by reciprocal interests in professional exchanges. The outlook for international contacts by the Accounting Chamber of Ukraine, one of the youngest SAIs in the world, is expanding day by day.

The outlook for international contacts by the Accounting Chamber of Ukraine, one of the youngest SAIs in the world, is expanding day by day.

The Court of Audit of the Grand Duchy of Luxembourg

The control by the Court of Audit thus refers to the performance, i.e., the economy, efficacy and efficiency of budgetary execution, but it cannot pronounce on the appropriateness of the spending. Indeed, in a democratic state, the appropriateness of spending will always depend on the different political choices made by citizens and their representatives in Parliament. The right to judge on the appropriateness – in other words, on the need and even the utility of spending – is theirs and theirs alone.

1. HISTORICAL BACKGROUND

The old Audit Chamber, founded in 1840 by Royal Decree, exercised control over all financial operations of the State and for that purpose it had the power to refuse the settlement of expenses. So, it used to conduct a prior audit of State spending (system for the supervision of payment orders), examining the documents for checking the legality and regularity of the spending before proceeding to its payment, though after the commitment had been made to the spending.
However, the actual efficacy of a system of prior auditing becomes threatened at the moment in which no systematic control is exercised over the spending commitment. Moreover, by means of the practice of prior supervision of payment orders, the Audit Chamber became involved in each expenditure made by the State, a situation that deprived the auditor of the possibility of making overall qualitative observations a posteriori regarding the proper financial management of public funds.

In carrying out its work, the old Audit Chamber was relatively dependent on the executive power. It was directly involved in the “internal” control of the State’s financial operations and it came under the Government, both with regard to the provision of budgetary resources and concerning the recruitment of its personnel.

Such close ties between the auditor and the body being audited therefore represented a obstacle when it came to exercising qualitative control over the entire financial operations of the State, as is practised in the majority of Member States of the European Union. So, the recent Act of 8 June 1999 assigned to the Court of Audit external control which now refers not just to the legality and regularity of spending but also the proper financial management of public funds.

The control by the Court of Audit thus refers to the performance, i.e., the economy, efficacy and efficiency of budgetary execution, but it cannot pronounce on the appropriateness of the spending. Indeed, in a democratic state, the appropriateness of spending will always depend on the different political choices made by citizens and their representatives in Parliament. The right to judge on the appropriateness — in other words, on the need and even the utility of spending — is theirs and theirs alone.

Nor does it need stating that such a reform has in turn required essential modifications with regard to the internal control carried out in ministerial departments, and in particular it has required the introduction of an efficient control as well as of the power of supervision of spending, both at the commitment phase and the payment phase. In fact, it was basic to establish a clear separation between internal financial control on the one hand, which is for the Government to organise and carry out, and external financial control on the other, which has to be undertaken by the Court of Audit so that, in the financial management system of the public sector, an overall concept of the auditing function can be made a reality, in which this function takes precise account of the internal controls and inspection systems on the one hand, and the external control entrusted to the Court of Audit on the other.

2. STATUTE, COMPOSITION AND FUNCTIONING OF THE COURT

Set up by article 105 of the Constitution, modified in 1999, the Court of Audit is organised and exercises its functions pursuant to the provisions contained in the Organic Act of 8 June 1999.

The Court is composed of five members, namely: a president, a vice-president and three councillors.

The Grand Duke appoints the members of the Court from among a shortlist of three qualified candidates presented by the Chamber of Deputies for each vacant post. The members of the Court are appointed for a period of six years. Appointments cannot be renewed.

The members of the Court of Audit may not hold other public offices, whether or not elective, nor may they directly or indirectly participate in any company, supply or business having interests opposed to those of the State.

The Court adopts its decisions collectively. Its work programme, the annual general report, special reports, internal rules for the execution of the budget, its spending forecasts and its internal regulations are all approved by a majority of the members making it up. All other decisions of this collective organ are adopted by a majority of the members present in the meeting of the Court, with the attendance of at least three members being required. In the event of a tie, the president has the casting vote.

The internal regulations adopted by the Court must be approved by the Chamber of Deputies.

