

THE EUROPEAN COURT OF AUDITORS
Performance audit practice – using ISSAI standards
Procurement case-study



European Court of Auditors

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Financial Regulation (art.30)



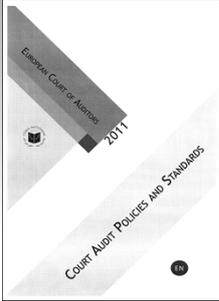
“Appropriations shall be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness”



ISSAIs and the ECA's audit practice

The ECA conducts its audits in accordance with the **IFAC** and **INTOSAI International Auditing Standards and Codes of Ethics**, in so far as these are applicable in the European Community context."

"Auditors are required to respect the **ECA Audit Manuals** as well as all the **audit procedures** adopted by the ECA."



http://www.eca.europa.eu/Lists/ECADocuments/CAPS/CAPS_EN.PDF

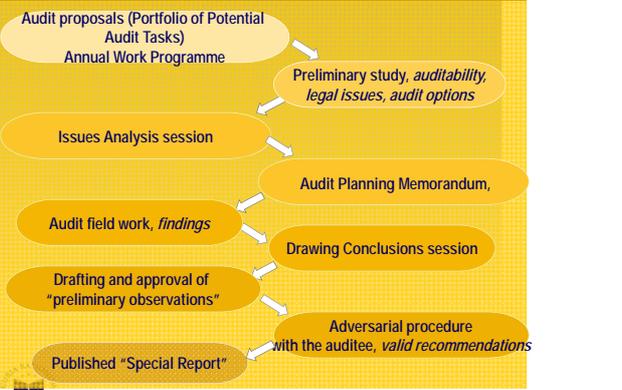
The ECA's Performance Audit Manual (PAM)

- The Performance Audit Manual is updated annually in accordance with any new auditing standards, guidance and best practice which is issued.
- ECA's performance audit practice is compliant with INTOSAI standards and guidelines
- iCAT (Compliance assessment tool)




http://www.eca.europa.eu/Lists/ECADocuments/PERF_AUDIT_MANUAL/PERF_AUDIT_MANUAL_EN.PDF

Performance audit workflow



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    graph TD
      A[Audit proposals (Portfolio of Potential Audit Tasks) Annual Work Programme] --> B[Preliminary study, auditability, legal issues, audit options]
      B --> C[Issues Analysis session]
      C --> D[Audit Planning Memorandum]
      D --> E[Audit field work, findings]
      E --> F[Drawing Conclusions session]
      F --> G[Drafting and approval of "preliminary observations"]
      G --> H[Adversarial procedure with the auditee, valid recommendations]
      H --> I[Published "Special Report"]
  
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Case-study

eca
1977 - 2012

Procurement and performance:

Special Report 5/2013
Are EU Cohesion policy funds well spent on roads?

EUROPEAN COURT OF AUDITORS
2013
ARE EU COHESION POLICY FUNDS WELL SPENT ON ROADS?
EN

Planning the audit
(selection of topic, pre-study)

eca
1977 - 2012

- ❑ Pre-study includes:
 - risk assessment by document review and interviews
 - deficiencies in needs assessment
 - deficiencies in management

**...Select audit topics through...analysing potential audit topics...to identify risks and problems (ISSAI 300, §36)...audit specific, substantive and methodological knowledge is built up prior to the audit ("pre study"): (§29)*

- ❑ Audit resources:
 - ❑ 140 auditor weeks
 - ❑ Auditing competence/experience
 - ❑ Language competences
 - ❑ Expert consultant engineers

**...have the necessary professional competence to perform the audit*: (ISSAI 300, §30)*

Planning the audit
(audit design)

eca
1977 - 2012

- ❑ Interviews with management at each level on audit approach, questions, criteria
- ❑ Clarifying preliminary audit findings with auditee in writing
- ❑ Presentation of draft audit report to European Commission and consideration of their written response

**...establish effective and proper communication with the auditees and relevant stakeholders during the entire audit process*. (ISSAI 300, §29)*

- ❑ Member States with highest expenditure selected
- ❑ Spend of 64 billion euro between 2000 and 2013
- ❑ 8000 road projects - 100 000km in period 2000-2006

**...follow the principle of materiality and significance in all stages of the audit process* (ISSAI 300, §32)*

Conducting the audit
(collecting and analysing data)



ECA does not normally make direct MS comparisons – but the audit objective of « reasonable cost » and « good administrative practices » made it essential

**...obtain sufficient and appropriate audit evidence*. (ISSAI 300, §38)*

Audit standards – manuals – guidelines – training – audit support
 Engagement Quality Control Review (EQCR) of audit plan and draft report
 Independent of audit team/hierarchy
 Normal hierarchical quality control reviews

**...seek to develop good and effective practices to safe guard audit quality*. (ISSAI 300, §32)*

Audit management and documentation system
 « Audit file format » according to « audit questions » and « auditee management level »

