

NEWSLETTER • June 2002

For the Working Groups of the Presidents of the Supreme Audit Institutions of European Union Candidate Countries, Albania, Croatia & the European Court of Auditors • Produced by SIGMA*

Workshops, Newsletters and Joint Audit Activities

It is our pleasure to forward the second, June 2002, issue of the Newsletter for the Working Groups of the Presidents of the SAIs of the EU Candidate Countries, Albania, Croatia and the European Court of Auditors.

We have had very positive feedback on both the first March 2002 issue of the Newsletter, the web based Audit Manuals Reference Archive and on the Audit Manuals workshop in Vilnius, 24-27 March 2002. Thank you to those of you who expressed your appreciation via e-mail etc.

In this issue we bring an article about Audit Standards & Policies, which is the theme for the upcoming Audit Manuals workshop in Sofia 24-26 June. We have included also an example from the European Court of Auditors of what could be contained in an SAI's Audit Policies and Standards. In addition we bring news about activities in the SAI Working Group on Audit Activities and other activities in our network of SAIs. We include a summary of a paper on "SAI relations to Parliament" presented to the 2001 Presidents Meeting. Finally, we use this opportunity to inform you about some of SIGMA's recent activities, including peer reviews. Hope you will enjoy the reading.

Best wishes from Audit & Financial Control, SIGMA

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Riigikontroll - Rigsrevisionen: Audit Activities Working Group Pilot Audit with CAAT

The Estonian Riigikontroll and the Danish Rigsrevisionen is currently working together on a pilot audit of the Estonian State Treasury using the audit software, IDEA. From the Danish side the project is run by Mr Rolf Elm-Larsen. The responsible audit manager from the Estonian side is Mr Tonnis Saar. The joint pilot audit is a SIGMA activity under the umbrella of the Working Group on Audit Activities.

SAI Liaison Officers' Meeting in Malta

The Liaison Officers of the SAIs of the EU Candidate Countries and the European Court of Auditors met in Malta on 25-26 April 2002. Among the issues on the agenda were the on-going activities of the two Working Groups (Audit Manuals & Audit Activities); EUROSAI-IDI relations and activities and next presidents' meeting in Bucharest. Minutes from the meeting will be available from the EDG for the SAI WG <http://appli1.oecd.org/pum/workingG.nsf>

Audit Manuals Workshop in Sofia 24-26 June 2002

On the 24-26 June the Bulgarian SAI, the *Smetna Palata*, will host the workshop on Audit Standards & Policies for the Working Group on Audit Manuals. The workshop will include presentations made by representatives of INTOSAI, EU Candidate Country and Member State SAIs and the European Court of Auditors.

For more information contact Mr Stoyan Petkov at the *Smetna Palata* in Sofia (sp-mdp@otel.net), Dieter Böckem at the European Court of Auditors (dieter.boeckem@eca.eu.int, + 352 4398 45 350) or Johannes Stenbæk Madsen at SIGMA/OECD (johannes.stenbaek-madsen@oecd.org, + 33 1 4524 8368).

Material for the workshop will be posted in the category "Audit Manuals WG Workshops" in the EDG for the SAI Working Group (<http://www1.oecd.org/puma/sigmaweb/acts/audit/edg.htm>), as it becomes available.



Peer Review of the Lithuanian Public Internal Financial Control System

During March-May 2002, SIGMA concluded a peer review of the Lithuanian Public Internal Financial Control (PIFC) system. The peer review team comprised the following:

Member State and SIGMA Peers: Mr. Alain Gerard Cohen, Former Inspecteur Général des Finances, France; Mr. Gareth Evans, Former Head of Internal Audit at the UK Intervention Agency; François-Roger Cazala, SIGMA, on secondment from French Cour des Comptes; Mr. Piotr-Nils Gorecki, SIGMA, Former Acting Director General at the Polish office of Public Procurement; Mr. Lage Olofsson, SIGMA, on secondment from Swedish Riksrevisionsverket.

