



National Audit Office

State Audit in the European Union

Introduction

Accountability for the use of public funds is of fundamental importance to democratic government. At the national level this usually involves the executive government accounting to elected representatives in Parliament for its oversight of taxpayers' money. State audit institutions have an essential contribution to make to the accountability process through the provision of independent and objective information, assurance and advice to Parliament about the accounts presented by the Executive. This key role is essentially the same for all state audit institutions but the way each one fulfils this purpose will vary according to its historical background and its position in the governmental structure.

The NAO first published *State Audit in the European Union* in 1996; a second, updated, edition was published in 2001. Both editions examined the role of the state audit institution – often referred to as a Supreme Audit Institution (SAI) – in each of the Member States of the European Union, plus the European Court of Auditors. They described each country's audit and accountability arrangements for the public sector, the way that state audit offices had responded to changes in the machinery of government, and reasons for any other developments in their roles.

Since 2001, there have been many developments, both in the organisation of national governments and the delivery of public service. For example, governments are under increasing pressure to deliver high quality public services more efficiently; and a wider range of bodies – including the private sector – are involved in the delivery. The role of state audit institutions, and the focus of their work, has had

to mirror these developments. And the European Union itself has seen changes – not least the accession of ten new Member States in May 2004.

Against this background, the National Audit Office considered it appropriate to update the information contained in the previous editions of the book. The publication of this new edition was also timed to coincide with the UK Presidency of the European Union during the latter half of 2005. The chapters relate to each of the 25 Member States of the European Union and the European Court of Auditors and are based upon information supplied by the SAI concerned. They cover the political and administrative background to the work of the SAI, a description of its remit and organisation, and an outline of the audit processes it employs. A chapter also summarises the National Audit Office's own analysis of the key themes emerging across these chapters and aims to identify the similarities and differences between systems and seeks to understand the reasons for them. Although the chapter focuses primarily on national SAIs, aspects of the role and work of the European Court of Auditors have been included where relevant.

The book's aim is to provide readers with a clear understanding of the role of each SAI and the environment in which it operates; it does not seek to identify an ideal system of state audit. The National Audit Office hopes that the book's publication stimulates discussion and debate about the development of the role of the SAI and aids cooperation between the SAIs of the European Union.

Acknowledgements

This publication updates an earlier book on State Audit in the European Union, which was first published by the National Audit Office in 1996 and then updated in 2001. This latest version includes the ten new Member States which joined the European Union in May 2004. In producing the book the National Audit Office drew largely on the advice, knowledge and expertise of all 25 State Audit Institutions in the European Union and the European Court of Auditors. Each audit institution took a leading role in contributing to the development of their respective chapters, and the National Audit Office is grateful to them and their staff for their cooperation and support.

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STATE AUDIT IN THE EUROPEAN UNION



Summary

Introduction

In the subsequent chapters, each of the 25 Supreme Audit Institutions (SAIs) and the European Court of Auditors describe their work and the environment in which they operate. This chapter highlights the key similarities and differences in approach, illustrated by examples from individual SAIs; it is not intended to be an exhaustive summary of each country's situation. It is based on an analysis of individual SAI chapters by the United Kingdom National Audit Office.

Background information

The **geographical size** and **population** of the Member States of the European Union vary considerably. For example, Malta has the smallest population - 400,000; while Germany has the largest with 82 million. In relation to geographical size, France and Spain remain the largest, with Malta the smallest followed by Luxembourg. The European Union is also heterogeneous in terms of population density – the Netherlands is densely populated, while Sweden and Finland have large unpopulated areas. **Figure 1** sets out the population and geographical size of all 25 Member States.

1 The population and land size of the 25 Member States of the European Union

	Population (million)	Land size (square kilometres)
Austria	8.1	83,900
Belgium	10.4	30,500
Cyprus	0.8	9,300
Czech Republic	10.2	78,900
Denmark	5.4	43,100
Estonia	1.4	45,200
Finland	5.2	338,100
France	61.7	544,000
Germany	82.4	357,000
Greece	11	132,000
Hungary	10.2	93,000
Ireland	4	70,300
Italy	57.3	301,300
Latvia	2.3	64,600
Lithuania	3.5	65,200
Luxembourg	0.4	2,600
Malta	0.4	316
Netherlands	16.3	41,500
Poland	38.2	322,500
Portugal	10.4	92,000
Slovakia	5.4	49,000
Slovenia	2	20,300
Spain	44.0	506,000
Sweden	8.9	450,000
United Kingdom	59.4	243,000

The **economies of Member States** can be described, broadly, as mixed. For example, Belgium, Estonia, France, Poland and Slovenia can be described as industrialised; Greece and Portugal have large agricultural sectors. The growth in size and maturity of the service sector has been a feature in a number of member states – such as the United Kingdom, Ireland, the Netherlands, and Poland.

The **structure of Member States** varies. Some are unitary states – the Czech Republic, Estonia, Portugal, the United Kingdom, Greece and the Republic of Ireland, for example. Others – Belgium and Germany – are federal states. And some have devolved the delivery of public service to municipalities – most notably, Denmark, Finland, and Sweden.

A country is required to have a **democratic parliamentary system** as a condition of membership of the European Union. This can take a variety of forms, as shown in **Figure 2**. Electoral systems vary, with the large majority based on proportional representation.

In conclusion therefore, while each country is linked by common membership of the European Union, each retains a separate identity in terms of language, culture and history. And their shared democracy manifests itself in varying democratic systems and processes, and distinct parliamentary, constitutional and administrative systems.

It is against this background that each Supreme Audit Institution operates.

The Supreme Audit Institutions

History

While state audit has existed in some form for several centuries, the structure, remit and powers of most SAIs have evolved over time, sometimes as a result of political changes – such as the re-instatement of the House of Orange in the Netherlands (1814), the unification of Italy in 1861, and the establishment of the new Austrian Republic (1918). For other SAIs change has resulted from the reform of public administration – for example, the establishment of the Exchequer and Audit Department, the predecessor to the United Kingdom National Audit Office, in 1866. More recent changes to the remit and operation of some SAIs are shown in **Figure 3**.

2 Legislatures - number of members

	Lower Chamber	Upper Chamber
Austria	183	62
Belgium	150	71
Cyprus	80	–
Czech Republic	200	81
Denmark	179	–
Estonia	101	–
Finland	200	–
France	577	321
Germany	603	69
Greece	300	–
Hungary	386	–
Ireland	166	60
Italy	630	315
Latvia	100	–
Lithuania	141	–
Luxembourg	60	–
Malta	65	–
Netherlands	150	75
Poland	460	100
Portugal	230	–
Slovakia	150	–
Slovenia	90	40
Spain	350	259
Sweden	349	–
United Kingdom	659	1200

3 Examples of changes to the remit and operation of SAIs

In 1991 and 1996, legislation was introduced to emphasise the independence of Denmark's Auditor General and to improve access rights.

In 1991, 1993, and 1995, legislation updated the law governing audit in Finland and extended the remit of its SAI. In 2000, a new constitution increased the independence of the SAI.

In Ireland, the Comptroller and Auditor General (Amendment) Act 1993 extended his remit and gave performance audit a statutory basis.

The NKU, the Czech Republic's SAI, dates from the establishment of the Czech Republic as a sovereign state in 1993.

In 1994, new legislation enhanced the role of Italy's Corte dei Conti and facilitated the development of performance audit.

In 1997, the Republic of Poland's new constitution underlined the NIK's constitutional independence from the government and its relationship with the lower chamber of the national assembly.

In 1997, the enactment of new state audit legislation set up the SAI in Malta as an entity autonomous from Government and updated state audit legislation by extending its remit and giving performance audit a clear statutory basis.

Structures

There are four main types of supreme audit institution within the European Union (the Austrian and Slovene SAI fall outside of this categorisation). These are shown in **Figure 4** together with a short description and a list of the countries that fall into each group. The fact that SAIs can be grouped is not coincidental. The French system of administration spread across Europe in the nineteenth century; and the United Kingdom's Exchequer and Audit Department was responsible for audit in Ireland until 1921, when the country was divided. The United Kingdom also had a historical influence on the structures developed by Cyprus and Malta.

4 The types of SAI structure

Description

A court which has a judicial function

A collegiate structure with no judicial function

An audit office, independent of government, headed by an Auditor General or a President

A distinct model, headed by a President and auditing at central, regional, and local level

Member State

France, Belgium, Portugal, Spain, Italy and Greece

The Netherlands, Germany, Slovakia, the Czech Republic, Luxembourg and the European Court of Auditors

Hungary, Malta, Poland, Cyprus, United Kingdom, Republic of Ireland, Latvia, Lithuania, Sweden, Finland, Denmark and Estonia

Austria and Slovenia

The status of the SAI

All Member States' SAIs are provided for and given a place within the system of government either by the constitution or by statute. In Sweden, its SAI comes under the jurisdiction of its Ministry of Finance, which was the case in Finland until 2000 and Denmark until 1975. The influence of the executive, particularly the Treasury, on the work of the United Kingdom SAI was ended in 1983, when the National Audit Act was passed. At the European level, the European Court of Auditors became a full institution in November 1993, under the Treaty of the European Union.

The nature and status of the governing body and head

In some SAIs, decisions at the highest level are taken by its head, either an Auditor General or a President. In others, the SAIs decisions are taken collectively (see Figure 5).

The status of the heads of SAIs is emphasised in different ways in different Member States, examples of which are given below.

- Members of the Spanish, Portuguese, Italian and German SAIs have the same status as judges.
- In the United Kingdom, the independence of the head of the National Audit Office is emphasised by his designation as an Officer of the House of Commons.
- In Slovakia and Estonia, the heads of SAIs have the right to speak at and to attend meetings of the Cabinet.

5 Decision making in the SAIs

Decisions made by an Auditor General or a president

Latvia

Cyprus

Ireland

Sweden

Finland

United Kingdom

Austria

Denmark

Lithuania

Estonia

Hungary

Malta

Slovakia

Slovenia

Decisions made collectively

Czech Republic

France

Belgium

Spain

Portugal

Germany

Greece

Luxembourg

The Netherlands

Italy

European Court of Auditors

Poland

The political affiliation of heads and governing bodies

It is important to draw a distinction between appointments that are political and the appointment of individuals from a political background. The heads of the SAIs in Estonia, Poland, and Slovakia cannot be affiliated to a political party, while in Finland candidates for Auditor General are permitted to have a political background – the appointment itself is, however, strictly non political. In the Netherlands, the three members of the SAIs board tend to be affiliated with the three largest political parties. Where members of the SAI are analogous to judges, they are generally not politically affiliated. Members of the European Court of Auditors are required by the treaties to act fully independently.

In order to ensure that SAIs are not influenced by political bias, member states have certain safeguards, for example:

- In **Germany**, political parties are given equal representation within the SAIs.
- In **Slovenia**, members of the Court of Audit must not have been a cabinet minister in the four years preceding their appointment. In **Austria**, the SAI's president is not permitted to have been a member of the federal or provincial government for at least four years preceding appointment.
- In the **United Kingdom**, the head of the National Audit Office, the Comptroller and Auditor General, is nominated by the Prime Minister in consultation with the Chairman of the Committee of Public Accounts, by convention a member of the main opposition party in the House of Commons.
- In some countries, such as **Denmark, Sweden** and the **United Kingdom**, the relevant Act establishes the independence of the Auditor General in performing his duties.
- In **Malta** the Auditor General is appointed by the President of Malta, acting in accordance with a Resolution that is supported by at least two-thirds majority of all members in the House of Representatives.
- In **Sweden**, the three equal heads of the Riksrevisionen – the Auditors General – can only be discharged from their office because of gross neglect.
- In **Cyprus**, the Auditor General may only be retired or removed from office for mental or physical disability or for gross misconduct.

Methods of appointment

The methods used to appoint each Member State's head or governing body varies. In Estonia the President proposes to the Parliament the candidate of a new Auditor General. In Austria, Spain, Denmark, Sweden, Finland and Belgium appointments are made by the legislature. In Hungary, two thirds of the National Assembly must vote in a new President of the Office. In Malta a two-thirds majority is similarly required of the House of Representatives to vote for the SAI President, prior to being appointed by the President of Malta; in the Czech Republic, the President appoints a new president of the SAI following a proposal by the Chamber of Deputies; and in Portugal the President is appointed by the President of the Republic on a proposal of the Government. In Italy, the President appoints the SAI's new President, who must be a Corte dei Conti's President of Chamber, following a proposal by the executive.

In contrast, appointments are made by the executive in Greece and France. And both the legislature and the executive are involved in the United Kingdom, Ireland, Germany and the Netherlands.

Tenure

Some heads or members of governing bodies of SAIs are appointed for life or until a fixed retirement age. There are however some exceptions, illustrated below.

- In **Spain**, members are elected for renewable periods of nine years; the President is appointed for a three year term.
- In **Portugal**, the President of the Tribunal is appointed for a renewable period of four years.
- In **Slovakia**, the term of office for the chairman of the state audit institution is seven years.
- In **Finland**, the Auditor General is appointed for a renewable six year term.
- In **Malta and Estonia**, the Auditor General is appointed for a renewable term of five years.
- In **Austria**, the president is appointed for 12 years.
- In **Belgium and Luxembourg**, members are elected for a renewable six year period.
- In **Slovenia**, the President of the Court is elected for nine years by a majority vote in the National Assembly.
- In **Sweden**, the Auditors General are appointed for one term of seven years.
- In **Hungary**, the President is appointed for a renewable term of twelve years.

Security of tenure

An SAI's independence can be ensured through the security of tenure for the head or governing body is one way of securing the SAI's independence. As with the length of tenure, the mechanisms for securing tenure vary. In the United Kingdom, the Comptroller and Auditor General can be removed by the monarch on a resolution of both houses of Parliament. Analogous arrangements are in place in Ireland, Finland, Sweden and Austria. In Slovenia, members of the Court can only be dismissed in extreme circumstances, following a vote of the National Assembly.

In Cyprus, Germany and Malta, reasons for dismissing the Auditor General are similar to those for removing a high court judge – for example, due to mental or physical disability or because of gross misconduct. In Spain members of the SAI cannot be dismissed except in the case of serious default in the duties of the office.

Members of the European Court of Auditors can only be removed by a decision of the European Court of Justice, acting on a request from the European Court of Auditors, if a member no longer meets the requirements of office.

The allocation of resources to SAI

While most legislatures play some part in setting the level of resources for the SAI in most countries, the executive is also involved in some way in a minority of countries (Portugal, Ireland, Germany, the Netherlands and Austria). In a number of cases – the United Kingdom, Belgium and Luxembourg - the SAI itself proposes a budget to a Parliamentary committee for approval, which is then approved by the legislature. In Spain, the draft budget is drawn up and approved by the SAI and it is incorporated integrally as an independent section of the General State Budget to be approved by the Parliament. In Denmark, the budget is set by the legislature on recommendation from SAI itself.

The number and skills of members and staff

As the SAIs' role varies between Member States, so do the number and skills of the staff they employ (Figure 6). For example, in the United Kingdom, audit staff are professionally qualified accountants supplemented by subject specialists and researchers. All audit staff in Poland and Estonia have a degree, as do the majority in Slovenia and Malta.

Staffing performance audits varies between countries. In the United Kingdom, specialists are employed on value for money teams that have responsibilities for particular areas of expenditure. In France, staff from the audited bodies are seconded to the SAI to carry out defined tasks.

For the majority of SAIs, staff are classified as civil servants. Exceptions exist, however.

- In Denmark, in 1991, almost all staff transferred from the mainstream civil service and became employed directly by the SAI.
- Similarly, in Malta, following the Auditor General and National Audit Office Act of 1997, all SAI staff were employed directly by the National Audit Office. Previously, all staff were civil servants.
- Following the National Audit Act 1983, staff at the United Kingdom National Audit Office are employed by the Comptroller and Auditor General. Previously, they had been civil servants.

Where SAI staff are classified as civil servants there is usually a clear link to civil service salaries. For example, in Lithuania the remuneration of public auditors is fixed under the provisions of civil service law. In Germany, the SAI staff are subject to the same pay and grade structure as other civil servants.

The role of the SAI

All 25 SAIs and the European Court of Auditors have a main purpose in common – to examine and report on accounts relating to the use of public funds. Some also carry out performance audits – examinations of the economy, efficiency and effectiveness with which public funds have been used. Some SAIs carry out additional work which develops out of these two strands.

While the SAIs share common purposes, precise definitions of their roles can differ. In some countries, the remit is broad – in Spain, for example, the SAI conducts the permanent and ex-post external audit of the public sector's financial activity. Under the Netherlands' constitution, its SAI is responsible for the audit of state revenue and expenditure.

6 Number and key skills of staff by SAI

	Total number of staff	Lawyers	Accountancy/business	Other backgrounds
Austria	312	✓	✓	E, Su
Belgium	616	✓	✓	P, S, E, A
Cyprus	117	✓	✓	E, PA, F, Other
Czech Republic	470	✓	✓	E, Su
Denmark	250	✓	✓	E, P, S, PA
Estonia	85	✓	✓	E, P, So, PA, Su
Finland	147	✓	✓	E, P, So, PA
France	608	✓	–	F, E
Germany	1500	✓	✓	E, PA, St, Su, F, A
Greece	645	✓	✓	E
Hungary	613	✓	✓	A, Su
Ireland	169	–	✓	St, Su, E
Italy	3199	✓	✓	E, St, PA, F, Su
Latvia	178	✓	✓	E, A
Lithuania	300	✓	✓	E, Other
Luxembourg	40	✓	✓	Other
Malta	64	–	✓	E, PA, St
Netherlands	290	✓	✓	E, P, S, PA, St, So, F, A
Poland	1700	✓	✓	E, S, Agri
Portugal	600	✓	✓	E, F, Other
Slovakia	232	✓	✓	E, P, Su, F, Other
Slovenia	100	✓	✓	Other
Spain	800	✓	✓	E, PA, A
Sweden	300	–	✓	E, S, P
United Kingdom	832	–	✓	Su
European Court of Auditors	750	✓	✓	E, P, St, Other

NOTES

E=economics; P=political science; S=social science; PA=public administration; St=statistics; So=Sociology; Su= subject specialists; F=finance; A=general administration.

The remit of some SAIs covers performance audit, which is sometimes set out in legislation. For example, performance audit in the United Kingdom, Sweden, Ireland, Malta, Cyprus, Slovenia and Estonia is on a statutory basis.

The number and range of bodies audited

Within each Member State, public services are delivered by a wide range of bodies and structures at central, regional and local level. Some bodies are granted public funds; others are funded by a statutory levy on private sector bodies. And others may have their debts underwritten by the state. Some private sector entities may be partially owned by the state. Public bodies contract increasingly with the private sector who provide services on their behalf.

The diversity of mechanisms for delivery of public services is reflected by the diversity of remit of the member states' SAIs, shown in [Figure 7](#).

The number of bodies audited

The number of bodies audited by SAIs varies considerably. The United Kingdom National Audit Office examines and reports on several hundred bodies and has access to thousands more. In Portugal, some 11,000 public bodies fall within the Tribunal's remit, but certain factors – such as the size of their annual income – exempt bodies from audit (in practice around 3,000 bodies are regularly examined).

Central government

By definition all SAIs examine the accounts of central government bodies. In most countries this covers ministries and departments.

Regional and local government

Some SAIs also have responsibility for the audit of regional and local government. For example, in Poland the NIK audits local government bodies and activities. In Malta, the audit of local government falls under the responsibility of the NAO. Under the terms of the Local Councils Act, these audits are contracted out to private sector auditors who carry out such audits on the Auditor General's behalf. And the Slovenian Court is empowered to audit local authorities. Other countries – such as the United Kingdom, France, Denmark, Sweden and in the German Lander, separate audit organisations cover regional and local government (in the United Kingdom, following devolution, separate bodies in Scotland, Wales and Northern Ireland are responsible for auditing matters that are not reserved for the United Kingdom Parliament; local government and health authority accounts are audited by auditors appointed by the Audit Commission, an independent public body). In Denmark, most of local government is audited by the Government Auditing Department, a separate government department (although the head of the SAI has access to local government accounts of expenditures reimbursed by the state). France has regional Chambres des Comptes, and Italy has regional audit Chambers.

7 Audit remit

	Central Government	Regional Government	Local Government	State Enterprises	Public bodies	Municipalities	Other recipients
Austria	✓	✓	✓	✓	✓	✓	✓
Belgium	✓	✓	✓	✓	✓	–	–
Cyprus	✓	–	✓	✓	✓	✓	✓
Czech Republic	✓	–	–	✓	✓	–	✓
Denmark	✓	–	–	✓	✓	–	✓
Estonia	✓	✓	✓	✓	✓	✓	✓
Finland	✓	–	–	✓	✓	–	✓
France	✓	–	–	✓	✓	–	✓
Germany	✓	–	–	✓	✓	–	✓
Greece	✓	–	✓	✓	✓	✓	✓
Hungary	✓	–	✓	✓	✓	✓	✓
Ireland	✓	–	–	–	✓	–	✓
Italy	✓	✓	✓	✓	✓	✓	✓
Latvia	✓	–	✓	✓	✓	✓	✓
Lithuania	✓	–	✓	✓	✓	✓	✓
Luxembourg	✓	–	–	✓	✓	–	✓
Malta	✓	–	✓	✓	✓	–	✓
Netherlands	✓	–	–	✓	✓	–	✓
Poland	✓	✓	✓	✓	✓	✓	✓
Portugal	✓	✓	✓	✓	✓	✓	✓
Slovakia	✓	✓	✓	✓	✓	✓	✓
Slovenia	✓	–	✓	✓	✓	✓	✓
Spain	✓	✓	✓	✓	✓	✓	✓
Sweden	✓	–	–	✓	✓	–	✓
United Kingdom	✓	–	–	–	✓	–	–
European Court of Auditors	✓	✓	✓	✓	✓	✓	✓

NOTES

In Germany regional, local and municipal levels of government are covered by specific audit bodies.

State enterprises

Twenty four SAIs audit the accounts of some or all state enterprises. Privatisation has had an impact here, however. For example, the SAIs of the United Kingdom, Austria and Finland, have lost audits as a result of this policy (Finland and the United Kingdom have retained access to regulatory bodies responsible for the oversight of privatised sectors). In France, the SAI reviews the work undertaken by private sector auditors.

Public bodies

Almost all SAIs audit public bodies which carry out the tasks of government. In Belgium, the Court audits the public service agencies subordinated to the federal, community and regional level. And the United Kingdom SAI has access to all non-departmental public bodies.

Municipalities

The remits of some SAIs extend to the audit of municipal authorities. For example,

- In Austria, the Rechnungshof audits the activities of all local communities with a population of at least 20,000, as well as those with a smaller population following a request from a competent provincial government.
- In Italy, town councils with a population of more than 8,000 are required to submit accounts to the Corte.
- In Portugal, the SAI audits the accounts of city council associations and federations.
- In Poland, the SAI audits the activities of all levels of local government, including municipalities applying the criteria of legality, integrity and economy.

In other countries, SAIs are prohibited from undertaking the audit of municipal authorities. For example, in the Czech Republic the SAI is not allowed to audit resources levied directly by municipalities or regions under their own jurisdiction.

Private sector bodies

In some countries, where private sector bodies receive state funding, the SAI is required to audit the use of these funds. The exact nature of the audit varies. In the Netherlands bodies receiving loans, guarantees or subsidies from the

state are subject to audit by the SAI. In Austria and Germany private bodies in receipt of public funds for specific purposes are examined by SAIs.

Types of audit

The SAIs of the Member States of the European Union complete a range of different types of work, which can be categorised in two general ways, outlined in [Figure 8](#); and [Figure 9](#) outlines by category of audit the work of each SAI.

A priori audit – audit in advance of expenditure

Currently, five of the 25 SAIs conduct a priori audits – Belgium, Italy, Germany, Greece and Portugal. The Italian SAI examines a few thousand transactions a year. And, in Portugal, the SAI's a priori work is reducing. In comparison, the Greek SAI audits almost all expenditure of central government and public corporations. In the United Kingdom and Ireland, the Auditor General also has a Comptroller function – he authorises the issuing of money from the Treasury to departments.

8 Categories of work – a description

A priori audits - the SAI authorises or advises on public expenditure as part of the process of financial control. For example, the SAI may receive details of all payments together with supporting documentation and will check the accuracy, legality and regularity of all transactions. The SAI will also ensure that there is sufficient budgetary provision for the transaction to be made.

Ex post audits can be subdivided into three – judicial audit, financial audit, and performance audit.

- **Judicial audit** examines and makes judgements on the records of individuals with whom personal responsibility for the use of public funds rests.
- **Financial audit** allows the SAI to report on the state account or accounts and provides the basis for the legislature to give some form of discharge or opinion.
- **Performance audit** addresses wider issues of economy efficiency and effectiveness of expenditure.

9 Categories of work, by SAI

	A priori audit	Judicial	Ex post audit Financial	Performance
Austria	–	–	✓	✓
Belgium	✓	✓	✓	✓
Cyprus	–	–	✓	✓
Czech Republic	–	–	✓	✓
Denmark	–	–	✓	✓
Estonia	–	–	✓	✓
Finland	–	–	✓	✓
France	–	✓	✓	✓
Germany	✓	–	✓	✓
Greece	✓	✓	✓	–
Hungary	–	–	✓	✓
Ireland	–	–	✓	✓
Italy	✓	✓	✓	✓
Latvia	–	–	✓	✓
Lithuania	–	–	✓	✓
Luxembourg	–	–	✓	✓
Malta	–	–	✓	✓
Netherlands	–	–	✓	✓
Poland	–	–	✓	✓
Portugal	✓	✓	✓	✓
Slovakia	–	–	✓	✓
Slovenia	–	–	✓	✓
Spain	–	✓	✓	✓
Sweden	–	–	✓	✓
United Kingdom	–	–	✓	✓
European Court of Auditors	–	–	✓	✓

Judicial powers

The SAIs of Belgium, France, Greece, Italy, Portugal, and Spain have judicial powers. In Greece, the SAI audits the accounts of every public accountant and of public bodies and local administrative agencies. In France and Belgium, the SAI examines whether the accounts and supporting documentation indicate whether the accounting officer has carried out his duties properly.

In Portugal and Italy, the approach is different in that the SAI investigates cases raised by the Prosecutor, the organisation affected or public action rather than focusing directly on public accountants' personal responsibility.

In Spain, the SAI tries for accounting liability where such arises in respect of persons entrusted with the handling of public funds; also the Prosecutor, the organisation affected or any citizen or entity, through public action, can ask the Jurisdictional Section to initiate the process.

Financial audit

All SAIs in the European Union undertake financial audit in some form. Where a priori audit takes place, the SAI uses this work as a basis for the examination of government accounts. In Estonia, financial audits verify whether the accounts of institutions truly and fairly reflect their financial situation. The United Kingdom SAI examines each department's accounts; and this will extend to the whole of government accounts planned for 2006-07; in Denmark the accounts of the whole of government are examined by test samples and materiality and risk. The European Court of Auditors produces an annual Statement of Assurance on the reliability of the accounts of the European Community and reports on the legality and regularity of the underlying transactions.

The approach to as well as the focus of financial audit varies between SAIs. The Danish and the Swedish SAIs rely heavily on their assessment of the adequacy of the financial systems. In the United Kingdom, the level of substantive testing by the SAI varies according to its assessment of the integrity of the underlying systems, including the work of internal audit. A similar approach is taken in Lithuania.

Performance audit

Twenty four of the 25 Member States' SAI carry out performance audits – the exception is Greece – although for some this is a relatively new development (such as Portugal) while in other countries performance audit has a long tradition (the German SAI's remit extended to efficiency issues as far back as the nineteenth century).

While performance audit is generally interpreted as referring to economy, efficiency, and effectiveness, different countries interpret this in different ways. In France, the focus is on the achievement or otherwise of desired objectives which it undertakes through programme evaluation. In Portugal, performance audits tend to focus on developments against past performance, rather than benchmarks of good practice.

Differences also appear in the time at which a performance audit can be started. In the United Kingdom, performance audit work takes place during and after the implementation of a particular programme. The Dutch SAI interprets its audit remit as permitting an examination of a subject as soon as a decision to start a project is taken. In Germany, the performance audit may start once a policy decision has been made.

Completing the cycle of accountability

In the cycle of accountability, the legislature approves the state budget which is implemented by the executive. The SAI examines whether resources have been used for the purposes intended by the legislature. In some countries the SAI is involved in a formal discharge of the accounts; in other countries the SAI produces an opinion on the accuracy of the accounts, highlighting errors and problems.

Reporting

Following a financial audit, the United Kingdom and Ireland SAIs submit reports on individual departments rather than on a single account covering the whole of government. Other countries consolidate their findings into a single document with separate sections on individual departments. The Estonian SAI prepares an annual audit report on the public sector consolidated accounts. And the Polish SAI submits an annual report to the Parliament entitled Analysis of the execution of the State Budget and the Monetary Policy Guidelines, summarising the results of audits carried out on the accounts and the performance of institutions authorised to spend and distribute budgetary funds. Reports from the Italian and Greek SAI include recommendations for improvements to the laws and regulations governing public administration.

Reporting on performance audit also varies between countries. In countries such as the United Kingdom, Denmark, Finland, Germany and Malta free standing reports are produced. Elsewhere, in Austria, for example, most matters arising from performance audits appear in the SAI's annual report.

Agreement of report details

SAIs liaise with audited bodies during the course of producing a report, but have different procedures for reaching agreement on its contents. Generally, the SAI sends a draft report to the audited body, whose comments are then to be considered and the report amended where necessary – for example, in Cyprus, Hungary, Malta and the United Kingdom. Some audit bodies – such as the European Court of Auditors – include the response of the audited body in the report. Some countries – such as Ireland and the Netherlands – operate strict timetables for agreeing reports.

The United Kingdom Parliament's Committee of Public Accounts expects the National Audit Office to agree the factual accuracy of each report with the audited body. In Ireland however, differences between auditor and auditee are noted in the report. A similar approach is adopted in Germany, Denmark, the Netherlands and Portugal, where the auditee's views are recorded in the report's text or in an annex. In Malta, an 'exit conference' is held, particularly for performance audit reports, at which the auditees and the SAI discuss the report; any submissions from the auditee are considered for inclusion in a revised report.

The legislature's consideration of SAI reports

Figure 10 shows, for each SAI, how the report is taken by the legislature. In Estonia, all reports are sent to the Committee on the Control of State Budget for review. In Finland the SAI reports to Parliament annually on its activities. The report is dealt with in Parliament and in its committees while audit reports are sent for information only. In the Netherlands, reports from the SAI are occasionally debated on the floor of the lower house as well as in a specialist Public Accounts Committee. In Hungary, an increasing proportion of SAI reports are discussed in parliamentary committee meetings. Some parliaments have established specific committees to consider SAI reports, although the remit varies. In others, the report may be considered by a number of committees – for example, in Germany, advisory reports may be considered

by the Appropriation Committee, the Public Accounts Committee and, on occasions, other select committees. In Italy, the Corte's reports are considered by the committee relevant to the subject matter.

The operation of committees differs between Member States. For example,

- in Ireland, the Office of the Comptroller and Auditor General has a liaison officer on secondment to the Committee of Public Accounts who helps agree the contents of the Committee's reports with the SAI; and
- in Denmark, the Public Accounts Committee is composed of six paid members, who need not be members of Parliament.

SAI reports form the basis of questioning for those accountable for public funds. In the United Kingdom and Ireland, unlike other countries, the head of the audited body is always called as a witness before a specialist committee. In Malta, the Public Accounts Committee discussions are attended by staff from both the SAI and the auditee. In Austria, the Public Accounts Committee may call officials. In court systems, ministers rather than officials tend to be accountable.

Work carried at the request of others

While an SAI's independence is, in part, underpinned by its ability to plan and execute its work, the legislature, and sometimes the executive, may ask the SAI to carry out specific examinations and report its findings, for example, the Netherlands, Austria, Spain, Portugal and Italy. Elsewhere, the Public Accounts Committee is the only body that can request an examination by the SAI.

SAIs in some countries work closely with parliamentary committees to determine their work programmes. In the United Kingdom, the Comptroller and Auditor General provides the Committee of Public Accounts with details of his proposed forward programme. Ideas for work can also come from Members of Parliament. In the Netherlands, the SAI and the Public Accounts Committee meet three or four times a year to discuss matters of mutual interest.

10 Reports produced by SAIs

	Committee(s)	Whole house	Other	Regional/ local level
Austria	✓	✓	-	✓
Belgium	✓	-	-	✓
Cyprus	✓	✓	✓	-
Czech Republic	-	✓	✓	-
Denmark	✓	-	-	-
Estonia	✓	-	-	-
Finland	-	-	✓	-
France	✓	-	-	-
Germany	✓	✓	✓	-
Greece	-	✓	-	-
Hungary	✓	✓	-	-
Ireland	✓	-	-	-
Italy	✓	-	-	✓
Latvia	✓	✓	✓	-
Lithuania	✓	-	✓	-
Luxembourg	✓	✓	-	-
Malta	✓	-	-	-
Netherlands	✓	✓	-	-
Poland	-	✓	✓	✓
Portugal	-	✓	-	-
Slovakia	✓	-	-	-
Slovenia	-	✓	-	-
Spain	✓	-	-	✓
Sweden	-	-	✓	-
United Kingdom	✓	-	-	-
European Court of Auditors	✓	✓	✓	-

Other work

The preceding paragraphs have shown that the work of the 25 SAIs has much in common. Many have other roles, however, partly due to the way in which the SAI evolved and partly due to the position of the SAI in the country's administrative structure. For example, in Germany the SAI is involved at all stages of consideration of the budget and may be asked to comment on the feasibility of proposals. In the United Kingdom the SAI reviews the assumptions underlying the budget. In Hungary, the SAI audits the state budget proposal and comments on the feasibility of meeting appropriations. It also regularly audits the political parties. The SAI in the Czech Republic draws up its opinion on its analysis of draft legislation and informs law enforcement or financial authorities, on a confidential basis, of seriously suspicious activities or events.

The Government's response and follow up

Following the publication of the SAI's or Parliament's report, some countries have follow up procedures in which the government or ministers respond to the report. In some countries the follow up occurs after the SAI's report is considered by a parliamentary committee. For example, in the United Kingdom the Committee of Public Accounts publishes a report following its hearing which uses the National Audit Office report as evidence and its starting point. The Committee's report includes recommendations for improvements to which the government has to respond. The government's response is published and can form the basis of follow up action by the SAI.

In Cyprus the SAI's report is discussed by the Parliamentary Public Accounts Committee as well as the "Council of Ministers for appropriate action".

In Estonia, following a discussion of the SAI's report by a parliamentary committee, the committee may submit its inquiry to the government. The committee checks that its recommendations and those of the SAI have been implemented by the government.

In Hungary, the SAI report may include recommendations for action by the government. The audited body prepares an action plan based on these recommendations, which is tracked by the SAI. The SAI also comments, in subsequent reports, on how the audited body has responded to the recommendations.

In France, the government examines, every three months, cases where action is necessary, enabling the legislature to question ministers about the action taken. Elsewhere the legislature only becomes involved when the SAI has not been able to secure improvements.

A number of SAIs publicise progress against their recommendations. The Austrian SAI's annual report includes a list of recommendations from previous years and the action taken to implement them. The German SAI publishes an Audit Impact Report highlighting the action taken in response to its audit recommendations.

Public availability of reports

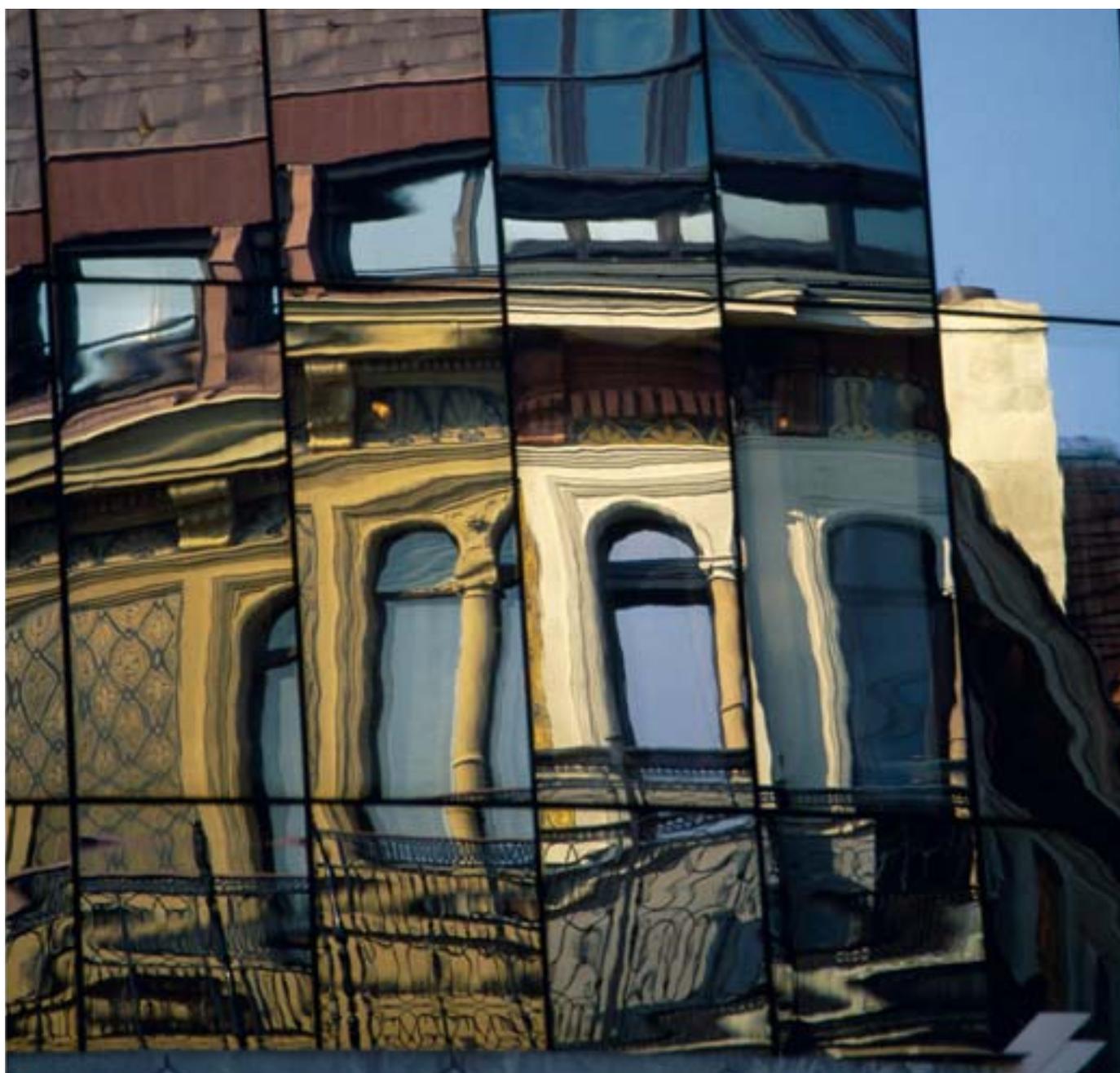
SAI reports are generally available to the public, increasingly through the SAI's web sites. In some countries, publication can be accompanied by significant media interest. SAIs may operate press offices to publicise their work – for example, in the United Kingdom and Austria. The Slovakian SAI holds press conferences every three months to brief journalists on its work.