3. PERSONNEL OF THE COURT

In the performance of its functions, the members of the Court of Audit will be as-
sisted by around forty agents from the higher, middle or lower professional echelons of the State.

The recruitment of personnel will be done within the limits of the organisation chart and the framework of personnel approved by the Chamber of Deputies.

The Court of Audit will likewise be able to turn to outside experts, who will act under the authority and responsibility of the Court.

4. FINANCIAL ENDOWMENT OF THE COURT

Each year, the Budget for State Revenues and Spending establishes the funds assigned to the Court of Audit in view of the forecasts produced by the latter body.

This arrangement is intended to guarantee the independence of the Court of Audit with respect to the Executive Power, given that the Court has to audit the latter’s accounts. Also, when setting the financial endowment of the Court of Audit, the Chamber of Deputies can make sure that the Court has a sufficient size of staff.

The Court’s accounts are audited each year in conformity with the categories determined by the Chamber of Deputies. The settlement of the Court’s accounts is done jointly with that of the accounts of the Chamber of Deputies.

5. SCOPE OF THE COURT’S CONTROL

The Court of Audit audits the financial management of the organs, administrations and services of the State.

The Court of Audit also has the authority to audit public corporations, always provided that they are not subject to any other financial control provided for by law.

Finally, public corporations and private bodies and private individuals who are beneficiaries of public financial aid intended for a specific objective shall be able to be submitted to the control of the Court of Audit in order to make sure that those public funds have been applied to the ends provided for.

6. AUDIT PROCEDURE OF THE COURT

The Court of Audit examines a posteriori, in other words, once the commitment has been taken on and the payment been made, the legality and regularity of the revenues and spending as well as the proper financial management of public funds.

The Court decides on the date and method of its controls which, either in situ or remotely, it conducts by the mediation of its commissioner agents. For that purpose it adopts all necessary provisions for guaranteeing the secrecy of its investigations.

Any document or information that the Court of Audit regards as necessary for carrying out its task will be passed on to it on request from the latter, including those relating to internal financial control carried out inside each ministerial department in a prior manner, in other words, prior to the commitment and/or payment of the corresponding expenditure.

Any representative, administrator, agent or officer of the bodies being audited, as well as, when so required by the control, any representative or agent of the State, any manager of public funds or member of the inspection services or audit bodies whose attendance is regarded as necessary, is obliged to appear when summoned by the Court of Audit.

For these purposes, the persons in charge of finances as well as internal auditors or auditors of enterprises undertaken by bodies subject to inspection will be exempt from professional secrecy with regard to the commissioner agents of the Court of Audit during the course of investigations conducted by them within the framework of their powers.

The results of audits carried out by the Court of Audit are subject to an opposing inspection from the bodies that were audited. This procedure is carried out in writing. The Court of Audit notifies the results of its audits to the appropriate minister so that he or she can present their case within the period established by the Court.

The Court of Audit immediately informs the persons in charge of the audited body of the outcome that the audit is going to have. If it considers that a fact or situation that it has knowledge of could lead to the instigation of criminal proceedings or
disciplinary action, it will inform the Chamber of Deputies and other interested parties of this fact.

7. REPORTS FROM THE COURT

Each year the Court of Audit draws up a General Report on the Draft Bill of Settlement of the State General Account for the previous year. This report is sent to the Chamber of Deputies along with the point of view of the Government or the bodies concerned.

Also, the Court of Audit can at any moment, either at the instance of the Chamber of Deputies or on its own initiative, present its observations on specific aspects of financial management in the form of special reports. These reports give an account of the results of audits that can last over several financial years. The reports are sent to the Chamber of Deputies, accompanied as appropriate by the point of view of the Government or the bodies concerned.

In its observations, the Court of Audit in particular points out:

– the conformity of the sums noted in the budget execution account and in the statement of State assets with those appearing in the books and the justification of the regularity of the revenues and spending that are verified;

– important cases in which the budgetary rules and principles of good management have not been respected;

– the main results of control over public corporations and/or private bodies that are beneficiaries of public financial aid;

– the lessons that can be learned and the measures that can be recommended for the future.