Responsible for the SIGMA Peer Review Organisational and Technical Management were: Ms Mimi Bessarat, SIGMA Project Assistant for the Peer Review; Nick Treen, SIGMA, on secondment from the UK National Audit Office.

The peers made many detailed recommendations on the PIFC system covering:

- Getting better performance from internal audit
- Moving towards a more effective financial control environment
- Some key procurement control issues
- Developing accounting and improving financial reporting

In general terms SIGMA consider that the main conclusions and areas for further actions by the Lithuanian authorities are:

- That the basis and framework for internal audit provides a good platform for developing internal audit into a relevant and effective management tool. To fully achieve this goal internal audit does still need to be better organised and continue to become more professional and technically skilled.
- That there is a need to further strengthen and develop the arrangements for procurement controls and related project management and monitoring systems. This will be particularly needful for meeting the obligations for sound financial management of large EU funded projects pre and post accession.

- Introduce over the longer term better and more sophisticated accounting and financial management systems and operations, making full use of modern available IT solutions. The development of better, more modern and complete State Financial Statements should follow from this and, once subject to a stringent and professional audit attestation process, bring the wide benefits of better financial accountability and fiscal transparency;

- Improve the general scope of the control environment and the necessary spans and complications of control by significantly rationalising and reducing numbers of budget institutions and number of appropriation managers;

- Review the legal implications of the development of the PIFC system in policy and strategy papers. Prepare new and revised framework primary legislation to cover in particular: internal audit, management and financial control principles, and clearer management accountabilities and responsibilities;

- Establish a sound and effective development and change planning process with detailed action plans with defined objectives, targets, responsibilities, and deadlines for achievement in a comprehensive and systematic approach. This will also help clearly demonstrate that real improvement and changes are taking place.

- It would also be sensible to use and spread good practices where they have already been effectively implemented and especially where they are proven to have met EU standards e.g. the accredited SAPARD/National Fund system.

Peer Review of the *Drzavni Ured za Reviziju*

The Croatian supreme audit institution, the *Drzavni Ured za Reviziju*, has requested a SIGMA peer review to be concluded in 2002.

The peer review team will consist of Ms. Bente Lindberg, the Danish Rigsrevisionen, Mr. Joop Vrolijk, the Dutch Rekenkamer and Detlev Sparberg, formerly the German Bundesrechnungshof, now at NATO's Board of Auditors. The SIGMA team leader and project manager will be Mr. Lage Olofsson.

This will be the 9th "formal" SIGMA peer review of an SAI but it is the first SIGMA peer review outside the current group of EU Candidate Countries.

New SIGMA web-site

In April 2002 SIGMA changed the design of its web-site in line with the OECD's new (2001) layout and functionality. The SIGMA site is continuously being improved and we are still expecting to be able to launch a new EDG system this year. On the new homepage (see below) you find the EDG's in the blue menu on the right side.

As the statistics available from OECD to measure how much the EDG's are being used changed in the course of 2001 it was not been possible to follow the development in number of users during 2001 and into 2002. With the available statistics we know however that the average number of "hits" per month on the two EDG's is 9220. The number of members of the EDG for the SAI Working Groups is now 70 with over 20 different countries being represented.

Free Electronic Handbook

A free electronic copy of the SIGMA publication "Managing Public Expenditure" is now available from the following site at the OECD bookshop:
<http://www1.oecd.org/publications/e-book/4201051E.PDF>

The book provides practical guidance on all areas of public expenditure management, incl. budgeting and implementation, cash and performance management, accounting, financial reporting systems, internal control, internal audit and external audit. It has been produced as a practical handbook for someone who wants to get an overview of all the different aspects of managing and controlling finances in the public sector. Hardcopies for EU Candidate Country SAIs are still available from SIGMA.