Conclusions

Safeguarding public funds and ensuring accountability for their use is a key feature of democratic government. Against this background, SAIs have an increasingly important role to play, not only in ensuring probity in the use of public funds but also in assessing the value for money obtained from them.

While certain common principles, most importantly independence, underpin the work of all 25 member state SAIs and the European Court of Auditors, their organisation and approach can differ quite radically. It is not possible to generalise, therefore, from this work to an ideal SAI.

RECHNUNGSHOF REPUBLIC OF AUSTRIA



Key Facts

Economic and general information

- The Republic of Austria was proclaimed in 1918 after the break-up of the Austro-Hungarian Empire. After German occupation during World War II the Republic was reconstituted, within its 1937 frontiers, in 1945. In May 1955 the Austrian State Treaty recognised the re-establishment of Austria as a sovereign, independent and democratic state.
- Austria applied for European Community membership in 1989 and became a member of the European Union in 1995.
- Austria has an area of 84,000 square kilometres and a population of some 8.1 million people. The German language is spoken by over 90 per cent of the population, but the rights of Slovene and Croat speaking minorities are protected.
- Manufacturing, corporate and public sector services, trade, banking, insurance and construction generate the largest share of Austrian GDP. Tourism is also very important. The country is self-sufficient in agricultural produce.
- Austria suffered relatively lightly during the recession in the early 1990s, partly because of increased demand from former Communist states in eastern and central Europe. In addition, the predominance of small and medium sized companies was of benefit as they proved to be flexible and thus able to switch markets and adapt production as required. Austria met the Maastricht convergence criteria required for participation in the third stage of European Economic and Monetary Union by consolidating its public-sector budgets in the years 1995-1997.

The structure of the Austrian state

Constitution

Austria is a democratic federal republic, divided into nine provinces (or Länder). The Constitution of 1 October 1920, as amended in 1929, was restored in April 1945. It provides for a bicameral legislative assembly (consisting of the Nationalrat or National Council and the Bundesrat or Federal Council), referenda on important issues, and the election of the Federal President by universal suffrage.

Head of State

The Head of State is the Federal President who is directly elected by popular vote and holds office for six years. Immediate re-election is permitted only once. Candidates are usually nominated by political parties, but to date Presidents have adhered to a non-partisan approach to the post. Although vested with emergency powers, the President usually acts on the advice of the Federal Government, having been sworn in by the legislature. The President's main duties include representing the Republic abroad, signing international agreements, nominating certain federal officials and appointing the Federal Government.

The Federal President is elected by universal suffrage and must receive more than 50 per cent of the votes; if this does not happen a second round of voting takes place between the two leading candidates. In some Länder voting is compulsory.

Executive

The Federal Government is headed by the Chancellor, who is appointed by the Federal President. The Constitution does not specify the Chancellor's role but his status as 'first among equals' stems in part from the right to propose the appointment and dismissal of ministers to the Federal President, and his coordinating role across all fields of government policy. The Chancellor is supported by a Vice Chancellor, who can act as deputy in all areas of the Chancellor's responsibilities.

The Federal President usually selects the Chancellor from the party with the strongest representation in the Nationalrat, while other ministers are selected on the advice of the Chancellor. The Government or individual ministers can remain in office for the duration of a legislative term (four years) unless there is a successful motion of no confidence. Individual members of the Federal Government may be dismissed by the Federal President on the proposal of the Chancellor.

The Chancellor chairs the Council of Ministers (or Cabinet), which coordinates the work of all ministries.

Legislative and executive powers are distributed between the Federal Government and provincial governments. In particular the Federal Government is responsible for defence, law and order, secondary and higher education, research, regional policy, postal services, agriculture, railways and main roads. The Länder are, inter alia, responsible for primary education, housing, health and welfare. In addition, in most cases the execution of, but not the legislation for, federal tasks is delegated to the Länder under a system of 'indirect federal administration'. The division of responsibilities is matched by the sharing of revenue, with each level of government having powers to raise taxes in order to bear the costs of its own activities.

Legislature

Under Article 24 of the Federal Constitutional Act, federal legislative power is exercised by the Nationalrat together with the Bundesrat. The Constitution lists those matters in which legislation is left to the federal level. Those areas not mentioned are the responsibility of the provinces. The federation enacts constitutional or simple-majority legislation in some specific matters, while the enactment of implementing laws and their execution are left to the provinces.

Candidates for election to the Nationalrat must be over 19 years old and those for the presidency over 35. The Nationalrat is made up of 183 representatives elected for four years by universal suffrage. The Bundesrat has 64 deputies elected for varying terms by the provincial assemblies or Landtage. The number of deputies per province is in proportion to the size of the provincial population. Proportional representation is used for elections for both national and provincial assemblies. Voting is open to all persons over 18.

Federal ministers are accountable to the Nationalrat for the activities of their ministries and other bodies under their authority. Ministers present bills to the Council of Ministers for discussion and unanimous approval before submitting them to the Nationalrat for the first of three readings there. All bills must be read and submitted to a vote of the Nationalrat and then in most cases they are conveyed instantly to the Bundesrat. An enactment can be authenticated and published if the Bundesrat does not raise a reasoned objection. In certain cases the Bundesrat is not involved in federal legislation.

Administration

The Austrian federal government structure consists of ministries organised into departments, along with subordinated agencies and institutions. In 2005 there were approximately 133,560 federal employees, this figure includes police and law enforcement officers, teachers, university staff and others employed by federal ministries. There are two categories of public employee - civil servants and contractual employees. In recent years there has been an increase in the number of contracted staff, including in high level positions.

There are also a variety of other public bodies, characterised by differing degrees of state involvement. Some nationalised enterprises are owned entirely by the Federal Government and are considered as part of the national administration. These include the Federal Railways and the Federal Forests Administration. In other public enterprises such as the electricity generation and distribution bodies and the road and railway construction companies the state holds between 50 and 100 per cent of equity shares. The Federal Government also has a majority shareholding in a number of financial institutions.

Since the 1980s the Federal Government has undertaken a major restructuring of the state sector, although in 1991 some 50 per cent of total production still derived from state owned or state protected organisations. Changes have included selling shares in a number of nationalised companies to private or overseas investors and in 1988 an Administrative Management Project was initiated to tighten the administration's management structure and reduce the

costs of state activities. At the same time the Government is strengthening its effort to reduce the number of state employees, accompanied by personnel controlling and privatisation measures.

Regional and Local Government

The Austrian federal state is composed of nine autonomous provinces. Each has a Land government consisting of a governor and councillors who are elected by and are responsible to the provincial assembly. The Land government exercises executive power in specific areas of responsibility and on behalf of the national government where no national authorities exist at Land level.

Provincial government activities are mainly financed by Land taxes, along with an assigned proportion of joint taxes collected with the Federal Government. Much of Austria's state revenue comes from federal income tax and value added tax collected by the Federal Government and is then allocated to lower tiers of government. The proportions are specified in the Finance Equalisation Law.

Within the Länder there are local community authorities with rights to self-administration. These are headed by a directly elected local council and a mayor elected by the local council. They enjoy a considerable amount of independence in local matters with responsibility for local roads, water supply, primary schools, and building and planning issues. The larger communities run hospitals and social activities. Around half of their activities are financed by local taxes raised on land, property and alcohol, as well as fees for services, while the remaining revenue comes from transfers from the Federal Government and, to a lesser extent, the Land.

Public Accounting System

For every fiscal year a federal budget law is decided by the Nationalrat. The federal budget is prepared on a cash basis. The annual federal financial statement is prepared by the Rechnungshof and presented to the Nationalrat. The accounting procedure is based on a uniform, federation-wide coding and classification system for all financial transactions, dominated by the principle of simultaneity.

The Supreme Audit Institution

Historical development

- 1761** The Hofrechenkammer (the Court Accounting Chamber), predecessor of the Rechnungshof, was founded.
- 1866** The Austro-Hungarian Rechnungshof was established, directly accountable to the Emperor.
- 1919** The newly established Austrian Republic took over the Rechnungshof and reorganised it under a new Government Audit Act, making it accountable to the National Assembly and enlarging its mandate and authority to include all government economic operations and debts.
- 1925** The Rechnungshof's audit of provincial assemblies became mandatory.
- 1929** The mandate of the Rechnungshof was extended to include the financial operations of local authorities in communities with at least 20,000 inhabitants.
- 1938** State audit responsibilities were transferred to the Rechnungshof des Deutschen Reiches, which established an office in Vienna.
- 1945** The provisional Constitution provided for a Rechnungshof.
- 1948** Chapter Five of the Constitution was amended and a new Federal Law on the Rechnungshof was passed.
- 1975** The right of the President and Vice President of the Rechnungshof to participate in debates in the legislative assembly and committees on matters concerning audit and the Rechnungshof was established. An obligation to carry out 'special' audits in specified circumstances was also established.
- 1978** The competence of the Rechnungshof to examine types of state enterprises was formalised.

The structure and organisation of the Rechnungshof

The Rechnungshof is headed by a President and is divided into five directorates general, which are currently made up of 35 departments and responsible for the audit of the Federal Government and social administration; the financial and economic administration of the Federal Government; public enterprises and statutory professional representations (chambers); and the audit of the Länder and local communities.

Under the Constitution the President is elected by the Nationalrat following nomination by the Standing Committee of the Nationalrat. Provincial governments have no say in the President's appointment or dismissal. The term of office is currently 12 years and re-election is not possible. The President can be removed from office without explanation by a simple majority vote of the Nationalrat or by a verdict of the Constitutional Court, although this has never happened.

According to the Constitution the President is of equal standing to a member of the Federal Government or a provincial government. The President is not allowed to belong to any general representative body (such as a legislative assembly) and cannot have been a member of the Federal Government or a provincial government in the four years preceding appointment to the Rechnungshof. The post of Vice President of the Rechnungshof was abolished by the legislature through an amendment to the Federal Constitution that took effect on 1 January 1995.

The recruitment, remuneration and qualifications of staff and other resources

As at June 2005 the Rechnungshof had 312 staff, of whom 233 were auditors and the remainder administrators and clerical staff. Of the audit posts, around 184 were for graduates of universities, colleges and similar institutions. The rest were for people with good secondary education qualifications. Some 37 per cent of graduates had law degrees, 33 per cent were economists and around 30 per cent had other degrees.

Under the Federal Constitutional Act the Federal President appoints all federal civil servants. However, this power is in practice vested in members of the Federal Government or, in the case of the Rechnungshof, in the President of the Rechnungshof. Thus with very few exceptions the initial appointment of civil servants to the Rechnungshof is performed by the Rechnungshof's President. At the proposal of the President of the Rechnungshof, the Federal President appoints civil servants to higher service grades or functions.

All auditors undertake training and examination in government accounting and finance before becoming permanent, tenured employees. They receive in-house training on recruitment and are expected to follow 5-10 days' training per annum. Although provincial and federal audits are carried out by different staff, job rotation is possible and specialists in particular fields may be brought in from different departments within the office where necessary.

Staff are paid in line with the general pay structure for the Austrian civil service, but with special allowances to reflect their training, as well as more generous overtime payments. Auditors are appointed to established posts for an unlimited term but from 1 January 1996 higher level functions were assigned for a limited term in accordance with the current statutory provisions governing federal civil servants. The Rechnungshof does contract in outside experts for audit work but this makes up only a negligible proportion of the office's total workload.

Audit staff may acquire share capital or stakes in companies but are not allowed to participate in the management and administration of companies subject to the audit of the Rechnungshof or of other profit making companies. They can hold political posts but may be sent on leave for the duration of their office. If leave is not granted the Rechnungshof takes appropriate measures to avoid any bias among these staff in exercising their audit activities.

The Rechnungshof makes annual proposals to the Federal Government for its own budget and the number of established staff posts. The Federal Government submits a draft Federal Finance Bill, which includes the plan of established posts, to the Nationalrat for adoption. As a rule the Rechnungshof and the Federal Ministry of Finance seek to compromise but the plan regularly provides for cuts in the Rechnungshof's proposals. Where the Rechnungshof does not fully accept the cuts in view of its workload, the President of the Rechnungshof will argue a case in the parliamentary debate in the Nationalrat's Budget Committee, requesting that it alter the budget. In 1995 the Rechnungshof was granted additional posts to carry out work associated with Austria's membership of the European Union. In 2003 the budget of the Rechnungshof was 22,943 million euros (payments). This compares with a Federal budget of nearly 61,387,150 million euros (payments) in the same year.

The scope, role and rights of access of the Rechnungshof

Article 122 of the 1929 Constitution states that the Rechnungshof is directly subordinate to the Nationalrat. Its audit work is carried out at federal and provincial level. In matters relating to federal financial operations it is considered to be an organ of the Nationalrat; for the audit of provincial operations or local government it is an organ of provincial government. The Rechnungshof reports to the legislative bodies at both levels.

The Rechnungshof has a wide remit, auditing all economic operations of the Federal Government and the provinces, as well as local communities with at least 20,000 inhabitants. Local communities of fewer than 20,000 inhabitants can only be audited at the request of the competent provincial government. The Rechnungshof's remit at each level covers all directly administered bodies, as well as foundations, funds and institutions administered by government agencies. It also audits the activities of enterprises in which government bodies have at least a 50 per cent share in the capital stock or property capital, along with subsidiary enterprises. At both federal and provincial levels the Rechnungshof also examines the activities of public corporate bodies and their use of funds from the Government.

THE RECHNUNGSHOF HAS A WIDE REMIT, AUDITING ALL ECONOMIC OPERATIONS OF THE FEDERAL GOVERNMENT AND THE PROVINCES, AS WELL AS LOCAL COMMUNITIES WITH AT LEAST 20,000 INHABITANTS

The Rechnungshof also examines bodies that do not fall into the above categories. It has access:

- where by-laws or other regulations state that the head of an organisation is appointed by a state body such as the provincial government and so has a 'controlling interest' (for example, savings banks in local communities);
- where funds are provided by one of the three tiers of government to private bodies for a specific purpose (for instance, to organisations involved in combating AIDS) to check the money has been used as intended;
- to institutions created by law where there is specific reference to the Rechnungshof conducting an audit (for example, the Association of University Students, the Austrian Broadcasting Association, and the Federal Railways); and
- from 1 January 1997, to statutory professional representative bodies (chambers).

The Rechnungshof's access to audited bodies includes a right to the accounts, books, vouchers and other records and staff at any time. Audit staff can examine all relevant documentation on-site and can also carry out spot checks on assets. Where a body does not cooperate fully, access can be enforced via the Constitutional Court, although this is very rarely necessary.

Access is rarely a problem with government bodies, but the Rechnungshof considers that the less clear-cut provision for audit access to the bodies mentioned in the bullet points above present more scope for disputes. The Constitutional Court considered a case where a savings bank denied the right of the Rechnungshof to audit it, with the dispute resting on the interpretation of whether the state had a controlling interest. The case was concluded in favour of the Rechnungshof.

The Rechnungshof has lost a number of audits in recent years as the privatisation process has developed. It also has no right to audit bodies outside the categories listed above, and no private body can subject itself to audit by the Rechnungshof. The Rechnungshof is not able to contract out audits and does not charge fees for its work.

Other work

As well as examining the financial statements of government bodies, the Rechnungshof also has a number of other roles. Inter alia these are to:

- prepare the annual federal financial statements and submit them to the Nationalrat not later than 30 September of the following financial year;
- carry out a biannual survey on average incomes paid by all bodies that are subject to its audit and report in detail to the Nationalrat (the purpose of this being to inform the Nationalrat of the development of the incomes of individuals serving on supervisory and company boards, and employees of different companies and institutions controlled by the state);
- countersign all instruments involving financial debts of the Federal Government. The President of the Rechnungshof countersigns to guarantee the legality of the debt incurred and its proper entry into the National Debt Ledger.

Relations with Parliament and Government

The Rechnungshof's principal link with the parliamentary process is through regular reporting of its findings. It is required to submit an Annual Report to the Nationalrat, the provincial assemblies and individual municipalities by 31 December of each year.

At a federal level the Rechnungshof works closely with the Public Accounts Committee (Rechnungshofausschuss) of the Nationalrat. This is made up of 25 members of the Nationalrat (with 25 substitutes who take their place when necessary), belonging to both the government and opposition parties. Traditionally the chairmanship is reserved for opposition parties. Subcommittees can be set up where a report of the Rechnungshof requires more detailed deliberation. Although the Public Accounts Committee deals with audit reports, the federal financial statements are debated in the Budget Committee.

On receiving reports from the Rechnungshof the President of the Nationalrat submits them to the Public Accounts Committee for deliberation. Under the Standing Orders of the Nationalrat the Public Accounts Committee must commence preliminary deliberations of the reports within six weeks. The President of the Rechnungshof is present at the Public Accounts Committee when the reports are considered, along with representatives of the audited body, who may be called as witnesses. Some provincial assemblies have similar committees.

In addition, the Constitution and 1948 Federal Law allow the President of the Rechnungshof to communicate directly with the Nationalrat and its committees and participate as an adviser in the deliberations of the Federal Government on audit and accounting matters, the drawing up of the financial statements, the involvement of the Rechnungshof in the management of the national debt, and personnel matters relating to the Rechnungshof. The Rechnungshof may also suggest subjects for inclusion in the deliberations.

The auditing process

Preparation of financial statements

The Rechnungshof's financial audit role includes preparation of the federal accounts, submission of the accounts to the Nationalrat for consideration, audit of the statements and submission of reports on the examinations. The federal ministries are responsible for posting the figures in the centralised accounting system and performing corrective entries as and when they are known to the ministry. However, after a certain deadline corrective entries can only be authorised by the Rechnungshof.

A department of the Rechnungshof prepares the annual federal financial statements, drawing on the information from the computer systems of the Ministry of Finance. It checks the accuracy of the figures of each body's annual accounts and assesses whether the correct accounting provisions have been used. From these it draws up the federal financial statements and submits them to the Ministry which has a period of three weeks for comments. It then submits them to the Nationalrat, along with comments where the Rechnungshof is unable to incorporate suggested changes. The Rechnungshof also submits a statement on the federal debt. Although there is no certification of the statements as such, the act of submission is considered to signify approval of the accounts.

THE RECHNUNGSHOF ALSO HAS A JOINT RESPONSIBILITY WITH THE MINISTRY OF FINANCE FOR ENSURING THAT EFFICIENT AND SIMPLE ACCOUNTING METHODS ARE USED

The Rechnungshof also has a joint responsibility with the Ministry of Finance for ensuring that efficient and simple accounting methods are used. Federal ministries issue accounting rules and regulations only after consultation with the Rechnungshof and the Ministry of Finance. Where there are differences of opinion about the implementation or interpretation of accounting rules, the Ministry of Finance must consult and agree the matter with the Rechnungshof before a decision is made. They issue guidance jointly.

Financial audit

Audit of the financial statements by the Rechnungshof includes examination of whether operations have been carried out in compliance with existing laws and any regulations stemming from the laws, whether operations were conducted economically, efficiently and effectively, and whether they were conducted as intended.

Each department within the Rechnungshof submits three work plans with different priorities to the President for approval. Plans specify in detail the department's work for the coming year and preview the following year. Departmental selections are made in the light of the strategic audit objectives formulated by the President, including consideration of comprehensive environmental protection, national economics, government reform and reduced bureaucracy in all areas. Proposals for audit work encompass traditional audit of the financial statements, proposals for audits that focus on one particular aspect of the accounts, and cross-sectional examination of the issues across several ministries.

All auditees are notified two to three weeks before an audit and are advised about the information required. Audits are conducted on-site, where interviews and examination of original vouchers and supporting documentation take place. Transactions are selected at random. Where errors are found, alterations are made to the financial statements and corrections are made to the Ministry of Finance's central computer. Where auditors are content with the way financial operations are being handled they advise the auditees.

Auditors hold a concluding interview with the audited body's senior management, by which stage there should be no disagreement over facts, although there may be differences of opinion over the efficiency and economy with which the operations have taken place.

The Rechnungshof produces a draft report of findings, which is submitted to the auditee and any superior agency for comments. These bodies must comment within three months, making known any improvements that have been made. Staff produce a report on each audit, including the audit findings and comments of the auditee. These reports are submitted either to the Nationalrat or the relevant provincial assembly. Summary findings are included in the Rechnungshof's Annual Report, along with the comments of auditees and responses from the Rechnungshof where necessary.

The Rechnungshof also submits reports to the provincial assemblies, outlining the work carried out in the Länder during the year, and to the mayors of local communities on work in their municipality. Again this must be done by 31 December of the year after the year under examination. The Rechnungshof can also report at any time to a provincial assembly. Reports to the provinces and municipalities are simultaneously submitted to the provincial governments and the Federal Government and are published after presentation to the provincial assembly or the municipal council. Provincial governments and town mayors can comment on the reports from the Rechnungshof and have three months to report back on any action taken.

Performance audit

The 1948 Federal Law on the Rechnungshof enabled it to examine the economy, efficiency and effectiveness of the operations of corporate public bodies, local authorities and provincial governments, and the economy and efficiency of state economic enterprises. This work is carried out as part of the examination of financial audits rather than as separate work, and findings are included in the Rechnungshof's Annual Report. Much of the work concentrates on whether the aims and objectives of the operations could be achieved at all or achieved economically given the often extensive regulations that exist. The Rechnungshof cannot criticise legislation directly.

Special audits

Although the Rechnungshof ordinarily decides its own work programme, 'special' audits can also be requested by the Nationalrat, the Federal Government or a federal minister. Twenty members of the Nationalrat may also independently request an examination of a specific aspect of federal government. Similar provisions exist at provincial level where the assembly, a given number of deputies (different in each province), or the provincial government can request specific examinations.

The results of the special audits are communicated to those requesting them and are not included in the Annual Report. The number of special audits is limited to three at any one time if such audits are requested by members of the Nationalrat, but there is no limit if they are requested by a majority vote of the Nationalrat, by a federal minister or the Federal Government. The number of special reports has increased in recent years. Subjects covered in recent years included the financial management of the statutory health insurance providers, including the umbrella Association of Austrian Social Insurers, with regard to the provision of medication and medical aids according to the principles of economy, efficiency and effectiveness of the organisational structure; a railway tunnel project through the Semmering; the financing of political parties and parliamentary groups; implementation of staff regulations and rules of emolument and pension schemes for employees in cabinets of Federal ministries and reform of the supervision of credit institutions and investment firms.

Reporting

Under the Constitution the Rechnungshof must submit an Annual Report of its activities in the previous year to the Nationalrat no later than 31 December of every year. The report includes summarised findings, observations and recommendations from audits. The report is submitted simultaneously to the Federal Chancellor and is published once it has been presented to the Nationalrat. The Rechnungshof can also report to the Nationalrat at any time on the discharge of individual duties.

THE RECHNUNGSHOF IS AN INDEPENDENT BODY SUBJECT ONLY TO THE LAW, WITH A STATUS ENSHRINED IN THE CONSTITUTION OF THE REPUBLIC OF AUSTRIA

The Annual Report is in two parts with an introduction discussing general problems across the whole of government, followed by the results of audits conducted during the year. Recommendations from previous years are also listed, with an indication of whether or not they have been heeded. A press conference is held when the Annual Report is presented by the Rechnungshof and a short version is prepared for the press. There is generally considerable media interest in the report, particularly where it outlines examples of waste and irregularity.

SUMMARY

The Rechnungshof is an independent body subject only to the law, with a status enshrined in the Constitution of the Republic of Austria. It is directly subordinate to the Nationalrat. When auditing federal bodies the Rechnungshof acts as a federal organ; when examining provincial bodies it is a provincial organ. Key features of the Rechnungshof are:

Appointment of Members of the Court

- The President is elected by the Nationalrat following nomination by the Standing Committee of the Nationalrat for one term of 12 years. He/She may be removed by a simple majority of the Nationalrat.
- The President has the same status as members of the Federal Government or a provincial government depending on whether the Rechnungshof is acting as a federal or provincial organ.
- The President is not allowed to belong to any general representative body and shall not have been a member of the Federal Government or a provincial government in the four years preceding appointment.

Skills of staff

- As at January 2005 the Rechnungshof had a total of 311 established posts, 233 of which were designated auditors. Around 184 are graduates of universities, colleges and other institutions. Some 37 per cent of these are lawyers and a further 33 per cent are economists.

Budget

- The Rechnungshof's budget and the number of staff are discussed with the Ministry of Finance and included in the draft Federal Finance Bill, which is presented to the Nationalrat. The President of the Rechnungshof can address the Nationalrat to request additional resources where he does not fully accept cuts suggested by the Ministry.

Audit Remit

- The Rechnungshof audits operations of the Federal Government and provincial government, as well as local communities with a population of at least 20,000 people. It can be asked to audit local communities with smaller populations. Its remit covers all directly administered bodies, as well as funds, foundations and institutions, and enterprises in which government bodies hold more than a 50 per cent share in the capital stock or property capital.
- The Rechnungshof also audits public corporate bodies and a range of bodies where the state has a 'controlling interest' such as the right to appoint the head, where public money is provided for specific purposes, where members pay mandatory fees, and where the law specifies that the Rechnungshof should conduct the audit.

Access

- The Rechnungshof has access to all accounts, books, vouchers and other records, as well as to staff at any time. Examination can take place on-site. Disputes over access are resolved by the Constitutional Court.

Other work

- The Rechnungshof is inter alia responsible for preparing the federal financial statements and submitting them to the Nationalrat, producing a biannual survey of public sector incomes, and countersigning all instruments involving financial debts of the Federal Government.

Relations with Parliament and the Government

- The Rechnungshof works closely with the Public Accounts Committee of the Nationalrat, which deliberates on its reports and then reports itself to a plenary session of the Nationalrat.
- The President of the Rechnungshof can participate in the debates of the Nationalrat and its committees concerning audit and accounting matters and the work of the Rechnungshof.

Discretion over work

- The Rechnungshof decides on its own work, with departments putting forward plans for the approval of the President. In addition, 'special' audits can be requested by the federal or provincial assemblies, the Federal Government and ministers, provincial governments, groups of 20 or more members of the Nationalrat, and members of provincial assemblies.

Ability to report

- The Rechnungshof submits an Annual Report of its activities to the Nationalrat and to the individual provincial assemblies and municipalities. This report includes summarised findings, observations and recommendations.
- Reports following 'special' audits requested by the legislative assemblies at federal or provincial level, or by federal ministers or the Federal Government or provincial governments, are submitted to the competent general representative body.

COURT OF AUDIT BELGIUM



Key Facts

Economic and general information

- Belgium was part of the Netherlands between 1815 and the revolution of 1830.
- Constitutional reforms over recent decades have made Belgium a federal state.
- The Kingdom of Belgium occupies a land area of some 30,500 square kilometres. The country is one of the most densely populated in Europe, with around 10 million inhabitants, and is divided into four linguistic areas : one Dutch, one French, one bilingual (Brussels-Capital) and one German.
- Since World War II Belgium has become recognised as a leader of international cooperation in Europe and was a founding member of many international organisations, including the North Atlantic Treaty Organisation, the Council of Europe, the European Union and the Benelux Economic Union.
- Belgium is a manufacturing country with few natural resources. Industry contributes some 28 per cent of GDP, with the main industries being car assembly and chemicals. Agriculture contributes less than 2 per cent of GDP, the principal products being sugar beet and cereals. The Belgian economy benefits from the presence of many international businesses and organisations.

The structure of the Belgian state

The Belgian State structure has changed substantially over recent decades. After undergoing five sets of institutional reforms (1970, 1980, 1988-89, 1993 and 2001), 'the country has evolved' from a conventional unitary state in which legislative power was vested with the King, the House of Representatives and the Senate 'into a federal structure in which various levels of power co-exist'.

The process of devolving power in Belgium began in the early 1970's as recognition of the increased polarisation of the Dutch speaking north and the French speaking south. The decision making power in Belgium is no longer exclusively in the hands of the federal government and Parliament. It falls to several partners (Federal State, Communities, Regions) which are not subordinated to one another and exercise their competence in different fields independently.

"A FEDERAL STRUCTURE IN WHICH VARIOUS LEVELS OF POWER CO-EXIST"

The federal authority is the guarantor of the country's unity. The Constitution, institutional and general legislation, defence, justice, welfare and monetary policies, external relations and public security are federal responsibilities. The federal legislative authority is exercised collectively by the King, the House of Representatives (150 members) and the Senate (71 members: 40 directly elected, 21 appointed by the Community Councils, 10 coopted). The federal executive authority is exercised by the federal government, the members of which are appointed and dismissed by the King.

There are three Communities (Flemish, French and German), each with powers in cultural matters, language, education and matters relating to well-being. There are also three Regions (the Flemish, the Walloon and the Brussels-Capital Region) with powers in areas such as the environment, housing, energy, transport, trade and agriculture. The Communities and Regions have their own legislative bodies and governments. In addition, there are 10 provinces and 589 municipalities.

Public Accounting System

In 2003 Belgium carried out an important reform of its public accounting legislation.

This legislation was adopted in order to meet two essential objectives, namely, on the one hand, to introduce a new accruals-based accounting system based on the ESA 95 standards and, on the other hand, to develop a standardized double-entry accounting system, integrating the whole of the budgetary, financial and patrimonial operations and applicable to all public authorities.

As regards the federal State, the accounting will, in the future¹, be done on the basis of a closed dual system, in which all transactions are registered according to the general double entry accounting principles and which must make it possible to ensure that they are recorded correctly in the budgetary accounting system integrated into it. In so far as the operation is also a budgetary operation, accounting and charging must be carried out simultaneously in two accounting systems (general and budgetary). The law also contains a series of important modifications relating to reporting to Parliament which tend to streamline and simplify the system, towards greater transparency.

Lastly and importantly, "the new accounting law establishes an independent internal audit, which must ensure the correct operation of the internal audit, in particular with regard to accounting and budget implementation procedures."

¹ This reform will not come into force before 1 January 2006 at the earliest.

The Supreme Audit Institution

Historical development

Public audit in the territory that now comprises the Kingdom of Belgium dates back to the fourteenth century.

- 1807** A Court of Audit was set up during the period of French annexation.
- 1814** The Court's powers were limited when the Belgian provinces were united with the Kingdom of the Netherlands.
- 1831** The current Court was established following the independence from the Netherlands in 1830 and its existence was enshrined in the Constitution.
- 1846** The Court of Audit's competencies were enshrined in the so called institutionalisation law – which has been repeatedly modified.
- 2003** The Court of Audit's organic law was adapted in order to take into account the reform introduced by the new public accounts law of May 2003.

The structure and organisation of the Court of Audit

The Court of Audit consists of 12 Members who are elected by the Chamber of Representatives for a term of six years. Their tenure is renewable. Only the Chamber of Representatives can dismiss them. Candidates for President and Member must be at least 30 years of age, and for Registrar, at least 25.

The independence of the Court is guaranteed in a number of ways. Its members may not be related to a minister before their first appointment; salaries and pension provision for Members are guaranteed by law; and the Court's budget is made available directly without the interference of the executive.

The Court is divided into two Chambers - one Dutch speaking and one French speaking - each headed by a President and consisting of four Members and a Registrar. The senior of the two Presidents is designated Senior President and the senior of the two Registrars is the Head Registrar. The Senior President and President set the agendas for the meetings of their Chambers and the Senior President for meetings of the General Assembly, which is the Court's main decision making body. Registrars attend meetings of their Chamber and of the General Assembly and draw up the minutes of the proceedings, but do not have voting rights. The Registrars also have administrative tasks such as the signing of all letters (together with the Presidents) and human resources management.

THE INDEPENDENCE OF THE COURT IS
GUARANTEED IN A NUMBER OF WAYS

The Court of Audit works as a college, and the decisions over the cases presented by the staff are always taken collegially. All reports are examined within a section that is made up of two Members designated by the President of the relevant chamber. Whenever the file is important or difficult, the section reports to the relevant chamber. The chamber rules on the file or forwards it to the General Assembly whenever it is particularly important, especially for the consistency of jurisprudence or whenever it falls within the General Assembly's remit. However, matters pertaining to the French Community, the French Community Commission of the Brussels Region Council, the Walloon Region, the Provinces that are part of this region and the public service institutions that depend on those entities, fall exclusively under the French Chamber's remit and that of its sections. Matters pertaining to the Flemish Community, the Flemish Community Commission of the Brussels Region Council, the Flemish Region, the Provinces that are part of this region and the public service institutions that depend on those entities, fall exclusively under the Flemish Chamber's remit and that of its sections. The powers and the way the General Assembly, the chambers, the Presidents and the Registrars operate are laid down in detail in the Court's rules of procedure.

The Court of Audit meets as a General Assembly every week. Individual chambers also meet on a weekly basis. However, in case of emergency or at the request of two members, the Senior President may call an extraordinary General Assembly. The same is true of each Chamber. The General Assembly and the Chambers can only deliberate and take decisions when a majority of their members having a deliberative voice are present. Decisions are made by absolute majority; in case of equal votes, that of the presiding member is decisive.

The recruitment, remuneration and qualifications of staff and other resources

The Court of Audit appoints and dismisses its staff. It also fixes the salary and other staff benefits under the supervision of the board of the House of Representatives. The Court employs 616 staff, evenly divided between Dutch and French speakers, serving on four levels. About half of the staff belong to level 1 which carries out the audit work with the help of the staff members of level 2+. Levels 2 and 3 provide logistical services. Audit staff are normally graduates in law or in economic, political, administrative and social sciences and are recruited in open competition. Senior posts within the Court are filled by internal promotion. Junior staff are trained by working with more experienced staff, complemented by specialist training provided by the Court where appropriate. Approximately one third of the audit staff work in the headquarters of the Court while the remainder are based at the bodies they audit.

The Court of Audit's services are currently divided into eight audit directorates and two general services directorate. Each directorate is headed by a managing auditor, and is subdivided into services headed by a supervising auditor. The 1st and 2nd directorates consist mainly of support services and are made up of staff of both languages. The other directorates are monolingual. Taking the institutional structure of Belgium into account, these directorates deal exclusively with either federal affairs or with the affairs of the Communities and the Regions.

Directorates are grouped into sectors and sector committees, the meetings of which are attended by several Members of the Court. They co-ordinate audit matters and divide the tasks between the French and Dutch speaking directors. The division of responsibilities between the directorates is as follows:

Directorate	Function
1	General services (registry and general secretariat, studies and documentation, European and international affairs)
2	General services (human resources and organisation, intendancy and infrastructure, information technology)
3-6	Federal State matters
7-10	Regional and Community matters and Provinces

The Court draws up its own budget and submits it to the House of Representatives. The Court has complete discretion over the appointment and remuneration of staff but in practice salaries are kept in line with those of the wider civil service. The Court's budget for 2005 was 44.5 million euros.

The scope, role and rights of access of the Court of Audit

The Court of Audit works alongside the House of Representatives on the audit of public accounts. It has close links with the House of Representatives, which elects the Members of the Court and approves its budget. The Court's rules of procedure may be amended only with the approval of the House. However, the Court of Audit carries out its audit work on behalf of all legislative assemblies. It examines all the activities of the Federal State, the Communities, the Regions, the public service agencies subordinated to them, the public corporations and the provinces.

A 1971 law consolidated the Court's powers of access to all the information and documents it needs to carry out its work. It also permits on-the-spot checks and requires audited bodies to reply to the Court's comments within one month. The right of access extends to all public bodies subject to audit by the Court, but not to private sector bodies that are granted public funds. Municipalities are not audited by the Court.

Relations with Parliament and Government

The Court of Audit has contact with various standing committees and sub-committees of the Legislative assemblies. Its audit reports are discussed by the committees, mostly in the presence of a delegate of the Court, and the finance committees of various legislative assemblies have indeed set up sub-committees in order to ensure that the Court's observations are followed up more systematically. The main task entrusted to these sub-committees is to examine the items mentioned in the Court's annual report in the presence of the minister concerned and the delegates of the Court.

All members of the legislative assemblies are entitled to ask information and to inspect documents. This means that they have the right to consult the Court and get copies of any of the following documents: the minutes of meetings of the General Assembly and the Chambers; letters between the Court and ministers; budgetary and financial data; and the accountancy documents.

The auditing process

The Court of Audit performs a financial audit and a legality audit and monitors the sound use of public funds. Its audits concern the expenditures and receipts of the federal community, regional and provincial governments. The results of these three kinds of audit lead to information statements that are regularly submitted to the legislative assemblies. The Court is also charged with a jurisdictional task.

Financial audit

The Federal State, the Communities, the Regions, the public service institutions that depend on those entities and the provinces report annually on the use of the public funds they were entrusted with. The accounts are transmitted to the Court, which verifies the accuracy, the reliability and the completeness of the entries in the financial statements and checks the conformity of the recorded transactions with the accounting legislation. In addition, the Court checks and closes the accounts of the public accounting officers, i.e. the representatives of the Executive who are in charge of the collection and/or payment of public funds. The Court considers whether the accounting officers' accounts are in balance, are in their favour or are in the State's favour. If the accounts balance or are in the State's favour, the Court draws up a discharge judgement. If the accounts are in the accounting officer's favour this leads to an administrative deficit judgement that might result in the Court carrying out a jurisdictional role.

THE RIGHT OF ACCESS EXTENDS TO ALL PUBLIC BODIES SUBJECT TO AUDIT BY THE COURT

Legality audit

The Court performs a legality audit on public expenditures and receipts. It checks their conformity with the budgetary law (whether there are enough appropriations on the budget, whether the operations are correctly charged against the budget, etc.) and it ensures that the laws and rules applicable to the audited operation (especially the standards that apply in public procurement contracts, in granting and use of the subsidies, the recruitment of the staff, etc.) are correctly implemented.

At present, legality audit is carried out through the prior approval or 'visa' of the payment orders relating to the expenditures. No payment can be made without the approval of the Court, which ensures that the regulation has been respected before granting its 'visa'. If the Court finds it should withhold its approval, the Government can still authorise the payment to take place. The Court then approves the payment with reservation and immediately informs the appropriate legislative assembly and explains its reasons. A large amount of fixed expenditures such as staff expenses, however, are exempt by law from the obligation of prior approval in order to speed up the payment process. In that case the legality and the regularity are audited after payment.

