



# EUROSAI

VII Kongres Kraków 2008

## KRAKÓW CONCLUSIONS AND RECOMMENDATIONS

June 2008

## **Preamble**

For nearly 20 years since its establishment in 1990, EUROSAI has encouraged and supported friendly cooperation among its members, the Supreme Audit Institutions (SAIs) within the region, in order to allow sharing of professional information, opinions and experiences. EUROSAI activities recognize, and draw on, the diversified environments and different regulatory frameworks within which its members operate. Each SAI's independence and right to determine its own level of involvement at any point in time is also respected. Within this context the EUROSAI Congress provides an invaluable opportunity once every three years, for all EUROSAI colleagues to engage together to consider themes of current interest and common significance to the SAI community as a whole.

## **Development of Congress Themes**

The VII EUROSAI Congress, organised in Krakow, 2-5 June 2008, considered three key Themes, as outlined below. For each Theme, the Theme chairs and assisting SAIs prepared a Principal Paper giving an overview of the theory and practice related to the topic and posing certain questions. EUROSAI members were invited to respond or comment on the points raised by the Principal Papers in the form of a written Country Paper, based on their own national perspective and experience. The Country Papers provided an important and wide ranging source of information and experience from which the Theme chairs and assisting SAIs prepared three Discussion Papers, one for each Theme.

### **Theme 1: Establishing an audit quality management system within a Supreme Audit Institution**

In order to be effective in its external audit role, an SAI needs to have the trust of its national Parliament, public and other stakeholders. Audit quality is essential to achieving this status. Having systems that facilitate delivery of quality audits and results, being able to guarantee to do so consistently and being able to demonstrate that this has been done are all central to an SAI in achieving this goal.

Theme 1 was led by the SAI of Hungary with support from the SAIs of Denmark, Malta, Poland, the Russian Federation and the European Court of Auditors. In total, 33 SAIs contributed to developing the Theme 1 Discussion Paper.

### **Theme 2: Audit of social programs in the field education**

Education is a key priority for every state, and therefore remains a priority area for all SAIs. Countries have widely differing education systems, and also vary widely in their approach to public spending on education related programs and initiatives. Despite this diversity, SAIs face many similar challenges in auditing the effectiveness and legality of public expenditure on education, and much can be gained from performing international comparisons of SAI approaches to auditing this important and complex area.

Theme 2 was led by the SAI of Portugal, with support from the SAIs of Estonia, France, Poland, Sweden and the Ukraine. In total, 33 SAIs contributed to developing the Theme 2 Discussion Paper.

### Theme 3 Audit of social programs for professional integration of the disabled

Within the European Union and the OECD approximately one in seven people are categorised as disabled and in many countries the number claiming financial support due to incapacity is increasing. Governments recognise the many benefits of integrating disabled people into the workforce and all Governments have programmes to do this. The level of Government spending, the social importance of the programmes and the inherent risks such as the difficulty of establishing eligibility for support, make this an important area for scrutiny by SAIs.

Theme 3 was led by the SAI of the United Kingdom with support from the SAIs of Estonia, Iceland, Poland, Sweden and Switzerland. In total, 29 SAIs contributed to developing the Theme 3 Discussion Paper.

### **Congress Conclusions and Recommendations**

Clearly the three Themes cover diverse subjects. The first Theme is related directly to the challenge facing an SAI to ensure that its work and outputs always meet the high quality standards that stakeholders expect. The second and third Themes deal with specific, key social policy areas where SAIs can and do make an impact and, based on a discussion of existing experiences and approaches, seeks to highlight areas for future consideration by SAIs in their national work in these areas.

During the VII Congress EUROSAI members discussed the analysis and key observations drawn together in the Discussion Papers, as well as additional information including presentations covering technical audit case studies from SAIs and alternative perspectives from external stakeholders. On this basis the Congress reached certain conclusions and developed several recommendations.

The Congress agreed that the recommendations and the brief exposition of the findings and conclusions that underpin each Theme (as presented in Annexes one, two and three respectively), provide useful signposts for colleagues and other interested parties who may wish to access the wealth and breadth of underlying detailed and technical information to be posted on the EUROSAI website. The information, knowledge and guidance available to SAIs in this way will be of great value to them when considering or carrying out work in the areas covered by the Themes of the VII EUROSAI Congress, held in Krakow, Poland in June 2008.