**...organize the audit documentation to address the circumstances of the particular audit*. (ISSAI 300, §17)*



Cost comparisons' - roads



total project cost (€/km)

- geological and natural conditions
- type of work

useful to analyse costs of different road types

total construction costs – materials and works

- national price levels

roadway construction costs

- excludes planning / supervision
- engineered objects (buddes /tunnels)
- accessories (crash barriers / road signs, ...)

valid comparator : cost per 1.000 m² of road surface



Cost drivers



road alignment (19/24)

- on existing roads € 4,7 m/km
- greenfield site roads € 9,4 m/km (land acquisition and engineering)

traffic forecasts

type of road (motorway / exoress riad / two-lane road)

procurement process

- «blind offer» vs «discount on official price»
- Whole project versus shorter procurement units
- Prior registration
- Elimination of lowest bid

specifications of accessories and bindges / being standardised by an EU norm)

national material prices (concrete)



Reporting
(conclusions)



Audit conclusions

- Insufficient attention was paid to ensuring cost-effectiveness of the projects:
 - inaccurate traffic forecasts
 - motorways chosen over expressways when traffic insufficient justification.

- Distortions of competition
 - Need harmonisation of construction standards (e.g. the standard height of noise barriers (higher in Poland))
 - Only one project awarded to non-domestic company.
 - Special certificate needed in Spain & Greece to enter tendering process – takes too long to obtain.
 - Greece & Spain tender 10% below average tendered price are disregarded as « cheapest tenders not the best »

... auditors should report their findings on the ...effectiveness with which objectives are met (ISSAI 300, §39)



Reporting
(recommendations)



Audit recommendations

- The Commission should analyse the differences in roadway construction costs between the Member States ...identify the causes of significant price differences ...assure best practices are applied

- The Commission should establish European Union-wide unit cost information for engineers preparing estimates for new projects, in order to help the beneficiaries lower the procurement prices.

- The future co-financing conditional upon:
 - (a) clear objectives (indicators for travel time savings, gains in road safety, capacity improvements)
 - (b) cost-effective technical solutions, e.g. accessories for road construction.
 - (c) competition in construction markets - focusing procurement systems on delivering VFM - avoiding entrance barriers - recognition of quality categories of companies provided in other Member States, easing SMEs' access to procurement procedures.

...seek to provide constructive operational or structural recommendations that are likely to significantly contribute to addressing the weaknesses or problems identified by the audit. (ISSAI 300, §40)



Where have the ISSAIs been helpful, and why?



- ECA audit standards and performance audit manual based on ISSAIs 3000 and 3100
- ECA auditing guidelines use ISSAIs as a starting point
- Quality control procedures updated in 2010 to comply with ISSAI 40 (and IFAC ISQC1)
- ISSAI 3000 appendices contain very useful guidance on audit techniques
- Good Practice Guidance statements issued by INTOSAI PAS <http://www.psc-intosai.org/subcommittees/performance-audit/pas-guidelines/>
- ECA training courses use ISSAIs, guidance, and ECA audit manuals
- Peer Reviewers use ISSAIs and iCAT as a basis for their reviews



Where have the ISSAIs been of little or use, and why?

- ISSAIs provide little guidance on audit criteria for use in specific sectors (e.g. education, health, construction, IT, etc.)
- ISSAI 3000 provide some guidance on methods and techniques but each SAI develops its own methodological practice
- ISSAIs do not provide guidance on non-audit or quasi-audit products of SAIs e.g. landscape reviews, evaluations, meta-evaluations, opinions.
- Guidance on « performance management standards » or best practice is absent
- « VFM opinion » versus « SFM conclusions and recommendations » - where do we stand?

If you used other guidelines: what were their advantages

Some of ECA developed audit guidance:

- Risk assessment
(http://www.eca.europa.eu/Lists/ECADocuments/GUIDELINE_RISK_102013/GUIDELINE_RISK_102013_EN.pdf)
- Issue analysis and drawing conclusions
(http://www.eca.europa.eu/Lists/ECADocuments/GUIDELINE_ISSUE_ANALYSIS/ADC-Guideline-EN-Oct2013.pdf)
- Report-writing
(http://www.eca.europa.eu/Lists/ECADocuments/GUIDELINE_WRITING_102013/GUIDELINE_WRITING_102013_EN.pdf)
- Data collection techniques/e-surveys
(http://www.eca.europa.eu/Lists/ECADocuments/GUIDELINES_DATA/Data-collection-Guidelines-EN-Oct2013.pdf)
- Evaluation
(http://www.eca.europa.eu/Lists/ECADocuments/GUIDELINES_EVALUATION/Evaluation-Guideline-EN-Oct2013.pdf)

- Advantage is that they can be made specific to the context and needs of the SAI and updated as required.



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Thank you for your attention

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