This system of prior approval was done away with the reform of the public accounts law of May 2003. As soon as the new law and decrees enter into force, the Court of Audit will audit *ex post* ("a posteriori") the expenditure. On the one hand, the elimination of the prior approval of expenditure necessarily implies the introduction of an integrated internal control and internal audit system in the public sector and an improved organisational frame. On the other hand, the Court of Audit is given the assurance that it will have permanent and immediate access to the budget allocation of the expenditures both at commitment and payment levels.

The amended organic law of the Court of Audit states that the House of Representatives is entitled to instruct the Court of Audit to perform audits of the legality and the regularity of certain expenditure programmes as well as financial audits in the services and agencies that are subject to its control.

Audit of the sound use of public funds

The Court of Audit is also charged with monitoring the sound use of public funds in order to inform the legislative assemblies about the way the public services are managed. The nature of this audit is defined on the basis of three principles: economy, efficiency and effectiveness.

This audit is performed *ex post*, i.e. after the execution of the operations. Like its other tasks, the Court carries out this type of audit on its own initiative. The principle of general independence is a guarantee of objectivity and impartiality towards the different assemblies. However, in order to improve the information available to the legislative assemblies, the legislator has empowered these assemblies to charge the Court with specific audits of the above-mentioned type.

Informational task

The Court of Audit informs the legislative assemblies and the provincial councils of the results of its audit assignments. Assemblies and councils must be provided with adequate and impartial budgetary information to ensure that they have a full knowledge of the facts when they grant the appropriations requested by the Executive power and assess their use. This information takes several forms. The Court submits its audit reports to the assemblies and councils, either in the form of syntheses integrated into annual reports or as special publications, depending on the urgency of the information. The Court also informs the relevant legislative assemblies of every commitment of expenditure, authorisation or payment that exceeds the budget appropriations. Finally, the Court fulfils an important function as a budget counsellor by commenting on all budget drafts submitted to the legislative assemblies for approval. The Court's documents are discussed by the finance committees or sub-committees of the different assemblies in the presence of a Court representative.

Jurisdictional task

The Constitution also charges the Court of Audit with auditing and validating the accounts of the general administration and of all accounting officers answerable to the public Treasury. The accounts of the accounting officers are sent to the Court every year, as well as in the event of a deficit and when they leave office.

Within this context a Member from each chamber is appointed by order of the President to decide by administrative ruling whether the accounting officers' accounts are in balance, are in their favour or in the State's favour. If the ruling shows a deficit, the relevant minister has to summon the accounting officer to appear before the Court of Audit, unless he considers that the accounting officer can evoke circumstances beyond his or her control ('*force majeure*') or if the deficit does not exceed an amount set by royal decree.

After a public procedure, in the presence of the parties involved, the Court may exonerate the accounting officer if it concludes that the debt has been cleared or that there are circumstances beyond the accounting officer's control. Otherwise, it rules that the accounting officer has to pay back the amount, or part of it in the case of mitigating circumstances. The ruling can be referred to the Court of Cassation. If the ruling is quashed by the Court of Cassation, the case will be referred to an appropriate 'ad hoc' committee, made up of members of the Chamber of Representatives, who judge without any subsequent appeal.

When the amended organic law of the Court of Audit enters into force, the jurisdictional procedure is due to change. The Court of Audit is allowed to oblige the accounting officer to clear the deficit in full or in part when it is of the opinion that he has made a serious mistake, that he is responsible for a serious act of negligence or has repeatedly made slight errors, which made the occurrence of the deficit easier or possible. It is up to the department to prove that a mistake has been made and to the Court of Audit to particularise it. This new responsibility system for the accounting officers is similar to the one applied to ordinary civil servants.

New tasks

Various laws have recently assigned new tasks to the Court of Audit, mainly in domains of federal fiscal loyalty and publicity on public and political matters.

Reporting

The 1846 law requires the Court to report its observations relating to the State account to Parliament annually. Since 1989 separate reports have been submitted to the Parliaments (legislative bodies) of the Communities and Regions.

SUMMARY

The entire Court of Audit was established in 1830 and its role was described in the Constitution of 1831. The key features of the Court are:

Appointment of the Court

- The Members of the Court are fully independent of the Government. They are elected by the House of Representatives for terms of six years and can only be dismissed by it.

Skills of staff

- The 616 staff members of the Court are categorised as civil servants. Audit staff are usually graduates in law or in economic, political and social sciences. Senior posts are filled by internal promotion. Staff are allocated among 10 directorates.

Budget

- The Court draws up its own budget and submits it to the House of Representatives.

Audit Remit

- The Court of Audit performs a financial audit and a legality audit and monitors the sound use of public funds. It checks the expenditures and receipts of the federal, community, regional and provincial governments. The results of these three kinds of audit lead to information statements that are regularly submitted to the legislative assemblies. The Court is also charged with a jurisdictional task.

Access

- The Court has rights of access to the information it needs to carry out its audit duties. It also has a right to carry out on-the-spot checks. These rights extend to all bodies within its remit.

Reporting

- The Court reports the results of its work – by means of its annual reports or its separate reports – to all legislative bodies (federal, community and regional).

Key legislation

- The activities of the Court are governed by Article 180 of the Constitution.

AUDIT OFFICE OF THE REPUBLIC CYPRUS



Key Facts

Economic and general information

- Cyprus has a long history. The first signs of civilisation traced in archaeological excavations and research date back 11,000 years to the 9th millennium BC, and came under the rule of successive foreign powers starting from King Richard I (the Lionheart) of England and the knights of Templar (1191-1192), the Franks (Lusignans) (1192-1489), the Venetians (1489-1571), the Ottoman Turks (1571-1878) and the British (1878-1960).
- Cyprus gained its independence in 1960.
- Following a coup by the ruling military junta of Greece to withdraw the democratically elected President of the Republic of Cyprus, Turkey invaded in 1974 and occupied the northern part of the island.
- Numerous resolutions have been adopted by the international community over the years that laid down the parameters for a solution to the Cyprus problem, through the reunification of the island in a bizonal, bicomunal federal state. Yet Cyprus still remains divided.
- Cyprus has an area of 9,251 square kilometres and is the third largest Mediterranean island. The population of Cyprus is estimated at nearly 800,000 (82% Greek Cypriots and 18% Turkish Cypriots). The official languages of Cyprus are Greek and Turkish. English is also widely spoken.
- The Republic of Cyprus became a Member of the European Union on 1 May 2004.
- The Republic of Cyprus is a well known regional holiday resort, a service centre mainly for banking and shipping, and a telecommunications node. Its major exports are clothing, potatoes, cigarettes and pharmaceuticals. It is classified by the World Bank as a high-income country and its GDP per capita was 80% of the European Union average in 2003.

The structure of the Republic of Cyprus

The Executive

Cyprus has a presidential system of government. The President is elected by universal suffrage for a five-year term. Executive power is exercised through an 11 member Council of Ministers appointed by the President. Due to the withdrawal in December 1963 of the Turkish Cypriots from all state institutions, all Members of the Council of Ministers are currently Greek Cypriots, appointed by the President of the Republic. The office of the Vice-President of the Republic, envisaged in the 1960 Constitution has remained vacant since December 1963.

THE AUDIT OFFICE OF THE REPUBLIC OF CYPRUS IS HEADED BY THE AUDITOR GENERAL WHOSE POWERS AND DUTIES ARE LAID DOWN IN THE CONSTITUTION OF THE REPUBLIC

Legislature

Legislative power is exercised by the House of Representatives. The Constitution of 1960 established a House of Representatives of 50 Deputies (Members of Parliament), 35 elected by the Greek Cypriot community and 15 by the Turkish Cypriot community. Under a special law passed in 1985 the number of Deputies in the House of Representatives was increased to 80 (56 Greek Cypriots, 24 Turkish Cypriots) maintaining the 70:30 ratio in the House. The Turkish Cypriot deputies withdrew from the House of Representatives in 1963 and their seats remain vacant to this day, while the House has continued functioning with only the Greek Cypriot Members. Members of the House of Representatives are elected for a term of five years.

The laws and decisions of the House of Representatives are passed by a simple majority vote of the Deputies present. Committees are formed within the House of Representatives to debate bills which have been presented to the House and reports are then submitted to the House for deliberation. Deputies and Ministers have the right to introduce bills to the House of Representatives.

The Judiciary

Justice is administered by the Supreme Court and by the Assize and District Courts.

Independent Officers and Bodies

A number of officers and bodies are independent and do not come under any ministry. The independent officers of the Republic under the Constitution of 1960 are: the Attorney General and the Deputy Attorney General, the Auditor General and the Deputy Auditor General and the Governor of the Central Bank of Cyprus. The Ombudsman, created in 1991, is also an independent officer of the Republic. The bodies with independent functions include the Public Service Commission and the Educational Service Commission.

Government Employees

The government of the Republic of Cyprus employed in June 2004 in total about 47,000 personnel, of which 29,500 are permanent employees, 8,000 temporary, and about 9,500 hourly paid staff.

Public Accounting System

Each ministry and independent office of the Republic submits annual budget estimates to the Minister of Finance who prepares a comprehensive annual budget for the Republic. The draft budget is approved by the Council of Ministers and is then laid before the House of Representatives. The Budget is introduced to the House of Representatives at least three months before the beginning of the financial year. Following the budget year, final accounts must be submitted to the House of Representatives within three months of the year end.

The Supreme Audit Institution

Historical development

The history of Cyprus' Supreme Audit Institution dates back to the pre-independence era.

- 1879** The first Accountant and Auditor General was appointed under British rule.
- 1884** Duties of Auditor General, now renamed Director of Audit, separated from those of Accountant General, and the Audit Department placed under the administration of the Comptroller and Auditor-General of Great Britain.
- 1910** Following organizational and administrative changes in Great Britain, a new unit, the Overseas Audit Office, was formed and the Cyprus Audit Department was placed under its jurisdiction.
- 1960** The first Auditor General of the Republic of Cyprus was appointed.

Within the Budget process there are strong built-in controls aimed at ensuring that the state budget is well monitored and appropriately executed. An Explanatory Memorandum, submitted to the House of Representatives by government, but not forming part of the Budget, provides analysis with more detail for items in the state budget as to how funds approved in it are to be used. The Budget specifies for each expenditure item a Controlling Officer responsible for the proper execution of the expenditure involved, who would otherwise be personally liable. Invoices received by ministries and departments are checked and approved by the Controlling Officer responsible for the proper execution of the given expenditure item as specified in the State Budget. He (or she) signs a payment voucher on which the original invoice is also attached and sent to the Accounting Officer (a Treasury employee posted for each department who ensures the procedures and required records are also kept).

The Accounting System of the Treasury is computerised and currently accounts are prepared on a cash basis. The Internal Audit Service also forms part of the internal control system. It is an independent service and reports its findings and recommendations to management who are required to take corrective action as necessary.

THE AUDITOR GENERAL HAS RESPONSIBILITY FOR THE AUDIT OF ALL EXPENDITURES AND RECEIPTS AND AUDITS AND INSPECTS ALL ACCOUNTS OF MONEYS AND OTHER PUBLIC ASSETS

The structure and organisation of the Audit Office

According to the Constitution the Audit Office of the Republic of Cyprus is headed by the Auditor General whose powers and duties are laid down in the Constitution of the Republic. The Auditor General is responsible for the audit of the accounts of central government, statutory bodies, local authorities, special funds and other agencies. The Auditor General also has the authority to request evidence or information from the recipients of grants, guarantees or loans from public funds in order to ascertain how they were used.

The President and the Vice-President of the Republic jointly appoint the Auditor General and the Deputy Auditor General who must be from different communities. The Auditor General and Deputy Auditor General are completely independent of government. The Auditor General and Deputy Auditor General are members of the permanent public service of the Republic and may only be retired or removed from office in a manner similar to that of a High Court judge (i.e. for mental or physical disability rendering him/her incapable to discharge his/her duties, or for gross misconduct). The powers and duties of the Auditor General are exercised by him/her personally or by his/her officers who act in accordance with his/her instructions.

The Auditor General assisted by the Deputy Auditor General, on behalf of the Republic, has responsibility for the audit of all expenditures and receipts and audits and inspects all accounts of moneys and other public assets.

The SAI is divided into three divisions. Staff coming under divisions A and B of the office carry out mainly financial and performance audits, whereas Division C undertakes the audit of capital projects (technical inspections and examinations). Division B incorporates the Computer Audit Service.

Audit work other than technical work is divided between six branches, which are subdivided into 12 sections. Under each section approximately five to seven staff are engaged.

Divisions A and B and each branch is headed by a Director of Audit and a Senior Principal Auditor respectively, who are qualified professional accountants/auditors, whereas Division C and its two branches are headed by a qualified engineer. Most staff hold professional and/or academic qualifications.

The Audit Office of the Republic has no regional offices. This presents no difficulties in gathering data, testing transactions, or observing first-hand how government activities and programs are carried out, as distances are short.

SPECIAL EMPHASIS AND IMPORTANCE IS GIVEN TO THE CONTINUAL TRAINING OF STAFF

The recruitment, remuneration and qualifications of staff and other resources

The approved permanent posts of the Audit Office in 2004 were 109. In addition eight persons are employed as auxiliary personnel and budgeted gross salaries amount to €3.8 million (2.2 million Cyprus pounds).

The budget for the Audit Office in 2004 was approximately €4.9 million (2.8 million Cyprus pounds).

The general duties and responsibilities of the posts in the Audit Office of the Republic as well as the qualifications required are specified in the schemes of service that have

been approved by the Council of Ministers and the House of Representatives, and vacancies are advertised and recruitment carried out through the independent Public Service Commission.

Special emphasis and importance is given to the continual training of staff, improving the quality of the office's work for the best possible service to the public. Both internal and external training courses are given and personnel are also sent overseas in Europe and elsewhere for appropriate professional training, as well as courses organised by INTOSAI, EUROSAI, ASOSAI and other national SAIs.

The scope, role and rights of access of the Audit Office

The Auditor General is responsible for the audit and inspection of all accounts of monies and other assets administered and of liabilities incurred by or under the authority of the Republic. He/she is responsible for the audit of central government ministries and the accounts of statutory bodies, local authorities, special funds and other agencies, for example School Committees, Sewerage Boards and Water Boards. The Auditor General has the right of access to any evidence or information required to discharge his/her duties including information in electronic form. He/she may request explanations, either written or oral, from those responsible for the management of public funds, including government ministers. Such persons have a duty not to withhold or hinder the provision of information or to provide false or inaccurate information. A breach of these provisions could result in criminal prosecution.

The Auditor General also has the authority to request any person or legal entity receiving a grant from central funds to furnish him/her with the relevant information necessary to determine how the funds were spent.

Furthermore, the Auditor General has the authority to conduct a value for money (performance) audit in any ministry, department, or any other body within his/her audit remit, in order to ascertain that it has operated in an effective, efficient and economic way.

Relations with Parliament and Government

The Auditor General submits an annual report on the findings arising from the exercise of his/her duties to the President of the Republic, who lays it before the House of Representatives. The Annual Report summarises the most significant issues reported on by the Auditor General.

The Audit Office is free to make the results of its work directly available to the public and to Parliament. The Constitution does not establish a formal relationship between the Auditor General and the House of Representatives. In practice however, a good working relationship and line of communication has been established through the Public Accounts Committee, a parliamentary committee with the prime responsibility to examine, inter alia, public accounts including the accounts of Public Corporations and Local Authorities audited by the Auditor General. The Public Accounts Committee examines the Annual or other special reports of the Audit Office, and if it thinks proper, may require those involved to come before the Committee to answer questions. Some matters may be taken to the plenary session of the House of Representatives for further debate.

Much has been achieved through the Auditor General's published reports, extensive media coverage and discussion of issues, as well as the parliamentary debates in implementing the recommendations of the Audit Office. Internal controls have been strengthened, the effectiveness, economy and efficiency of projects and operations, as well as the environment within which government, central and local, and other semi-governmental organisations work is being further enhanced.

The auditing process

The audit year runs from 1 July to 30 June. The Audit Office prepares an annual programme specifying the audit work to be carried out during the year and the major construction projects which will be inspected by the Audit Office.

The work of the Audit Office can be classified into the following broad categories:

- Financial and compliance audits: Audits relating mainly to the audit of the accounts of all Ministries, Independent Offices, Departments, Local Authorities and Statutory Corporations for budget adherence, compliance with laws and regulations and certification of financial statements.
- Performance (value for money) audits: These audits concentrate on the economy, efficiency and effectiveness with which public funds are spent. Separate reports are issued in every case.
- Technical Audits: Audits covering the construction of capital projects such as roads, dams etc. The execution of projects is verified whether it is carried out in accordance with the technical terms and specifications and generally, in the most economical and efficient way. Furthermore it is verified that the projects have been planned, designed and executed satisfactorily.
- Audit of IT systems: A Computer Audit Service was established in 1987 which is responsible for the study and evaluation of current and new IT systems and is responsible for IT staff training.

THE AUDITOR GENERAL HAS THE RIGHT OF ACCESS TO ANY EVIDENCE OR INFORMATION REQUIRED TO DISCHARGE HIS/HER DUTIES

Over the years the Audit Office of the Republic of Cyprus has been applying the professional standards on auditing, issued by the International Federation of Accountants (IFAC), the International Accounting Standards Board, as well as the various pronouncements of the International Organization of Supreme Audit Institutions (INTOSAI).

SUMMARY

Key features of the Audit Office of Cyprus, whose powers and duties are laid down in the Constitution of the Republic are:

Appointment

- The Auditor General and the Deputy Auditor General, who must be from different communities, are appointed jointly by the President and Vice President of the Republic.
- Audit staff are recruited through the independent Public Service Commission.

Independence

- The Auditor General and Deputy Auditor General are independent officers of the Republic of Cyprus under the 1960 Constitution.

Budget

- The Cypriot Audit Office's annual budget estimate is submitted to the Ministry of Finance as part of the Republic's comprehensive budget for approval by the Council of Ministers and the House of Parliament.

Audit Remit

- The Auditor General assisted by the Deputy Auditor General, on behalf of the Republic, is responsible for the audit of all receipts, expenditures, accounts of moneys and other public assets of central and local government, statutory bodies, special funds and agencies.
- The Auditor General conducts both financial audits and value for money (performance) audits, technical audits and audits of IT systems.

Access

- The Auditor General has the right of access to any evidence or information required to discharge his/her duties.

Reporting

- The Auditor General submits an Annual Report, summarising significant issues, to the President of the Republic, who lays it before the House of Representatives.
- The House's Public Accounts Committee examines the Annual Report or other special reports of the Audit Office.

NEJVYŠŠÍ KONTROLNÍ ÚŘAD CZECH REPUBLIC



Key Facts

Economic and general information

- The Czech Republic was established in 1993 after a peaceful separation, "the Velvet Divorce", from the Slovak Republic.
- The Czech Republic has a rich history. The sixteenth century saw the Kingdom come under the power of the Habsburg Empire. The nineteenth century saw the revival of national awareness, culminating in revolutions in 1848. In 1918, following the end of World War One, the Czechs and Slovaks joined together to form the state of Czechoslovakia. After World War Two, the second Czechoslovakian state was established and from 1948 was part of the Soviet bloc, which collapsed as a result of the "Velvet Revolution" in November 1989.
- The Czech Republic has an area of 79,000 square kilometres and is divided into fourteen self-governing regions, which replaced three main historic regions under the Kingdom of Bohemian Crown Lands – Bohemia Moravia and Silesia. The population is 10.2 million people.
- The main exports of the Czech Republic are manufactured goods, machines, cars, transport equipment and beer. Agriculture plays a relatively small role in the economy but cereals, sugar beet and hops are intensively cultivated.
- The Velvet Revolution brought about economic transformation involving the liberalisation of prices, restitution of properties to pre-1948 owners and the mass privatisation of companies.
- After the Velvet Divorce in 1993, the Czech economy experienced a rapid transfer of ownership to the private sector and low unemployment and was able to avoid hyperinflation. The Republic experienced a recession from 1997-1999 but made determined efforts to attract foreign investors and large scale investment in green-field industrial sites has taken place since then.

The structure of the Czech state

Constitution

The constitution of January 1993 states that the Czech Republic is a sovereign, unitary and democratic state based on the rights and freedom of man and citizen. Powers within the state are split between legislative, executive and judicial bodies.

Head of State

The head of state is the President of the Republic whose main roles include appointing the Prime Minister and other members of the Government, signing laws passed by Parliament and convening sessions of the Chamber of Deputies. The President also represents the state in international arenas, appoints judges and is the Supreme Commander of the armed forces. Some decisions made by the President are only valid if countersigned by the Prime Minister or by another member of the Government who is authorized to do so by the Prime Minister. The responsibility for a decision made by the President of the Republic, when countersigned by the appropriate authorised person, is borne by the Government.

The President of the Republic is elected for a five year term, and is permitted a maximum of two successive terms. Any citizen who is eligible for election to the Senate may be elected as President of the Republic. A presidential candidate's nomination must be supported by at least ten Deputies or Senators.

Legislature

Legislative power is vested in the Czech Parliament, a bicameral body composed of the Chamber of Deputies and the Senate. The 200 Deputies are elected for a four year term by proportional representation. The 81 Senators are elected for a six year period by a majority system, with one-third of the Senators being elected every two years. Candidates for the Chamber of Deputies must have the right to vote in the Czech Republic and be at least 21 years of age. Candidates for the Senate must also have the right to vote and be at least 40 years of age. Nobody may be a member of both chambers at the same time.

The Chamber of Deputies is the supreme legislative body. Bills may be introduced to this chamber by a Deputy, a group of Deputies, the Senate, the Government, or a regional parliament. Bills passed by the Chamber of Deputies are presented to the Senate for consideration. A quorum of at least half the numbers of Deputies or Senators must be present for decisions to be taken.

Executive

The Government consists of the Prime Minister, the Deputy Prime Minister and departmental ministers. It is accountable to the Chamber of Deputies. At least 50 Deputies may propose a motion of no confidence in the Government which must be considered by the Chamber of Deputies.

Administration

In 2005, the government of the Czech Republic was administered through 15 ministries. Some central administrative authorities are subordinated directly to the government, such as the Czech Statistical Office, the Security Information Service, and the National Security Authority. Others are subordinated to individual ministries, such as the Czech Office for Surveying, Mapping and Cadastre (under the Ministry of Agriculture), and the Czech Mining Authority.

A few central authorities are defined as independent and have a reporting responsibility to Parliament. These include the Office for Personal Data Protection, and the Council for Radio and Television Broadcasting. Finally, bodies of local self-administration, the Czech National Bank and the Supreme Audit Office, are established by the Constitution as independent, but with a reporting responsibility to Parliament.

The Czech public administration has gone through numerous changes in recent years and these continue. The number of people employed in public bodies is estimated at about 290,000 which includes approximately 40,000 police, 30,000 military and 35,000 regional or municipal governments.

Regional and local government

The Czech Republic has levels of government at the regional and local community level. Within the communities there is a community assembly. Similarly, there is an assembly of representatives at the regional level. Assembly members are elected by secret ballot on the basis of universal suffrage for a four year term. The community assemblies make decisions affecting the functioning of the local community, such as competency of the state welfare system, issuance of building permits, management of construction proceedings, environment, landscape protection, management of forests, hunting, fishing, waste, small trades, and motor vehicle registers. Regional assemblies deal with matters such as education, health care, public transport, territorial planning and environment. The national government may intervene in the actions of an assembly if it is required to uphold the law.

The regions are granted a fixed portion of tax revenue thus increasing their own resources and getting more decision-making autonomy. Buildings, grounds, equipment and the financial resources needed for their maintenance and operation, are also granted by the Government to the relevant regional authorities. The system of local economy is still under development. Local revenues include exclusive taxes for local authorities administered and collected by the state through its relevant financial offices: (e.g. real estate tax; administration and local fees); taxes from which the local authorities receive a fixed proportion of the amount collected in the area (e.g. corporate income tax and value-added tax) and Grants from higher authorities: capital (general) grants.

Public Accounting System

The Government finances state activities from the State Budget and the National Fund. The State Budget represents the financial relationships which secure the financing of certain state functions during a budget year. The Ministry of Finance prepares a draft State Budget in cooperation with those bodies requiring State funding, and in accordance with procedures set out in the Budgetary Rules Act. In accordance with the Act, the Ministry of Finance also prepares a Medium-Term Budgetary Outlook which is discussed by the Government along with the draft State Budget. The draft Closing State Account is presented to Parliament by the Government and considered and discussed in public

meetings of the House of Representatives. A draft Closing State Account is also prepared by the Ministry of Finance from the same sources as the State Budget for presentation by the Government to the House of Representatives in the year that follows the budget year under evaluation. This allows the House to decide on the utilisation of any Budget surplus or defrayal of any Budget deficit proposed by the Government.

The Financial Control in Public Administration Act was adopted in 2001 to establish adequate and effective internal controls and create internal audit systems in the public sector, at central, regional and municipal levels. As a part of its internal control procedures, each body has to establish a system of triple, separate and independent managerial checks for every important transaction. Additionally, each government ministry or major central agency is required to have its own internal audit section, reporting to the Ministry of Finance who sets the standards for internal audit, and to the Supreme Audit Office.

Since 2003, with EU assistance, the Czech Republic has been preparing to adopt a system of accruals based accounting in its public sector, leading to a separation of accountancy and taxation from the existing tax-oriented accountancy regime.

The structure and organisation of the Supreme Audit Office

The bodies of the Supreme Audit Office (SAO) are: the President, the Vice President, the Board, the Senates (sub-groups of Members of the SAO which direct operational audit matters) and the Disciplinary Chamber. The collective bodies of the SAO (the Board, the Senates, and the Disciplinary Chamber) are guided in their work by the Act and their own procedural rules, which are considered and approved by the Board.

The SAO is headed by the President who directs its work, acts as its public representative, presides over the Board and the Disciplinary Chamber, and coordinates the work of the other bodies of the SAO. The President is appointed by the President of the Republic on the proposal of the Chamber of Deputies for a tenure of nine years. The Vice President is appointed in the same way. The Vice President may act

The Supreme Audit Institution

Historical development

The history of audit in the Czech Republic can be traced back to the Austro-Hungarian Empire of the eighteenth century.

- 1761** Empress Maria Theresa established the Royal Accounting Chamber, introducing overall control of state financial operations.
- 1782** Emperor Joseph II prescribed accounting and auditing procedures to be implemented across the Habsburg Empire and strengthened the authority of the Royal Accounting Chamber to review public funds.
- 1866** The audit institution changed its name to Supreme Court of Audit.
- 1918** A Supreme Accounting and Audit Office was established by the first Czechoslovakian Republic.
- 1939** No audit function during World War II.
- 1945** The Supreme Accounting and Audit Office re-established on nominal basis.
- 1951** The Ministry of State Control, a government controlled administrative body, headed by a Minister, rather than an independent audit function, replaces the the Supreme Accounting and Audit Office.
- 1968** An independent supreme audit institution reporting to parliament established.
- 1971** A centralised system of so-called peoples' control bodies was introduced which returned audit functions in reality to the control of the Government.
- 1990** The Czechoslovak Federal Ministry of Control was established, with individual control ministries for the Czech and Slovak Republics.
- 1993** The Supreme Audit Office in its current form, named the Nejvyšší Kontrolní Úřad (NKU) dates from the establishment of the Czech Republic as an independent sovereign state.

for the President in specific cases where power has been delegated to him and has powers to act as the President's proxy in a range of circumstances if the President is absent. In addition to the President and Vice President, the SAO has 15 Members who are elected by the Chamber of Deputies on the proposal of the President of the SAO. The President, the Vice President, and Members can only be removed from their posts in the case of a criminal conviction or on the decision of the Disciplinary Chamber – a body consisting of two members of the Highest Court and the President or Vice President of the SAO.

The Board of the SAO consists of the President, the Vice-President and 15 Members. It adopts the most important and sensitive decisions of the SAO: the plan of audit activities; the draft budget to be submitted to the Chamber of Deputies; the SAO's final budgetary statement; all audit conclusions on which the opinion on the state final account is based; the Annual Report; and the SAO's rules of procedure. The Board also decides on appeals made by audited bodies against the SAO's decisions and any objection which alleges bias, where the objection is against a Member of the SAO.

Board Members also participate in the work of the Senates of the SAO. The Senates are sub groups of Members, which deal with matters arising from individual audits. For example, they hear objections from the audited body and approve conclusions arising from the audit work. Senates usually have four members, although the legal minimum is three.

The SAO has a Presidential Unit with four departments, an Administrative Section with six departments, and an Audit Section with seven specialized and eight regional departments. The President of the SAO has also established advisory bodies - a commission to consider appeals against decisions to impose fines, a damage commission and staff for defence affairs and crisis situations. The powers, acting procedures and composition of the advisory bodies are governed by the internal regulations of the SAO.

The recruitment, remuneration and qualifications of staff and other resources

Towards the end of 2004, the SAO had 485 staff of whom 342 were auditors with the remainder administrative, technical and clerical staff. The majority of the SAO's staff (367) were graduates of universities or other tertiary level educational institutions, some 17 per cent having law degrees, 35 per cent being economists (including accountants and certified auditors), 28 per cent technicians and around 20 per cent having other degrees. Of the remaining SAO staff, 89 had secondary level qualifications and the rest had vocational qualifications needed for technical and support jobs.

The status of SAO staff is governed by the standard Labour Law of the Czech Republic, which includes conditions to prevent conflicts of interest for those working in the public sector. Applicants for jobs at the SAO undergo a competitive selection procedure which focuses on their qualifications, general eligibility and integrity of applicants, and also includes psychological tests.

All audit staff are required to undertake in-house training and pass examinations in government accounting and finance, auditing and the law. After recruitment, their contract is temporary, for a year, before becoming permanent. All employees are expected to complete at least ten days' training per annum. Training can cover topics such as new laws and regulations, developing the auditor's proficiency and promoting his career expectations. A considerable part of the SAO's educational activity is focused on IT literacy and advanced skills.

Auditors' basic salaries are in line with salaries in public administration as a whole, but audit staff may receive bonuses. The SAO's Board is responsible for developing the office's budget and thus has scope to provide additional financial rewards for its staff.

In 2004, the SAO's budget amounted to some €15.7 million, almost two thirds of which related to salaries and other staff costs. A tenth of the budget was spent on the operating and development of IT systems.

The scope, role and rights of access of the Supreme Audit Office

The Constitution of the Czech Republic defines the status of the SAO as an independent body which shall audit the management of state property and implementation of the state budget. Act Number 166/93, which established the Supreme Audit Office on 1 July 1993 is based on these principles.

The SAO audits the management of state property and the revenue and expenditure of the state budget, for example, the payment of taxes by liable persons and their correct calculation and collection by the revenue authorities. The SAO also audits the financial resources collected for services such as health and social insurance. The SAO's audit work is carried out at the central level but it can follow financial resources from the state budget or from abroad (including EU funds) to the level of the final beneficiary. The SAO cannot, however, audit resources levied directly by municipalities or regions under their own jurisdiction.

The SAO's remit includes the audit of the issue and amortization of government securities and public tenders; the financial management of the Czech National Bank; and the management of property transferred to the National Property Fund under privatisation programmes. The SAO also audits certain public bodies, such as the Czech Consolidating Agency, for which the state has assumed guarantees.

In the past, the SAO did not differentiate between its approach to regulatory and financial audit and its approach to performance audit. Audit teams usually adjusted an audit program to suit the individual audit and combined elements of financial and performance audit methodologies in their work. The SAO began to move towards specialist financial and performance audit teams in 2003 but has also retained a mixed audit stream.

The SAO has full access to the premises of audited bodies in order to carry out its work and can demand that audited bodies provide it with the original documents and other papers it needs, including electronic records, within a specified time period. Audit staff can examine all relevant documentation on-site and can also carry out spot checks on assets. Auditors can require true and full, oral and written

information from the officials of the audited body. Where a body does not cooperate fully, the SAO can enforce access by imposing financial sanctions on the body concerned and these sanctions can be levied repeatedly if cooperation is not forthcoming within a time period defined by the auditors.

Relations with Parliament and Government

The SAO has a close working relationship with parliament. The Chamber of Deputies is alone empowered to submit proposals for the appointment of the President and Vice President of the SAO and to elect the Members of the SAO. The Chamber of Deputies decides on the state budget, which influences the SAO's work in several respects. For instance, the state budget is the most important audit area for the SAO, and one of the budget chapters contains the SAO's own resources, which have to be negotiated with the Chamber of Deputies and approved by it.

THE SAO HAS A CLOSE WORKING RELATIONSHIP WITH PARLIAMENT

Parliament is the first addressee of all the main results of the SAO's audit activities, particularly its conclusions on the implementation of the state budget and its annual report. The SAO sends copies of its reports to both Houses of Parliament immediately it has approved them, but there is no automatic procedure whereby the reports must be considered by Parliament. The SAO also sends an official quarterly Bulletin to all Deputies and Senators, containing among other things a set of audit conclusions adopted during the preceding three months.

The main point of contact is with the Budgetary Committee of the Chamber of Deputies. One of the Budgetary Committee's sub-committees deals with audit matters. The SAO delivers reports to Parliament and one of the Members of the Budgetary sub-committee is charged with considering which reports should be discussed by the sub-committee or by other committees. Reports that are considered by the Committee are subject to a detailed discussion, attended

by representatives of the SAO and the audited body, and subsequently a resolution can be adopted by the whole house or a requirement for improvement can be made to the executive authority.

Parliamentary bodies can ask the SAO's opinion of draft bills in such areas as accountancy, state statistics, budgetary rules, internal control, inspection, and supervision. The Chamber of Deputies can also ask the SAO to comment on the draft budget. Occasionally, the SAO's involvement in developing legislation may go beyond providing a legal opinion. For example, the draft bill on Financial Control in Public Administration was considerably changed during its proceedings in Parliament after input from a working group of experts including representatives of the SAO.

The SAO also sends the Government each of its reports once they have been approved. In 1998 the Government incorporated provisions into its Procedural Rules on how to deal with the SAO's reports. Each central authority is required to prepare a statement containing general comments on the report, its response to the audit findings and a list of the follow up measures it plans to take. At least once each quarter, the Government invites the SAO's President to a Cabinet meeting to discuss the audit conclusions and assess the follow up measures. The Government usually adopts its own resolution assigning follow up tasks to ministries or strengthening the requirements on them to take action. Implementation of these tasks is regularly reviewed.

Relations with other auditors

The SAO has regular contacts with the Czech Chamber of Auditors, the Czech Association of Accountants and the Czech Institute of Internal Auditors on matters of educational and methodological cooperation. The 2001 Financial Control in Public Administration Act led to opportunities for additional cooperation with internal auditors, even though it did not establish a formal obligation for the SAO to cooperate with the internal audit function. Some SAO staff have been involved in training new internal audit staff and providing methodological and consultative support to develop the capacity of the Central Harmonisation Unit in the Ministry of Finance.

The auditing process

The main mission of the SAO is to provide reliable and competent information on the management of public resources and state property. The SAO determines whether state and other entities manage the property and resources entrusted to them in accordance with legal regulations, and whether in doing so, they have acted economically and effectively. The existing legal definitions under which the SAO operates do not differentiate between financial and performance audit and audits may include legal and/or performance criteria.

Financial audit

The SAO's financial audit work is intended to allow it to report on the "true and fair view" presented in financial statements. The SAO's methodology is still developing and further staff are being trained with the support of a Twinning Project. The SAO established a Department of Financial Audit in 2001 and has established basic methodological tools based on the European Guidelines on the Implementation of INTOSAI Auditing Standards. By 2003, several dozen auditors had been trained and involved in pilot audits. External factors also affect the SAO's financial audit approach, for example, public sector accountancy and budgetary rules and the financial control framework in the public sector.

Legality and regularity audit

The SAO is required to examine whether audited operations conform to legal regulations and review whether they are substantively and formally correct. The SAO has been able to use this provision widely in performing its audit work, particularly in the period of transformation of the public sector when legal and other regulations were developed quickly and their functionality needed to be extensively tested.

Performance audit

The SAO has general powers to carry out audits of economy, efficiency, and effectiveness – in the Czech legal terminology 'purposefulness and economy' of auditees' activities. In the past, the SAO has included elements of performance audit

work in its general audit activities, for example examining public construction projects, railways and some special-purpose subsidies. The SAO also included three pilot performance audits in its Twinning Project, focusing on development of transport networks. In addition the SAO has begun to develop performance audit manuals and more generalized standards to guide this work. The SAO has adopted a Strategic Development Plan to improve the allocation of its professional capacity between financial and performance audit over the next few years.

THE MAIN MISSION OF SAO IS TO PROVIDE RELIABLE AND COMPETENT INFORMATION ON THE MANAGEMENT OF PUBLIC RESOURCES AND STATE PROPERTY

The Annual Audit Plan

The SAO's annual audit plan sets out the individual audit activities planned for the coming budgetary year. It specifies the object and purpose of audits, designates the bodies to be audited and establishes an audit timetable. It also sets out the names of the SAO members entrusted with drawing up the audit conclusions and SAO bodies responsible for approving the conclusions.

The audit plan primarily draws on suggestions from the SAO President, Vice-President and Members although suggestions from the Chamber of Deputies and its bodies and the Government of the Czech Republic are also considered. Once the audit plan is approved by the SAO Board, it is submitted by the SAO President to the Chamber of Deputies and the Government for information. The plan is also published in the SAO Bulletin.

The SAO's basic audit procedures are prescribed in the audit rules, which are a part of the Act. They define the internal relationships and audit responsibilities within the SAO and set out its relationships with audited bodies. Audits are performed by SAO members and auditors on the basis of written warrants.

Preparation

At the preparatory stage, information is gathered about the audit topic and the entities to be audited and evaluation criteria are established. Audit programmes are devised and audit teams formed. As part of the preparatory work, the SAO member in charge briefs the audit team, focusing in particular on the methodical and organizational aspects of the audit and the timetable.

Carrying out Audits

Auditors carry out audits on the basis of a written warrant issued by a Member of the SAO, according to the Annual Audit Plan approved by the Board. Before the audit commences, auditors present their warrants to the audited body, acquaint it with the programme and ask for the necessary cooperation.

Auditors must obtain sufficient, relevant and reliable evidence to support their conclusions and must assess the performance of the audited body against the set audit criteria. Auditors are required to respect the legitimate interests and rights of the audited body and have a duty of confidentiality in respect of information obtained in the course of their audit work.

Results of audits, their use and publication

Two types of document result from the SAO's audit activities. Firstly, the audit team leader documents the work done at the audited body and prepares an Audit Protocol setting out the detailed findings. The SAO member in charge then consolidates all the protocols, sums up their findings, evaluates them and draws up a report called the Audit Conclusion.

Audit protocols are signed by the auditor and the audited body. Auditees may file objections in writing if they disagree with the audit findings and the head of the audit team is empowered to decide on their objections. If the objections are disallowed by the head of the audit team, the auditee has a right to appeal to the responsible SAO body (an SAO member, Senate or Board), which then decides on the objection and further action. Audit protocols are not routinely published.