## Annex (1)

### **Theme 1: Establishing an audit quality management system within a Supreme Audit Institution**

#### **1 Conclusions**

The Congress has developed the following main conclusions on how SAIs can strengthen audit quality management in their organisations

- 1.1 All participating EUROSAI members are concerned about audit quality issues. However, audit quality management practices vary considerably from country to country.
- 1.2 SAIs expressed their continued interest on issues regarding leadership and recognise that leadership is an essential element in an effective quality management system. The key message was that through good leadership, an organisation benefits from a clear definition of purpose, identity and direction.
- 1.3 The majority of SAIs emphasised that leadership should also give adequate importance to communication at all levels. This is vital to direct an SAI's mission and goals, improve trust across the organisation, and promote professional knowledge.
- 1.4 Most SAIs have a strategic plan to respond to the changing audit environment and to the expectations of stakeholders. The majority of SAIs also carry out, as part of their strategic planning process, a comprehensive assessment of risks associated with the audit environment.
- 1.5 SAIs in many countries periodically monitor and review progress made in the implementation of their strategy. The vast majority of SAIs indicated that the fulfilment of their strategic objectives is evaluated through the implementation of the annual audit plan/programme. Some SAIs mentioned that they use performance indicators to measure the degree of the implementation of the strategy.
- 1.6 SAIs indicated that they either have, or are in the process of developing, policies and systems for human resource management. Most SAIs have also formulated specific plans and procedures for the recruitment and selection of employees, for the promotion and advancement of employees, for the organisation of staff training and development, and for performance appraisals. However, different practices are in place depending on the SAI's mandate, size, culture, resources, organisational setup and stage of development.
- 1.7 The majority of SAIs consider comprehensive human resource planning and monitoring is essential to ensure the efficient and effective use of staff, as well as more satisfied and better trained employees. In addition, these SAIs regard as vital the fair application of well-documented and communicated human resources policies and procedures, and the transparent treatment of staff.
- 1.8 SAIs consider continuous supervision and regular review by management or senior auditors during the audit process as the main measures for quality control. This also ensures that audit work is in accordance with established audit standards and practices. In the majority of SAIs, audit work is reviewed by an audit team, as well as by internal and/or external advisors.

- 1.9 SAIs have developed documents on their audit methodologies (e.g. guidelines, manuals and checklists) that are compliant with international and internal audit standards. These are used to support auditors in carrying out high quality audits. Furthermore, most SAIs provide other kinds of support to auditors during the audit process, including the introduction of information technology tools to staff and the hiring of external expertise.
- 1.10 SAIs recognise the importance of external relations as an independent source of information on the quality of the audit activities. SAIs have established and maintained regular contact and rapport with stakeholders, and have undertaken initiatives to obtain their feedback. Key stakeholders targeted by the SAIs are Parliament and its committees, audited organisations, media, the general public and professional organisations.
- 1.11 SAIs have various measures in place to monitor the outcomes of their audit activity and to obtain external feedback. The majority of SAIs track the degree of implementation of audit recommendations. This is done through follow-up audits and surveys with audited organisations. Other methods used by SAIs include the organisation of press conferences, the monitoring and analysis of media reports on SAIs, and the collection of information from the public through feedback forms on their websites.
- 1.12 Most SAIs seek to continuously develop and improve their audit quality management system by carrying out internal and/or external post-audit quality reviews. Some SAIs also carry out self-assessments. These processes are used by SAIs to enhance their quality management systems, as well as to determine the direction of further progress.
- 1.13 SAIs provide different opportunities for staff to submit constructive suggestions. Most SAIs take due consideration of these suggestions in the preparation of their strategic or annual plans/programmes, as well as during performance appraisals. In addition proposals and comments from staff are taken into consideration when compiling or updating documents related to methodology.
- 1.14 SAIs recognised the need to continue to focus efforts to achieve high quality audit work. The importance of learning from the experiences of the private sector and other public sector organisations was emphasised. Good practices of other SAIs could also be emulated.