The screenshot shows the SIGMA website homepage. At the top, there is a navigation bar with the OECD logo and the slogan "BUILDING PARTNERSHIPS FOR PROGRESS". The language is set to "Français". Below this are navigation links: ABOUT, NEWS & EVENTS, DOCUMENTATION, STATISTICS, CONTACT US, SEARCH, and MY OECD. On the left, there is a sidebar with "OECD DIRECTORATES" and a "SIGMA" section. The SIGMA section includes a description: "A joint initiative of the OECD and the EC, principally financed by the EC" and a list of topics: Administrative Legal, Civil Service Development, Coherence & Co-ordination of Policy Making, Impact Assessment & Law Drafting, Public Administration Reform Strategies, Public Expenditure Management, Public Internal Financial Control, and Public Procurement. Below this is a "Back to themes" button and "Related themes". The main content area is titled "Home SIGMA" and contains the text: "SIGMA - Support for Improvement in Governance and Management in Central and Eastern European Countries - is a joint initiative of the OECD and the European Union. The initiative advises transition countries on improving public governance at the central government level." Below this is a link to "About SIGMA" and a "What's new" section. The "What's new" section features a link to "Second Workshop of the SAI Working Group on Audit Manuals, Sofia 24-26 June" and a brief description of the workshop. On the right side, there is a "Home PUMA" section with a dropdown menu, a "SAI Newsletter" section with a link to "First issue of SAI Newsletter" and a description of the newsletter, and a "Bookshop" section with the "ONLINE BOOK SHOP" logo and a link to "Online Bookshop".

AUDIT STANDARDS AND POLICIES

Any audit organization – but especially an SAI – must have a unifying set of policies and procedures to assure quality and consistency in the performance of its audit work. Known adherence to these policies and procedures is an essential element in gaining and maintaining an SAI's credibility with auditees, Parliament, the media and the public.

In most countries, the unifying policies can be seen as a hierarchy. First comes the law (sometimes incorporated in a country's Constitution or Basic Law) establishing the SAI and its independent status. The second echelon in the hierarchy consists of the laws specifying the SAI's organizational location and structure and the scope and limitations of its audit authority. These provisions, or elements of them, may be either incorporated in the law establishing the SAI or in separate statutes.

The third echelon in the hierarchy consists of the standards and policies that will guide the auditing work of the SAI. For obvious reasons, these standards and policies must not conflict with the laws governing the SAI. However, it is highly desirable that the standards and policies be adopted by the SAI, rather than being enacted by Parliament. There are two reasons. First, it is vitally important that the leadership and staff of the SAI take ownership of these basic policy statements and that the adoption of them reflects a firm commitment to assure that they are fully implemented. This is best accomplished by making the adoption of the standards a specific action by the SAI, rather than one seemingly imposed on it by Parliament. Second, these basic policies are likely to require adjustment from time to time as circumstances change. This is much more easily accomplished if the policy statements are in the purview of the SAI, and subject to change by it, rather than requiring parliamentary action.

The fourth echelon in the hierarchy consists of the manuals that are intended to translate the basic policies of the SAI into more detailed guidance for the day-to-day activities of the SAI staff. These include the audit manuals that are being discussed by the Audit Manuals Working Group, including its forthcoming meeting in Sofia. However, manuals may be needed in other areas, as well, such as human resources management, training, relations with Parliament and the media, etc.

Returning to the matter of audit standards and policies, the primary focus of this article, the standards must satisfy several criteria.

- First and foremost, they must be designed to assure consistently high quality audits over the entire range of the SAI's audit mandate. For example, if the audit mandate includes regularity or compliance audits and performance audits, as well as financial statement (attestation) audits, the standards must cover all the different types.
- They must be clear and, preferably, relatively concise to assure that they can be absorbed, understood and accepted by the entire SAI staff.
- They must not conflict with the national laws governing the SAI. Any conflicts reflecting provisions of law that might cause a degradation of the standards (and thus the assured quality of the audit work) should be brought to the attention of Parliament and resolved as quickly as possible.
- For SAIs in countries seeking accession to the EU, the standards must seek to apply internationally recognized "best practices", so that the resulting audit work will be acceptable to the EU.