Audit conclusions are prepared by the SAO member responsible for the individual audit in question, in cooperation with the appropriate coordinating or regional departments. They are approved by the Board or the Senate after members' comments have been considered. The SAO President presents all approved audit conclusions to the Chamber of Deputies, the Senate, the Government of the Czech Republic, and upon request to relevant line ministries. When the Czech National Bank is an audited body it also receives an approved audit conclusion immediately. All approved audit conclusions (except those, which are confidential according to special regulations) are also published in the SAO Bulletin. Audit protocols and other data relating to approved audit conclusions can be made available by the SAO, on request, to the Chamber of Deputies, its bodies and the Government of the Czech Republic when respective persons take a duty of confidentiality.

If the SAO's audit uncovers facts that indicate a criminal offence or contravention of legal regulations has occurred, the SAO President notifies the appropriate law enforcement authorities.

Reporting

The SAO issues five types of external outputs:

- Audit Conclusions, summarising the results of individual Audit Protocols, are published quarterly in the SAO Bulletin. There are usually eight to ten Audit Conclusions in each volume.
- The Annual Report, summarising the work of the SAO in the year and its main findings.
- Opinions on the Government's quarterly reports on the implementation of the State Budget - these are addressed to the Chamber of Deputies and are then publicly available as parliamentary documents.
- Opinions resulting from the SAO's analysis of draft legislation.
- Announcements to law enforcement and financial authorities of seriously suspicious activities or events. All announcements are strictly confidential, formal and must be supported by strong evidence.

SUMMARY

The Czech Republic's Constitution defines the status of the the SAO as an independent body which shall audit the management of state property and the implementation of the state budget. Key features of the SAO are:

Appointment

- The President and Vice President are appointed for a nine-year term by the President of the Republic on a proposal from the Chamber of Deputies.
- The 15 members of the SAO are appointed by the Chamber of Deputies on the proposal of the President of the SAO.
- Audit staff, the majority of whom are graduates, are recruited by competitive selection and governed by the standard Labour laws. They are trained in-house in government accounting, finance, audit and law.

Budget

- The SAO's budget is negotiated with, and approved by, the Chamber of Deputies.

Audit Remit

- The existing legal definitions under which the SAO operates do not differentiate between financial and performance audit and audits may include legal and/or performance criteria, but began to move towards specialist financial and performance audit in 2003.
- The SAO's audit work is carried out at the central level; it cannot audit municipalities or regions beyond their state budget resources spending.

Access

- The SAO has full access to to the premises and records of audited bodies and can demand explanations as required.

Reporting

- Audit conclusions, summarizing the results of individual audits; the SAO's Annual Report; and its opinions on the implementation of the State Budget are made to the Chamber of Deputies.

Key Legislation

- Act Number 166/93 which established the SAO as an independent body.
- The General Financial Control Law 2001.

RIGSREVISIONEN DENMARK



Key Facts

Economic and general information

- Denmark is situated in northern Europe and comprises the Jutland Peninsula and over 400 islands including Zealand, Funen, Lolland, Falster and Bornholm. Outlying territories are the Faeroes and Greenland in the North Atlantic.
- Denmark occupies a land area of 43,000 square kilometres and has a population of 5.4 million.
- Denmark's history is closely identified with that of Sweden and Norway, and for a time in the 15th century the three countries were joined in union. Sweden withdrew in 1523 but Norway remained under Danish rule until 1814.
- Denmark ceded its last north German territories to Germany in 1864 but after World War I the German border was redefined as a result of a referendum in 1920. In 1944 Iceland, under Danish rule since 1380, declared itself independent.
- Almost 70 per cent of the working population are employed in the service sector or commerce, and 27 per cent in manufacturing industry. Less than two per cent of the labour force work in the agriculture sector, even though agricultural produce forms a significant proportion of Danish exports. Denmark has one of the highest per capita levels of GNP in the world and a high standard of living.

The structure of the Danish state

Constitution

Denmark has been a constitutional monarchy since the passing of the Act of Constitution in 1849. Between 1849 and 1901 executive power was accountable to the monarch rather than to Parliament. The most recent Act of Constitution, passed in 1953, provides for a clear separation of powers between the executive, the legislature and the judiciary.

Head of State

As Head of State, the Monarch's main tasks are to represent Denmark abroad and to be a figurehead at home. The Monarch cannot independently perform political acts, but must sign all Acts of Parliament, then countersigned by a Cabinet Minister, before they can come into force. The Monarch also participates in the formation of a new government. After the Party Leader, who has the largest number of seats in the Folketing (the Danish Parliament), is invited to form a government, the Monarch will formally appoint it. Additionally, the Monarch is the formal Head of Government and therefore presides over the State Council, where the Acts which have been passed by the Folketing are signed into law.

The Prime Minister and the Minister of Foreign Affairs report regularly to the Monarch to advise her of the latest political developments.

Legislature

Since 1953 the Danish Parliament - the Folketing - has consisted of a single chamber with 179 members elected by a system of proportional representation. Members of Parliament are elected for a four-year term, unless a general election is held before. Parliamentary supremacy is manifested in the power of the legislature to remove a minister or the entire government by means of a vote of no confidence. The Parliament's webpage is www.folketinget.dk.

The Executive

According to the Constitution, the powers of the executive are officially exercised by the monarch through the Cabinet led by the Prime Minister. There are few prescriptions regarding the role of the Cabinet and its role is heavily influenced by the Prime Minister. The Monarch formally appoints the Prime Minister, but in practice this choice is made following negotiations between all political parties. Ultimately the Government must have the support of a majority in Parliament, or at least it must not be opposed by a majority.

Governments are elected for four years and are normally formed by coalition. Ministers are usually, but not necessarily, members of Parliament. The Constitution provides for those ministers who are not members to attend sittings of Parliament on an ex-officio basis. They can address Parliament but they cannot vote.

Once appointed, ministers have significant autonomy within their policy area. The Cabinet makes few specific decisions and ministers do not generally become involved in the affairs of other ministries. However, the Prime Minister takes an interest in politically sensitive issues within each ministry and along with the minister responsible, the Prime Minister may be held to account for failed or ill conceived policies. The Ministry of Finance has some responsibility for the oversight of financial management for each ministry, but relies on persuasion to ensure that ministers' proposals are in line with the overall financial policy of the Government. The Ministry of Finance also has other central management responsibilities for the civil service such as personnel and wages, and oversees the development of information technology.

Administration

In 2005 the Danish central government consisted of 18 ministries. They are staffed by non-political civil servants, headed by a permanent secretary. Denmark has adopted a policy of devolving administrative tasks to subordinated directorates, which are headed by a permanent director. Examples are the Road Directorate and the Directorate of the Working Environment Service. These have responsibility for inspection and regulation. In addition, there are a number of service delivery agencies, for example museums or research agencies. Of the 200,000 people employed by the central government in Denmark, only 5,000 work in the central departments. The remainder are employed by directorates or state enterprises.

Regional and Local Government

In Denmark there is a tradition of central government devolving powers to regional or local government. The Constitution provides both with various rights of self-rule but requires that these be exercised under state supervision. There are 14 directly elected County Councils with responsibility for matters such as secondary education, roads programmes and the hospital system. There are also 275 directly elected local governments, which are responsible for matters such as primary education, libraries, social security benefits and cultural and sporting facilities. Each tier of local government has strong representative bodies - the Association of County Councils and the National Association of Local Authorities - which liaise with central government. Local government is financed by a combination of central government grants, locally raised taxes and fees and charges.

Public Accounting System

In 1976 Parliament introduced a centralised accounting system covering all government bodies, both for departments and individual agencies. Each agency has a book-keeping/payment facility within the system and delivers its totals into the centralised general accounting system each month. The National Audit Office of Denmark (NAOD) – the Rigsrevisionen – helped to design the system.

The Auditor General's Act requires that the Auditor General is given an opportunity to give his opinion before an agency makes changes in its accounting system or procedures which are of significance for the audit. The NAOD relies primarily on systems audit and it carries out substantive audit for added assurance. In accordance with the Auditor General's Act, the Auditor General shall be informed of all regulations regarding accounting matters and other matters of significance for the audit.

The Supreme Audit Institution

Historical development

The NAOD is an independent organisation carrying out audit on behalf of Parliament. The Danish state audit system dates back several centuries; however audit departments were not established until 1848 in most of the ministries.

- 1917** Reorganisation of the state's bookkeeping and accounting system.
- 1921** Commission established to consider reorganisation of the state's auditing system.
- 1926** State Accounting and Audit Act was passed, covering both financial and performance aspects of all the accounts of the state, and which provided for the audit of state accounts to be the responsibility of the Parliament's Public Accounts Committee and four main audit agencies in the Ministry of Finance.
- 1974** Committee to examine the structure of state audit established by Minister of Economic Affairs, who was responsible for the audit departments.
- 1976** The Auditor General's Act was passed, which provided for the audit of state accounts to be carried out by an independent Auditor General leading a unified audit organisation.
- 1991** The Auditor General's Act was amended to place the NAOD under the authority of Parliament and the Auditor General was no longer appointed by the Monarch, but by the Speaker on a recommendation from Parliament's Public Accounts Committee. This change also meant that the budget of the NAOD no longer had to be approved by the Minister of Economic Affairs.
- 1996** The Auditor General's Act was amended again. Amongst other things this resulted in the NAOD obtaining direct access to accounts and other kinds of company information, and the Auditor General withdrew as an auditor of completely limited liability companies.

The structure and organisation of the NAOD

In accordance with the 1991 Act, the Auditor General is appointed on a nomination from Parliament's Public Accounts Committee to the Speaker, who, after consulting with the Deputy Speakers, presents the nomination to the Standing Order Committee of Parliament. The Auditor General's Act establishes the independence of the Auditor General in performing his duties. Since 1975, the Auditor General has been chosen from within the NAOD. There is a compulsory retirement age of 70.

In recent years, the NAOD has made major changes to its organisation, resulting in greater specialisation. The NAOD is divided into departments, most of which are responsible either for financial audit, performance audit or audit of companies.

The NAOD adopts a structured planning process based on materiality and risk. This includes a statement of objectives as well as an estimate of resources. The plans are considered by the Auditor General and the Assistant Auditors General, who make the final decision according to predetermined principles of priority. Such principles include rotation among agencies or focussing on past problem areas.

THE MAIN TASK OF THE NAOD IS TO AUDIT THE CENTRAL GOVERNMENT ACCOUNTS AND TO EXAMINE WHETHER CENTRAL GOVERNMENT FUNDS ARE ADMINISTERED AS PARLIAMENT INTENDED

The recruitment, remuneration and qualifications of staff and other resources

In January 2005 the NAOD had a staff of about 250. 53 per cent were university graduates and bachelors of commerce, 35 per cent were public servants and clerical staff, and the remaining 12 per cent primarily comprising management. Staff receive extensive in-house training and work in divisions, generally of between 5 and 15 people. The specialisation which has taken place in the NAOD gives its staff greater experience, insight and expertise in their respective fields of audit.

The scope, role and rights of access of the NAOD

The main task of the NAOD is to audit the central government accounts and to examine whether central government funds are administered as Parliament intended. The audit of the central government accounts covers about 620 agencies and a number of other companies, enterprises etc. Section 3 of the Auditor General's Act of 1991 states that the audit shall ascertain that the accounts are correct and that the transactions covered by the presentation of accounts comply with authorised budget appropriations, laws and other regulations and with customary practice. Furthermore, an evaluation shall be made as to whether sound financial management has been applied to the administration of funds and the running of operations covered by the accounts.

The scope of the Auditor General's audit is set out in the Auditor General's Act and includes the audit of central government accounts and the accounts of agencies, foundations and other bodies whose expenditure or accounting deficits are covered by central government funds. This also includes the accounts of independent administrative units established by law and accounts of partnerships and enterprises. The NAOD also has a statutory right of access to bodies that receive grants, loans or other financial support from the state, and has complete or partial access to limited liability companies' accounts, or accounts for which there are special audit arrangements established by law. In addition, the Auditor General has access to local government accounts if expenditures are reimbursed by the state. The NAOD does not have access to audit the Crown, Parliament or the National Bank (in the Bank's capacity as central bank).

The Auditor General may request all information and all documents from any public authority which in his opinion are relevant to the performance of his duties.

The audit of local government is not carried out by the NAOD. Local authorities may appoint any Certified Public Accountant, but most audits in this sector are carried out by the Local Government Auditing Department.

Relations with Parliament and Government

The Parliament's Public Accounts Committee was established within the first Constitution in 1849. The current form of the Committee was set up in 1976. It is a constitutional body and an independent agency. It is thus not subordinate to either Parliament or the Government. It is composed of six paid members who need not be members of Parliament. The Committee's tenure is for four years and is not affected by general elections. The Chairman is traditionally the longest serving member of the Committee. Members are appointed by Parliament on the basis of proportional representation, so that each main party is represented on the Committee.

The Parliament's Public Accounts Committee reviews whether the central government accounts are correct and whether the transactions covered by the presentation of accounts are in compliance with authorised budget appropriations, the laws and other regulations and with agreements made and customary practice. Furthermore, the Committee assesses whether sound financial management has been applied to the administration of the funds and the running of the operations covered by the accounts. The Committee makes use of the Auditor General's reports as the basis for its work. The Committee submits the reports to Parliament. The Government must respond to the Committee's recommendations. This ensures that the Committee has a high profile and an important function in improving public sector administration.

Only the Public Accounts Committee may request that the NAOD examine certain matters. Such requests are provided for in the Auditor General's Act, which requires the Auditor General to assist the Committee in its review of government accounts by carrying out inspections and submitting reports on matters the Committee wishes to have examined. The NAOD cannot refuse a request from the Committee but in practice some of the requests are incorporated into other plans.

The Parliament's website www.folketinget.dk, includes a link to pages on the Public Accounts Committee.

The auditing process

General methodology

The NAOD audits on the basis of internally developed guidelines and instructions in order to ensure quality and consistency in its work. The guidelines are tested, updated and developed continuously.

The NAOD carries out both financial audit and performance audit in accordance with the principles of good public auditing practice. These principles include the requirements and conditions which form the basis for carrying out the audit of the central government accounts. The paper 'Good Public Auditing Practice' can be found on the NAOD's webpage www.rigsrevisionen.dk.

ONLY THE PARLIAMENT'S PUBLIC ACCOUNTS COMMITTEE MAY REQUEST THAT THE NAOD EXAMINE CERTAIN MATTERS

Financial audit

The purpose of financial audit is to examine whether the agencies' and ministries' accounts give a true and fair view. The NAOD examines, for example, whether the procedures of the agencies are efficient, and whether they include the necessary controls. Financial audit is largely systems based and is planned on the basis of materiality and risk.

In recent years the NAOD has developed a catalogue of packages for financial audit, for instance 'audit through the year' and 'closing audit'. Audit through the year involves a review and assessment of the procedures and internal controls of the agencies. There are also a number of special audit packages such as for the audit of salaries and subsidies. Each year the NAOD visits some 200 of the 620 agencies. In the course of the visits, sample transactions are selected and tested.

Internal audit

Agreements on establishing internal audit units are made between the Auditor General and the responsible ministers. The internal audit units work on the basis of annual audit plans which are approved by the NAOD. If an internal audit unit has been established, the NAOD seeks to rely on its work, but a unit has to be independent of the agency and sufficiently competent to examine the accounts on behalf of the NAOD. The responsibility remains, however, with the NAOD, which reviews the work of the various internal audit units against their annual audit plans. Over the past 20 years, the development of the internal audit unit function has been significant in Denmark, and all the main ministries now have internal audit units.

FINANCIAL AUDIT IS LARGELY SYSTEMS BASED AND IS PLANNED ON THE BASIS OF MATERIALITY AND RISK

Appropriation control

The Auditor General reconciles the state accounts and compares budgetary appropriations with actual account figures. The Auditor General ascertains that the accounts are correct and that the transactions covered by the presentation of accounts are in compliance with authorised budget appropriations, laws and other regulations and with agreements made and customary practice. Every year the Auditor General submits an Appropriation Control Report to the Parliament's Public Accounts Committee.

The findings of financial audit work are reported on an aggregate level in the Appropriation Control Report and, from 1999, at annual meetings between the NAOD and the top management of the ministries. In addition, the NAOD informs agencies on a day-to-day basis whilst the audit is under way.

Audit of grants

The NAOD may also audit the accounts of a number of other bodies. The Auditor General may request that the relevant accounts be submitted from the minister in question, who, in turn, is statutorily obliged to cooperate. The audits can be carried out on-the-spot if necessary and the Auditor General decides what information and documents are relevant for the audit.

The purpose of the Auditor General's audit work in relation to these accounts is to ensure that they have been subject to adequate audit and that the stipulated provisions have been complied with, in other words, that funds have been applied in accordance with the rules and regulations.

Performance audit

Performance audit involves an examination of how tasks have been carried out, including whether the necessary financial considerations have been taken into consideration when administering the appropriated funds. Performance audit has three broad aspects:

- Economy (has the cost of resources been minimised having regard to appropriate quality?).
- Efficiency (is there a maximum benefit between use of resources and output?).
- Effectiveness (to what extent have the intended results and effects been achieved?).

As part of performance audit work, financial management examinations are carried out. These examinations may, for example, look at whether procedures have been established and whether information flows sufficiently to management level. This is to ensure that the objectives of the organisation are complied with in the best possible manner, taking into consideration the aspects of economy, efficiency and effectiveness. The concept of sound financial management is described in detail on the NAOD website.

The NAOD recognises that if performance audit is to be based on a sound professional view, then various skills such as legal, statistical, economic and sociological skills are important. Therefore, as part of the planning process, management ensures that appropriate skills are available and that ad hoc inter-unit groups are formed for specific performance audit studies. On occasion, outside expertise is brought in.

Finally, performance audit reports include recommendations for improvement as well as criticisms of existing practice. Before a report is published it is discussed with the ministry concerned with the aim of clarifying the report's factual information. In addition, the staff and management of the audited agency will be involved throughout the examination. This involvement ensures the accuracy of the report and that the recommendations are realistic.

Advice

The Auditor General's Act requires the Auditor General to assist the ministries in the organising of accounting and internal accounting control. The NAOD offers advice and guidance on how to organise the accounts and the accounting control for state agencies. The NAOD may also offer advice on procedures in connection with presentation of accounts and other procedures.

Reporting

The NAOD produces three types of report: the Annual Appropriation Control Report, performance audit reports (some 15-20 each year), and an Annual Report on the NAOD's activities. In addition, about 80 memoranda are produced each year for Parliament's Public Accounts Committee. Audit conclusions are cleared with the ministries and where agreement cannot be reached, the different views are recorded. If the Auditor General feels that there are matters that require special attention in view of their financial significance or other factors, the Auditor General may carry out a performance audit examination.

Reports are presented to Parliament's Public Accounts Committee, which forwards it with any comments to Parliament and to the Minister concerned. The Minister must respond within four months (two months for the Annual Appropriation Control Report) with a statement to the Public Accounts Committee of the measures and considerations to which the report has given rise. This statement is also forwarded to the Auditor General who must submit his comments to the Committee within one month. The statement and the Auditor General's comments are included in the final report of the Committee to Parliament.

PERFORMANCE AUDIT REPORTS INCLUDE
RECOMMENDATIONS FOR IMPROVEMENT AS
WELL AS CRITICISMS OF EXISTING PRACTICE

Reports form the basis for agencies' follow up. The NAOD reviews the agencies' work and if necessary a follow up review will be carried out. Further information is contained on the NAOD's website.

SUMMARY

The NAOD is an independent agency under the authority of Parliament carrying out part of the parliamentary control in Denmark with its remit and status set out in the Auditor General's Act. The key features of the NAOD are:

Appointment and status of the Auditor General

- The Auditor General is appointed on a nomination from Parliament's Public Accounts Committee to the Speaker who, after consultation with the Deputy Speakers, presents the nomination to the Standing Order Committee of Parliament. The Auditor General is independent in the performance of his duties.

Budget

- The budget of the NAOD is set by Parliament after a submission by the Auditor General to Public Accounts Committee.

Skills of staff

- The staff of the NAOD are university graduates, bachelors of commerce, public servants and office workers. The staff have extensive in-house training.

Audit remit

- The Auditor General has an extensive audit remit, including the central government accounts and the accounts of agencies and foundations whose expenditure or accounting deficits are covered by central government.
- The scope of the audit includes whether the accounts are correct and whether the transactions covered by the presentation of the accounts are in compliance with authorised budget appropriations, laws and other customary practice. Furthermore, the NAOD evaluates whether sound financial management has been applied to the administration of funds and the running of operations covered by the accounts.

Rights of access

- The NAOD has a statutory right of access to bodies that receive grants, loans or other forms of financial support from the state, and it has complete or partial access to limited liability companies' accounts, or accounts for which there are special audit arrangements established by law.
- The Auditor General may request all information and all documents from any public authority which in his opinion are relevant to the performance of his duties.

Reporting

- The Auditor General reports to the Public Accounts Committee which forwards the report, with any comments, to Parliament and the Minister concerned.
- There are three kinds of reports: the Annual Appropriation Control report, performance audit reports and the annual report on the activities of the NAOD. In addition, about 80 memoranda are produced each year for Parliament's Public Accounts Committee.

Key legislation

- The NAOD's audit remit is set out in the Auditor General's Act which was adopted on 1 January 1976. The Act was amended in 1991 and 1996 to emphasise the constitutional independence of the Auditor General from executive power and to give the NAOD direct access to accounts and other kinds of company information.

RIIGIKONTROLL ESTONIA



Key Facts

Economic and general information

- Estonia lies on the Baltic Sea and is bordered by Latvia and Russia. Around 1,000 islands make up 10% of Estonia's area and about 45% is forest.
- Estonia has an area of 45,227 square kilometres and some 1.4 million people, 67 per cent of whom live in urban areas. Tallinn, the capital city, has 400,000 inhabitants and is an important port on the Baltic Sea coast. The official language is Estonian. The Estonian population comprises Estonians, Russians, Ukrainians, Byelorussians, Finns and others.
- The independent Republic of Estonia came into existence after World War I when it separated from the Russian Empire following the 1918-1920 War of Independence. Parliamentary democracy was established during this period and a number of constitutional institutions (including the State Audit Office) established at that time continue their activities today.
- Estonia remained independent until the outbreak of World War II when it was occupied by the Soviet Union, then Nazi Germany. After the war, Estonia was incorporated, as one of the republics, into the Union of the Soviet Socialist Republics. During the late 1980's peaceful protests took place which sought to restore Estonia's independence, which was achieved in 1991 after a coup in Moscow.
- The main exports of Estonia are machinery, wood and wood products, textiles and food products. Tourism and transit trade are also important to the Estonian economy. Finland, Sweden, Germany, Latvia and Russia are Estonia's biggest trade partners. Estonia suffered from a recession between 1991 and 1994 as its economy went through a transition period. However, 2000 saw the economy grow rapidly again.

The structure of the Estonian Republic

Constitution

Under the 1992 Constitution the Republic of Estonia is an independent, sovereign and democratic state. It is politically a unitary state. The activities of the Riigikogu (the Parliament), the President of the Republic, the Government of the Republic and the courts are organised on the principle of separation and balance of powers.

Head of State

The President of the Republic is the Head of State and is elected by Riigikogu, on the nomination of at least one-fifth of its members, for a five-year term of office and may be re-elected for a second term. Candidates must be Estonian citizens by birth and aged at least 40. The President's responsibilities include representing the Republic in international relations, initiating amendments to the constitution, declaring regular parliamentary elections, nominating the Prime Minister and appointing and releasing from office members of the Government on the proposal of the Prime Minister.

The Executive

Executive power is exercised by the Government which implements domestic and foreign policies, directs and coordinates the work of Government institutions and organises the implementation of legislation. The Government also submits draft legislation to Riigikogu and foreign treaties for ratification. The Government comprises the Prime Minister and up to 14 Ministers. The President nominates a Prime Minister who then forms a new Government. Riigikogu votes whether to appoint the candidate as Prime Minister. The Prime Minister represents the Government and directs its work. Ministries are established for the purpose of executing particular functions of government.

Executive agencies and inspectorates operate in Ministerial areas and may have a directing function, exercise state supervision and enforce the powers of the state as prescribed by law.

Legislature

Legislative power is vested in the Riigikogu, a single chamber parliament with 101 members who are elected for a four year term through a system of proportional representation. Riigikogu has the power to adopt laws and resolutions, decide to conduct referenda, elect the President, adopt the state budget and approve the Consolidated Annual Report of the State, ratify foreign treaties and appoint senior state officials. Legislation can be initiated by a Member of Riigikogu, a faction or committee of Riigikogu, the Government or the President (only for amendment of the Constitution). Acts of the Riigikogu are adopted by a simple majority (a certain number of constitutional acts are adopted by a majority of the membership of the Riigikogu).

The Board of the Riigikogu consists of a Chairman and two Deputy Chairmen. It is elected annually by Members of Riigikogu from among their own members. The Board manages the work of the Riigikogu in accordance with the Constitution and Acts governing its procedures and administration. The Riigikogu has established standing committees, select committees, committees of investigation and study committees, and members of the Riigikogu serve on one or more committees.

Estonia is split into twelve electoral districts. All Estonian citizens, over the age of 18, without criminal convictions, have the right to vote in parliamentary elections. Candidates for election must be at least 21 and have the right to vote.

Administration

The Government of Estonia is divided into 11 ministries and the State Chancellery headed by the State Secretary. The State Chancellery manages the operations of, and provides support services to, the Government and Prime Minister. In addition, it manages the relations of the Government and the Prime Minister with the Riigikogu and other constitutional institutions, publishes Riigi Teataja (Official Gazette), keeps account of the performance of ministers, the Government and the Prime Minister. In addition it manages archiving and co-ordinates the training and evaluation of state officials and local government officials.

Regional and Local Government

The basic units of local government are rural municipalities and towns, governed by councils which are elected every three years by the permanent residents of their area who have the legal right to vote. Local councils, which operate independently of central government, have their own budgets, supported from the state budget, and legally may impose and collect taxes and fees. All local issues are managed and resolved by local governments, which have the right to form leagues and joint institutions with other local governments. The functions, responsibility and organisation of local government and the relations of local governments with one another and with state institutions are determined by the Local Government Organisation Act.

Estonia is divided into 15 counties. The Government appoints county governors for a term of five years on the proposal of the Minister of Regional Affairs. County governors represent the interests of the state in the county and attend to the development of the county, and co-ordinate the co-operation of regional offices of ministries and other agencies of executive power and local governments in the county. They also direct the work of the county government and may supervise the implementation of legislation specific to local governments in the county.

There are a number of legal persons in public law in Estonia, including universities, Estonian Television, Estonian Radio, the Estonian Academy of Science, the Cultural Endowment, the National Library, the National Opera and the Bank of Estonia. The Bank of Estonia has the sole right to issue currency, regulate its circulation and uphold its stability under the law and report to Riigikogu.

Public Accounting System

The Government presents a draft state budget to the Riigikogu no later than three months prior to the commencement of the budgetary year, which follows the calendar year. Once approved by Riigikogu, the state budget enters into force from the beginning of the budgetary year. If Riigikogu does not approve the state budget by the beginning of the budgetary year, the Government is permitted to incur monthly expenditures of up to one-twelfth of the expenditures of the previous budgetary year. If Riigikogu does not adopt the budget within two months after the beginning of the budgetary year, the President is required to declare extraordinary Parliamentary elections. Procedures for the drafting, passing and implementation of the state budget are provided by the State Budget Act.

Internal control and internal audit in the government sector were introduced on the basis of amendments to the Government of the Republic Act in 2000. The head of a ministry, State Chancellery, county government, executive agency, inspectorate etc. is required to implement an internal control system and is liable for the efficiency of the system and for the organisation of internal audits. The Government has established general rules for the conduct of internal audits in the government sector, including provisions for reporting and the requirements for employing internal auditors. The Ministry of Finance is responsible for co-ordinating the implementation of the internal control system of the Government and the organisation of internal audit.

The aim of the Accounting Act 2003 was to create the legal bases and establish requirements for organising accounting in accordance with internationally recognized principles and the European Union's accounting directives. The head of each state accounting entity is responsible for organising its accounting systems. Accounts are maintained on an accruals basis. The accounting year in the public sector corresponds to the budgetary year, that is, from 1 January to 31 December. All state accounting entities are required to submit their annual reports to the Ministry of Finance by 15 March.

The Ministry of Finance prepares annually the draft Consolidated Annual Report of the State containing unconsolidated and consolidated state accounts and local government information. It is prepared on the basis of the annual reports of state accounting entities, relevant audit and other reports. The Report on the Implementation of the State Budget is a part of the annual accounts of the state. The draft consolidated Annual Report is audited by the SAO by 31 August. In the course of audit the Ministry of Finance may correct and amend the report. The Ministry submits the audited Consolidated Annual Report of the State together with an audit report to the Government for approval. The Government submits an approved Consolidated Annual Report to the Riigikogu.

The structure and organisation of the State Audit Office

The State Audit Office (SAO) is headed by the Auditor General who is appointed for a renewable five-year term by the Riigikogu on the proposal of the President. The Auditor General must be an Estonian citizen, under age 65 on appointment, with an academic degree and knowledge of general principles of public administration and economics. He/she is not allowed to participate in the activities of a political party and can hold no other post except in research or teaching. The Auditor General has the same rights in directing his/her Office as a Government Minister. He/she can be removed from office only when criminal charges are brought against him/her by the Legal Chancellor and a majority of the Riigikogu agrees to removal.

The State Audit Office Act stipulates the general principles for the organisational structure of the Office, defining the status of the Chief Auditor (an historic title) as a Head of Department. The Auditor General determines the number and organisation of Departments and Support Services and appoints and releases staff. He/she approves the statutes of departments, rules of procedure and guidelines necessary for the activities of the SAO. The SAO's senior management comprises the Auditor General, Heads of Audit Departments and the Director. The Chief Auditors, including one who acts as his/her Deputy, are appointed by the Auditor General for an unspecified time and are responsible for directing all the work of audit departments and signing audit reports. They represent the Office within limits defined by the Auditor General.

The Supreme Audit Institution

Historical development

- 1918** The State Audit Office (SAO) was established.
- 1919** The provisional Audit Act defined the status, organisation and scope of the SAO.
- 1938** A new Act updated and defined the SAO, and the 1938 Constitution provided for the President to give extraordinary audit tasks to it.
- 1940** The activities of the SAO were discontinued under Soviet annexation.
- 1990** An independent SAO was re-established, modelled on earlier legislation and best contemporary European audit practices.
- 1995** Under new audit legislation the Auditor General gained the right to appoint all staff while the term of office was shortened from seven to five years.
- 2002** The State Audit Office Act of 2002 defined basic audit principles in accordance with international audit standards and the development of the state, by clearly stating the SAO's mandate for performance audit and for the audit of European Union funds. An amendment to the SAO Act was adopted in 2005, widening its scope to the financial audit of local governments from 2006.

The SAO has undergone several structural changes as a result of amendments to Audit Acts and different visions and development strategies. It now has four audit departments with audit responsibilities divided according to audit areas and financial and performance audit function in each department. The fifth audit department, dealing with local governments, will be established from 2006.

In addition there are seven small Support Services co-ordinated by the Director of the SAO who is responsible for the overall administration of the Office.

The recruitment, remuneration and qualifications of staff and other resources

By the end of the first half year of 2005 there were 83 employees, 65 per cent of them directly involved in auditing. 90 per cent of the employees are university graduates; among the auditors this percentage is 100. About 40 per cent of the employees have a degree in economics, business, accounting or related areas, 10 per cent in law, seven per cent are public administration graduates and the rest have various different degrees such as sociology, biology etc. When special skills are needed to carry out an audit, the SAO can contract external experts.

Employees, as a rule, are recruited by open competition. Recruits have a probationary period of six months. The SAO has designed a special induction programme for newcomers and during their trial period they are supervised by senior staff. At the end of the trial period a Junior Auditor may be promoted to Auditor. Training is regarded as important to development. Training needs are assessed annually and individual training plans are agreed for employees. Besides on-the-job and in-house training, the SAO contracts training from outside. Employees participate in training courses organised for private sector or internal auditors and training is an important part of international cooperation.

The employees of the SAO are public servants, subject to the provisions of the Public Service Act as specified by the State Audit Office Act. Audit staff are required to act in accordance with the Code of Ethics for Auditors and avoid conflicts of interest. The salary of the Auditor General is specified by law. The salaries of the employees are paid according to the SAO remuneration policy, including individual performance pay and team bonuses, approved by the Auditor General. Average salaries at the SAO are broadly in line with public sector pay.

The State Audit Office submits its budget through the Ministry of Finance, which manages the budgetary process, to the Government. The draft state budget, including the SAO budget, is submitted by the Government to the Riigikogu for approval.

The scope, role and right of access of the State Audit Office

The Constitution of Estonia defines the role of the SAO as an independent state body exercising economic control (audit), giving the public assurance that public sector assets are used legally and effectively. Thus, the SAO carries out the audit of government accounts and the safeguarding of state assets in the public sector and where budget funds are involved. Audit findings are reported to the Riigikogu which has the power to introduce amendments into legislation and influence Government by other means.

The SAO has the authority to carry out both financial and performance audits, but not the assessment of political goals. It is entitled to assess internal control and the reliability of information technology systems; the financial management and annual accounts of audited entities; the legality of their economic activities; and the performance of audited entities against their set objectives and programmes. The State Audit Office has neither comptroller nor judicial functions.

The audit scope of the State Audit Office includes public bodies such as the Chancellery of the Riigikogu, the State Chancellery, the Offices of the President of the Republic and Legal Chancellor, the Courts, the Bank of Estonia, ministries and other government authorities, local governments, legal persons in public law, public foundations and companies where the state has a majority holding or whose loans are granted by the state, as well as various subsidies and allocations granted from the state budget. Other bodies and persons are within the SAO audit scope insofar as they receive money from the state budget. The State Audit Office has the statutory right to carry out audits of the funds of the European Union.

Relations with Parliament and Government

The SAO is accountable to Riigikogu but independent in compiling its audit plan. The Riigikogu may suggest audit topics but the final decision lies with the SAO. Under the Constitution the SAO is obliged to submit to the Riigikogu the report – an Overview on the Use and Preservation of State Assets – on the previous financial year. The Auditor General presents the report at the Riigikogu concurrently with the deliberation of the Consolidated Annual Report of the State. Until the year 2002, there were no formal regulations governing procedures for the deliberation of the SAO's individual audit reports at the Riigikogu.

THE SAO HAS THE AUTHORITY TO CARRY OUT BOTH FINANCIAL AND PERFORMANCE AUDITS, BUT NOT THE ASSESSMENT OF POLITICAL GOALS

The Riigikogu Select Committee on the Control of State Budget was formed in 2004; its membership comprises a majority of opposition members, including the Chairman. The Committee's objective, in cooperation with the SAO, is to secure control on the implementation of the state budget by the Government and the economic, efficient, effective and legitimate use of state assets. All audit reports and overviews prepared by the SAO are sent to, and reviewed by, the Committee. The Committee discusses reports and important questions raised by the Auditor General and reviews public audit issues; its sessions are open to the public. As a result of its deliberations of audit results the Committee is entitled to make inquiries of Government, which must respond within a month. Communication with Standing Committees is also their responsibility as well as organising joint sittings when necessary. The Committee informs the SAO about the problems addressed to the Committee by authorities and persons and forms an opinion in cases of obstruction of the SAO activities. The Select Committee also has the right to make proposals to other committees with regard to the preparation and amendment of legislation.

Members of the Riigikogu have a special right to make inquiries to the Auditor General with regard to his/her area of competence. The SAO has to carry out an investigation into the matter and the Auditor General is required to reply at a Riigikogu session within 20 session days.

The Constitution gives the Auditor General the right to participate and speak during sessions of Government where issues related to his/her duties are discussed. This does not compromise the SAO's independence, because the Auditor General is not involved in decision-making. Besides the right to make proposals regarding the preparation and amendment of legislation to the Riigikogu, the SAO can address them to the Government and to Ministers. The SAO also gives opinions on Government acts. Draft Government or Ministerial acts of general application about financial management, financial accounting or reporting are submitted to the SAO. The SAO also cooperates with Government in the fields of internal control and internal audit.

Relations with other auditors

The SAO initiated the establishment of internal control and audit in the Government sector. As a result, an amendment concerning internal control and audit was introduced into the Government of the Republic Act in 2000. The reliability of internal control enables the SAO to work more efficiently. To encourage the improvement of the internal control and audit the SAO cooperates with the Ministry of Finance, which co-ordinates internal audit in all government authorities. There are regular contacts with the Ministry's Financial Control Department, exchanging information about audit plans and working on the Consolidated Annual Report of the State. There is cooperation also in the fields of methodology and training and Ministry internal auditors have been seconded to the State Audit Office.

The auditing process

The annual plan of the Riigikontroll for the next calendar year is approved by the Auditor General in December. The period covered by the plan is one calendar year. It can be reviewed and amended after the annual report to the Riigikogu in September. The auditing plan includes audits and special reports to be prepared by audit departments. If necessary, Chief Auditors can make proposals to change the plan during the year. The selection of topics for the plan arises primarily from statutory requirements. Monitoring, risk analysis and follow-up audits also provide topics for inclusion in the audit plan. In planning new audits the audit departments take account of the comments of different interest groups. The Methodology, Planning and Reporting Service of the SAO makes suggestions for cross-departmental topics. Ministers are informed of planned audits during the preparation of the annual audit plan. The approved annual auditing plan is sent to the Select Committee on the Control of State Budget and made public.

The SAO carries out its audits based on INTOSAI Auditing Standards; European Implementing Guidelines for INTOSAI's Auditing Standards, other international standards and internal guidelines. The head of the institution to be examined is notified before audit. The audit starts with a "pre-study" whereby the auditors define the problems connected with the audited area, on which they intend to focus and determine the ways for collecting necessary information. There is also a "start meeting" with auditees which lets the SAO explain its purpose at greater length. After the "pre-study", an audit plan defining the scope, objectives, main topics, methods, resources and expected results from conducting the audit is designed and approved at internal discussions. Internal discussions between the Auditor General, the Chief Auditor concerned, the audit team and representatives of the Methodology, Planning and Reporting Service and the Public Relations Service are held to discuss and approve all audit plans and final audit reports.

The aim is to discuss relevant issues, to inform the Auditor General and Public Relations Service and serve as a means of quality control. Internal discussions may result in changes to the annual auditing plan. The collection of audit evidence begins after the approval of the audit plan and is documented in working papers. The compilation of a draft report may start during or after evidence collection. Before the draft report is completed the audit team discusses the observations, conclusions and recommendations with the audited entity giving them the opportunity to comment. After being approved at internal discussions the draft report is sent to the auditee. The final audit report, signed by the Chief Auditor, and including the auditee's response, is sent to the auditee and other persons concerned, and is submitted to the Riigikogu Select Committee on the Control of the State Budget.