## **2 Recommendations**

Based on the discussed issues concerning the establishment and operation of an audit quality management system within an SAI, the Congress makes the following recommendations:

- 2.1 SAIs are encouraged to further promote leadership. This can be achieved by ensuring that an SAI's mandate is incorporated into the organisation's mission and vision statements, its value framework, the code of conduct, and in its strategic and operational plans. In order to assess and monitor the implementation of these goals, SAIs could also consider the development of performance indicators that report on inputs, outputs, outcomes, efficiency and/or other measures.
- 2.2 SAIs should consider setting as an objective the assessment and continuous improvement of their audit quality management systems. On the basis of these assessments, SAIs could develop an action plan focusing on priority issues that would serve as a foundation for initiatives aiming at the improvement of audit quality. SAIs are ultimately encouraged to operate a total quality management system focusing on all the functions and processes of the organisation and on the orientation of all staff towards the achievement of high quality.

- 2.3 SAIs are encouraged to take further efforts to support their staff to achieve high quality standards. Further training and professional development programmes could be organised to encourage staff members to continually learn and develop new knowledge, skills and work practices. Internal communication could also be improved by effectively using different communication tools.
- 2.4 SAIs could make use of reviews conducted by external experts, including peer reviews. SAIs may also consider establishing an independent organisational unit dedicated to quality issues.
- 2.5 SAIs should consider the strengthening of relations with key stakeholders, including the Parliament and its committees, audited organisations, media, the general public and professional organisations. SAIs are also encouraged to continue to develop their systems for the collection, evaluation and use of external feedback to enhance the quality of the audit activity.
- 2.6 The Congress supports the development of a good practices guide on audit quality to be drafted in 2009 by the working group. The draft guide will be submitted for comments by the Secretary General of EUROSAI to EUROSAI members. The final document will then be submitted to the EUROSAI Governing Board.

## Annex (2)

### Theme 2: Audit of social programs in the field education

#### Conclusions

##### Legal systems and expenditure

- 1) The fundamental and programmatic norms of most countries are set out in a Constitution;
- 2) The level of GDP spent in Education in EUROSAI countries varies between 2 and 8.5%;

##### Audits carried out in education

- 1) In the period 2004-2006, 109 audits were performed, and 93 are planned for the period 2007-2009;
- 2) The focus of most of the audits carried out was on the financial procedures and on the review of implementation of policies. Audits mainly concentrated on Higher Education;

##### Selection of education-related topics

- 1) The most commonly used sources of information for selecting the audit topics are the follow-up that is made by the SAI itself, along with the statistical information available;
- 2) Compliance/legality and economy and efficiency are the most commonly used criteria for evaluating education-related issues;

##### Methods used in education-related audits

- 1) In terms of the methodologies adopted there are no substantial differences between the audits performed in the area of Education and in other areas;
- 2) All SAIs use document review as a key audit method, and a majority gather information through public opinion surveys;

##### Reporting of the findings to decision makers and beneficiaries of education-related programs in order to maximise the audit impact

- 1) The Internet is the most commonly used medium to report SAI findings and recommendations;
- 2) Parliament, the audited entities and the Government are the main recipients of the outputs of SAI work;
- 3) The evaluation of the impact of SAI work is made essentially through monitoring the implementation of recommendations;
- 4) The recommendations aimed at changing rules and regulations, as well as the dissemination of good practices are the main methods used to maximize the impact of audits.

## Recommendations

### Audit topic selection

1. The extent of audits on education related topics should be relative to the scale of public expenditure on specific publicly funded programs. The following potential audit topics have emerged as worthy of consideration on a more universal basis from our review of the detailed responses provided by SAIs:
  - 1) barriers to accessing high quality kindergarten education, in particular those related to geographical location of service providers, parental financial capacity to cover school fees and the quality of kindergarten education services
  - 2) the quality and effectiveness of education services and initiatives aimed at elementary and high school level, in raising education achievement levels and reducing drop out rates of students between 15 and 18 yrs of age
  - 3) the quality of vocational education programs and initiatives and the extent to which these programs meet labour market needs and the demands for continuing education
  - 4) education initiatives designed to meet the needs of specific sectors of society, namely the disabled, the unemployed and offenders
  - 5) the quality of university level education, including issues around the effectiveness of management as well as provision of financial aid to students
2. In order to decide on the focus of audit themes, it is important to consider these programs in a European context as well as on a national level, using data and statistics available from information management systems worldwide. Audit themes should be selected that are particularly of parliamentary interest, and more specifically, of interest to key parliamentary committees, as far as possible.
3. The following risk areas could be considered by SAIs when selecting audit topics:
  - 1) the materiality of public expenditure on a program, particularly where there have been significant changes in expenditure over the course of the program duration
  - 2) complex management structures or unclear division of duties and responsibilities
  - 3) incomplete or imprecise legal regulations
  - 4) lack of existing program effectiveness indicators
  - 5) programs involving local autonomy and public tendering and procurement processes
4. Joint or parallel audits involving several SAIs may be of particular benefit. Such audits should enable auditors to share experiences and evaluate education systems on a regional and even European scale.