In developing audit standards and policies satisfying these criteria, a logical starting point is either the standards promulgated by INTOSAI or those by IFAC (www.ifac.org). If the INTOSAI standards, available (along with the INTOSAI Code of Ethics) at www.intosai.org/2_CodEth_AudStand2001_E.pdf, are coupled with the *European Implementing Guidelines for the INTOSAI Auditing Standards* issued by the European Court of Auditors (ECA), which can be downloaded from the ECA web site at www.eca.eu.int/EN/audit_methodology.htm there appears to be little substantive difference between the two sets of standards. Each represents a consensus of experienced auditors from many countries regarding international "best practices".

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Our preference would be to start with the INTOSAI standards, primarily because they were written by government auditors for use by government auditors, (and, perhaps, because of our greater familiarity with them) on the assumption that the more detailed material in the *European Implementing Guidelines* and relevant parts of the IFAC standards would be incorporated in appropriate audit manuals. In addition, the SAI should consider incorporating in its audit standards (or other basic SAI policy guidance) the INTOSAI *Code of Ethics* (see link above) or other, equally rigorous ethical standards for the SAI staff.

Whatever the starting point, an SAI should resist the temptation to simply adopt an existing set of standards as its own without further thought. This may seem to be the easiest approach but it can lead to serious difficulties. First, if the standards are adopted in what may appear to be a casual act, the necessary commitment to adhere to those standards may be lacking. In that case, there is a considerable risk that the staff, following the apparent example of the leadership, will also take a casual attitude towards the standards, ignoring them when adherence is inconvenient. Second, even standards representing an international consensus may properly require adaptation to the special circumstances of a particular SAI in a particular country. As noted in the Foreword to the INTOSAI Auditing Standards, "Each SAI must judge the extent to which the standards are compatible with the achievement of [the SAI's] mandate".

In this regard, the approach taken by the European Court of Auditors may be instructive. It started by examining the INTOSAI and IFAC standards, which it recognized as "best international practice". It was necessary, however, to adapt those standards to ECA's particular duties and responsibilities. The resulting document, *Court Audit Policies and Standards*, available at the same website address as the *Implementing Guidelines*, does not mimic either INTOSAI or IFAC, but is entirely consistent with them. The INTOSAI and IFAC standards, and the *European Implementing Guidelines* are incorporated by reference, as appropriate. The writing style of *Court Audit Policies and Standards* is clear and straightforward and the document is commendably concise. The document also makes explicit provision for revision and further adaptation of the standards to recognize a changing environment and evolving audit methodology.

The ECA approach yielded an excellent set of policies and standards and is worthy of emulation. However, the document was developed by auditors who combined wide experience in working with comparably rigorous standards and a clear understanding of the special circumstances facing ECA. Such resources may not be available to some SAIs seeking to adopt standards suitable for their particular situations. For these SAIs, a more feasible approach might be along the following lines:

- Carefully examine an existing set of standards to identify any elements that are clearly incompatible with the SAI's audit mandate and national laws. If the resulting modifications or deletions would significantly degrade the quality of audits or the SAI's credibility, seek appropriate changes in the relevant national laws. This first step might best be undertaken with assistance of experienced auditors from EU member countries.
- Adopt the resulting document as an "interim" set of standards, with an explicit recognition of the potential need for further changes in the future.
- After appropriate training, begin requiring adherence to those standards, with appropriate supervisory measures to assure compliance.
- Systematically gather data about experience – both good and bad – in applying the "interim" standards.
- After a reasonable period, perhaps two years, reassess the standards based on experience and make needed modifications.

The essential point is that an SAI's adoption of a set of auditing standards, and other basic policies of the SAI, must not be seen as casual acts. For those standards and policies to be meaningful, they must grow out of a careful deliberative process – preferably one involving line auditors, as well as the SAI managers and leaders – that, while recognizing the universality of basic auditing principles and the importance of incorporating best practices, also recognizes the unique circumstances of a particular SAI in a particular country.