The audit report is made public on the website of the Riigikontroll (www.riigikontroll.ee). Communication with the media and other interest groups is co-ordinated by the Public Relations Service. The SAO has a follow-up system for recommendations made in the course of audits in order to increase the quality and effectiveness of audits and to decide the necessity of follow-up audits.

Financial audit

Financial audits are used to verify whether the annual accounts of institutions reflect 'a true and fair view' of their financial situation. The aim is to achieve accurate and complete financial reporting that would make it possible to improve the financial management of the public sector. The SAO is required to prepare for the Riigikogu an "Audit Report on the Consolidated Annual Report of the State". This is the primary statutory task of the SAO and the majority of financial audits are carried out to provide information for giving the opinion on the consolidated annual report. The focus is on the comprehensive assessment of financial information; internal control and financial management systems and of the accuracy of the information in the management reports about results. The Riigikogu needs reliable information about the financial situation of the state and spending of budgetary resources to make reasonable decisions about the next budget.

Performance audit

The SAO's performance audits aim at facilitating the spread of sound management and good administrative practice in the public sector. In the course of performance audits three aspects of public administration – economy, efficiency and effectiveness – are evaluated. While assessing the efficiency of administration in the public sector the SAO analyses how to improve the performance with the same resources or achieve the same results with fewer inputs. In the course of evaluating the effectiveness of the government activities the SAO analyses the achievement of objectives, set out in legal acts and planning documents; and the real impact achieved as a result of certain activities as compared to the desired impact.

THE RIIGIKOGU MAY SUGGEST AUDIT TOPICS
BUT THE FINAL DECISION LIES WITH THE SAO

Performance audits focus on examinations of certain topics rather than examinations of the administrations of institutions. This approach helps to detect conflicting and expensive overlapping activities of Ministries. Examinations also focus on areas not covered by Government programmes and action plans but nevertheless important at the national level. The selection of topics is based on criteria defined in the SAO's strategic plan. Preference is given to topics that are extensive in terms of scope and money, relevant to everyday life and that influence life in a long-term perspective. Compared with financial audits, performance audits are more time-consuming and may take more than a year to complete, although their average duration is from six to nine months.

Reporting

The SAO is an independent constitutional institution accountable to the Riigikogu, producing four types of reports for Riigikogu. The SAO annually submits to the Riigikogu the "Overview on the Use and Preservation of State Assets" during the previous financial year, at the same time as the Riigikogu's deliberation of the Consolidated Annual Report of the State and the Auditor General's summary. The overview report is based on audit findings of the previous year and special examinations and in recent years has been focused on the areas of assets considered problematic.

Under the State Budget Act the SAO is required to examine the accounts of the public sector and prepare an audit report on the Consolidated Annual Report of the State by 31 August. The Consolidated Annual Report of the State is compiled on the basis of the annual reports of the state accounting entities by the Ministry of Finance and submitted by the Government to the Riigikogu for approval together with the audit report prepared by the SAO. The audit report contains an assessment of the accuracy of the consolidated report and the legality of transactions.

An audit report is produced after completing each audit. Special reports for the Riigikogu, based on the findings of several audits, during which usual procedural acts are not conducted, are also made. Audit reports (including summaries in English), with the exception of those containing classified information, are made public on the SAO's website. All reports are sent to the Riigikogu Select Committee on the Control of State Budget for review. After reviewing and discussing the audit reports, the Committee selects reports that need further attention and more detailed discussion and summons the auditee before the Committee for questioning. The SAO participates in the Committee's inquiry to give explanations where needed. Following discussions the Committee decides what further action may be needed. If necessary, the Committee may submit the results of its inquiry to the Government. The Committee also checks the implementation of its recommendations and those made by the SAO.

An external auditor for the State Audit Office is appointed annually by the Riigikogu on the proposal by the Finance Committee, and the SAO is also required to submit to Riigikogu an annual report on its own activities within one month after the receipt of the auditor's opinion.

SUMMARY

The Constitution provides for the State Audit Office (SAO). It defines the status and the tasks of the Office, appointment, rights and the term of office of the Auditor General. The SAO is an independent state body responsible for economic control, whose organisation is regulated by the State Audit Office Act.

Appointment

- The SAO is headed by the Auditor General who is appointed for a five-year term by the Riigikogu on the proposal of the President.
- The Auditor General determines the structure of the SAO and appoints staff, who are, as a rule, recruited by open competition.

Budget

- The SAO submits its budget through the Ministry of Finance to the Government and thence to the Riigikogu for approval.

Audit Remit

- The SAO has the authority to carry out both financial and performance audits.
- The SAO is not entitled to assess political goals.
- The SAO's audit scope is wide, including central and local government, the Bank of Estonia, public foundations and companies where the state has a majority holding.

Access

- The SAO has access to all documents and information relevant to its audits.

Reporting

- The SAO is accountable to the Riigikogu and reports to Riigikogu.

Key Legislation

- The State Audit Office Acts of 1990, 1995 and 2002.

STATE AUDIT OFFICE FINLAND



Key Facts

Economic and general information

- Finland proclaimed its independence in 1917 following the Russian Revolution.
- Finland was formerly part of the Swedish Empire and later an autonomous grand duchy of the Russian Empire. It joined the United Nations in 1955, the European Free Trade Association in 1985 and the European Union on 1 January 1995.
- Finland has a land area of 305,000 square kilometres, and a population of 5.2 million.
- Finland is an advanced industrial economy: the metal, engineering and electronics industries account for 50 per cent of export revenues and the forest products industry for 30 per cent. Forests are still Finland's most important raw material resource.
- The most important export product today is the mobile phone, and Finland is one of the few European countries whose exports exceed imports in data and communications technology. Finland has more mobile phones and internet connections per capita than any other country.
- Finland also has a high profile international reputation in fashion, textiles and household products.

The structure of the Finnish state

Constitution

Under the Constitution of 11 June 1999, Finland is a republic with a unicameral Parliament (the Eduskunta) and a President as Head of State. Legislative power is vested in the Parliament, and governmental power is held by the President and the Government.

Finland is a unitary state divided into six provinces, each headed by a Governor. The Constitution covers the basic structure of governmental organisation and the tasks of government bodies. The new Constitution entered into force in March 2000 with the replacement of a framework of four separate constitutional laws by a single statute. One of the main goals of the constitutional reform process has been to move Finland further in the direction of a parliamentary system of government.

Head of State

The President of the Republic is elected by a system of direct two-stage popular election for a period of six years, with re-election for one further consecutive term permitted. The President shares executive power with the Government and has the power to dissolve Parliament and order new elections on the basis of a reasoned initiative by the Prime Minister, after consulting the Speaker of Parliament and political groups in Parliament, while Parliament is in session. The President can also convene Parliament for extraordinary sessions. Finland's foreign policy is conducted by the President of the Republic in cooperation with the Government. However, as a general rule it is the role of Parliament to ratify and withdraw from international obligations and decide on their implementation, while the President decides on war and peace with the consent of Parliament. The President also appoints important civil servants, including the Chancellor of Justice, the Deputy Chancellor of Justice, judges, the State Prosecutor, senior ministerial officials, military officers and provincial governors.

The Executive

The Government in Finland consists of the Prime Minister and other ministers. The Prime Minister is elected by Parliament and thereafter formally appointed to office by the President of the Republic. The President appoints the other ministers in accordance with a proposal from the Prime Minister. Ministers are collectively responsible for the conduct of affairs and for the general policy of the Government. The Government is to be understood, on the one hand, as the body which convenes for the general governing of the country, and, on the other hand, as the decision-making body for governmental and administrative matters, consisting of the Government plenary session and the ministries. Government plenary sessions make proposals to the President of the Republic on decisions in matters which come under the authority of the President. Plenary sessions also have the power to issue decrees and take decisions on governmental and administrative matters coming under the authority of the Government. Government plenary sessions handle approximately 2,000 items of business every year.

Legislature

The Finnish Parliament assembles annually at the beginning of February, with the session usually lasting 120 days, although it can lengthen or shorten the sitting at will. There are 200 members of the Parliament, which has been unicameral since 1906. Parliament has three main duties through which it represents the people and makes the basic decisions on Finnish policy. It passes laws, it debates and approves the budget, and it supervises the Government of the country. The legislature controls the Government and administration by dealing with government reports and notices on policy issues, as well as the reports of the State Audit Office, the Parliamentary State Auditors and the Ombudsman. There are also 14 parliamentary committees (and a Grand Committee), which scrutinise legislative proposals before plenary consideration. Individual members of the legislature can exercise control over the executive by questioning the Government in writing. In addition, as a group of 20 or more, they can take advantage of a process of interpellation through which a minister is questioned, a plenary discussion is allowed, and ministers can be removed if a vote of confidence is not won. Parliamentary and municipal council elections are held every fourth year and are based on universal suffrage and a system of proportional representation. All Finnish citizens aged over 18 are entitled to vote.

Administration

There are 13 ministries, which prepare and implement the policy decisions of the President and the Government. Ministries are headed by one or more ministers, with their administration run by a secretary general, the senior permanent civil servant. Ministers are responsible for their

ministries or specific areas within ministries, and can be held legally as well as politically accountable for their actions. On average ministries employ 300-350 people. In addition there are around 115 state agencies subordinated to the relevant ministry. These often have responsibility for specific areas of administration such as education, transport or social services.

The Supreme Audit Institution

Historical development

- 1809** State audit was dealt with by an office subordinate to the Chamber of Execution of the Economic Division of the Government Cabinet.
- 1824** The first predecessor of the State Audit Office, the General Revision Court (including the Revision Office which operated as a part of the Court), was established by imperial decree as an agency under the Senate (Government Cabinet) of Finland.
- 1919** The basic constitutional law of Finland, the Form of Government Act, gave legal authority for government audit, stating that there should be an office (the State Revision Office) to audit the accounts and balances of the state funds. This body was required to check that the figures were correct, and ensure that revenue and expenditure were legal, the budget was complied with and financial management was appropriate.
- 1923** The Audit Decree stated that the role also included considering whether there was wasteful or unnecessary expenditure.
- 1940** During World War Two a second audit body, the Audit Office of War Economy, was established as a result of the demands of wartime expenditure.
- 1945** A committee was formed to consider how the two bodies could be merged.
- 1948** The State Audit Office in its present form was established.
- 1991** Under the terms of a State Audit Decree the terms of the 1919 Act were modernised.
- 1993** A new State Audit Decree was passed, again detailing the tasks and organisation of the Audit Office.
- 1995** An Act was passed giving the State Audit Office the right to audit transfers of funds between Finland and the European Union.
- 2000** Under the new Constitution the State Audit Office status as an independent Audit Office became stronger, affiliated with Parliament, rather than operating under the Ministry of Finance as per the previous arrangements.
- 2001** New laws came into force concerning the status and duties of the State Audit Office.

Regional and Local Government

Regional administration in Finland consists of provincial governments, state district administration and regional councils formed by municipalities. There are five provinces and 19 regions in mainland Finland, with the autonomous Åland islands forming an additional province. There are about 450 municipalities which under the Constitution have considerable independence. They can collect their own taxes and are responsible for delivering many services in the fields of education, social services and health care. They are headed by elected municipal councils. Other municipal organs obligatory for every local authority are the municipal board, the municipal manager and the auditing committee. The auditing committee prepares audit related matters for the municipal council. Groups of municipalities come together in federations to coordinate the planning and delivery of health and education.

Public Accounting System

During the 1990's the Finnish Government introduced major changes to its budgetary and management systems. The most important aspect is that agencies are given lump sum appropriations, which can be applied at the agency's discretion without detailed parliamentary scrutiny and can be carried over into the following year. In return efficiency and effectiveness objectives are set for the agency in negotiation with the Ministry of Finance and the relevant line ministry. The system is designed to provide increased delegation and accountability, and also to increase parliamentary knowledge of what agencies will provide for the resources given to them. Agencies must submit Annual Reports detailing their performance to the Ministry of Finance, their line ministry and the State Audit Office. Agency financial statements include calculations of compliance with budget and an administrative balance sheet, while the accounts now include elements for the market based rental cost of their offices and pension contributions.

The structure and organisation of the State Audit Office

The head of the State Audit Office is the Auditor General. The Auditor General is appointed by the Parliament. The appointment is for a term of six years which is renewable. The Auditor General can only be removed by the Parliament following serious misbehaviour. Director Generals and other officials are appointed by the Auditor General.

The State Audit Office is divided into three operational units, one of which is responsible for performance audit, one for financial audit and one for internal services. Audit units are led by Director Generals and the Internal Services Unit is led by the Head of Planning. The Auditor General and the operational units agree in annual work plans certain goals to which units commit themselves. The Internal Services Unit provides support to the rest of the office, as well as liaising on subjects such as European and other international affairs.

The Auditor General is charged with directing and developing the operations of the State Audit Office and is responsible for its efficiency and the achievement of its objectives. He decides on all matters except those that according to the SAI's working order are assigned to other officials. In managing the office the Auditor General is assisted by a management group consisting of the Auditor General as chairman and heads of operational units as members. Although each operational unit decides on its own work programme, the Auditor General can reserve individual decisions to himself on a case by case basis.

The State Audit Office has an advisory board whose tasks are to maintain and develop the Office's connections with cooperation partners, present initiatives to develop auditing and monitor the focusing of audits, their effectiveness and ability to serve different cooperation partners. The advisory board elects a chairman from among its members. The State Audit Office appoints representatives of key cooperation partners, as well as experts from financial administration and the public economy to the advisory board for a maximum term of three years. The State Audit Office's personnel shall elect from among themselves one member of the advisory board for a maximum term of three years.

The recruitment, remuneration and qualifications of staff and other resources

The complement of the State Audit Office at the end of 2004 was around 145, of whom 120 were auditors. There were sixty auditors in both performance audit and financial audit. 16 people worked in internal services. The majority of the staff (130) work in Helsinki and the rest in two regional units in the towns of Turku and Oulu.

All audit staff at the State Audit Office have university degrees. Most have a master's degree in accounting or business and they are followed by postgraduates in areas such as public administration, political science, economics and sociology.

Audit posts are advertised in the Official Bulletin of the State and in certain newspapers. Recommendations are made to the Auditor General, who makes the final decisions on recruitment. New staff often start on a probationary period before becoming permanent. This period can vary from three to 12 months. Salaries are decided by the Auditor General, who, like the heads of offices and agencies, has considerable freedom in this area. Salaries are considered to be about average for the public sector in Finland. The State Audit Office's budget in 2004 was 10.6 million euros. The Office's total costs were 9.6 million euros of which the personnel costs were 75 per cent. Financial Audit accounted for 4.9 million and Performance Audit 4.7 million euros. Internal services costs were about 0.9 million euros.

The scope, role and rights of access of the State Audit Office

The State Audit Office is an independent body affiliated with the Parliament. It has had the present organisational status since the beginning of 2001 and it came into force along with the new Constitution. Previously the State Audit Office came under the jurisdiction of the Ministry of Finance. However, after the shift from Government to Parliament the Office's main duties and rights of access remained as they were.

The State Audit Office is authorised to examine the revenue and expenditure of the following bodies: the Government and ministries; state offices and agencies; state business enterprises and state-owned companies; state aids and subsidies. It can also examine funds outside the state budget, and under 1995 legislation has the right to examine the transfer of funds between Finland and the European Union.

THE STATE AUDIT OFFICE IS AN INDEPENDENT BODY AFFILIATED WITH THE PARLIAMENT

The State Audit Office does not audit the Finnish Parliament, the Bank of Finland or the State Insurance Institute, which are all audited by auditors nominated by Parliament. When state bodies are privatised the State Audit Office is unable to examine the new bodies, although it is able to conduct the audits of the regulators of the new bodies. The accounts of the State Audit Office are subject to examination by external auditors nominated by the Parliament. The State Audit Office has a statutory right of access at all times to all documents it may require during its audits. All information, with any necessary explanations, must be provided to the Audit Office without delay and under the 2000 Act on the State Audit Office, the State Audit Office can fine anyone failing to comply with such requests within set time limits. It can also insist that books, documents and other material are provided in a form suitable for audit on the threat of a fine, although to date it has never had to use these powers.

Relations with Parliament and the Government

The new Constitution of Finland came into force on 1 March 2000. In paragraph 90, section 2, it is stated that "to audit the State's financial management and compliance with the State budget there shall be an Independent State Audit Office connected to Parliament. The tasks and the duties of the State Audit Office shall be prescribed in greater detail by legislation". According to the new Constitution the State Audit Office has been organised into connection with Parliament since the beginning of 2001. The new law, the Act on the State Audit Office, describing the tasks and the duties of the State Audit Office, came into force on 1 January 2001.

The Parliamentary Chancellery Commission handles the State Audit Office's budget proposal and it also decides on it within the state budget. Parliament prescribes the State Audit Office's tasks by law. The State Audit Office submits an annual report concerning its own functions to Parliament each year by the end of September. The report consists of the essential audit findings. Also an individual audit report may be given to Parliament for debate. All audit reports are presented to the Finance Committee of Parliament, the Parliamentary State Auditors and the Ministry of Finance.

THE STATE AUDIT OFFICE SUBMITS AN ANNUAL REPORT CONCERNING ITS OWN FUNCTIONS TO PARLIAMENT EACH YEAR

Relations with other auditors

The State Audit Office has contacts with the Parliamentary State Auditors by providing them with its annual plan of operations and submitting all its reports to them for information. Internal audit in Finland is carried out by internal audit sections within ministries and agencies. This is a management support function, designed to examine the administration and accounts of the institution as well as to audit how the body has functioned in awarding government subsidies. Internal audit functions are quite separate from the State Audit Office, although it does have a statutory advisory role in the organisation of internal audit and internal control.

The State Audit Office exercises this role in carrying out its external audit function and making recommendations regarding internal control on the basis of its audit work.

The auditing process

Audit planning

The work of the State Audit Office is planned throughout the year with an annual programme put together between August and December. In September seminars are held for each operational unit to discuss the work planning guidance and obtain input from all staff members about factors that should be taken into account. In November proposals for audit topics are submitted in the light of identified priorities and risks, and preliminary topic selection takes place. In December final decisions are made on the work programme by the head of each operational unit, taking account of targets agreed with the Auditor General. The programmes are combined and issued together as the State Audit Office's programme at the end of the year. The main factors that determine the work programme have during recent years been materiality, risk, the practical usefulness of the proposed work, and the need to obtain adequate assurance on the legality of expenditure and revenue and its compliance with the budget.

Financial audit

Before the 1990's the financial audits of ministries and agencies were conducted on a three to five year cycle within a new definition of financial audit. In the early 1990s the audit approach was again revised to include not just an examination of the accuracy of the accounts but also the achievement of performance targets and the correctness and adequacy of the information on which performance was judged. The State Audit Office's Financial Audit unit and its four audit groups focus solely on financial audits. The Unit is divided into audit groups according to the different fields of administration which correspond to the jurisdiction of ministries. Within the unit there is also a special audit group that focuses its audits on Information Systems.

Although there is no statutory requirement, all ministries and agencies have been subject to an annual audit by the Office's Financial Audit unit since 1995. By then all of them had adopted the results oriented budgeting system. In 2005 the State Audit Office submitted 117 financial audit reports plus a report on the state's year-end accounts. The aim of the financial audit is to ensure that the financial statements are correct, to check the legality of financial management and to ensure that internal controls are functioning, and to assess whether book-keeping and other accounting practices are reliable and appropriate. Traditionally this has included checking that funds have been used in accordance with budgetary statutes and regulations, as well as within budget appropriations, and that they have been brought to account correctly. The Financial Audit unit's scope is divided into five parts: book-keeping and other accounting in the centre, compliance with the budget, internal controls, true and fair view of annual accounts and annual reports, and performance goal setting.

The Government's economic management is based on a results oriented budgeting system - a division of accounts and less detailed budget implementation instructions adapted for framework and result management. This has affected the financial audit approach of the State Audit Office. Agency performance is now judged against the targets set in result agreements with the relevant ministry, and so these bodies have had to develop systems to record costs and outcomes in more detail. The State Audit Office has adapted its work to take account of these changes. This has involved increased assessment of the accuracy and adequacy of outcome data and the rationale for performance goal setting.

The state accounting system was reformed in 1998. This increased development work in the Financial Audit unit, including the revision of the auditing manual and the development of computer-assisted auditing.

Performance audit

The State Audit Office's Performance Audit Unit audits such activities which have a direct or indirect bearing on state revenues and expenses. Performance audits investigate the achievement of objectives and problems related to the overall efficiency of the state economy and produce information to direct the state economy. Performance audit provides information, assurance and advice to support the economy, efficiency and effectiveness of the state administration. It also ensures the legality and propriety of the state's financial management and compliance with the state budget. Special focus areas during recent years include state financial control systems, state subsidies and other support, and state revenues. Many studies take a cross-administrative approach to examining common functions.

The State Audit Office decided on a reorganisation of Performance Audit in 2004. The previous two units and personnel were merged into a single unit on 1 June 2005. The goal of the reorganisation is to improve the quality and coherence of the audit process and audit reports, to create better conditions for managing and renewing audit work, and to increase cooperation among auditors.

The Performance Audit unit is divided into three audit groups according to different fields of administration which correspond to the jurisdiction of ministries. Each audit group consists of 15-20 auditors. In addition to audit groups there is a technical support function consisting of seven persons and a one man function dealing with complaints and abuses in state administration.

In 2004 the State Audit Office completed 29 performance audits, taking an average 229 employee days to carry out the work leading to a final report. Performance audits are usually carried out by one to three auditors. Performance audits that were completed in 2004 covered, for instance, personnel recruitment in state administration, the government grant procedure for child and adolescent psychiatry, combating the underground economy and financial crime, performance reporting to Parliament concerning unincorporated state enterprises, alcohol control and the implementation of the national forest programme.

Suggestions for new performance audits come from audit staff and from senior management. Financial auditors are also expected to raise value for money issues identified from their work. Performance audit staff review their own areas of responsibility and prepare papers with suggestions. Some 100 ideas are produced annually, of which around 15-20 per cent are approved and reach preliminary study stage.

During the last few years the State Audit Office has focused on establishing and developing the quality of the performance auditing process. In the development work the focus has been in quality requirements and methods for evaluating the quality of auditing. Quality criteria have been formulated and, on this basis, external evaluations of the quality of performance audit reports have also been made by an outside expert. In addition, a model has been created for monitoring the effects of individual audits after their completion. The objective is to collect information on special problems and development possibilities related to the effectiveness of audits. In practice that means that a special follow-up is done within about two years after every performance audit in which the focus is on finding out what measures and improvements have been made on the basis of the audit report. As a further development in 2002 the State Audit Office approved process, preliminary study and audit report guidelines for performance audit.

Reporting

The State Audit Office produces separate reports on financial and performance audits. In 2004 there were 117 financial audit reports plus a report on the state's year-end accounts and 25 performance audit reports. All financial audit reports as well as systems and performance audit reports are submitted for information to the Parliamentary State Auditors and to the Ministry of Finance, as well as to the audited body and, where this is an agency, to the relevant supervising ministry. Draft reports are presented to the auditee (and other relevant government bodies as necessary) for comments and clarification. Decisions on the final content of the report are made by the State Audit Office but auditees' comments are usually incorporated into the final text. Final reports on performance audits, which are usually 50-150 pages long, are available to the public. A press release is issued with every report, which, in the case of more critical or significant reports, can receive considerable media attention.

In addition, the State Audit Office produces an Annual Report, which is submitted for information to Parliament, Parliamentary State Auditors and the Ministry of Finance and is distributed widely within the Government. The report includes an overview of the year by the Auditor General, an examination of the State Audit Office's activities and operations, and an assessment of achievement of objectives in both financial and performance audit against targets.

The State Audit Office being nowadays organised in connection with Parliament, also submits once a year (in September) a report on its functions and most significant results to Parliament and other individual audit reports when this is considered necessary. This is left to the discretion of the State Audit Office.

SUMMARY

The Finnish State Audit Office is an independent body organized in connection with Parliament. The task of the State Audit Office is to ensure the legality and effectiveness of the state's financial management and compliance with the budget. The key features are:

Independence

- The position of the State Audit Office is legislated in the Constitution of Finland. The State Audit Office itself was established by the State Audit Act 1947. The new Act on the State Audit Office came into force in 2001.

Organisation

- The head of the State Audit Office is the Auditor General. The Auditor General is appointed by Parliament. The appointment is for a term of six years which is renewable. The Director Generals and other officials are appointed by the Auditor General.
- The State Audit Office is divided into operational units of which one is responsible for performance audit, one for financial audit and one for internal services. Audit Units are led by Director Generals and the Internal Services Unit by the Head of Planning. The Auditor General and the operational units agree in annual work plans certain goals to which units commit themselves.

Staff

- Decisions on staffing and appointments are made by the Auditor General. The current complement of the State Audit Office is 147. All audit staff have university degrees.

Discretion over work

- Based on the Constitution of Finland (11 June 1999) and the Act on the State Audit Office (14 July 2000) the Finnish State Audit Office has complete discretion over the planning, execution and reporting of its work.

Audit Remit

- The State Audit Office has a wide remit covering the Government and ministries; state offices and agencies; state business enterprises and state-owned companies; state aids and subsidies. It can also examine funds outside the state budget, and under 1995 legislation has a right to examine the transfer of funds between Finland and the European Union.

Ability to report

- The State Audit Office produces and submits to Parliament separate reports on financial and performance audits, and a general Annual Report on its activities. The State Audit Office has a duty to send an audit report for information and necessary measures to the auditee and the ministry in whose sector the auditee is included and for information to the Parliamentary State Auditors and the Ministry of Finance. All individual audit reports are discussed with the audited body, whose comments are usually included in the text. The auditee and the ministry in whose sector the auditee falls, must inform the State Audit Office regarding what measures have been taken as a result of the remarks presented in the audit report. Reports are available to the public and are issued with a press release.

Access to information

- The State Audit Office has a statutory right of access at all times to all documents required for its audits. It can fine anyone failing to provide material within set time limits, although it has never had to use these powers.

COUR DES COMPTES FRANCE



Key Facts

Economic and general information

- France (excluding her overseas territories and departments) has an area of 544,000 square kilometres and a population of 61.7 million. This includes the island of Corsica. A further 1.8 million live in overseas territories.
- After many hundreds of years of monarchic rule, a variety of political systems have followed: First Republic (1792-1804), First Empire (1804-1815), Restored Monarchy (1815-1830), Liberal Monarchy (1830-1848), Second Republic (1848-1852), Second Empire (1852-1870), Third Republic (1870-1940), Fourth Republic (1946-1958). The current Fifth Republic was proclaimed in 1958.
- France is one of the world's leading industrial countries. The manufacturing industry is one of the strongest and provides some 17.8 per cent of GDP. The most important elements are food products, transport equipment, chemicals, machinery, metals and metal products. Agriculture (including forestry and fishing) contributes 2 per cent of GDP.
- During the 1980s, under socialist governments, France underwent a programme of nationalisation ranging across the economy including the banking and insurance sectors as well as the heavy industries. However, changes in government from 1986 to 1993 saw moves towards privatisation. This has been driven in part by the opportunity to raise revenue in order to offset budget deficits.

The structure of the French state

Constitution

France's republican status is enshrined in the Constitution. The Fifth Republic increased the power of the executive over the legislative in order to promote a strong and stable government. However, ultimate sovereignty rests with the citizens of the state. The Constitution also provides for a legal system based on two types of court: the Administrative and the Judicial.

Head of State

The Head of State is the President of the Republic. Since 1962 the President has been elected by direct universal suffrage for a seven year period. This has recently reduced to a five year period. A distinctive feature of the Fifth Republic is that the President combines formal responsibilities with purely ceremonial functions. The President appoints the Prime Minister and, on nomination from the Prime Minister, he also appoints other Ministers. He promulgates laws passed by Parliament and has the power, albeit seldom used, to refer laws back to Parliament. The President is head of the armed forces and also plays a high profile role in foreign affairs.

The Executive

The Government is led by the Prime Minister who is constitutionally responsible for determining and pursuing the policy of the nation. Members of the Government cannot be members of the French Parliament, and when called to government service, they resign in favour of a 'deputy'. There are usually between 40 and 50 members of the Government at any one time, divided between approximately 20 ministries. The Prime Minister has authority over other members of the Government and can issue instructions to them. The Government is responsible to the National Assembly (the lower house of Parliament) and must resign if it loses a vote of confidence. The resignation has not always been accepted by the President, who may maintain the Prime Minister in office and call for new general elections after dissolution of the National Assembly.

Administration

France (excluding her overseas departments and territories) is divided into 22 administrative regions for national development, planning and budgetary policy. There are 96 départements within the 22 regions, to which must be added the four overseas départements, which also have regional status: French Guiana, Guadeloupe, Martinique and Réunion. Two overseas collectivités territoriales (Mayotte and St Pierre and Miquelon) and three overseas territories (French Polynesia, New Caledonia and the Wallis and Futuna Islands) are also all integral parts of the French Republic, the last three quoted with a special status.

Central government is represented in the regions and départements by the préfets, high ranking officials appointed by Presidential decree, who come under the authority of the Ministry of the Interior. In 1982 there was a significant transfer of power from central to local government. The Act of Decentralisation transferred administrative and financial power from the préfets to locally elected departmental assemblies (conseils généraux) and regional assemblies (conseils régionaux). However, the préfets retain the power to refer any local government actions which they consider to be in contradiction of national laws and regulations to the administrative courts. They can also refer the budgets of local authorities to the regional Chambres des Comptes (courts of accounts) in certain circumstances.

Under an Act of February 1992 on the territorial administration of the Republic, and a Decree of July 1992 containing a 'Deconcentration Charter', the roles of central and local levels of state services were redefined. Rules on power sharing between the central and local levels of government services were significantly changed, in an attempt to strengthen the role of local level within the administration of the state. In 2004, a second Act of Decentralisation transferred new powers to local authorities. The départements are responsible for social aid, education and roads. Regional authorities are responsible for economic development, vocational training, railway transportation and secondary education.

Legislature

Parliament consists of the National Assembly and the Senate. The 577 seat National Assembly is directly elected by universal adult suffrage for a five year term, subject to dissolution by the President of the Republic. The Senate consists of 321 senators, one-third of whom are elected every three years, to serve for a nine year term, by an electoral college. This body is composed of members of the National Assembly and delegates from all tiers of regional and local government. The Senate ensures the representation of the various parts of the local administration and cannot be dissolved. Following an amendment to the Constitution passed in 1995, Parliament sits from October to June.

The National Assembly determines the financial resources and obligations of the state. It also initiates legislation and holds the Government accountable for its programme. Legislation requires approval by both the National Assembly and the Senate. However, if these two bodies disagree over a bill, the National Assembly has the last word. The Cour des Comptes (the state audit body) assists Parliament and the Government in supervising the implementation of finance laws as well as national health and pension organisation financing laws.

Other central government supervisory bodies

France has a long history of professional public administration. There are a number of powerful central management bodies. The General Directorate for Administration and Public Service falls within the authority of the Prime Minister and deals with the conditions of service of all civil servants, as well as recruitment and development issues. It also has the trusteeship of the highly regarded Ecole Nationale d'Administration and has responsibility for modernising and improving the quality of service provided by public servants.

The other important central body is the Budget Directorate of the Ministry of Finance. A network of financial controllers working in each ministerial department is part of the Directorate. Working from the framework laid down by ministers, the directorate establishes the spending priorities and allocates resources between ministries accordingly.

The nature of the civil service

Over 2.5 million people work in the French state public sector (1.4 million in the local government public sector and 0.9 million in the public health services). This figure includes teachers, postal and communications staff. The mainstream civil service is highly professional and non-political. The most senior civil servants are graduates of the Ecole Nationale d'Administration. Ministers have large private offices (cabinets) staffed mainly by people appointed personally by the minister.

Public Accounting System

The French constitution requires Parliament to authorise all public spending. The annual budget law also authorises revenue and without this no tax can be collected.

An ambitious reform set up by the Constitutional Bylaw of 1st August 2001 (Loi Organique relative aux lois de finances-LOLF), is breaking with the tradition of expenditure-oriented budgets by drawing up a Programme budget based on a three-tier structure. The Missions correspond to the State's major public policies. Each Mission comprises a set of Programmes to which appropriations are allocated and broken down into sub-programmes (Actions) that together constitute the operational means of implementing the Programme. A set of relevant quantitative performance indicators are defined for every public policy. By breaking down the budget into public policy objectives, the State's missions and public service goals become fully transparent. The voting unit in Parliament will now be a Mission, that is a consistent set of Programmes. The Members of Parliament are then able to reallocate appropriations between the various Programmes making up a particular Mission. Therefore, these reforms give a greater role for Parliament. In 2006 the budget projection will be presented in accordance with the Constitutional Bylaw.

Financial control posts

There are three key posts in the French government accounting system. These are the ordonnateur (authorising officer); the financial controller; and the comptable (or public accountant). Ordonnateurs are administrators who have authority over parts of the budget within defined spending limits. The new Constitutional Bylaw on the Budget Act gives them a high degree of autonomy. Programme

managers have to be fully committed to their goals and be accountable for their management acts via results indicators and target values. The financial controller is an official of the Ministry of Finance based in each ministry. His task is to effectively audit the acts that initiate financial commitments, to oversee the actions of the ministry and to ensure that it does not exceed prescribed limits. He will also endeavour to restrict departmental expenditure in accordance with wider government aims to reduce public spending. Up until 2005, financial controllers must attach a visa (indicating approval) to all vouchers committing Government funds, but with the new Act their role will be moving towards *a posteriori* control.

The comptable's role is to ensure financial equilibrium, integrity, regularity and quality in the application of public funds. Comptables are officials of the Ministry of Finance who are personally responsible for the funds within their control and are fully independent of the bodies in which they work. They are assisted by a large number of personnel but retain personal responsibility. Comptables and their staff number some 55,000, operating in central, regional and local government.

Comptables provide the internal control at the time payments are made. The comptable makes the payments authorised by the authorising officer and approved by the financial controller. As comptables are personally responsible for the decisions taken, they are liable for the sums involved should a payment be made without appropriate authorisation or without legal authority in the budget. All comptables are protected by a bond to cover this risk, and they retain the risk until the Cour des Comptes or the regional courts audit their accounts and discharge them of their responsibility.

The General Inspectorate of Finance

Each ministry has internal inspectors who carry out a similar role to internal audit in the United Kingdom. They report to the minister and can have wide ranging powers. The General Inspectorate of Finance is the most prestigious of these bodies. It was set up in 1816 and, along with the Cour des Comptes and the Conseil d'État, is one of the 'grands corps de l'État' -

the three senior bodies in the French state service. It comprises some 100 Senior Inspectors who have wide powers of access to documents in ministries and any institution or enterprise that spends or receives public money, including grants and subsidies. The Inspectorate is regarded by observers and public servants alike as thorough and professional.

The Inspectorate also monitors the work of all officials responsible for public finance, its task being to assess performance. Its reports can be made public and its recommendations about procedures or the performance of individuals are usually accepted. The Inspectorate will carry out a full investigation should a comptable's decision be overridden by an authorising officer.

The State Account

Up until 2005, the requirements of the French public accounting system are set out in a Decree of 1962. In recent years, the accounting frameworks have been redesigned for the State Budget (2001) and the local authorities (since 1997) according to the IPSAS standards. With these new reforms, the public accounting system is becoming closer to private accounting standards when it comes to principles of regularity, sincerity, true and fair view, and when it comes to methods - for example transactions will be registered on an accrual basis (and not on a cash basis). The public accounting standards are therefore becoming more transparent.

The accounting network will also undergo significant reorganisation. At a local level, state expenditure will still be paid by one district accountant for all departments; at a central level, state expenditure will be paid by a departmental accountant who will also establish a global account for the department, including the local expenditures. Departmental accounts will then be aggregated in a single State Account. This reform is supported by a major IT project: a single Budget and Accounting Information System for all managers and accountants of the state (ACCORD).

The Supreme Audit Institution

Historical development

The roots of state audit in France can be traced back to the beginning of the 14th century when the Royal Chamber of Accounts was established.

- 1790** The Royal Chamber was abolished during the French Revolution.
- 1807** The Cour des Comptes was created in its present form by Napoleon I. The Cour is one of the oldest and most prestigious institutions in the French administration. The Constitution states that the Cour des Comptes should assist Parliament and the Government in supervising the implementation of the state budget and the national health and pensions organisation financing laws. It plays a significant part in the accountability and control processes.
- 1976** The audit of social security, public enterprises and nationalised industries was added when the audit bodies previously responsible were merged with the Cour. In addition, all private bodies that receive money from public funds can be examined by the Cour. Where public funds exceed 50 per cent of turnover, all funds can be examined. Only public funds can be examined in bodies receiving less than 50 per cent. The Cour also examines the accounts of associations that rely on public generosity for their funds.
- 1996** Following a modification of the Constitution, the Cour issues an annual report based on the control of the implementation of social security financing laws. All the laws and regulations about the Cour des Comptes and the 'chambres régionales des comptes' (regional chambers of audit) have been merged in the Financial Courts Code (Code des juridictions financières).
- 2005** The Cour gains its budgetary autonomy. Henceforth, the budget of the Cour is not any more a part of the Finance Department budget. A specific Mission, "Counselling and Control of the State", will be created by the next Budgetary Act projection and the appropriations will be officially related to the Prime Minister's budget with special authorisation by Parliament.

The structure and organisation of the Cour des Comptes

The Cour is headed by the Premier Président, appointed in Ministers Council by decree from the President of the Republic. The post has a retirement age of 68. In some cases ex-ministers have been appointed although the current Premier Président - himself a former minister - also spent some of his career in the Cour. The Cour is divided into seven chambres each headed by a Président de Chambre, who is always chosen by Government from among a list of conseillers maîtres prepared by the Premier Président. Présidents de Chambre must retire at the age of 65.

THE COUR IS HEADED BY THE PREMIER PRÉSIDENT, APPOINTED IN MINISTERS COUNCIL BY DECREE FROM THE PRESIDENT OF THE REPUBLIC

In addition to the seven chambres there is also the Parquet Général, headed by the Procureur Général who is appointed by the Government. The Procureur Général provides advice on legal matters, as they affect the work of the Cour, and acts as an intermediary between the state services and the Cour. The Procureur Général may, for example, report to the Government on important matters that the Cour wants to raise after its audit work. The Procureur Général may be represented on the committees of the Cour, and review reports prepared on the conclusion of audit work.

The division of work between the seven chambres is determined by the Premier Président after consultation with the Présidents de Chambre and the Procureur Général. Within the chambres, the work is allocated by the Président de Chambre to teams each headed by a conseiller maître. Each chamber proposes to the First President, on an entirely independent basis, an annual work programme and a medium term programme. These set out the audits needed for the discharge of comptables and the choice of subjects for the examination of financial management, including performance audit investigations. On the basis of these proposals from the chambres, and after discussion within the Public Report and Programme Committee, the Premier Président decides on the annual programme of the Cour as a whole.