### Audit methods

1. It is important for SAIs to use or develop measurable and comparable performance indicators for specific programs, in evaluating the effectiveness of education policies or initiatives.
2. In addition to the more commonly used methods such as document/ file review, audits of education programs particularly benefit from using a number of other techniques, which

might include: surveys of beneficiaries, interviews, reviews of internal audit work, focus groups and expert panels. Benchmarking is also seen as a key tool for comparing the performance of education service providers across regions/ countries.

3. Throughout the audit process, effective communication should be maintained with the auditee. This should include regular feedback on audit progress, as well as early discussions on initial findings. Maintaining a closer working relationship between auditor and auditee has shown to facilitate discussions and acceptance of post-audit conclusions and recommendations.
4. Taking on board work done by other national audit bodies where applicable, and working with them where appropriate, can provide many benefits. Their reviews will provide a very useful insight into the auditee's work, and using their results can avoid duplication of work on an area, which will also reduce the disruption caused to the audited entity personnel by distracting them from their core duties.

#### Reporting audit conclusions and post-audit recommendations

1. In order to ensure audit effectiveness, it is advisable to provide audit reports to the decision and policy makers, who can help ensure the implementation of post-audit conclusions.
2. Although the Internet is a popular and highly valuable medium for presenting audit results, it is also worth using other channels to communicate audit conclusions and recommendations.
3. One of the key ways used by some SAIs in evaluating their audit impact is monitoring of the actions taken as a result of post-audit recommendations. In practice, simply introducing a systematic monitoring process in an SAI should itself lead to greater implementation of post-audit recommendations.
4. The added value of education audits can be ensured through specific recommendations which lead to changes in regulations governing education programs, as well as through wider dissemination of audit findings and identified good practice examples.

### Annex (3)

#### **Theme 3: Audit of social programs for professional integration of the disabled**

**Recommendation 1:** In planning their future audit work SAIs should take account of the particular materiality, risk and sensitivity inherent in programmes to promote the professional integration of the disabled. They should also note the experience of many SAIs that such audits have produced significant findings, conclusions and recommendations.

In many countries the significant amount of government funding provided to promote the employment of disabled people makes the area one that merits audit attention. Added to this there are also a number of particular factors which increase the priority that SAIs might give to this subject. These include that improving the professional integration of the disabled is a sensitive issue that people hold strong opinions about and the public interest in such programmes might be high. Experience shows that the risks in such programmes may be correspondingly high. Firstly there is some evidence that, at the political level, governments may set targets that are ambitious – sometimes higher than anything that may have been previously achieved and may, in practice not be realistic or achievable. Secondly, there are often increased risks to delivery of such programmes such as the difficulty of challenging legacy systems.

Although governments will be looking to make good use of public funds in this as in any other area of spending, there may be circumstances in which normal expectations of performance (eg in sheltered employment) are tempered by a recognition of wider social benefits from helping disabled people. As a consequence, auditors have to use particular skill and judgement in assessing performance, particularly if their work could lead to it concluding that certain programmes were poor value for money. In practice, audits by SAIs have confirmed that these difficulties, amongst other things, add to the risk that programmes can fail to deliver their intended benefits. Indeed some audits have found programmes to have significant weakness and very limited success.

**Recommendation 2:** In conducting their planning and carrying out their work SAIs should consider obtaining the views of users of services or their representatives.