INTRODUCTION TO THE EUROPEAN COURT OF AUDITORS' AUDIT POLICIES AND STANDARDS:

The Court's aim, in adopting a comprehensive set of audit policies and standards, is to set out in a unique document the principles that determine the way in which its audits are planned, executed and reported. These policies and standards are not new to the Court, but reflect and codify the working methods that have evolved over the twenty years since the Court's creation. The Court's audit policies and standards are based upon the best international practice, such as the Auditing Standards published by the International Organisation of Supreme Audit Institutions (INTOSAI) and in the International Standards on Auditing prepared by the International Auditing Practices Committee of the International Federation of Accountants (IFAC). They have been adapted, however, to reflect the Court's particular duties and responsibilities as laid down in the Treaty and the Financial Regulation and to take account of the European Community context. The policies and standards are also fully compatible with the auditing guidelines for the external audit of EC activities being developed by an ad hoc working group established by the Contact Committee of Presidents of the EU Supreme Audit Institutions. These audit policies and standards define the basic principles that govern the work of the Court. They thus provide an overall framework for determining the detailed auditing procedures and practices to be used in planning, carrying out and reporting individual audit tasks. These detailed procedures and practices are in turn laid down in the Court's audit manual. The demands upon the European Court of Auditors and the environment in which it works are constantly changing. Meanwhile, auditing methodology is constantly evolving. To ensure that its work keeps up to date with these changes and continues to be carried out to the highest professional standards, the Court will, from time to time, revise its audit policies and standards. The observant reader may note that some gaps have been left in the numbering of the policies and standards. This is to allow the later insertion of further policies and standards as the need arises. These policies and standards are applicable both to financial audits (including the Statement of Assurance audits) and examinations of sound financial management carried out by the Court.

TABLE OF CONTENTS OF THE COURT'S AUDIT POLICIES AND STANDARDS:

1 – Objectives and responsibilities

- Objectives and general principles governing the Court's audits
- Quality control for audit work
- Documentation
- Fraud and error
- Consideration of laws and regulations (Legality and regularity)

2 – Planning

- Planning
- Knowledge of the audited entities and activities
- Materiality

3 – Internal control

- Risk assessments and internal control
- Auditing in a computerised information systems (CIS) environment

4 – Audit evidence

- Audit evidence
- Analytical procedures
- Audit sampling
- Subsequent events
- Management representations

5 – Using the work of others

- Using the work of another auditor
- Considering the work of internal audit
- Using the work of another expert

6 – Audit conclusions and reporting

- Reporting
- Comparatives

SAI Relations with Parliaments

The text below is a summary of paper presented to the 2001 Presidents Meeting and soon to be converted into a SIGMA publication:

Good Practices Identified:

The paper contains two sets of recognisable good practices. The first set is directed at SAIs and is intended to enhance their overall effectiveness and to assure that they are fully prepared to work with Parliament and its Committees. These include the following for SAIs:

- Set and adopt appropriate auditing policies and standards, and assure that they are implemented.
- Write audit reports in a clear and concise, fair and factual manner, avoiding political statements.
- Adopt and enforce appropriate ethical standards.
- Give appropriate - but not exclusive - consideration to parliamentary concerns in setting audit priorities.
- Be selective in deciding which audit reports to submit to Parliament, sending to it only those reports which clearly merit parliamentary attention and including a clear statement of why the report is being sent to Parliament.
- Consider establishment of a separate unit or person to co-ordinate the SAI's contacts with Parliament to facilitate communications and help assure SAI awareness of parliamentary needs and interests.
- Follow-up on previous audit findings and inform Parliament of any patterns of inaction on important problems.
- Avoid commenting directly on Government policies but recognize that disclosure of implementation problems may raise questions about the underlying policies.