The balance between judicial and performance audit work is important. Because the judicial work is the audit of a control mechanism that is generally performed to a very high standard, the Cour seeks to devote just enough resources to provide the information necessary to form its opinion. It then focuses its attention on those areas that could escape the comptables' attention.

Agreement is reached within each chambre on the performance work and the certification audit that will be carried out. The audit approach is then determined by the magistrates, with consideration of the guidelines and methods defined by the mission for organisation and methods, the chambres, and the audit team leader. Magistrates tend to assume individual responsibility for their own work, although more senior magistrates will offer advice to junior staff when necessary. The results of the audit work, both certification and performance audit, are presented by the responsible magistrate to a college consisting of conseillers maîtres. The conseiller maître responsible for the area of work will act as a contre-rapporteur at this presentation, and will offer appropriate criticism in order to help the college to come to a decision.

Recruitment, remuneration and qualifications of staff and other resources

The Cour des Comptes consists of some 649 people, 204 of whom are magistrates appointed for life by decree from the President of the Republic. This group is divided into 107 conseillers maîtres, 81 conseillers référendaires and about 16 auditors presently on duty within the Cour. Support staff are usually seconded from the civil service for fixed periods and carry out basic audit (180) or administrative tasks (256). Three quarters of the conseillers référendaires were previously auditors and the remainder are selected from the wider civil service, particularly the Ministry of Finance. Two thirds of the conseillers maîtres were previously conseillers référendaires and the remainder come from senior public service posts.

Auditors start as trainees and are postgraduates from the Ecole Nationale d'Administration with qualifications in public law, finance and economics. Their training is mainly through practical experience, and development is monitored by a mentor of a more senior grade. Appointment for life guarantees their independence as magistrates, but there is an expectation that staff of the Cour will also gain experience elsewhere in the civil service and more widely at different stages in their career, particularly after the auditor stage.

The fact that such a high proportion of senior magistrates have experience from outside the Cour increases their appreciation of the practical management problems in the bodies they audit and increases their credibility with those subject to their examination. In addition, many civil servants have worked in the internal control environment of ministries, sometimes even as comptables. Once appointed to a chambre, staff tend to stay within one area and build up considerable expertise. Magistrates are also encouraged to assume responsibilities in the wider public sector, for example by becoming heads of Departments or managers of Government-owned firms or by teaching at the Ecole Nationale d'Administration or at the University.

The scope, role and access rights of the Cour des Comptes

The Cour is required to audit government accounts. The new Act stipulates that the certification of the central government accounts (financial statements) will be performed by the Cour des Comptes as of 2007 for the certification of the 2006 statements. From 2007 onwards, two reports will have to be submitted to Parliament along with the draft law closing the budget execution cycle: a report on Budget results and Budget management as well as a report on the accounts, giving an opinion on regularity, sincerity and true fair view provided by the accounts (annual certification audit). The Cour also gives discharge to each comptable for each financial year (although several years' accounts may be audited together). The Cour also provides an Annual Report on the accounts of the Government on which Parliament can rely in granting discharge for the year. In addition to these tasks, the Cour des Comptes examines aspects of financial management. Therefore the nature of the Cour's audit is oriented towards examining both compliance with judicial powers and procedures, and performance.

Until 1983 the Cour was responsible for auditing regional and local government. However, since then there has been a continuous process of decentralisation in French administration and this has included the establishment of chambres régionales des comptes (regional chambers of audit). These bodies have independent jurisdiction and powers akin to those of the Cour. However, the Cour remains a court of appeal against judgements made by the chambres régionales. A liaison committee composed of members of the Cour des Comptes and the chambres régionales exists to co-ordinate the strategic programmes of the Cour and the chambres régionales, and to identify areas where joint investigations may take place. An example of joint working was an investigation into the management of water in local areas in 2003.

The Cour has access to all documents relating to the management of bodies within its jurisdiction. All administrators of audited bodies and agents of the state must provide all documents, information and explanations as requested. This includes access to the reports of the state inspection bodies. In addition, the external auditors of public enterprises may also be asked to disclose audit working papers to magistrates. The Cour des Comptes does not usually have access to papers and documents of private sector companies, even those that have contracts with a public body. However, the law allows limited exceptions for mixed economy bodies and partnerships.

The auditing process

Discharge of the comptables

Not all accounts are examined by the Cour every year. On occasion, up to five years' accounts may be audited at a time, with an audit of a comptable covering all financial years since the last audit. The Cour believes that auditing several years' accounts simultaneously provides economies of scale, gives an overview of operations that cover more than one year, and improves relations with the auditee. The work is partly carried out at the Cour as all accounts and supporting information are stored there, but the magistrate will visit the body to identify areas worthy of more in-depth examination. In a few years, the major part of these documents will be stored in computers of the controlled entities and will

be directly accessed from the Cour. Along with the state accounting system reform, the files of the Public Accounts Office are gradually opened on line to the auditors.

The purpose of this kind of audit is essentially to verify the legality of the transactions that have taken place. It is on this that the comptable account is 'judged'. Aspects of financial management are also considered and where appropriate are reported on, but the discharge relates only to the legality of the transactions in the account. If all is regular, the magistrate will recommend to the college that the accounts be discharged, and if a comptable has come to the end of his period of office the magistrate will recommend that the bond on his property is released. Comptables may retire or transfer to other ministries but the bond relates to the particular account and remains in force until the Cour has reached a judgement.

THE NATURE OF THE COUR'S AUDIT IS ORIENTED TOWARDS EXAMINING BOTH COMPLIANCE WITH JUDICIAL POWERS AND PROCEDURES, AND PERFORMANCE

Where a magistrate considers a comptable has acted illegally, he presents his findings to a college of his chambre, including its Président. If the chambre agrees with the magistrate, it issues a provisional judgement. This details the offence and the sums involved, and sets a time limit of one month for the comptable to respond in writing. The chambre considers the response and can either cancel the provisional judgement or ratify it. If the judgement is ratified, it is legally binding, and the amounts to be repaid plus interest are legally due from the comptable.

Judgements emanating from this work are communicated to the minister, with the intention that a repetition of errors will be avoided, or that the tasks can be reorganised. Comments on the performance of individual comptables will also inform the decision as to where they should be posted next. In 2004 the Cour produced 333 judgements on the accounts of public sector accounting officers. These judgements related either to amounts owing that were the responsibility of the comptable to settle, or to matters to which the comptable had to reply.

Preparing the Certification of the State Accounts

From 2007, according to article 58-5 of the Constitutional Bylaw, the State Audit Office (the Cour des Comptes) must give an opinion to Parliament on regularity, sincerity and true and fair view provided by the accounts and deliver an attestation audit. In order to fulfill this new responsibility, the Court is contributing to the elaboration of new accounting standards and is renewing its financial audit methodology through the elaboration of new audit manuals. The Court is testing the new methods in some areas, such as tax revenues.

The audit of financial management and performance

Two-thirds of the resources of the Cour are devoted to the audit of financial management or performance. This work is described as the audit of 'bon emploi des fonds', which is interpreted as the scrutiny of the achievement of desired objectives by means of public expenditure.

Within the Cour, performance audit is carried out by each chambre. The results are approved by the college of the chambre. Topics for performance audit are selected by each chambre according to risk, the audit cycle, experience of the area concerned, and the level of political or public interest. Since 1992, regional authorities can ask the chambres régionales to carry out specific audits of areas where the internal control mechanism has highlighted weakness. There are no similar developments planned for central government, where only the Finance Committees of the National Assembly or the Senate can make such requests.

As with financial audit, magistrates have relative autonomy over the approach taken. Once the subjects and level of available resources have been determined by the chambre, the team leader undertakes the detailed planning, including the identification of tasks and the allocation of work. Each auditor retains personal responsibility for the tasks allocated and will present the results to the senior magistrates. The Cour makes much use of secondees (détachés) on temporary transfer from the civil service. The work of secondees or other experts is integrated into, or appended to, the report of the magistrates, who then assume responsibility for its content.

The results are then sent to the ministry or body concerned, which must respond. The most significant cases, or those where the response is unsatisfactory, are then considered for inclusion in the Annual Public Report. The Cour decides in formal session which of these matters will be included in the Annual Public Report. Usually between 25 and 30 matters are included annually, along with the detailed response from the Minister. The Premier President is responsible for this report and ensures that its drafting and presentation are satisfactory.

In recent years, the techniques of programme evaluation have been developed in France as a way of analysing the totality of the effects, direct or indirect, of a programme and the environment within which it functions. An example would be the effect of the road programme on traffic safety and natural environment as well as on communications. In the last period, a very large study on the civil service, especially the Ministry of Finance, caused a great deal of controversy.

Examples of the Cour's studies that have had evaluative aspects include the Credit Lyonnais Banking Group (1995), Decentralisation of Secondary Education (1995), Interventions of local authorities in favour of private firms (1996), Management of local public services for water and sewerage (1997 and 2003), Programme planning and budget management in the Ministry of Defence (1997), Research by the scientific and technological public agencies (1997), Organisation of the struggle against drug addiction (1998), National motorways policy (1999), Port policy (1999), State civil service (2000 and 2001), Air traffic control (2002), The welcoming system for immigrants (2004), Education Management System (2004), Urban Public Transport (2005). The complete listing of the Cour's studies can be found on its website <http://www.ccomptes.fr>. However, while these studies sought to evaluate the results and compare them with the objectives, the focus was still on the quantitative rather than qualitative aspects.

The Cour is developing its programme evaluation methodology through practical guidelines and training sessions. This development in the Cour's approach has coincided with the setting up of other bodies to carry out evaluation of government programmes. These include the Technology Selection Evaluation Office which was set up by Parliament, and the National Committee for the Evaluation

of Universities (set up by the Ministry for Education) which examines the performance of all universities. An inter-ministerial mechanism existed from 1990 to 1998, and a number of evaluation divisions were developed in the major departments including education, social policies, employment and foreign affairs.

Reporting

Since 1995, the Cour has issued three main reports a year: the report to Parliament on the execution of the Budget Law, the Annual Public Report, and the report on the Social Security System. The report on the execution of the budget law is a single document commenting on the performance of government spending against the plans approved by Parliament. It is completed, according to the Constitutional Bylaw, by an analysis of management results. It contains information on significant breaches of budgetary rules and analyses out-turn against budget with explanations for variances. The report can also include comments on cutbacks decided by a financial controller at a ministry that have resulted in inefficiency or wasted expenditure. The report is deliberated by the Finance Committees of both the National Assembly and the Senate. Both committees can request the Premier Président to give a presentation on the subject matter of the report although in practice this is rare.

The Annual Public Report is submitted to the President of the Republic, the National Assembly and the Senate and is published in the Official Journal. It includes matters arising from the audit of performance, a summary of the main points arising from the report on the discharge, and observations on local authorities, social security and public enterprises. Follow-up action is monitored by the Cour. Recently, the Finance Committee of the National Assembly created a 'Study and Control Team' (Mission d'étude et de contrôle) which works closely with the Court. It is an innovation in France where, traditionally, the control of Government by Parliament is not very forthcoming.

According to the Constitutional Bylaw, from 2007 the Court will deliver a report to Parliament certifying the accounts of the state. It is not only a general statement of conformity but an Attestation Audit on the regularity, sincerity, true and fair view provided by the accounts of 2006.

SUMMARY

The main features of the Cour des Comptes are:

Structure of the Cour

- The Premier Président and other magistrates are appointed by decree from the President of the Republic with tenure until retirement. They are selected from within the Cour des Comptes as well as from elsewhere in the wider civil service.
- The Cour is divided into seven chambres each headed by a Président de Chambre.

Control over the Cour

- The Cour is one of the oldest and most prestigious institutions in the French administration. It is one of the three 'grands corps de l'État'.
- The annual work programme results from a collegiate process beginning with the proposals of each chambre and ending with the decision signed by the Premier Président. The Cour has complete discretion as to its work programme.

Skills of staff

- The Cour's staff are high calibre graduates from the Ecole Nationale d'Administration with qualifications in public law, finance and economics.

Audit remit

- The Constitution states that the Cour should assist Parliament and the Government in supervising the implementation of the state budget and the social security financing law.
- The audit remit is varied and includes the discharge of the comptables, the preparation of the certificate on the State Account and the audit of financial management and performance.
- Since 1983, the Cour shares the responsibility for public accounts auditing with the regional chambers of accounts. The regional chambers audit local authorities and public or private entities linked to local management.

Access

- The Cour has access to all documents relating to the management of entities within its remit. All administrators of audited bodies and agents of the state must provide documents, information and explanations as required.

Reporting

- The Cour issues three main reports each year and a number of special reports, particularly on performance issues. The report on the execution of the budget law and the report on the implementation of the social security financing law are submitted to the National Assembly and the Senate. The Annual Public Report is submitted to the President of the Republic and the legislature. From 2007, according to the Constitutional Bylaw, the Cour will deliver a report certifying the accounts of the state.

Legislation

- The Cour's activities are governed by the French Constitution and supported by audit law. The most recent relevant laws were passed in 1967, 1976, 1995/6 and 2001. The laws have been edited in a Code des Juridictions Financières, which combines all legislation and regulations pertinent to the Cour and the chambres régionales des comptes.

BUNDESRECHNUNGSHOF FEDERAL REPUBLIC OF GERMANY



Key Facts

Economic and general information

- The Federal Republic of Germany came into existence in 1949.
- In October 1990 it was enlarged by incorporating the former German Democratic Republic (East Germany).
- The Federal Republic has a land area of 357,000 square kilometres and a population of some 82 million people.
- Between the 1940s and reunification in 1990, the former West Germany experienced sustained economic success, making it one of the strongest economies in the world.
- It was a predominantly industrial economy, the principal industries being coal mining, iron and steel production, the manufacture of steel and metal products, electrical goods, chemicals and textiles and the production of foodstuffs.
- In the 1990s the German economy had to cope with pressures arising from reunification and has experienced relatively high levels of inflation. In addition, there was a sudden loss of Eastern European markets and wider problems associated with the conversion of the former East Germany into a market economy.

The structure of the German state

Constitution

The constitutional basis for the German state is the Basic Law of 1949. It represents a guarantee of basic rights akin to a constitution. The intention was that these should apply to all Germans, but in recognition of the denial of constitutional rights to those living in East Germany at that time, the term 'constitution' was deliberately avoided.

Head of State

The Head of State is the Federal President, elected for a period of five years by the Federal Convention (Bundesversammlung). This body comprises all the deputies of the Bundestag (the lower house of the legislature) and an equal number of members elected by the Länder (states) Parliaments. The Federal President's functions are largely ceremonial, but he proposes candidates for Federal Chancellor to the Bundestag and has a role in the appointment and dismissal of cabinet ministers, albeit on the recommendation of the Chancellor.

Legislature

Legislative power rests with the 603 elected members of the Bundestag (the Federal Assembly) and the 69 members of the Bundesrat (the Federal Council) appointed by the Länder. Around three-quarters of Federal Government legislation is implemented by the Länder and local government. The Basic Law provides for direct federal administration of certain federal functions, such as finance, foreign services, armed forces, waterways, air traffic control and frontier police.

Legislation can be initiated by the Bundestag, the Bundesrat or the Federal Government. It is passed by the Bundestag, although the approval of the Bundesrat is also required for about 60 per cent of legislation. The Bundesrat also has the right to object to all legislation, but such objections can be overruled by the Bundestag. Within the Bundestag, parliamentary committees play a significant role and there is at least one for each ministry. Legislation must be referred to them and they have the power to suggest amendments.

Elections to the Bundestag take place every four years under a 'personalised proportional representation system'. This is a hybrid system under which each elector has two votes. Half the members of the Bundestag are elected through a simple majority system in the constituencies by the so-called "first vote", and the remaining members are elected from party lists by the so-called "second vote" under a proportional representation system.

The second vote is the more important because it determines the overall number of members each party can send to the Bundestag, including those directly elected in the constituencies. To send any members to the Bundestag, a party must win at least three constituencies by first votes or five per cent of the second votes. Thus, the Bundestag is constituted in almost direct proportion to the votes cast across the Republic and government is usually by coalition. Members of the Bundesrat are appointed by the governments of the Länder in proportion to the size of their population. Each Land has at least three delegates.

The Executive

Executive authority rests with the Federal Government led by the Federal Chancellor. The role of the Chancellor is significant and he is the only member of the Government elected by the Bundestag. The Chancellor nominates federal ministers for appointment by the President, and determines the political guidelines within which ministers work, although once appointed ministers enjoy a high degree of operational independence. The Chancellor is supported by the Federal Chancellery with a staff of about 300, shadowing each ministry. This enables the Chancellor to monitor developments in each and co-ordinate policy where necessary.

The Cabinet takes decisions on a majority basis, with the Chancellor having a casting vote. The exception to this is when the Chancellor decides that an issue is one that comes under his power of determining general policy guidelines, when he may decide alone. Central involvement in the affairs of each ministry is limited to personnel, information technology and finance matters. The Ministers of Finance and Justice can object to decisions of the Cabinet that are either financially or legally significant, and they cannot be outvoted if they have the support of the Chancellor.

Administration

There are 13 ministries employing on average around 1,000 people. Their main task is to formulate policy. Federal administrative functions are delegated partly to the Länder or to local authorities, or are performed by higher, (such as the Federal Environmental Agency,), intermediate or lower authorities. In total the Federal Government employs nearly 300,000 people.

There are also legal entities governed by public law. These fall into several categories: corporations created by statute and governed by public law (including the Federal Social Insurance Corporation for Salaried Employees); institutions with legal personality governed by public law (for example broadcasting institutions); institutions without legal personality that provide services (such as the federal printing press); and foundations that have money for specific tasks (such as overseas aid).

Regional and Local Government

There are three levels of administration in Germany - federal, Land and local. Each level has clearly defined constitutional tasks, is legally autonomous and is independent within the constitutional structure. The Federal Republic comprises 16 Länder. The Länder are autonomous, but not sovereign, states with their own constitution, parliament, government and administration. Land constitutions differ but must adhere to certain principles laid down in the Basic Law. In addition, there are also two tiers of elected local government.

The Länder are responsible for administering the rest of government. In most cases they have complete independence in carrying out these functions, although in some circumstances they act as agents of the Federal Government. The Länder also have significant legislative powers in certain fields. In education, for example, they have almost total responsibility for legislation, financing and administration from primary to university level. They also have powers in other areas such as local government law, aspects of policing and the administration of justice.

The two levels of local government are: the Gemeinde (municipality) and the Kreis (district). In general local authorities are responsible for services such as social services, hospitals, public transport, public amenities and water and gas supplies. Councils are directly elected but the organisational structure varies between the Länder. They also implement federal and Land legislation. They are financed from local property and business taxes, grants from the Länder and have a 15 per cent share of income tax.

Each level of government can establish public enterprises. These may be located entirely within the particular level of government and may have no separate identity. A number of such public enterprises at federal level (such as German Railways, Postal Services, Post Bank, Telecommunications) have been converted into public limited companies, with the Federal Government as the sole shareholder. Other public enterprises have been established under company law with the Government as sole or majority shareholder from the start.

Public Accounting System

Government in Germany is financed by a series of federal, Land and local taxes, as well as some taxes shared between the Federal Government and the Länder and, in some cases (for example income tax), also with the local authorities. The principle stated in the Basic Law is that each level of administration should pay for its own activities. In practice, different levels of government cooperate and the Federal Government also seeks to ensure equity between the Länder. Thus the Länder are financed by Land taxes, joint taxes and value added tax, as well as by the Federal Government for those functions where the Land acts as its agent.

The procedure for drawing up the German Federal Budget Estimates differs in two aspects from that of other legislation. For the budget, the Government has the exclusive right to initiate legislation and, to accelerate the procedure, the Budget Bill is introduced in both Houses of Parliament at the same time. A special arrangement applies to that part of the draft Budget which deals with the Bundesrechnungshof (and the other constitutional bodies): If the budget estimate approved by the Federal Cabinet deviates from the estimate submitted by the Bundesrechnungshof, and the latter has not agreed to such deviation, the Bundesrechnungshof's original estimate must be submitted to Parliament along with the Government's draft Budget. This ensures that Parliament is informed about the differences of opinion between the Bundesrechnungshof and the Federal Cabinet. While the Federal Government has the power and the duty to introduce the draft Budget in the Bundestag, the power to approve the Budget Estimates lies with Parliament. To cut expenditure for the payment of benefits or grants a prior change of legislation is necessary.

A comprehensive computerised financial management and cash accounting system is in place throughout German federal government. A similar system is in place in Germany's 16 constituent states. Cost and performance accounting has been introduced in the majority of federal departments and agencies.

Each financial transaction requires the involvement of at least two public servants, a funds manager and a cashier. The funds manager is a line officer responsible for deciding receipts or expenditure of budget funds according to one or several budget items. The cashier has to verify the accuracy and regularity of the receivable or payable order, then to effect the corresponding receipt or payment and to make the corresponding entry in the accounts. The cashier's work is monitored by a cash office supervisor who is not involved in carrying out financial transactions or in accounting.

While the head of each federal department or agency has an overall responsibility for proper and efficient budget execution, a financial management officer is appointed who reports directly to the minister or chief executive of the administrative entity. Funds managers and cashiers subordinate to them are both subject to technical and legal oversight and can be held accountable for gross negligence, theft or fraud relating to public funds.

Where the Bundesrechnungshof detects such grossly negligent or fraudulent conduct on the part of a funds manager or cashier, it can call upon the head of the department or agency concerned to take disciplinary action, or bring a case for damages or a criminal prosecution against the offending public servant.

In urgent cases, the Bundesrechnungshof will itself bring the matter to the attention of the public prosecution service or the police.

The nature of the German public service

The German public service includes all personnel at all levels of government. However, employees of government owned private companies are not regarded as public employees. There are clear divisions within the public service that operate at all levels of government. Staff are classified as the Beamte (official), Angestellte (employee) and Arbeiter (worker). The Beamten are employed under public law and are career civil servants with secure tenure of office and no right to strike. The Angestellten and the Arbeiter are employed under private law and their terms and conditions are negotiated by a collective convention between employers and trade unions.

The conditions of service of Länder and local government officials are determined by the laws of the respective Land but must conform to federal framework legislation. Federal officials are also covered by federal civil service law.

The senior posts within the Federal Government are political appointments. Typically a minister is supported by one or two Parliamentary Secretaries of State (members of Parliament), who are appointed and dismissed on recommendation to the President, and one or two Secretaries of State from the Beamten who are themselves served by several directors. All such posts are political by law, and the political civil servants can be dismissed without explanation, although they are compensated financially.

The Supreme Audit Institution

Historical development

- 1714** The Bundesrechnungshof's earliest predecessor was established in the German state of Prussia. Initially the institution reported to the sovereign.
- 1848** After Prussia became a constitutional monarchy, the institution's annual 'Observations' also had to be submitted to Parliament.
- 1871** After the Prussian-led unification of Germany, the body became the supreme audit institution.
- 1950** The Bundesrechnungshof was established as its successor with its status and functions specified in the Basic Law.
- 1969** The reform of the Budget Law enhanced the Bundesrechnungshof's audit mandate and extended its role to that of advisor to the Bundestag, the Bundesrat and the Federal Government. It also granted the Bundesrechnungshof direct access to the Bundestag. This reinforced its role as the independent and impartial audit and advisory body at Federal Government level.
- 1985** The Federal Court of Audit Act recognised the Bundesrechnungshof, thus it is constitutionally independent. Reference to it as a 'court' reflects the collegiate nature of the decision making processes at all levels, rather than implying it has the judicial powers of some other audit courts.
- 1998** A network of nine regional audit offices was established to provide support to the Bundesrechnungshof in its mission of auditing federal financial management. The audit offices are subordinate to the Bundesrechnungshof and rely on the German SAI's direction for fulfilling their audit assignments.

The organisation and structure of the Bundesrechnungshof

The Federal Court of Audit Act sets out the constitutional status of the Bundesrechnungshof as well as the operational arrangements in place, such as the assignment of duties and the internal decision making process. The office is organised into nine audit Divisions and one administrative Division. The nine audit divisions are further divided into a total of 49 audit units.

The Bundesrechnungshof has 63 Members, namely the President, the Vice President, nine Senior Audit Directors and 52 Audit Directors. They enjoy judicial independence and a constitutional status similar to that of judges. They cannot be dismissed and are subject only to the law. Since 1985 the President and Vice President of the Bundesrechnungshof have been appointed by absolute majority, and by joint action of the Federal Government (right of approval), the Bundestag and the Bundesrat (election) and the President of the Federal Republic of Germany (appointment). Appointments for both officers are for a period of 12 years or until the statutory retirement age of 65, whichever is the earlier.

The other members of the Bundesrechnungshof are appointed by the President of the Federal Republic upon proposals made by the Bundesrechnungshof's President, usually after consultation with the Standing Committee of the Senate (see below). By law, either the President or the Vice President and one third of the Members of the court should be trained lawyers. Members have a significant degree of operational freedom and there is no centrally determined and uniform audit approach. The final output from the individual audits is in practice decided by the relevant collegiate body. Individual audit decisions are normally made by 'colleges' (committees) within the Bundesrechnungshof comprising a Senior Audit Director and an Audit Director of the same audit division. The two college members may be joined by the President or Vice President in making their decision. Decisions are made unanimously.

Where a college cannot agree on a particular point, it will be referred to either the Divisional Senate, or the Senate for decision. The Divisional Senates consist of the respective Senior Audit Director, all the division's Audit Directors and an Audit Director from another division. Either the President or the Vice President may attend any Divisional Senate and vote in any decisions. The Senate normally consists of 16 members - the President, the Vice President, the nine Senior Audit Directors, three Audit Directors, and two rapporteurs. It has the power to set up its own subcommittees to investigate specific issues. In addition to its arbitration role, the Senate decides the content of the Bundesrechnungshof's Annual Report. The Senate's decisions are made by a majority of votes.

As well as being responsible for the work of specific ministries, audit divisions also undertake cross-departmental audit work in areas such as human resource policy and expenditure, data processing, pensions and public works. In addition ad hoc audit teams, known as Audit Groups, from different divisions may be set up to undertake specific audit projects.

THE BUNDESRECHNUNGSHOF HAS COMPLETE DISCRETION OVER THE NATURE AND EXTENT OF AUDIT WORK CARRIED OUT

Recruitment, remuneration and qualifications of staff and other resources

The members of the Court are supported by auditors. Staff are recruited from other government departments, and are generally placed in the audit division responsible for that ministry. There is a regular rotation of audit staff, especially of those staff holding university degrees. The Bundesrechnungshof's staff are part of the civil service and are subject to the same pay and grading structures.

The independence of the audit function from the executive is reinforced by the method of setting the Bundesrechnungshof's budget, which is determined by Parliament on an annual basis as described above. The accounts of the Bundesrechnungshof are examined by the two Houses of the (German) Federal Parliament, which both grant discharge.

Scope, role and rights of access of the Bundesrechnungshof

The 1949 Constitution, as later amended in connection with the reform of the budgetary law, requires the Bundesrechnungshof to 'audit the account and examine the performance, regularity and compliance of financial management'. The 'account' referred to is the State Account. The 1969 Federal Budget Code states that the functions of the Bundesrechnungshof extend to the entire financial management of the Federal Government, including its separate property funds.

The Bundesrechnungshof also examines the Federal Government's participation in private enterprises in which it holds a direct or indirect interest, and commercial or industrial cooperatives of which the Federal Government is a member. Where public enterprises have undergone the first stage of privatisation, the Bundesrechnungshof's audit mandate is restricted to auditing the Federal Government's management of its shareholding in them.

The Bundesrechnungshof can also examine the financial management of private entities that receive grants or guarantees: those run by the Federal Government or a person appointed by it, and those where an agreement or the entity's charter provides for such an examination. These audits also cover the proper and sound management of the use of funds and, for grants, can extend to recipients' other resources. Such audits may also extend to any third parties to whom such funds are passed by the bodies concerned.

Given the scale of government operations and the volume of transactions, as well as the availability of advanced audit techniques, the Federal Budget Code has given the Bundesrechnungshof powers to decide which accounts to audit and which accounts to leave unexamined when forming an opinion on the State Account.

The Bundesrechnungshof has complete discretion over the nature and extent of audit work carried out and it may carry out work on-site at departments if necessary. All relevant papers must be disclosed and explanations provided as requested.

Relations with Parliament and Government

Historically there have been tensions in the relationship between the audit bodies, the sovereign, the Government and the legislature. Various attempts to cultivate a closer relationship through different Budget Codes failed, and it was not until the reform of the Budget Law in 1969 that there was provision for the Bundesrechnungshof and the audit courts of the Länder to have direct access to their respective parliaments.

This relationship has developed since 1969 and was further recognised in the 1985 Act, which stated that the Bundesrechnungshof should provide assistance to both houses of the German Parliament and to the Federal Government. The Bundesrechnungshof does not examine policy, but can look into the assumptions of fact on which decisions were made and whether policy objectives were met.

Such responsibilities have been met in a constructive way. The primary duty of the Bundesrechnungshof is to examine the financial management of the Federal Republic. The results are reported to ministries and the Government, and the Bundesrechnungshof's overall conclusion is supported by detailed analyses of significant cases reported to Parliament. In addition, the Bundesrechnungshof can use information gained during this process to advise both the Government and the legislature on future spending decisions, especially during the budget process, and on planned legislation.

The 1969 Federal Budget Code stimulated an increase in advisory reports. These were principally to the Bundestag Appropriations Committee, the Public Accounts Committee and occasionally certain select committees. However, not all of the reports are readily available to every member of Parliament or to the general public and this reflects the Bundesrechnungshof's cooperative role towards government. It relies on informing the Government and the legislature of ways in which public administration can be improved, rather than publicly highlighting examples of poor management. It does issue reports that are critical of government administration, but only if a ministry displays reluctance to accept its recommendations.

THE PRIMARY DUTY OF THE BUNDESRECHNUNGSHOF IS TO EXAMINE THE FINANCIAL MANAGEMENT OF THE FEDERAL REPUBLIC

Other public sector audit institutions

The Länder, too, enjoy significant decision making powers and administrative responsibility. Each Land has its own audit body (Landesrechnungshof) which liaises and works on equal terms with the Bundesrechnungshof in areas where there is dual responsibility for the provision and delivery of public services. Where the Bundesrechnungshof works with one or more of the Landesrechnungshöfe, they perform joint audits or agree to divide audit responsibilities between their respective organisations. There are also joint working parties where the Bundesrechnungshof and the various Landesrechnungshöfe discuss matters of common interest.

The auditing process

Advising on the state budget

Since the 1969 reform of the Budget Law, the Bundesrechnungshof has been involved in the development of departmental budgets and particularly in meetings between spending departments and the Ministry of Finance held prior to the submission of departmental budgets to Parliament.

Each year, the Bundesrechnungshof acts in an advisory capacity to ministries on financial regulations and systems and also during the drafting of legislation with significant financial consequences. This work is summarised in a separate section in the Annual Report. The Bundesrechnungshof also takes part in the meetings of the Budget Committee, which take place after the first reading of the budget statement in Parliament and involve the spending departments and the Ministry of Finance. The involvement of the Bundesrechnungshof in the development of the Government's budgetary plans is a major distinguishing feature of its work. It considers that its independent and constitutionally enshrined status precludes the possibility that it might be compromised when subsequently auditing the implementation of the budget.

Financial audit

The Bundesrechnungshof's audit approach is set out in the Federal Budget Code, which requires the audit to examine whether the regulations and principles of correct financial management have been observed, including compliance with the Budget Act, the Estimates and supporting documentation. It also specifies that checks are made to examine whether funds are administered efficiently and economically, and whether functions could be carried out with fewer resources.

A major responsibility of the Bundesrechnungshof is to ensure that the receipt and spending of central funds complies with the legal criteria against which the funds were originally granted. It is this emphasis upon the legality of federal spending which explains the requirement for a high proportion of Bundesrechnungshof staff to hold legal qualifications. During the 1980s, the emphasis of the Bundesrechnungshof's work moved towards performance audit and it began employing staff with a greater variety of skills and disciplines, including economics, business studies and engineering.

In carrying out its duties, the Bundesrechnungshof does not draw a clear distinction between financial audit and wider issues of financial management. Regional audit offices (totalling 600 staff) supplementing its work on financial management, compliance and value for money have been set up in Berlin, Coblenz, Cologne, Frankfurt, Hamburg, Hanover, Magdeburg, Munich and Stuttgart thus replacing the former pre-audit system in Germany. The new system is designed to enhance audit efficiency and effectiveness. The Bundesrechnungshof and its regional audit offices have the right to inspect any documents or files necessary to carry out an effective audit.

In addition to a posteriori audits of completed accounts and projects, the Bundesrechnungshof has the right to inspect the accounts and management practices of projects while they are still in progress. However, it will only consider decisions that have already been taken. These concurrent programme audits can identify areas of potential improvement and consequential savings. For construction contracts, the Bundesrechnungshof has increased rights of access to documents and can audit both the tendering process and the planning process.

The Bundesrechnungshof summarises the results of its individual examinations and suggestions for improvement in management letters to the departments. As an aid to the persuasion process, Parliament, through the Appropriations Committee and its subcommittee, the Public Accounts Committee, tries to ensure that the necessary conclusions are drawn from the reports of the Bundesrechnungshof.

Sanctions

The Bundesrechnungshof may indicate, in management letters or in special reports to Parliament, cases where the personal liability of civil servants is in question. Individual government departments are responsible for taking appropriate action and reporting to the Bundesrechnungshof and/or to Parliament. Where an offence against the disciplinary or penal code is suspected, the Bundesrechnungshof notifies the Federal Prosecutor for Disciplinary Matters and/or the Public Prosecutor. This may lead to a trial before a disciplinary and/or a criminal court of law. In disciplinary matters, sanctions ranging from fines to dismissal may be imposed by the court. For criminal offences, punishment may include both fines and prison sentences.

Performance audit

Prior to 1910, the notion of efficiency was included within the work of verifying the legality and regularity of expenditure. The Reich Budget Code of 1922 included 'efficiency' as a new audit criterion, gave further clarification on sampling and made specific reference to field work or on-the-spot-audit. The establishment of field work as an audit requirement was intended primarily to reduce clerical and administrative work, while promising to change the role and scope of the work so that an auditor could now 'form his own opinion on the efficiency and suitability of government transactions'. Performance audit has now become the key focus of the Bundesrechnungshof's work.

Since 1952 the President of the Bundesrechnungshof has had an additional responsibility as Federal Performance Commissioner, charged with appraising the efficiency of federal administration and making recommendations concerning its improvement either departmentally or as cross-departmental matters. In this capacity, the President may also advise Parliament, if requested, on the structure and operational efficiency of public administration. In 2003 the Federal Commissioner established a central service office for informing federal government departments on the likely impact new proposed legislation may have on federal financial management and public sector performance.

Reporting

The Bundesrechnungshof's Annual Report, known as the Observations, plays a key part in the process whereby Parliament approves the Government's accounts. The Report is submitted to Parliament in the second autumn following the end of the financial year. It contains details of exemplary cases, significant matters that require further action and instances where the Bundesrechnungshof is dissatisfied with the response of a department to its findings. Audited bodies have the opportunity to comment on the findings of the Bundesrechnungshof and their views are incorporated into the report. Comments on financial management are not limited to the year for which parliamentary discharge is sought but represent findings up to the date of publication.

The parliamentary Public Accounts Committee discusses the Observations with the Bundesrechnungshof and departments. Once satisfied, the Public Accounts Committee passes its comments to the Appropriations Committee, which recommends to Parliament that the Federal Government is formally discharged with respect to the financial year under review. The Public Accounts Committee drafts a recommendation for a resolution, which can be very detailed, and the implementation of these recommendations is then monitored by the Bundesrechnungshof. The Observations Report is published by Parliament and simultaneously presented to the press, receiving significant media attention. The annual report reflects only a portion of the Bundesrechnungshof's work. The Bundesrechnungshof prepares some 600 management letters each year.

THE PRESIDENT MAY ADVISE PARLIAMENT ON THE STRUCTURE AND OPERATIONAL EFFICIENCY OF PUBLIC ADMINISTRATION

In addition the Bundesrechnungshof may at any time prepare special reports looking at major areas of topical interest or cross-cutting matters. They tend to be more timely and ensure that parliamentary attention is focused on the major issues of financial concern.

Since 1997 the Bundesrechnungshof has submitted an additional report informing the public about the effectiveness of its work. This Audit Impact Report serves follow-up purposes and highlights the conclusions drawn from the annual report items submitted to Parliament two years before, including the action taken by federal departments and agencies to address the shortcomings stated by the Bundesrechnungshof. The report is presented to the public in July each year.

SUMMARY

The Bundesrechnungshof is an independent body subject only to the law and this status is enshrined in the German Constitution. The Governments of the Federal States (Länder) are audited by independent audit courts within each federal state (Land), which have structures and rights similar to the Bundesrechnungshof.

Key features of the Bundesrechnungshof are:

Appointment of Members of the Court

- The President and Vice President are appointed by the legislature on recommendation from the executive and their appointments are for a fixed period.
- New Members are appointed by the President of the Federal Republic upon the proposal of the Bundesrechnungshof's President. The latter must consult the Standing Committee of the Senate prior to submitting such a proposal. All Members enjoy judicial independence and have a constitutional status similar to that of judges.

Control over Members

- The Members of the Bundesrechnungshof have considerable discretion in the way they approach their tasks. Audit decisions are made independently but collectively.

Skills of Members and staff

- The President or Vice President and one third of the Members of the Bundesrechnungshof must be lawyers by training. Members are supported by auditors who joined the Bundesrechnungshof after gaining professional experience.

Budget

- The Bundesrechnungshof's budget is ultimately determined by the legislature.

Audit Remit

- The Bundesrechnungshof's statutory duties include financial and regularity audit as well as the examination of value for money.
- The Bundesrechnungshof has a very wide audit remit. It covers the entire financial management of the Federal Government. In addition to mainstream ministries, it includes public and private enterprises in which the Federal Government is a stakeholder and private enterprises that receive grants.
- The Bundesrechnungshof has complete discretion to set its own audit priorities and can leave accounts unexamined. Neither the executive nor the legislature can require the Bundesrechnungshof to carry out specific examinations, although in practice it seeks to accommodate Parliament's suggestions.
- The Bundesrechnungshof does not examine the merits of policy. However, it may conduct examinations of the advice on which the policies were made, and whether they achieved their objective.
- The Bundesrechnungshof relies on the work of its nine regional audit offices, established on 1 January 1998, which supplement the Bundesrechnungshof's audit work.

Access

- The Bundesrechnungshof determines the timing and nature of the audit and it may conduct investigations on the spot. It has access to all records and vouchers and can demand explanations as required.