SAIs have found significant benefits from obtaining the views of service users or their representatives. Such benefits include getting first hand information on how effectively programmes are working, information on the quality of the employment opportunity and experience which is not always measured by providers and in getting information about proposed developments in policy and administration. This can be achieved in a number of ways, for example surveys and contact with groups representing disabled people. Care has to be taken, however, that auditors retain their objectivity and independence and are able to evaluate particular services without becoming advocates for them in the political arena.

**Recommendation 3:** Where their statutory remit permits, SAIs should make full use of the opportunities for collaboration with other inspectors but must have arrangements in place to assure themselves of the accuracy and completeness of data provided by third parties.

Auditors in some jurisdictions are not able to audit work programmes on their own and need to collaborate with other organisations in discharging their duties. In many jurisdictions work programmes are delivered by non-governmental bodies, perhaps charities or private sector

bodies. The role of the SAI in the audit of programmes can be made harder in these circumstances. The auditor may need to gain a detailed understanding of a system that involves a high number of small organisations or a long delivery chain.

**Recommendation 4:** In developing national approaches SAIs should take full advantage of the opportunity to benefit from sharing the knowledge and experience already gained by EUROSAI colleagues.

The Congress has highlighted that SAIs already have considerable experience of auditing these programmes and of addressing the particular risks inherent in them. Therefore, although this is a broad and complex area, SAIs have the opportunity to draw on the existing experience of colleagues and the techniques they have used in developing their own audit approach appropriate to their national situations.

**Recommendation 5:** SAIs should encourage governments to adopt good administrative practice.

The scale of the funds used for work programmes for disabled people means that SAIs have an important responsibility for ensuring that funds are spent as intended and not directed into other activities. Yet audits by SAIs have often found that administrative arrangements put in place by governments are not fully effective. SAIs should encourage governments to introduce clear legislation and regulations, design robust and transparent decision-making arrangements for assessing eligibility, and maintain clear and accurate records of support provided to individuals.

**Recommendation 6:** SAIs have a role in helping encourage governments to improve the information they collect on outcomes in terms of gaining and retaining jobs and ensuring that programmes are designed in ways which allow for evaluation of success.

Many SAIs found data reliability a problem. These include difficulty in determining the number of participants in any given programme, or that data was sometimes just not available. Where data is available, the number of organisations involved in delivering services can mean there are different datasets that must be cross referenced or combined to gain an overall understanding of the programmes. Such work can be time consuming and often difficult. In addition, the difficulties in tracking what has happened to people after they have been through work programmes is likely to make assessing the effectiveness of programmes very difficult.

**Recommendation 7:** SAIs should consider whether they need specialist skills and support in assessing programmes for the disabled.

Eligibility for programmes and support arrangements for the disabled often centre on an assessment of disability usually carried out by medically qualified staff. Auditors cannot question the medical judgements on which decisions will have been made about eligibility for disability support or for admission to a work programme. Nevertheless, auditors will need to have a good understanding of the relevant medical decisions and the classification of disabled people and must find ways of assessing whether administrations have a strong decision making process in place. In order to do this there may be a need for specialist assistance in carrying out the audit.

***Recommendation 8:*** In view of the difficulty of making judgements in programmes for the support of the disabled, SAIs should pay particular attention to obtaining a range of sources of evidence that can provide further corroboration of findings and conclusions.

Where there is difficulty in making an audit judgement, for example where it is not feasible to come to judgement on how the medical profession is applying eligibility criteria, it is important to seek a range of other sources of evidence. For example, information showing trends of usage or participation can often be an indicator of a problem in applying eligibility criteria. Such sources of evidence are often more objectively verifiable.

***Recommendation 9:*** In scoping work in this broad and complex area SAIs should look for indicators from a variety of sources in order to identify areas that their work should focus on.

SAIs have found that there are indicators that help to reveal trends or problem areas within programmes. For example a high level of benefit appeals, repeat enrolments by individuals within training and skills programmes or a high number of people returning to a reliance on benefits may all indicate areas of risk or unintended or unforeseen consequences of programme implementation. Not all of the information needed will necessarily be held by the audited body. Other entities, for example Non Governmental Organisations, will often be a valuable source of relevant information on whether programmes are providing sustained employment for disabled people.