To end, the Court can be consulted by the Chamber of Deputies on draft bills having a significant financial impact for the Public Treasury, as well as the provisions of the Budgetary Act and draft bills relating to State accounting and corporations of public law.

Governance as part of performance audit examinations

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

This article concludes on the lessons learned of the NAOD in relation to applying good governance as part of the performance audit. Furthermore, the article presents perspectives for this kind of examinations in future years.

I. INTRODUCTION

In 1999, the National Audit Office of Denmark (NAOD) introduced new principles for "good governance". The principles are applied as benchmarks when examining governance in state agencies. Governance is described by means of four steering tasks and seven steering processes. The processes concern target setting, planning, budgeting, implementation and management control, presentation of account, follow-up and reporting and evaluation whereas steering tasks include performance management, activity management, resource management and day-to-day budgetary management. The contents of the processes and the tasks are previously described in EUROSAI magazine no. 6 pp 30-33, in the article “The principles of sound financial management” by Jens Lund Andersen.

This article concludes on the lessons learned of the NAOD in relation to applying good governance as part of the performance audit. Furthermore, the article presents perspectives for this kind of examinations in future years.

In 1999, the National Audit Office of Denmark (NAOD) introduced new principles for "good governance".
II. EXAMINATIONS OF GOVERNANCE IN 1999 AND 2000

In 1999, the NAOD applied the principles as part of examining governance in six agencies. In 1999, thirteen extensive examinations were implemented; whereof good governance was applied in almost half of the examinations. The following agencies were examined:

- The Customs and Tax Administration
- The Prison Services
- The Ministry of Social Affairs
- The EU directorate
- National Survey and Cadastre, and
- The Copenhagen Hospital Association.

When analysing the Customs and Tax Administration, the examination was supplemented with an efficiency analysis of the local administrative authorities. The examination of the Copenhagen Hospital Association was followed-up by an additional examination of the activities and the financial situation in the period 1995-1998. The four other examinations concerned governance exclusively. The six agencies were all different in size, the smallest had annual work years of 235 and the largest had 5,800 work years. Five of the agencies had subordinate administrative authorities, all of which had independent budget responsibilities. The examination of governance of the Ministry of Social Affairs was extraordinary because it concerned the overall management of the whole ministry. The other five agencies, that were examined, were all under the administration of a department.

The examinations only covered a minor part of the state agencies, and they were not selected with the aim of establishing basic tendencies for the level of governance in the state agencies. Some examinations were initiated on the basis of a request from the Public Accounts Committee. The other examinations were initiated by the NAOD on the basis of the agencies’ materiality for the state accounts.

The examinations showed that governance primarily were adjusted to present standards and guidelines in the area. The appropriation system was well functioning and most of the agencies had come a long way with the implementation of performance management. Furthermore, most of the agencies prioritised quality management highly.

The examinations also showed that the extent of performance management in the agencies depended on the complexity of the tasks. The agencies that had a less complex production structure had generally come further with the process of implementing performance management, than the agencies that had a more complex work structure. Most of the agencies were able to improve their steering by making more balanced management information. The departments, in particular, felt there was a need to strengthen the management of the whole agency by following-up on the agencies’ reporting of performance contracts.

The examined agencies varied in size and tasks and hereby they had different steering needs. In spite of this, the NAOD had no problems in applying the principles of good governance. The major problem was that none of the examinations had any or only little political or media interest, even though the examinations - from an audit-point-of-view reported on administrative areas of significant social importance.

This is probably because the examinations were very broad and only partially directed towards the problem areas, which were detected during the examination.

III. HOW GOVERNANCE IS LINKED TO PERFORMANCE AUDIT

In order to avoid that governance examinations become too extensive, the NAOD has decided to link the four steering tasks in good governance to the three aspects of performance audit: economy, efficiency and effectiveness. This is illustrated in figure 1.

The major problem was that none of the examinations had any or only little political or media interest.
the use of resources measured in physical units such as staff resources, EDP and accommodations. The quality of the day-to-day budgetary management and resource management is an indication of the aspect economy.