Other duties

- The Bundesrechnungshof has a role to play in the budget process; it brings to bear the benefit of audit experience on spending proposals put forward by ministries.
- The Bundesrechnungshof is also consulted on any changes in regulations introduced by ministries that have financial consequences.

Reporting

- The Bundesrechnungshof has a duty to report to the legislature and the executive. Its Annual Report, Audit Impact Report, special reports and the reports issued by the Federal Performance Commissioner are published and publicly available. Other audit findings are reported directly to the executive and are not published. It also carries out some work directly for parliamentary committees that is not published.
- Ministries have an opportunity to comment on the reports of the Bundesrechnungshof, and such comments are incorporated into the reports.

Key legislation

- The Bundesrechnungshof's mandate to report direct to the legislature was enacted in 1969.
- The 1985 legislation placed the Bundesrechnungshof between the legislative and executive branches of Government and brought in a more specific responsibility to Parliament.

HELLENIC COURT OF AUDIT GREECE



Key Facts

Economic and general information

- In the early twentieth century the country experienced periods as both a republic and a monarchy, but in 1952 a new system of proportional representation provided Greece with a period of stable government, increased economic prosperity and the establishment of a new Constitution.
- A coup in 1967 was followed by a period of military government and the suspension of the 1952 Constitution. A republic was established following referenda in 1973 and 1974, but military rule collapsed in 1974 and a new Constitution was introduced in June 1975. In 1981 Greece became a full member of the European Economic Community.
- Greek civilisation has a long history characterised by exceptional architectural, literary and artistic achievements. In more recent times Greece was ruled by Turkey but gained independence in 1829.
- Greece has a land area of 131,957 square kilometres and a population 10.9 million inhabitants.
- Although in recent years there has been increased industrialisation, agriculture remains highly significant in Greece, employing 15.8 per cent of the working population. The most important products are tobacco, wheat, cotton, sugar, rice and fruit.
- Athens, Thessaloniki, Patras and Volos are the main manufacturing centres and the country's chief industries are textiles, chemicals, glass, metallurgy, tourism and shipbuilding.
- In the year 2000, Greece was the poorest of the then 15 European Union countries, its GDP per capita amounting to 68 per cent of the EU average. It has benefited from being the largest net recipient of European Community funds. Recent governments have contended with a high public sector borrowing requirement and current account deficit (the latter amounting to €1743 million, i.e. 1.2 per cent of the GDP in 2002). However, due to recent achievements in controlling inflation (3.1 per cent in 2003), and because of economic growth, Greece became a member of the European Monetary Union in 2001.

The structure of the Greek state

Constitution

The current Greek Constitution came into force in June 1975. Under this, Greece is a representative democracy with a parliamentary regime. The fundamental principles of the Constitution are: the democratic authority; the sovereignty of the people; the parliamentary system; the constitutional democracy; the representative system; the separation of powers between the executive, the legislature and the judiciary; the respect and protection of human decency; equality; freedom; the state based on law; the welfare state and the peaceful co-existence and cooperation with international society. The Constitution recognised economic and social rights, introduced economic planning and environmental protection and provided for nationalised industries. The use of referenda for important national issues is also recognised.

Head of State

Executive power rests with the President, who is the Head of State, and the Prime Minister. The President is elected by the Chamber of Deputies for five years, requiring two-thirds of the deputies' votes. He may be re-elected for a second term. According to the 1975 Constitution (as amended in 1986) he has a moderating role, although his powers are increasingly seen as ceremonial. The President has the power to nominate the Prime Minister (but not to remove him), nominate and remove the other members of the Government on the recommendation of the Prime Minister, dissolve the Chamber in certain circumstances specified by the Constitution, promulgate laws and send draft legislation back to the Chamber for further discussion. He can also sign decrees bringing into force laws on the recommendation of the minister concerned.

Legislature

Greece became a republic in December 1974, having overwhelmingly rejected 'crowned democracy' in a referendum. There is a unicameral 300 member Chamber of Deputies, elected for four years by a system of proportional representation and universal suffrage. Twelve of the 300 seats are reserved for State Deputies, not elected from specific electoral constituencies but instead designated by each political party according to the total percentage of votes obtained. The Chamber of Deputies meets as of right once a year for a regular session of at least five months. The right to propose laws is vested in both the Chamber and the Government. Bills relating in any way to the granting of pensions can only be submitted by the Minister of Finance, after consultation with the Court of Audit. In the Chamber, a majority of those present is required for bills to be adopted unless otherwise stipulated in the Constitution.

Each bill is examined by the relevant parliamentary standing committee, each consisting of 40-50 deputies that can call anyone to give evidence. They propose the adoption or rejection of the bill and make modifications to it. Where necessary, special ad hoc parliamentary committees may be established to deal with particular bills.

The Executive

Since the Constitutional Amendment of 1986, executive power has shifted more towards the Prime Minister, in particular because he must now be the head of the majority party or coalition and so is no longer dependent on the confidence of the President. Under the Constitution, the Prime Minister's role is particularly strong, and ministers rely on his/her support, as much as they do on that of the Chamber of Deputies. The Prime Minister's role is to direct the activities of the Government, direct the public administration to apply government policy, ensure the implementation of laws, propose and dismiss members of the Government and, with the relevant minister, nominate the heads of ministries.

The Prime Minister is supported by a Cabinet (or Council of Ministers) comprising ministers and deputy ministers. Secretaries of State, who are not members of the Cabinet, may be called to attend but may not vote. Ministers and deputy ministers are designated by presidential decree on the Prime Minister's advice. They represent the Prime Minister in his absence and are responsible for the functions he allocates to them.

The role of the Cabinet is to determine and conduct policy within the terms of the Constitution. It decides upon issues of the highest political importance, recommends the promulgation of ordinances, and proposes decrees under the Constitution. The Cabinet is assisted by several committees, including the Higher Council for Economic Policy, and the Inter-ministerial Committee for Prices and Income. The latter brings together the Prime Minister, relevant ministers and the Governors of the Bank of Greece and the National Bank of Greece.

Administration

Ministries of the Greek Government include central bodies such as the Ministry of Finance and the Ministry of the Interior, and 'line' ministries and departments. There are some 230,000 civil servants in Greece. Staff have traditionally had security of employment and progressed within a strongly hierarchical structure.

A number of other types of body have direct or indirect dependence on the state. These include public establishments such as hospitals, universities and the Church of Greece, and economic bodies. There are also private state establishments that intervene in key economic sectors, for example the Export Promotion Agency. Some state companies, such as the National Electricity Enterprise, have a monopoly, while others, notably banks such as the National Bank of Greece, operate in a competitive environment.

Regional and local government

Since 1987 Greece has been divided into 13 regions. Within these regions there are a total of 52 prefectures. Within the prefectures there are around 900 municipalities (including 228 with more than 10,000 inhabitants) and 130 communities. Each region has a regional council, which is responsible for development. The council is presided over by the Secretary General of the region, who is the direct representative of the Government for planning, programming and co-ordinating the regional development. The Secretary General of the region is subject to the authority of the Minister of the Interior and other ministers.

There are two categories of local government. The first category consists of the municipality and community authorities, whose responsibilities include the local infrastructure, and who have a cooperative role in the promotion of economic, social and cultural matters. While most of their funds come from central government in the form of pro rata subsidies, they have limited powers to impose taxes.

The second category of local government, called 'prefectural self-administration', consists of the Prefect, the Prefectural Council, and the Prefectural Committees. Prefects and members of the Councils are elected for four years by direct suffrage throughout the country. This grade of administration oversees financial, social and cultural development. There is no hierarchical relationship between the two categories and they act independently in exercising their duties. They both report to the Minister of the Interior.

Public Accounting System

The Constitution provides that the Hellenic Parliament votes on the State Budget of revenues and expenditure for the following year. All state revenues and expenditures must be entered in the Annual Budget and the Annual Financial Statement.

The Minister of Finance submits a draft budget to the relevant standing parliamentary committee on the first Monday of October. After considering the committee's observations, the Minister of Finance introduces the budget to Parliament at least forty days before the beginning of the financial year.

The State's Annual Financial Statement and the Balance Sheet are laid before Parliament not later than one year from the end of each financial year. They are accompanied by the Report of the Court of Audit confirming that the accounts presented by the Minister of Finance are correct. The state accounts are also examined by a special committee of Members of Parliament and are approved by its Plenum. State accounts are presented on a cash basis. Nevertheless, efforts have been made recently to move toward a presentation on an accruals basis.

The key posts in the Hellenic public accounting system are the Ordinator and the Public Accounting Officer. The Ordinator gives the order for the execution of the budget. Public Accounting Officers manage money, values, or assets, which belong to the state or the public entities.

The Supreme Audit Institution

Historical development

- 1833** Hellenic Republic Court of Audit, modelled on the French Cour des Comptes, was established by Decree.
- 1887** Law AYOZ assigned the preventive audit of the expenditure of the state to the Court.
- 1923** Further consideration given to the Court's work.
- 1969** Law Decree 321/1969 on public accounting, established the principle that expenditure in the budget should be reported in detail and money used only for intended purposes.
- 1972** Law Decree 1265/1972 classified the judicial audit of public money into *a priori* and *a posteriori* audit.
- 1980** The activities of the Court have been regulated by two presidential decrees. 774/1980 covers the rights of the Court, the preparation of an Annual Report on its audit work and consolidates previous laws; and 1225/1981 outlines Court procedures. The Court expects that at some stage these will be incorporated into a new presidential decree. In addition to the decrees, more detailed audit procedures and rulings are promulgated in decisions of the Plenum, the Court's supreme authority.

The structure and organisation of the Hellenic Court of Audit

The head of the Court is the President. He is chosen by the Cabinet on the advice of the Minister of Justice from among all the Vice Presidents, the Judge Counsellors and the Vice Commissioners who have been in place for more than four years. There are now eight Vice Presidents under the President. They each head one of the Court's Judicial Sections and are chosen, in the same way as the President, from among the Judge Counsellors and Vice Commissioners who have been in place for more than three years. The most senior Vice President deputises for the President where necessary.

The Court has 131 posts of judge, of whom the most senior are the 28 Judge Counsellors. There are 44 second rank judges and the remaining 45 are junior judges. There is an age limit of 67 for judges. They are liable to disciplinary action if they express party political opinions. Judges are promoted on a decision of the Court's Supreme Judicial Council, which is composed of senior Judge Counsellors chosen by lottery and presided over by the President of the Court.

Among the judges are the General Commissioner of the State, the Commissioner of the State and three Vice Commissioners, who are supreme magistrates under article 66 of Presidential Decree 774/1980. They are functionally independent and hold permanent posts under the Constitution. The General Commissioner is appointed by the Cabinet, and candidates must be a Vice President, a Judge Counsellor or a Vice Commissioner with at least four years' experience. The responsibilities of the General Commissioner (and the Commissioner and the Vice Commissioners) include attending the sessions of the Court's Plenum, Judicial Sections and Climakions (or units of judges); introducing issues for consideration by the Plenum and announcing the rulings to the relevant authorities; and monitoring the Court's work and reporting to the Minister of Justice.

The Court consists of Climakions, Judicial Sections and the Plenum. Auditing offices headed by commissioners of the Court (i.e. judicial employees with a university degree, with more than 15 years experience and holding the rank of head of division) are situated in ministries, prefectures and larger municipalities, and have competence in both a priori and a posteriori audit.

Seven three-member Climakions are based at the Court in Athens. The responsibilities of the First Climakion include the audit of the accounts of public management and the off-budget special accounts. This Climakion also examines appeals against orders of the Minister of Finance dealing with pension rulings. The Second Climakion audits the annual financial statements of public entities and local agencies. Both the First and Second Climakions impose charges where there are deficits on accounts and impose disciplinary penalties on accounting officers for delays in submitting accounts and reviews, and non-execution of the Court's orders in relation to audit work. The Third Climakion examines appeals against administrative orders relating to the obligatory retirement of civil servants.

The responsibilities of the Fourth Climakion include dealing with the Court's relations with other international audit bodies and monitoring the audit missions of the European Court of Auditors to Greece. The Fifth, Sixth and Seventh Climakions carry out an examination of the legality of the public works/supplies/services contracts made by the state public entities or public enterprises, whenever the cost exceeds €2.9 million (for public works) or €1.5 million (for public supplies or services). Files containing all the relevant documentation, including a draft contract, are submitted to the Court for examination by the Climakion. If the audit is not concluded and the relevant file is not returned within forty days after its submission, the contract may be signed. The contract is not signed if the Climakion judges against its legality within the set deadline.

The Court's Judicial Sections are responsible for:

- pre-examining the State's Annual Financial Statement and Balance Sheet;
- issuing judicial acts, rulings and minutes on the reports of commissioners in respect of the approval or non-approval of the payment orders of state and public entities;
- trying appeals against acts or decisions issued by the administration and the commissioners of the Court relating to financial management and the management of the material assets of the state, public entities and local agencies;
- trying the General Commissioner's motions for charging public servants of state bodies, local agencies and remaining public entities;
- trying appeals against actions of the three-member Climakions;
- trying appeals against acts regulating the pensions of employees of the state, public entities, local agencies and the armed forces; and
- trying applications for revocation against acts of the Fifth, Sixth and Seventh Climakions.

GREAT IMPORTANCE IS ATTRIBUTED BY THE COURT TO THE INTERNAL TRAINING OF ITS STAFF THROUGH CONTINUOUS ON THE JOB TRAINING

The Plenum is the supreme (or 'cancelling') judicial body of the Court, consisting of the President, the Vice Presidents and the Judge Counsellors. The Plenum deals with appeals against the decisions of Judicial Sections and also submits the Court's Annual Report to the Chamber of Deputies via the President.

The recruitment, remuneration and qualifications of staff and other resources

In addition to the 131 judges, the Court has some 1004 staff, of whom 599 are auditors. Around 270 (of whom 114 are audit staff) work in regional offices, the rest at the head office of the Court or within government ministries. Staff are classed as judicial public servants and are usually trained economists, lawyers or accountants. They are graded into one of four categories, depending on the level of their educational qualifications, and are classified within these categories according to their years of active service. The most senior in the highest two categories are usually appointed as heads of divisions on a decision of the Judicial Council (the body of Judge Counsellors and judges that decides on promotions and appointments for the judicial public servants).

New audit entrants must pass an examination covering accountancy law, public law, pension law and the basic principles of law. They are generally over 25 years old and usually move between jobs within the Court every two to five years. Salaries are linked to those of the civil service, although they are slightly higher to reflect additional training.

Great importance is attributed by the Court to the internal training of its staff through continuous on the job training. In this way, the Court aims at improving and consolidating its employees' experience, knowledge and capability. Training courses are programmed and carried out by the 11th Directory of Administrative Support. During the first two years of their service, every new employee attends compulsory courses on the auditing procedure and the structure of the Court. In addition, all employees attend compulsory and/or optional training courses on an annual basis, according to their specific needs.

Recently, the Court, in collaboration with the National School of Public Administration, has provided several training courses in technical subjects. Some staff have attended training courses held elsewhere in Greece and abroad, including seminars organized by INTOSAI and EUROSAI.

Second rank judges are selected from among the Court's junior judges. Until recently, auditors from within the Court, or from the Ministry of Economics, with a law degree and at least eight years of experience, were also appointed as second rank judges, following a decision of acceptance by the Supreme Judicial Council. More recently, a School of Judges has been established from which individuals with a law degree and aged from 25 to 35 can qualify to become junior judges for the Court of Audit, other courts and the Council of State.

The Court prepares its own budget according to Ministry of Finance directives. The budget is submitted to the Ministry of Finance through the Ministry of Justice. The Ministry of Finance issues the final form of the Court's budget and submits it to Parliament for approval. In recent years the Court's budget has amounted to between 0.035 per cent and 0.037 per cent of the total state budget and divides almost equally between a priori and a posteriori audit work.

The scope, role and rights of access of the Hellenic Court of Audit

Under the Greek judicial system the Court is classified as a supreme public financial court, dealing with public accounting and pension cases. The courts, including the Court of Audit, may examine the constitutionality of laws in dealing with a case, and may refuse to apply any provisions deemed not to conform to the Constitution. For example, in 1993 the Court prevented the implementation of a law containing pension provisions for which it had not previously provided an expert opinion. Where there are disputes between the Court of Audit and other courts, or where there is contradiction between judgements of the Court of Audit, the Council of State and the Supreme Court of Appeal, a final decision is made by the Special Supreme Court.

The Court of Audit has a number of roles:

- examining and approving payment orders for government and public corporation expenditure (a priori audit);
- verifying that the public accounts of state and public establishments and local authorities conform with legislation and regulations;
- auditing and deciding on the liability of public servants, as well as servants of public bodies or local agencies, for losses caused to the state, public corporations or local agencies through fraud or gross negligence;
- submitting to the Chamber of Deputies an annual report of the Court's work and a report on the state's Annual Financial Statements and Balance Sheet;
- monitoring state revenues and checking revenue collected;
- providing an expert opinion on the laws regulating pensions and their implementation in specific cases, as well as pronouncing on bills concerned with pensions and retirement; and
- giving an opinion when called upon to do so by a minister.

THE COURT IS CLASSIFIED AS A SUPREME PUBLIC FINANCIAL COURT

The Court's jurisdiction extends to government departments and ministries, local government bodies and other public sector organisations. It does not have responsibility where the Government has decided that a body is a private corporation such as banks and the electricity company. Nonetheless, even here the Court may have representatives among the auditors appointed to examine an organisation's accounts, and will thus contribute to the conduct of the audit and obtain information on how funds have been spent.

Under Laws 1892/1990 (article 85) and 1943/1991 (article 77), the Court may conduct audits of financial management or financial administrative management transactions of particular importance carried out by the state, the legal entities and public sector organisations. Such audits can be carried out at all public and private entities overseen or financially assisted by the state or public entities. In these cases the competent three-member *Climakion* can require repayment of any loss. Legal remedies against their decisions can be sought before the Court's Judicial Sections.

For the purposes of its work, the Court has complete access to all accounting books and supporting documentation and persons in central and local government under Presidential Decree 774/1980. It has the right to require relevant information from any competent authority, and refusal to cooperate is a disciplinary matter. Where supporting documents prove to be false, or the information is incorrect, the Court has the right to reconsider its judgement on the accounts within the terms of the statute of limitation.

FOR THE PURPOSES OF ITS WORK, THE COURT HAS COMPLETE ACCESS TO ALL ACCOUNTING BOOKS AND SUPPORTING DOCUMENTATION AND PERSONS IN CENTRAL AND LOCAL GOVERNMENT

The Court can conduct on-the-spot audits related to financial or asset management such as the inspection of stock and the verification of cash. Usually, however, the Court does not conduct on-the-spot audits, being satisfied instead with written certification from competent public authorities, with the exception of local government bodies and public entities.

Relations with Parliament and the Government

The Court's relationship with the Chamber of Deputies is limited to the submission of the Annual Report on a priori and a posteriori audit work, and the Declaration on the Annual Financial Statement and the Balance Sheet of the state. The Chamber takes account of the Declaration in giving its discharge to the state budget at the parliamentary debate on the Annual Financial Statement and the Balance Sheet. In addition, the Chamber approves the Court's budget based on the recommendations of the Ministry of Finance. In general the Court avoids cultivating relationships with individual deputies, but some are interested in the findings of the Court, especially when they generate significant press interest.

Relations with other auditors

In carrying out its work, the Court does not place reliance on other auditors. However, the Court does have contact with other auditors and inspectors such as officers of the General Accounting Office Units, which report to the Ministry of Finance and are located in each ministry and in every prefecture. These officers carry out a priori audit of the legality and regularity of expenditure. Their work is of an internal administrative nature while the Court's work is external audit.

In addition, inspectors of the Directorate of Financial Management, also responsible to the Minister of Finance, carry out a posteriori reviews and investigations of the accounting officers in government departments. Special units operate in the three branches of the armed forces. The Court also takes account of reports of chartered accountants and international private sector audit firms where they are available and relevant.

The auditing process

A priori audit

The Court is responsible for the a priori audit of state and public corporation expenditure under specifically issued laws. This involves it in the examination of payment orders issued by various public bodies, in particular to assess the accuracy, legality and regularity of the expenditure. For state expenditure, all types of transaction are examined except for salaries and rents, which are considered to be less risky and are submitted to a posteriori audit. For public corporations salaries and rents are subject to a priori audit. Around one million payments a year are examined, with work on each completed within a day or two of receipt.

For a priori audit, orders are sent to the Auditing Office for examination. Where the head of the Auditing Office in a ministry or a prefecture considers the expenditure to be legal under the relevant regulations, the payment order is approved and forwarded to be paid. Where expenditure is deemed not to be legal, the Office returns the uncertified order with its supporting documents and provides a brief report outlining the grounds for refusal. Where this judgement is disputed, the initiator of the order can resubmit the payment order with an explanation, which the head of the Auditing Office may accept. In this case the order will be certified.

Where the head of the Auditing Office insists that the case for refusal remains, a report outlining the case, together with all the auditee's arguments, goes to the Judicial Section. Here a Vice President, two senior judges and two second rank judges (who do not vote, but offer their opinions) consider the written evidence and reach a final decision by majority. No lawyers or witnesses are present and the final decision must be accepted by the Auditing Office.

A posteriori audit

The second role of the Court is the a posteriori audit of the accounts of Public Accounting Officers and the statements of public bodies and local administration agencies. The purpose of this is to decide upon the adequacy or otherwise of the accounts, give a discharge where satisfied or take action where not.

Civil and military Public Accounting Officers submit monthly and annual statements of accounts on their economic management of public funds to the relevant Climakion. Where the Climakion has doubts about the soundness of the accounts, Court staff forward a report to the accounting officer, together with a request for amendment or further information. Where changes or further information are satisfactory, the accounts are considered to be sound and the auditor reports to the competent three-member Climakion. This Climakion pronounces on the accounts either by making a declaration that they are sound or by charging the accounting officer with the identified deficit, or the amount of funds not collected.

Where a deficit is identified, the Court initiates recovery proceedings against the accounting officer. The latter is usually an individual but in the case of local government there is collective responsibility. In deciding on the amount to be recovered, the Climakion can take account of the financial position of the accounting officer and the circumstances of the case, such as his absence when the loss or error took place. Individuals are not insured against losses occurring in the course of their work. The auditee has a right of appeal against the decisions of the Climakion or the Judicial Section and can eventually appeal, on legal grounds only, to the Plenum.

Where a criminal offence is discovered in the course of the Court's work the case is reported to the relevant minister and the Court's President and taken up by the Public Prosecutor in the criminal courts. On average around 10 cases a year are dealt with in this way. If an accounting officer does not submit the appropriate accounts and documentation to the Court within the time limits provided, the Court may fine them. The Court has the same power if an accounting officer does not comply with the Court's orders with regard to the audit of his management of the account. Where an accounting officer refuses to submit documentation at the request of the Court, the appropriate disciplinary court may impose a penalty on him, possibly leading to a temporary or even permanent loss of employment under Presidential Decree 774/1980.

AUDIT WORK CARRIED OUT BY THE COURT IS LARGELY AN EXAMINATION OF DOCUMENTATION IN ORDER TO TEST THE LEGALITY AND REGULARITY OF EXPENDITURE

Audit work carried out by the Court is largely an examination of documentation in order to test the legality and regularity of expenditure. In general a posteriori audit involves inspection of all transactions of the financial statements. Sampling is only used under Presidential Decree 774/1980 when authorised by the Plenum or in cases where serious delays are being experienced in completion of the audit. In cases where there is a suspicion of irregularity, a full audit must be carried out. Systems examination is not normally carried out as a separate exercise. As audited bodies are subject to both a priori and a posteriori examination, evidence about weaknesses in internal control systems can usually be gained in the course of routine audit work. Trend analysis is also only carried out on the initiative of individual staff and does not provide assurance.

Reporting

The Court reports to the Chamber of Deputies by issuing two reports. The first is an annual report of findings, which is published in the State Gazette. This sets out the results of the Court's operations, observations stemming from its work, and suggestions on reform and improvements, including changes to the relevant laws. The Court has also used this report to raise value for money issues from its audit work. In addition, to make the most of their findings, all auditees receive all the decisions and acts taken by the Court, so that they can use them as guidance.

The second report is the annual Declaration on the Annual Financial Statement and the Balance Sheet of the state, which examines the execution of the budget. This is required under article 98 of the 1975/1986/2001 Constitution and is a declaration that the accounts are correct. Both reports are discussed in sessions of the Court's Plenum and are then passed to the President of the Chamber of Deputies. Although the Chamber does not usually devote much time to the Annual Report, the Declaration is taken into account when the Annual Financial Statement and the Balance Sheet are discussed. Any discussions that do take place are in the full Chamber, rather than in parliamentary committees. Because of the judicial nature of the work of the Court its reports and findings are not publicised and it does not issue a press release or make senior staff available for interviews.

SUMMARY

The Hellenic Republic Court of Audit is part of the Greek judicial system; its role is outlined in the Constitution. It is primarily responsible for auditing expenditure and monitoring the revenue of the state, local administration agencies and other public corporate bodies as well as for carrying out an examination of the legality of contracts for public works, supplies and services. The main features are:

Appointment of the Court

- The Court's senior appointments - the President and the eight Vice Presidents - are made by the Cabinet on the advice of the Minister of Justice. Appointments are on the basis of merit and seniority and are from within the office.

Budget

- The Court's budget is prepared by the Court in accordance with Ministry of Finance directives. It is submitted to the Ministry through the Ministry of Justice. The Ministry of Finance submits the final form of the budget to Parliament for approval.

Skills of staff

- Staff are usually trained economists, lawyers or accountants who have passed examinations covering public law, accounting and economics. Senior staff are lawyers and economists.

Audit jurisdiction

- The Court has responsibility for: a priori audit of payment orders for government and public corporation expenditure; verification of the public accounts of state and public bodies and local authorities; auditing and deciding on the liability of public agents for losses and damage to the state through fraud and mismanagement; carrying out a legality examination of public works/supplies/services contracts made by state public entities or local enterprises, whenever the cost exceeds a certain amount.
- Performance audits are not currently carried out.

Access

- The Court has complete access to all accounting books and supporting documentation as well as staff in central and local government for the purposes of its work. It usually avoids performing on-the-spot verification unless there is strong suspicion of mis-management, with the exception of local government bodies and public entities. Refusal to cooperate with the Court is a disciplinary matter.

Reporting

- The Court reports to the Chamber of Deputies in two ways. The first is an annual report of findings, setting out the results of the Court's operations, its observations and suggestions for improvements to systems and the law. The second report is the annual Declaration, giving the Court's view on the Annual Financial Statement and the Balance Sheet of the state.
- The Chamber does not usually devote much time to the reports and there are no procedures for a detailed oral hearing on the reports. However, under the Constitution the Chamber is obliged to take the Declaration into consideration in giving its discharge to the state budget.

Key legislation

- The activities of the Court are mainly governed by two Presidential Decrees: 774/1980, which covers the rights of the Court and consolidates previous laws, and 1225/1981, which outlines Court procedures. More detailed audit procedures and rulings are promulgated in the decisions of the Plenum of the Court, its supreme authority.

ÁLLAMI SZÁMVEVOSZÉK HUNGARY



Key Facts

Economic and general information

- The Hungarian Republic was proclaimed in 1989.
- The establishment of the Hungarian Kingdom took place in 1000, when King (Saint) Stephen, who is regarded as the founder of the Hungarian State, was crowned. Croatia became part of the Hungarian Kingdom as an associate country from the beginning of the 11th century onward. Hungary was conquered by, and became part of, the Ottoman Empire (1526-1686).
- By the 18th century, because of the Ottoman occupation and Habsburg domination Hungary became a multi-national state. Rapid economic development took place after the revolution and war of independence and, again, between 1867-1914.
- As a result of the First World War Hungary lost more than 40% of its territory, while three million Hungarians remained in the newly established neighbouring states. After the Yalta Conference, following World War II, Hungary fell into the sphere of influence of the Soviet Union. Although there was a revolution against Communism in 1956 Communist rule lasted until 1990.
- Hungary has an area of 93,030 square kilometres. The population is 10.1 million.
- After the elections of 1990 the Hungarian economy and political life developed significantly under the new democratic system. Hungary joined NATO in 1999, and acceded to the European Union in 2004.

The structure of the Hungarian state

Constitution

The Hungarian Constitution, as amended, dates from 1949. Another constitutional amendment in 1989 proclaimed the Hungarian State as a parliamentary democracy. The Republic of Hungary is an independent and democratic state.

The Constitution provides for the National Assembly, the President of the Republic, the Constitutional Court, the parliamentary commissioner for citizen's rights and the parliamentary commissioner for national and ethnic minority rights, the State Audit Office, the National Bank of Hungary, the central and local governments, the armed forces and the police, the judiciary, the office of the public prosecutor, as well as fundamental rights and obligations, and the basic principles of elections.

The National Assembly elects the President of the Republic, the Prime Minister, members of the Constitutional Court, and the parliamentary commissioners for citizens (ombudsmen), the chairman of the Supreme Court and the Prosecutor General. The President of the Republic of Hungary is elected, by secret ballot with a two-third majority by the National Assembly for a term of five years. Hungarian citizens over the age of 35 years who have a right to vote are eligible to become President.

Head of State

The President of the Republic as Head of State has the following powers: to sign and promulgate laws; to adjourn the sessions of, or dissolve, the National Assembly and to set the date for parliamentary elections. The President holds a one-time veto over an Act of Parliament and has wide-ranging powers to initiate measures. The President gives the mandate to form the Cabinet; nominates the Prime Minister for election by the National Assembly; appoints ministers, under-secretaries, generals, judges of courts of law; and holds the power of individual pardon (in the latter cases, with the counter-signature of the Prime Minister). The President of the Republic is the commander-in-chief of the armed forces, and also has his own powers in foreign affairs.

Legislature

The supreme organ of legislature and representation is the single chamber National Assembly composed of 386 members, based on 176 seats from individual constituencies, 152 seats from regional lists and 58 seats from a national list. Members of Parliament have a mandate for four years. Under the Constitution all Hungarian citizens over the age of 18 living in the Republic of Hungary may be elected, and if they are within the country on Election Day, they may also vote.

The Hungarian election system requires two votes: voters cast one vote for candidates on the individual constituency list and a second vote for the regional party lists. Representation in the National Assembly requires 5% of the total votes cast on the party lists.

Amendments to the Constitution and major decisions require a majority of two-thirds.

The Executive

Executive power is exercised by the Government and the Prime Minister. The National Assembly elects the Prime Minister on the basis of the principle of parliamentary majority, concurrently approving the government programme. The government is constituted upon the appointment of ministers and their ministerial oath. Ministries are established by the National Assembly; according to law. The ministers, who are members of the government, head ministries.

Regional and Local Government

Hungary is divided into 19 counties and the capital. Major towns are of county-rank. Citizens exercise local governance at their places of residence through an assembly of representatives directly elected by them or by way of local referenda. Under new regional development plans, required by the European Union and approved in 1998, Hungary will in future be divided into seven administrative regions.

Local assemblies, headed by directly elected mayors and vice-mayors are responsible among other things for elementary education, the provision of health care and basic social benefits, the enforcement of the rights of national and ethnic minorities, and the establishment of local titles and awards. The assemblies make regulations, may adopt local

by-laws and perform administration independently of central government. They have revenue raising powers and may receive subsidies from central government.

Public Accounting System

The Public Finance Act defines the structure of central budget, based on the aggregate level of public finance for the central budget, segregated state funds and local government funds. This is sub-divided into chapters and sub-chapters, identifying under "orders of titles" budget appropriation managers by government function, and "orders of columns" showing the economic nature of the budget appropriations.

The Ministry of Finance prepares, and publishes in the budget guidelines and general explanation of the bill, medium term (three year) macro-economic forecasts, economic policy and fiscal policy concepts. These set the targets and priorities of fiscal policy, including tax policy and planned changes.

Hungary is developing laws to transform the government accounting system under the Treasury by establishing both cash and accruals- based accounting, and the development of accruals-based reports.

The structure and organisation of the State Audit Office

The President and Vice Presidents of the State Audit Office (SAO) are elected for a 12 year term, under the Constitution, by a two-thirds majority of the National Assembly. They may be re-elected, but cannot undertake political activities or be members of a political party. They, and the staff of the SAO are covered by strict laws governing conflicts of interest. The President and the Vice-Presidents may not be arrested without the consent of Parliament, and no criminal proceedings may be instituted against them, except in exceptional circumstances. The mandates of the President and Vice-Presidents can be terminated only in exceptional circumstances such as if they fail to fulfil the duties or if a conflict of interests is established.

The Supreme Audit Institution

Historical development

- 1528** The first document relating to Hungarian state accounts was produced and a Royal Chamber was established with responsibility for Hungary's financial affairs.
- 1868** Imperial and Royal Supreme Audit Office was established.
- 1870** Forerunner of modern State Audit Office was established
- 1949** Abolition of State Audit Office.
- 1989** Hungarian State Audit Office (Állami Számvevőszék) was created by an amendment to the Constitution.

The SAO operates under the direction of its President. The President makes sure that the obligations contained in the legal regulations in force are fulfilled, that the audit plan is executed, and that the reports are submitted to Parliament. The President represents the SAO, and is responsible for the operation and development of the organisation and the reports to Parliament. He also has a duty under the law to submit proposals to Parliament on the organisational structure and the number of staff employed by the SAO.

The President is assisted by the Presidential Meeting composed of the Vice-Presidents and senior professional managers, and the Advisory Body of external experts. The Presidential Meeting, which generally meets each week, discusses audit reports, and all important matters relating to the operation, financial management, and development of the institution.

The SAO has three directorates. Two of them are engaged with auditing work; the third is responsible for supporting tasks. Directors-General head the audit directorates, while the latter works under the control of the Secretary-General, who co-ordinates the management of the audit office. Each directorate is composed of three divisions. The divisions of the Directorate of Auditing the Central Level of Public Finances carry out performance, financial, and comprehensive audits within their spheres of activity. The divisions of the Local Government and Regional Audit Directorate are responsible for performing regularity audits, financial audits, performance audits, and comprehensive audits. This Directorate also includes the nineteen county (and the capital) audit offices. Apart from the county offices there are 45 departments which are the basic layer of the organisation. The Development and Methodological Institute supports the work of the SAO.

Recruitment, remunerations and qualifications of staff and other resources

The SAO's approved staff number in 2004 was 613. About 80% are professional staff (managers, auditors), and most of the rest are administrative employees (secretaries, accountants, etc). Auditors must possess a university degree or equivalent diploma. More than half of the auditors have two or more such qualifications. In-house training features in the strategic plan. The annual training plan focuses on audit requirements, although information technology training is also important.

The President, the Vice-Presidents, and auditors may not hold any commission or gainful employment, and may not accept remuneration except for scientific, educational, artistic, proof-reading and editorial activities protected by copyright. The elected officials and the auditors of the SAO may neither be close relatives of one another, nor of the members of the Government. The law requires the President, Vice-Presidents and auditors to make regular property declarations.

The SAO's budget for 2004 was 7329.5 million Hungarian Forint (HUF) (about €28.7 million).

The scope, role and right of access of the SAO

The SAO is guided by the Lima Declaration of INTOSAI. The SAO is established as the financial and economic auditing organ of the National Assembly, subject only to the National Assembly and the law. It is the supreme organ of state audit, and has its general authority regarding its duties defined in the SAO Act XXXVIII of 1989. Its function is independent of Government, although the Government may ask the SAO to conduct audits.

The SAO audits the management of the state budget, the state budget proposal, the feasibility of meeting the revenue appropriations, the lawfulness, necessity and expedience of resource utilisation, the credits raised by the budget, and their use and repayment. It audits the final accounts prepared on the implementation of the state budget. The President countersigns agreements related to the credits raised by the budget. The SAO also audits the tax levying activities of the Tax and Financial Control Office and of local government, the Customs and Finance Guard, and the duty offices. Institutions financed from the state budget, and the use of subsidy extended from the state budget by local governments, foundations, social and other organisations like political parties are also subject to the SAO's audit. The audit of financial management of local government forms a large part of the SAO's work.

The SAO also has the power to audit the management of state assets, the activities of the state-owned (or partially state-owned), companies and enterprises which are directed at maintaining and increasing property values. The SAO is obliged to submit an audit report to the General Assembly on the activities of the State Privatisation and Assets Company. While the SAO audits the Hungarian National Bank's compliance with the law, it does not examine monetary policy.

In the course of its audit tasks, the SAO monitors the compliance with the state accounting system; expresses opinions on any proposals for its development, and can make recommendations. The law provides for the SAO to carry out audits based on expediency, efficiency and legality considerations, so that both financial and performance audits have a legal basis.

The SAO's Act stipulates the most general and basic rules on the rights of access to information, the rights and responsibilities of the auditors and those of the auditees. By law, the SAO has access to any information, data, including information classified secret that is relevant to the audit.

The SAO has some special enforcement rights but these are rarely applied. For example, it can freeze material and financial assets during the period of audit if irregular or wasteful utilisation is established, or if the auditee causes damage in the management of financial resources. The SAO may also suspend the use of financial resources in investment projects until further measures are taken. In this latter case, the President of the SAO may request the Minister of Finance or the head of the audited body to freeze assets. If the SAO suspects a criminal offence, the public prosecutor is notified.

Relations with Parliament and Government

The President notifies Parliament of the audits performed in the course of the year in a public report. Apart from this "annual report" the SAO releases regular reports on individual audits. The SAO is required to submit to Parliament a special report on the audit of the final accounts as well as its opinion of the budget plan. SAO published 56 reports in 2003. Audit reports relating to bills under consideration are discussed at plenary meetings, but most go to standing committees and, in some cases, to sub-committees and committees of inquiry. Representatives of the SAO are regularly invited to committee meetings, to provide a professional opinion, when an audit report is discussed. The National Assembly adopts a resolution on the SAO's annual report, which details its experiences, the outcome of its recommendations, annual activities and operation and development of the institution.

The Standing Committee on the Audit Office discusses the annual audit program of the SAO, its budget proposal, and the outturn of that budget.

The President is in direct contact with the Speaker of the Parliament. He sends the Speaker a copy of each report, and draws the most important findings and conclusions to Parliament's attention. The President may participate in, and can make statements on reports on the final accounts, the bill on the budget and the SAO's annual report, both in plenary sessions and at meetings of the committees of the National Assembly where he is a permanent guest. Members of Parliament may question the President on matters related to the SAO's sphere of authority. However, he cannot be called upon to account for his actions.

Relations with other auditors

The SAO audits at the central and local government level and there are no parliamentary or regional auditors in Hungary. As a rule, SAO auditors make substantive tests on the functioning of audited entities' internal controls. Private sector auditors are involved with the work of the SAO in certain audit fields specified by law, such as auditing the financial management of local governments.