The second set of suggestions involves actions that Parliament could take to enhance its working relations with the SAI and its oversight of Government activities. In discussing these matters with Members of Parliament, SAIs are cautioned to scrupulously avoid any appearance of instructing Parliament in how to carry out its constitutional responsibilities. These suggestions include the following:

- Assure in the state audit legislation that the SAI is independent of both the Government and Parliament.
- Appoint the SAI Head in a way that assures broad support in Parliament.
- Designate a parliamentary committee (PC) to oversee SAI finances (without interference from Government) and to review - but not direct - its performance.
- Specify clearly the types of audit reports to be presented to Parliament but be selective and leave discretion to the SAI, where possible.
- Inform the SAI of parliamentary interests, including suggested audit topics but leave final decisions on audit priorities to the SAI.
- Require that all audit reports, unless restricted for specified reasons, be made public within a reasonable period of time.
- Because of the important role of PCs in using the SAI's work and in overseeing the Government, establish rules for the operation of PCs and provide them with adequate staff support.
- Ensure that the appropriate PC takes prompt cognizance of SAI audit reports.
- PCs' meetings can be an important vehicle for gaining attention to problems revealed in SAI audit reports. To maximize their effectiveness, PCs' meetings should be open to the public and media (unless restricted for specified reasons) and should be attended by officials from the SAI and the auditee. PC members should prepare for such meetings by developing questions to be asked and obtaining additional information, as deemed necessary (There is a sigma checklist available to help give guidance on the organisation of PCs).
- At the conclusion of PCs' meetings or otherwise, a PC may deem it appropriate to initiate its own actions in response to an SAI audit report. To maximize their effectiveness, such actions should, if possible, reflect unanimous agreement among PC members. Technical assistance should be sought from the SAI, if that would be useful. The Government should be required to respond to reports and other actions taken by the PCs and the SAI, and the PCs and the SAI should follow-up on the Government's actions.

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These recommendations to the SAIs and suggestions for parliaments grow out of a recognition that, ideally, there is a symbiotic relationship between an SAI and the Parliament to which it reports. These two important, but separate, institutions have mutually supporting roles in assuring effective governance. Parliament can perform its vital oversight functions most effectively when it uses - and can rely upon - the auditing work of the SAI. Similarly, an SAI can be much more effective when Parliament and its Committees provide both a forum for the presentation and discussion of the SAI's important audit results and, potentially, an ally in taking, or strongly encouraging others to take, appropriate corrective actions.

Agenda of events in 2002

Week	Date	Event
9	28 February	Meeting of the working group « Audit Activities » in Budapest
10	7 March	Meeting of the EUROSAI Governing Board
13	25 – 27 March	First workshop of the working group “Audit Manuals” in Lithuania: Exchange of experiences in preparing audit manuals, mission statements and visions
17	25 – 26 April	Meeting of the Liaison Officers of SAIs from candidate countries, Albania, Croatia and the ECA in Malta
20	13 – 14 May	Meeting of the Liaison Officers of SAIs from EU Member States and the ECA, Luxembourg
22	27 – 31 May	EUROSAI Congress in Moscow
25	20 – 21 June	European Council meeting in Sevilla
25	24 – 26 June	Second workshop of the working group “Audit Manuals”: Auditing Policies and Standards
28	11 – 12 July	EUROSAI – OLACEFS, Cartageña de Indias
36	4 – 5 September	Annual meeting of the Heads of Nordic and Baltic SAIs in Riga
39	23 – 25 September	Third workshop of the working group “Audit Manuals”: Methodologies for Audits of Public Internal Financial Control Systems in Bratislava
40	2 – 3 October	Meeting of the Liaison Officers of SAIs from EU Member States and the ECA in Luxembourg
40	3 - 4 October	Meeting of the Liaison Officers of SAIs from Central and Eastern European Countries, Cyprus, Malta, Turkey and the ECA in Luxembourg
42	15 October	Meeting of the INTOSAI Governing Board in Vienna
43	21 – 23 October	Fourth workshop of the working group “Audit Manuals”: Quality Assurance in Poland
48	27 – 28 November	Meeting of the Heads of SAIs from EU Member States and the ECA in Luxembourg; part of the meeting will include the Heads of SAIs from candidate countries
50	12 – 13 December	European Council meeting in Copenhagen
50	12 – 13 December	Meeting of the Heads of SAIs from Central and Eastern European Countries, Cyprus, Malta, Turkey and the ECA in Bucharest

Contributions to the next issues of the Newsletter are most welcome and should be send to nicolasjohn.treen@oecd.org or johannes.stenbaek-madsen@oecd.org