Equivalently, activity management concerns the production of an agency. Thus, efficiency indicates the quality of the day-to-day budgetary and resource management on one side, and activity management on the other side.

Performance management concerns to what extent the targets of the agencies have been met. Thus, effectiveness indicates the quality of activity and performance management, whereas analyses of cost effectiveness on one hand indicate the quality of the day-to-day budgetary and resource management, and on the other hand it indicates the quality of performance management.

By linking the four steering tasks to the three traditional principles within performance audit, it is possible to apply the principles of good governance in traditional performance audit examinations. Therefore it is logically to supplement efficiency examinations with examinations of the steering tasks that are of importance for the efficiency.

Figure 1 also shows that analyses of effectiveness and cost effectiveness concern all four steering tasks. It seems only obvious, that such examinations concern all steering tasks, right from the use of resources to meeting targets. However, this does not mean that examinations as such should include a detailed assessment of the four steering tasks in good governance. But it seems only natural to assess exactly where major problems may arise in the steering chain for the cost effectiveness.

Figure 1 also shows that the NAOD considers governance tasks of importance for the whole agency. Still, governance and professional management are two separate matters. Professional management concerns the day-to-day operation of the agency including assessing whether the agency produces the services that the citizens need. It is not an objective, when applying governance, to assess which targets that are relevant for an agency or how the targets may be measured. But it is an objective for governance to outline a ceiling for targets and to ensure that the outlined targets are relevant and adequate. Governance is applied when measuring the overall steering of an agency including making management information.

IV. CENTRAL AND DECENTRALISED GOVERNANCE

The standards in good governance are not described on the various organisational levels such as the central level in the departments and major agencies, or on the decentralised level for instance in the subdivisions, offices etc. In good governance some of the overall considerations on steering needs on the various organisational levels are included. One of the future areas of development will be to outline such standards.
Steering needs are different on various organisational levels. This is because the agencies have different sizes and tasks, but also because management on the various levels have different structures of incentives. If it were possible to establish a number of common features for incentives, then it would be possible to assess the relevance of various steering tools in various agencies.

An assessment of management behaviour on various organisational levels is primarily intensified by the fact that the most commonly used steering form is performance-based contracts in state agencies in Denmark. Contracts are entered between departments and agencies including a resource ceiling, and production and performance targets.

The development of performance-based contracts shows that the most recent performance management includes more qualitative political targets than quantitative financial targets. Contracts without targets for activity levels and efficiency will weaken governance. However, financial targets should be relevant and should cover the actions of the agency otherwise there is an imbalance in the performances of the agencies. Audit of the contracts presumes an assessment of the behaviour of the management in both departments and agencies.

V. THE INITIATIVES OF THE MINISTRY OF FINANCE IN DENMARK

In the 1980s - 90s governance in the state grew with inspiration from the principles of the New Public Management, however, adapted to Danish conditions. Target, ceiling and performance management are thus known principles. The Ministry of Finance has supported this development by issuing a number of guidelines on how governance should be organised.

The most recent guideline from the Ministry of Finance deals with governance - balance and focus. Rules and regulations for organising governance are established. However, there is also focus on the organisational arrangement of governance such as the balance between hierarchy and market, centralisation and decentralisation, formalised and informalised management, short term and long-term management, and the balance between stability and dynamics.

VI. CLOSING COMMENTS

Governance examinations have had the intended effect - the agencies have improved. Therefore, the NAOD finds that it is not necessary to carry out additional extensive examinations where all steering tasks and processes in an agency are examined. However, a number of minor examinations are planned where selected steering tasks are part of the examination but focus is on efficiency or effectiveness. Future governance examinations will thus be better defined and the focus area of an examination will, only as an exception, be governance.

Furthermore, there are a number of questions, which possibly will change the ceiling for future examinations. For instance, will it be possible to include an assessment of individual steering tasks when making traditional performance audit examinations? Will an assessment of the management’s incentive structure make examinations more targeted? And will it be an audit task to examine the organisational arrangement of governance? It seems that the possibilities for further-developing governance in NAOD’s examinations are good.
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