The auditing process

Financial audit

The SAO develops its annual audit plan in consideration of the directions set in a resolution by the National Assembly. The focus of its activity is the audit of final accounts, including the certification of reliability. Financial audit is performed in accordance with a methodology based on INTOSAI's standards. The methodology was tested, introduced and staff were trained with the assistance of the United Kingdom's National Audit Office. The SAO aims to apply its financial audit methodology gradually across all central budget chapters, to the reports of central administration titles, chapter-managed appropriations of the national accounts and the other chapter-level supervised bodies. At the same time as its audit of central budget final accounts the SAO audits local government appropriations in the central budget. Only the SAO is entitled to audit the 3200 local governments, and uses half of its audit capacity for this.

Regularity audit

Regularity audits are comprehensive audits that include elements of financial and performance auditing and cover the full scope of financial management. They target financial management of central budget chapters, separate state funds, the National Bank of Hungary and local government. The SAO audits the financial management of central budget chapters crucial to constitutional order. Audits of other chapters are dependent on actual events, news, and available audit capacity. Regularity audits evaluate the use of resources, the efficiency of operation and management activity, and the results of audits by supervising bodies.

From 2003 the SAO audits each local government once during an election period. The SAO also audits the operation expediency and regularity of the ethnic minority self-governments. It carries out regularity audits at about 300 county, town, metropolitan and metropolitan district governments, which have considerable budgets and assets. The aim of the audits is to inform the National Assembly about local government performance, usage of resources and assets, issues of financial equilibrium and operation of internal control systems. Through the findings and recommendations the SAO intends to improve financial management of local government.

IT IS THE SUPREME ORGAN OF STATE AUDIT AND ITS FUNCTION IS INDEPENDENT OF GOVERNMENT, ALTHOUGH THE GOVERNMENT MAY ASK THE SAO TO CONDUCT AUDITS

Regularity audits are based on a standard audit programme to secure comparability. Materiality thresholds are set and risks are assessed in the course of planning. After the initial planning, a task plan and an audit working programme are developed. The audit process continues through testing internal controls; testing data (usually by sampling); analysing procedures; evaluation; forming an opinion; and reporting.

The operations of financial institutions, public foundations engaged in the implementation of the central budget and that of the Privatisation and State Holding Company are evaluated by means of regularity audits.

The SAO has the exclusive authority for the biennial audit of the legality of the financial management of political parties provided with central budget subsidies.

A special task of the Hungarian SAO is its annual assessment of the assumptions of the budget and the supplementary budget, and of the possible outturn of the revenue estimates.

Sixty percent of the annual audit capacity is taken up by recurrent audits stipulated by the law. The remaining audit tasks are based on presidential decisions. The SAO also conducts audits at the request of Parliament and the Government.

From 2003, the SAO may also scrutinise procurement funded by public resources, contracts having an impact on public property, and private bodies, and entities engaged in the implementation of such contracts.

Performance audit

In 2001 the SAO created new divisions to carry out performance audits, which are carried out regularly in the areas of EU-subsidies, infrastructure, health, education, scientific and cultural institutions, financial institutions, tax and customs. Team work preparation, definition of audit criteria and risks, an audit programme based on the structured question-tree (Issue Analysis) and the completion of preliminary studies, support performance audits. In addition to data analysis, focus group discussions, questionnaires and interviews also may be used.

Reporting

The quality of individual reports is independently scrutinised by the SAO's quality assurance division. The draft audit report must be agreed with the auditee, and written responses given to comments or objections. The SAO report which is also addressed to the National Assembly and the relevant minister may include recommendations to the Government. The auditee prepares an action plan based on the SAO's recommendations and the SAO tracks the implementation of the action plans, which may include legislative changes. In a subsequent report the SAO describes how audited entities have responded to its previous recommendations. An increasing proportion of SAO reports are discussed in parliamentary committee meetings, and Members of Parliament increasingly rely upon the SAO's reports in their work.

SUMMARY

The Hungarian State Audit Office is established as the financial and economic auditing organ of the National Assembly, subject only to the National Assembly and the law. It is the supreme organ of state audit and its function is independent of Government, although the Government may ask the SAO to conduct audits. Key features are:

Appointment

- The President and Vice President of the SAO are elected for 12-year terms by the National Assembly.

Audit Remit

- The SAO audits the management of the state budget, the state budget proposal, and the final accounts prepared on the implementation of the state budget.
- The SAO also audits the tax levying activities of the Tax and Financial Control Office and of local government, the Customs and Finance Guard, and the duty offices.
- The SAO also has the power to audit the management of state assets, the activities of the state-owned (or partially state-owned), companies and enterprises which are directed at maintaining and increasing property values.

- The law provides for the SAO to carry out audits based on expediency, efficiency and legality considerations, so that both financial and performance audits have a legal basis.

Access

- By law the SAO has access to any information data, including information classified secret, that is relevant to the audit.
- The SAO also has some special enforcement rights that are rarely applied.

Reporting

- The SAO is required to submit to Parliament a special report on the audit of the final accounts as well as its opinion of the budget plan.
- The President notifies Parliament of the audits performed in the course of the year in a public report.

Key Legislation

- The State Audit Office Act XXXVIII of 1989.

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL IRELAND



Key Facts

Economic and general information

- Ireland was established as a republic in 1949 with the passing of the Republic of Ireland Act which severed constitutional links with the British Commonwealth.
- The Republic of Ireland covers 70,273 square kilometres and has a population of over four million people. While Irish is the first official language, English is a recognised second language.
- Political, cultural and economic relations with the United Kingdom remain important to both countries. The British Irish Agreement, signed at Belfast on Good Friday, 10 April 1998 devolved power to the new Northern Ireland Assembly and Executive Committee of Members, and put in place a series of new institutions to provide a framework for cross border cooperation. These were the North/South Ministerial Council, six North/South Implementation Bodies, the British–Irish Council and the British–Irish Intergovernmental Conference.
- Economic relations between the two countries are important. The United Kingdom is the Republic's most important trading partner, around 31 per cent of imports and 18 per cent of exports, while Ireland provides the United Kingdom with its sixth largest market.
- The industrial sector dominates the Irish economy. The most important contributors include the high-technology computer, pharmaceuticals and engineering sectors. Agriculture, traditionally important to the Irish economy, is less relevant and now employs only some 6 per cent of the employed workforce. Livestock farming, including the slaughtering, preparing and preserving of meat and the manufacture of dairy products predominates. Large-scale manufacturing is centred around Dublin, the capital and main port, and Cork and Limerick. Ireland also possesses reserves of oil and natural gas.

The structure of the Irish state

Constitution

The current Irish Constitution came into effect in 1937. It sets out the powers and functions of State organs. No amendment to the Constitution can take place without approval in a referendum.

Head of State

The President is the Head of State. On the advice of the Government, the President summons and dissolves Parliament, signs and promulgates laws and approves the appointment of judges. At times the President is obliged to consult with the Council of State, a body made up of the Prime Minister (Taoiseach), the Deputy Prime Minister (Tánaiste), the Chief Justice, the President of the High Court, the Chairmen of the House of Representatives and the Senate, the Attorney General, nominees of the President, and those former Presidents, Prime Ministers and Chief Justices willing to act in this capacity. The President has the power to refer to the Supreme Court proposed legislation that might infringe the Constitution.

Legislature

There is a bicameral Parliament (Oireachtas). Dáil Éireann (Dáil) is the lower house of 166 members directly elected for a five year term. Seanad Éireann (Senate) is the upper house of 60, comprising 11 members nominated by the Prime Minister, six elected by certain universities and the remaining 43 elected from five panels of candidates representing culture and education, agriculture, labour, industry and commerce, and administration.

Along with other parliamentary democracies the Irish State comprises three main branches - the legislature, the executive and the judiciary. Exclusive law-making powers are vested in the bicameral Parliament. Bills can be introduced in either the Dáil or the Senate, but must pass through both. A maximum of 90 days is allowed for the Senate to consider or amend bills sent by the Dáil, but the Senate has no power to veto legislative proposals. When a bill has been passed by both houses it is sent to the President for signature and promulgation as law.

The Executive

Executive power is exercised by the Cabinet, led by the Prime Minister, who is appointed by the President on the nomination of the Dáil. The President appoints other ministers nominated by the Prime Minister with the prior approval of the Dáil. The Cabinet is responsible to the Dáil and is collectively responsible for the departments of state administered by its members.

Administration

Administrative responsibilities in Ireland are divided between the central civil service administration and local government organisations, including a variety of bodies ranging from directly elected local authorities (city and county councils) to regional boards. State sponsored bodies also exist to carry out a wide range of functions in both the commercial and non-commercial areas, free from ministerial control.

There are around 30 government departments and offices, ranging in size from those concerned with revenue collection, justice, agriculture and social welfare to the much smaller specialist offices such as the President's Establishment and the Office of the Director of Public Prosecutions. The most important department is the Department of Finance, which has a lead role in overseeing all government expenditure. It also has responsibility, via the Office of the Revenue Commissioners, for the collection of taxes and excise duties.

Appointments to the civil service are made through examination and interview, but top appointments are made by the Government on the recommendation of the Top Level Appointments Commission. Civil servants are divided between industrial and non-industrial. The non-industrial are divided between those on general service, who can be moved between departments, and departmental civil servants appointed to meet a particular need.

The Irish public sector has experienced a range of management reforms in the past decade. The Irish Government launched its Strategic Management Initiative in February 1994 which gave rise to its *Delivering Better Government Programme*. These have contributed significantly to the modernisation of the Irish Civil and

Public Service and have resulted in the enactment of the Freedom of Information Act 1997 and the Public Service Management Act 1997. The significant features of the process are: the publication of strategy statements by all civil service bodies; the development of business plans to underpin these statements; the assignment of responsibility and accountability to line management; the phased introduction of performance management at individual and team level and processes to identify appropriate skills, competency and development needs to achieve superior performance; the establishment of partnership committees comprising management, staff and unions; and the introduction of a quality customer service initiative.

Regional and Local Government

The elected local authorities comprise 29 county councils, five county borough corporations, five borough corporations and 75 town councils. All members are elected under a system of proportional representation, usually for five years. Local authorities are responsible for housing and building; road transportation and safety; water supply and sewerage; development incentives and controls; environmental protection; recreation and amenity; and other services.

State sponsored bodies are autonomous public bodies responsible to their 'parent' departments. Such bodies exist for a range of reasons: strategic - Aer Lingus; cultural - the National Theatre Society; promotional – Tourism Ireland and industrial development – Enterprise Ireland.

The electoral system

From the age of 18 every Irish citizen has the right to vote in elections for the Dáil and the President, in local and European elections and in constitutional referendums. Voting is by proportional representation using the single transferable vote system except in referendums. There is one Dáil representative for every 20,000-30,000 people. Constituencies are multi-seat, with not fewer than three and not more than five representatives per constituency.

The political environment

The Head of Government is the Prime Minister, who is responsible for the overall direction of cabinet meetings. The Prime Minister nominates other cabinet ministers for approval by the Dáil and formal appointment by the President, and appoints one as Deputy Prime Minister. The Prime Minister and the Deputy Prime Minister must be members of the Dáil. The Prime Minister can call a general election at any time by advising the President to dissolve Parliament. The President may refuse to dissolve Parliament on the advice of a Prime Minister who has ceased to retain the support of a majority in the Dáil. The maximum life of the Dáil is five years.

The Cabinet comprises the Prime Minister and between seven and 15 ministers. All must be members of the Dáil or the Senate, and the Minister of Finance must also be a member of the Dáil. Three non-ministers also attend Cabinet: the Chief Whip, the Attorney General and the Secretary to the Government. The Prime Minister assigns ministers to a specific department or departments and a number of junior ministers without cabinet rank are appointed to specific responsibilities within departments.

Formulation of policy is the responsibility of the Cabinet. Cabinet Members of the Government conduct business through the Dáil in the area assigned to their department, and are supported by their party. To avoid Parliament becoming involved with much of the technical detail of proposed legislation, ministers are empowered by Parliament to promulgate statutory instruments. These are reviewed by one of the select committees operating within Parliament.

Other committees operating in Parliament include the Committee on Procedures and Privileges, which looks after the efficient running of Parliament; the Committee of Public Accounts, which reviews public spending; ad hoc committees dealing with specialist subjects, and those such as the Joint Committee on the secondary legislation of the European Communities.

Public Accounting System

Under the 1937 Constitution, unless provided otherwise by law, all revenue of the State must be paid into one fund (called the Central Fund of the Exchequer) on which the Government draws for expenditure on State services. Government expenditure is mainly voted expenditure for the ordinary supply services of Government authorised by the Dáil annually. Non-voted expenditure is paid by law out of the Central Fund without annual reference to the Dáil and consists of items such as the service of the national debt and repayable advances to State bodies.

THE ACCOUNTING OFFICER IS PERSONALLY RESPONSIBLE FOR THE SAFEGUARDING OF PUBLIC FUNDS AND PROPERTY UNDER HIS CONTROL

Appropriation Accounts are prepared for each voted service. While the Account is prepared on a cash basis of accounting, some accrual-based information is provided.

An Accounting Officer is the head of a Department/Office of State to whom the Minister for Finance has assigned under law, the duty of preparing the annual Appropriation Account for each Vote under his/her charge. In undertaking these duties the Accounting Officer is personally responsible for the safeguarding of public funds and property under his control, for the efficiency and economy of administration in their Departments and for the regularity and propriety of all transactions in the appropriation Accounts.

The Accounting Officer must ensure that there are adequate financial management systems in place to support the proper administration of the Department's functions in an economic and efficient way. In discharging these duties the Accounting Officer uses the work of internal audit to provide assurance as to the overall effectiveness of the control systems in operation in their Department. Arising from recent governance reforms, Accounting Officers must sign a statement on internal financial control.

State sponsored bodies operate under a code of practice for governance which requires the Chairperson to submit an annual statement to the relevant government minister on a number of prescribed issues including a statement on the system of internal control.

The structure and organisation of the Office of the Comptroller and Auditor General

The Comptroller and Auditor General is appointed by the President on the nomination of the Dáil and holds office until a prescribed retirement age of 65. He may not be a member of the Parliament. His independence is secured by the constitutional requirement that he cannot be removed from office except for misbehaviour or incapacity, and then only upon a resolution passed by both houses of the legislature. The Comptroller and Auditor General is independent of all other institutions of State, and his relationship with Parliament is solely a reporting one, which is exercised by way of an Annual Report, Value for Money Reports and Special Reports.

Following the changes to the role of the Comptroller and Auditor General, the work of the Office of the Comptroller and Auditor General is now divided between three Directors of Audit, responsible for:

- the audit of Government Departments;
- the audit of State sponsored and regional bodies; and
- value for money examinations and corporate services.

Deputy directors are responsible for divisions within the individual directorates. All divisions are located in Dublin. Staff may be required to travel to temporary locations according to the demands of work.

The recruitment, remuneration and qualifications of staff and other resources

In January 2005 the Office employed some 161 staff, an increase of almost 100 since the expansion of the role of the Comptroller and Auditor General under the 1993 Act. All except the Comptroller and Auditor General are civil servants, and so are governed by the general rules applicable to all staff directly employed by the State. To help meet work peaks, some audits are contracted out to the private sector.

The Supreme Audit Institution

Historical development

- 1866** The Office of the Comptroller and Auditor General was originally provided for under the Exchequer and Audit Departments Act 1866 at the time when Ireland was part of the United Kingdom.
- 1921** The Exchequer and Audit Departments Act amended and updated certain provisions in the 1866 Act, in particular setting out the detailed statutory functions of the Comptroller and Auditor General in the examination and audit of Appropriation Accounts, revenue accounts and others.
- 1923** Comptroller and Auditor General Act covered the terms and conditions of the appointment of the Comptroller and Auditor General and the ordering of the business of the Office.
- 1937** The Constitution stipulated that there shall be a Comptroller and Auditor General who is required to report to the Dáil at stated periods and who shall exist to 'control on behalf of the State all disbursements and to audit all accounts of monies administered by or under the authority of the Oireachtas'.
- 1968** The Department of Finance issued instructions to departments emphasising that the Comptroller and Auditor General's functions as auditor involved not just examining accuracy and regularity but also identifying and reporting on instances of loss, waste or uneconomic expenditure. Although having no function with regard to policy or policy decisions, the Comptroller and Auditor General could examine the implementation of policy in the course of investigations.
- 1985** The Committee of Public Accounts published a special report on the Resources and Functions of the Comptroller and Auditor General.
- 1992** The Government produced a White Paper on The Role of the Comptroller and Auditor General, which announced that the Government had decided to update and extend the statutory mandate of the Comptroller and Auditor General and widen the scope of his audit of public sector bodies.
- 1993** The Comptroller and Auditor General (Amendment) Act made several significant changes to the role of the Comptroller and Auditor General. In particular it extended his audit to vocational education committees, institutes of technology (formally regional technical colleges) and regional health boards (no longer in existence - duties and responsibilities now rest with a single national agency - the Health Services Executive). It also placed his value for money work on a statutory basis, empowering him to carry out examinations of economy, efficiency and management effectiveness. It also gave the Comptroller and Auditor General the statutory right to inspect bodies receiving 50 per cent or more of their annual income directly or indirectly from the State.

The Office recruits staff as trainee auditors. Recruits have a university degree in a finance related discipline such as commerce, business studies or economics, or have reached a certain level in studies leading to a professional accounting qualification. Trainees must acquire an accounting qualification within seven years and are appointed as auditors if their service is satisfactory. Professional training is supplemented by office training, provided either in-house or by an appropriate institution.

The scope, role and rights of access of the Office of the Comptroller and Auditor General

The Comptroller and Auditor General combines two statutory functions. The first, as Comptroller General of the Exchequer, is to ensure that no money is issued from the Central Fund to the executive except for purposes approved of by the Parliament. Before any monies may be issued from the Exchequer, the Minister for Finance must address a written requisition to the Comptroller and Auditor General requiring him to issue a credit on the Exchequer Account. If satisfied, the Comptroller and Auditor General communicates to the Central Bank that he grants the credit. The second role, as Auditor General, is to audit government accounts for accuracy and regularity and to report to Parliament on this work and the results of the value for money examinations.

Before 1993 the general principle relating to the Comptroller and Auditor General's audit mandate was that where voted money was a direct source of a body's annual income the Comptroller and Auditor General was appointed auditor or given rights of inspection of books and accounts. The main exception was that the Comptroller and Auditor General did not audit the accounts of local authorities, health bodies and vocational education committees or the commercial state sector. At that stage the Comptroller and Auditor General audited some 200 accounts. These were: the accounts of issues from the Central Fund; the appropriation accounts and other accounts attached to the appropriation accounts; departmental stock and store accounts; the accounts of the receipts of the revenue of the State; and the accounts of departmental funds, universities, state bodies and other agencies - all State bodies with the exception of public enterprises.

The 1993 Act resulted in a significant increase in the number of audits assigned to the Comptroller and Auditor General. He is currently responsible for the audit of some 370 bodies.

The Comptroller and Auditor General examines the appropriation accounts from two perspectives. The financial audit work tests the accuracy of the records and the reliability of the systems underlying them, and examines whether the accounts are in agreement with the records and so fairly represent the outturn. In addition, regularity audit ensures that expenditure accords with the intention of the Dáil and has been authorised by the Department of Finance, and that the provisions of the relevant statute, regulations or other rules have been complied with.

Historically, section 28 of the 1866 Exchequer and Audit Act and section 9 of the 1921 Act provided the Comptroller and Auditor General with a statutory basis for access to information. In addition, under a 1968 Department of Finance circular letter it was understood that the Comptroller and Auditor General's staff had access to any document or file required for an audit unless it was of exceptional secrecy, in which case he would be shown it personally in confidence. In view of the extension of the Comptroller and Auditor General's role the 1993 Act provided a new statutory 'right of access'. Under this the Comptroller and Auditor General has rights to such books, records, documents, data or data material as he may 'reasonably require' and may obtain information from any official of the department concerned, including information in relation to the content of any such material listed above.

Relations with Parliament and Government

The Comptroller and Auditor General's relationship with Parliament is essentially a reporting one exercised by way of an Annual Report, Value for Money Reports and Special Reports which form the basis of Parliament's examination of state revenue and expenditure by the Committee of Public Accounts. Under the 1993 Act the Comptroller and Auditor General reports annually on his examination of the appropriation accounts. He presents the Annual Report to the Dáil and it is then considered by the Committee of Public Accounts, forming the basis of its examination of the relevant heads of government departments and offices. Similarly, the

heads of all organisations audited by the Comptroller and Auditor General may be called before the Committee on foot of a VFM or Special report.

The Committee consists of 12 Deputies, none of whom may be a minister. Traditionally the Chairman is a member of the Opposition. The Committee is entitled under Standing Orders to send for persons, papers and records. It reports its findings to the Dáil but follow-up is a matter for the Government, and the Ministry of Finance notifies the Committee of action taken in response to its reports. Meetings are held in public.

Historically the Comptroller and Auditor General has strong links with the Committee of Public Accounts and is a permanent witness at all meetings. It was this Committee that pressed for the development of the Comptroller and Auditor General's role in the 1980s. By tradition he does not report to any other committee. The Office of the Comptroller and Auditor General has a liaison officer on secondment to the Committee of Public Accounts. The Committee may suggest subjects for examination to the Comptroller and Auditor General but he has statutory discretion on taking up such suggestions.

Relations with other auditors

Relations are maintained between the Office of the Comptroller and Auditor General and local government auditors appointed by the Minister of the Environment, private sector auditors and internal audit bodies. Local government auditors continue to audit local authorities such as city and county councils. In the past, since much of the funding of local authorities, regional health bodies and vocational education authorities came from grants from central government, the reports of local government auditors were made available to the Comptroller and Auditor General for inspection. The Comptroller and Auditor General selectively referred to the results of this inspection in the Annual Report to Parliament. The 1993 Act extended the role of the Comptroller and Auditor General into some of these areas. Since then the Office has continued to liaise with the Local Government Audit Service on matters of common interest and the Comptroller and Auditor General continues to refer to matters of interest contained in their reports in his submissions to the Dáil.

In some circumstances the Comptroller and Auditor General relies on the work of auditors from the private sector. The audit of universities, for example, relies to some extent on the work of private sector auditors employed by the university authorities, although the Comptroller and Auditor General carries out additional audit work before certifying his opinion on the accounts. The Comptroller and Auditor General liaises with the private auditors at the planning stage and when they are compiling their audit report. The audit of the Central Bank is carried out in cooperation with private sector auditors.

HISTORICALLY THE COMPTROLLER AND AUDITOR GENERAL HAS STRONG LINKS WITH THE COMMITTEE OF PUBLIC ACCOUNTS AND IS A PERMANENT WITNESS AT ALL MEETINGS

Where appropriate the Office liaises with the internal audit sections of government departments and other bodies. The Office examines departmental internal audit plans to avoid duplication of effort, and also reviews internal audit reports.

The auditing process

Financial audit

The Comptroller and Auditor General examines the appropriation accounts of each government department and reports annually to Parliament on the results. The main purpose is to carry out sufficient audit work to enable him to certify his opinion on whether proper books of account have been kept and on whether the appropriation account is in agreement with the books of account and properly presents the department's receipts and expenditure.

Where the Comptroller and Auditor General finds transactions that, in his opinion, are not properly chargeable to an appropriation account, he must raise the matter with the departmental accounting officer or, if not satisfied, with the Minister of Finance. In addition, where he believes material expenditure has been incurred without authorisation of the minister, he must advise the minister and report to the Dáil unless informed that it has been ratified. Where the Comptroller and Auditor General is not satisfied with the reply or does not receive one, he may qualify the certificate on the account and report to the Dáil.

State-sponsored bodies prepare annual financial statements on an accruals basis. The Comptroller and Auditor General expresses an opinion on whether proper books of account have been kept and on whether the annual financial statements give a true and fair view of the state of affairs at the year-end and of the income and expenditure and cash flow for the year then ended.

In order to provide the opinion the Comptroller and Auditor General carries out tests to obtain evidence to meet the audit objectives of occurrence, completeness, accuracy, regularity, reliability of systems and proper disclosure. He obtains this evidence by testing accounting systems, evaluating internal controls, undertaking analytical reviews and through the direct testing of transactions and balances for correctness.

Financial audit reporting

Under section 3 of the 1993 Act the Comptroller and Auditor General presents the report of his examination of the appropriation accounts annually to the Dáil. In practice this covers matters arising from the accounts such as breaches of regularity, matters of propriety, management deficiencies and material exposures arising from weaknesses in departmental internal accounting controls. The Comptroller and Auditor General must complete the examination of the appropriation accounts and present these, the certificates and any reports thereon to Parliament by 30 September each year.

The Comptroller and Auditor General also prepares reports on the other accounts. For non-commercial state sponsored bodies these reports are submitted to the responsible minister, who submits them to Parliament.

Value for money audit

Until 1993 the authority for this work was implicit in law, and conducted as part of the Comptroller and Auditor General's financial and regularity audit with the approval of the Committee of Public Accounts and the Department of Finance. This was similar to the United Kingdom position until 1983. In 1989 the Office decided to carry out 'project audits' examining value for money issues and using resources diverted from existing work. Eleven reports were prepared between 1989 and 1992. The approach involved

the preparation of outline study proposals, followed by a preliminary study to decide whether the subject was worthy of full study, and a full study with a report, which was sent to the relevant organisation for its comments. The comments were incorporated with the published report.

The Government's 1992 White Paper considered that a different approach was required and argued that non-statutory 'loss, waste and extravagance' examinations were no longer adequate for parliamentary accountability or to help develop a more cost conscious public sector. As a result the 1993 Act gave the Comptroller and Auditor General discretion to carry out examinations to consider the extent to which the acquisition, use or disposal of resources has been carried out economically and efficiently. The Comptroller and Auditor General may also examine the systems, procedures and practices employed by bodies to evaluate the effectiveness of their operations, making any comparisons with other bodies, practices or systems as he sees fit. However, unlike the Comptroller and Auditor General in the United Kingdom, the Irish Comptroller and Auditor General may not examine directly the effectiveness of departmental activities themselves. He can consult at his discretion with the Committee of Public Accounts on proposals for studies.

Value for money reporting

Under the 1993 Act the Comptroller and Auditor General presents value for money reports to the relevant minister, who is responsible, within a period of three months, for submitting them to Parliament. The Committee of Public Accounts can take evidence on the reports in open session, question the heads of the organisations reported on and present a report to Parliament. The Act provides for the Comptroller and Auditor General to report value for money examinations individually as they are completed, rather than annually. Special reports on specific or general matters may also be prepared.

The Office discusses reports with organisations during the fieldwork. When a report is finalised it asks the organisation(s) to confirm the report's factual accuracy and submit any comments within a specified period. Unresolved major differences are set out in the report. A short press release is issued on its publication.

SUMMARY

The Office of the Comptroller and Auditor General has expanded in size in recent years to meet the demands of a wider mandate. The main features of the Office of the Comptroller and Auditor General are:

Independence

- The role of the Comptroller and Auditor General is provided for in the Constitution, which can only be altered following a referendum. The Comptroller and Auditor General cannot be removed except for stated misbehaviour or incapacity and then only by resolutions of both houses of the legislature.

Discretion over work

- The Comptroller and Auditor General has complete discretion as to the nature and extent of the work carried out, but must report annually to Parliament on the Appropriation Accounts and may, at his discretion, seek the views of the Committee of Public Accounts on his value for money examination plans.

Audit remit

- The Comptroller and Auditor General's audit remit has been extended under the Comptroller and Auditor General (Amendment) Act 1993.
- Under earlier legislation the Comptroller and Auditor General audits the accounts of issues from the Central Fund, the Appropriation Accounts and other accounts attached to the Appropriation Accounts, departmental stock and store accounts, the accounts of receipts of revenue of the State and the accounts of departmental funds, universities, State bodies and other agencies.
- Under the 1993 Act the Comptroller and Auditor General also audits the vocational education committees and institutes of technology. He is also the statutory auditor of a range of other newly established State bodies including the main health agency for the State.
- The Comptroller and Auditor General also has financial audit inspection rights to a number of bodies receiving 50 per cent or more of their gross receipts from the Government.

Ability to report

- The Comptroller and Auditor General expresses an individual audit opinion to the Dáil on all accounts subject to his remit.
- The Comptroller and Auditor General presents an Annual Report on the results of his financial audit of the Appropriation Accounts to the Dáil.
- The Comptroller and Auditor General's value for money and special reports on subjects chosen by him are also presented to the Dáil.
- All reports are considered by the Committee of Public Accounts.
- Reports are publicly available in print and on the Internet and a press release is issued when reports are published.

Rights of access

- The Comptroller and Auditor General has rights of access to such books, documents, records and data of a department as he may "reasonably require", as well as information from employees of audited departments.

Other duties

- The Comptroller and Auditor General's role includes that of Comptroller General of the Exchequer. Under this he authorises the granting of credits from the Central Bank, having satisfied himself that the amounts requested by the Ministry for Finance are authorised under the relevant statute. This provides an independent check that monies are being made available to the executive only to the extent that the Dáil has authorised.
- By virtue of his office the Comptroller and Auditor General is also a member of the Standards in Public Office Commission and the Referendum Commission.

CORTE DEI CONTI ITALY



Key Facts

Economic and general information

- Italy is situated in southern Europe and has a land area of some 301,000 square kilometres. This includes the large islands of Sicily and Sardinia, together with the smaller Elba and 72 other islands. Italy has a population of some 57 million.
- The Kingdom of Italy was proclaimed in 1861 and the country unified in 1870. In the late nineteenth century Italy acquired an overseas empire in North Africa
- Italy became a republic following a referendum on the future of the monarchy in 1946.
- Around 60 per cent of the labour force work in services and one third in industry and manufacturing – cars, machine tools, textile machinery and engineering – much of which is in the north of the country.
- Agriculture, which constitutes 5% of the labour force, flourishes in much of the country, with cereals, vegetables, olives and vines the principal crops. Italy is a leading producer and exporter of wine, and cheese is an important commodity. Tourism is also an important source of income.

The structure of the Italian State

Constitution

Under the Constitution of 1948 Italy is a parliamentary republic.

Head of State

The President of the Republic is the Head of State and is elected for a seven-year term, renewable, by an electoral college comprising both houses of Parliament, as well as regional representatives. The President exercises certain powers - for example, appointing the Prime Minister (the President of the Council of Ministers), and other ministers on a recommendation of the Prime Minister. The President can also dissolve Parliament, except during the last six months of the presidential term, but other presidential duties are largely ceremonial.

The Executive

The Constitution sets out the respective roles of the legislature, executive and judiciary, and envisages a clear separation of powers. Executive power is exercised by the Council of Ministers, which is responsible to Parliament and must receive a vote of confidence by both chambers. The Council comprises all ministers, including those with and without portfolios. The latter group are a significant part of the Italian political process and their existence stem from the coalition nature of the Government. There are ministers without portfolio responsible for issues such as legislature relations, civil service and European Union policy. Ministers are traditionally members of the legislature but there is no legal requirement for this. The exact number of ministers/ministries with portfolio is 14. Once ministers are appointed, the President of the Council of Ministers does not have the power to dismiss them.

In addition to the ministries there are numerous public bodies covering a wide range of functions, including sport and leisure services. There are also state owned/controlled companies – that hold shares in industrial or commercial enterprises – the shareholder of which is currently the Minister of Economy and Finance. They are not staffed by civil servants.

Italy has a hierarchy of administrative and political layers and is divided into 20 regions and two autonomous Provinces (Trento and Bolzano). The regions have parliaments in their own right (Regional Councils) with significant and wide-ranging economic and administrative powers, as well as a limited fiscal (tax) power. There are five autonomous regions with special status justified on geographical or ethnic grounds.

The Constitution of 1948 envisaged that all regions would have certain powers but this took time to be enacted (1970). Regions raise local taxes but as these represent only a fraction of the funds they require, they remain dependent upon central government. Regions are responsible for a wide range of functions including health care, public transport, housing, the environment and agriculture. Since the constitutional reform of 2001, they have been responsible for all legislative functions which are not specifically reserved to the central government. Below regional government is local government, comprising 103 provincial authorities and some 8,000 municipal authorities. They are financed partially from local taxes, but are also heavily dependent on central and regional grants. The provinces have responsibility primarily for road and environmental protection, and secondary level education and the municipalities for areas such as primary education, water, and refuse collection. In 1989, important legislation created five 'metropolitan areas' for the important cities by amalgamating the provinces and the municipalities.

Legislature

The Italian Parliament is a bicameral institution. The Chamber of Deputies and the Senate have equal powers and authority, and all laws are subject to the approval of both. There are 630 members of the Chamber of Deputies who are elected for five years by universal and direct suffrage. The Senate is also elected for five years on a regional basis and has 315 members, each region having at least seven senators (except Valle d'Aosta with one senator and Molise with two). The President of the Republic can nominate five senators for life from among eminent people. Deputies must be over 25 years old and senators must be over 40 years old. The minimum voting age is 25 for the Senate and 18 for the Chamber.

Electoral System

Until 1994, elections for deputies and senators were based on systems of proportional representation, which led to numerous fragile coalition governments. Following a referendum on amending the Constitution a new electoral system was adopted in 1994. This is a hybrid system under which 75 per cent of seats in each house are determined by a 'first past the post' approach and the remainder by proportional representation. Deputies are elected in their constituency by majority voting, and parties are chosen by proportional representation. A party requires four per cent of the national proportional vote to be awarded any of the 155 proportional representation seats. A candidate is allowed to stand in one 'first past the post' constituency and three proportional representation electoral districts.

Changes to the structure of the Italian State

Currently Parliament is examining a constitutional bill designed to introduce changes and modifications in the structure of the State and in the respective roles of the President of the Republic, legislature, executive and judiciary.

Public Accounting System

The introduction of a new public accounting system by law in 1993 is still in progress with the second issue of the "Manual of the accounting principles and rules of the Accrual Accounting Unified System for Public Administrations" published by the Ministry of Economy and Finance.

The 1993 law clearly defined the different powers and accountabilities/responsibilities of Government (Prime Minister and Ministers) and senior public managers, separating political objectives and programmes from administrative implementation.

Each year, Ministers issue the "annual directive" which constitutes the basic document for programming and defining of the objectives which the first level management units have to achieve.

Public managers put into force the activities necessary to achieve the Government's objective/projects and are responsible for the results of units they lead, in charge of collecting revenues and executing expenditure and for internal control and auditing.

The public management also has responsibility for: recording and analysing revenues and expenditures; assessing the cost-effectiveness of the activity of public administrations; and comparing the actual outputs and outcomes with objectives in accordance with two laws of 1997 which set out the public accounting system on a modified accruals basis.

The essential components of the "System" – which is now fully implemented but also under a continuous revision process of updating and improving – are:

- a clear "accounts scheme/plan/system";
- specified "cost-centres", and cost-centre managers;
- the classification of the public services provided and delivered by each of the "cost-centres" in compliance with the COFOG international classification and the European accounting system "ESA 95";
- a new "State budget" whose appropriations, approved by Parliament, refer to specified activities and services to be provided under the responsibility of senior public officers; and
- "financial statements", prepared under the accrual basis of accounting, focussing on financial position, costs-revenues and assets-liabilities schemes.

Internal Audit

There are strong internal control mechanisms within the Italian public sector and the controls established for central government spending are mirrored in the regions and municipalities. The central control system is supervised by the General Accounting Department (Ministry of Economy and Finance) headed by the Accountant General. This body has four main functions: drafting the state budget, evaluating the financial consequences of proposed legislation, inspecting the management of public administration (a task delegated to the General Inspectorate of Finance), and carrying out an internal regularity audit function.

THERE ARE STRONG INTERNAL CONTROL MECHANISMS WITHIN THE ITALIAN PUBLIC SECTOR

The auditing function is carried out by central accounting offices located in each ministry. These offices are independent of the ministry in which they are based and supervise the compliance of administrative auction with financial laws and ministries' directives. They operate by checking the regularity of proposed contracts and payments, and by applying a 'visa' signifying approval. Irregular transactions are referred to the Minister, who can order the central accounting office to attach its visa. Such cases are referred automatically to the Corte dei Conti, the Republic external audit body.

The General Inspectorate of Finance carries out on-the-spot examinations of the activities of ministries and public bodies, and can propose corrective action where necessary. It also ensures that internal audit is functioning correctly in each body. The General Inspectorate's reports are forwarded to the Accountant General and, where financial loss is detected, to the Prosecutor General based in the Corte dei Conti, who can prosecute civil servants suspected of financial impropriety.

In 1993 a law was passed requiring the setting up of 'internal evaluation units' within all state and public administrations. These units investigate the performance of managers in the public sector. The Corte expects that the work of these units will in time be a useful source of information on the performance of audited bodies.

All activities related to internal control and audit functions have recently been reviewed by Decree 286/99 which aims to provide a new and modern framework for the sector. Under this decree, the public administrations, within the limits of their respective autonomy, shall provide themselves with the appropriate instruments in order to carry out:

- legality and regularity audit;
- performance audit;
- management evaluation; and
- programme evaluation and strategic audit.

The structure and organisation of the Corte dei Conti

a Audit functions

In carrying out its audit functions, the Corte is composed of:

- the United Chambers, a board based in Rome (both Sicily and Sardinia have their own United Chambers);
- the following Central Audit Chambers, based in Rome:
 - Compliance (a priori) Audit Chamber for State administration's acts;
 - Performance Audit Chamber for State administration's management;
 - Audit Chamber for public bodies and State owned enterprises;
 - Audit Chamber for local authorities;
 - Audit Chamber for European Community and international affairs.
- the Regional Audit Chambers (n. 20), based in the Region's chief-towns.

b Jurisdictional functions

In carrying out its jurisdictional functions, the Corte is composed of:

- United Chambers for jurisdictional matters, a board based in Rome (both Sicily and Sardinia have their own United Chambers).
- Three Central jurisdictional Chambers for appeal, based in Rome (Sicily has its own jurisdictional chamber for appeal based in Palermo).
- The General Prosecutor's Office for appeal, based in Rome (Sicily has its own General Prosecutor's Office for appeal).
- Regional Jurisdictional Chambers (n. 21), based in the Regions' chief-towns (Trentino-Alto Adige Region has two jurisdictional chambers based in Trento and Bolzano).
- Regional General Prosecutor's Offices (n. 21) based in the Regions' chief-towns (Trentino-Alto Adige Region has two General Prosecutor's Offices based in Trento and Bolzano).

c The President and the Secretary General and their respective offices

d The Council of Presidency and the Council of Administration who are respectively responsible for personnel management of the magistrates and of the administrative and audit staff

e The "Standing Seminary for audit", which is responsible for personnel training.

The Supreme Audit Institution

Historical development

The origins of public audit in Italy date back to Roman times.

- 1862** The Corte dei Conti was established in its present form by Law 800 which merged the four courts (based in Turin, Florence, Naples and Palermo) that existed before the Kingdom of Italy was proclaimed in 1861, and gave to the Corte the functions of accounting jurisdiction and a priori audit.
- 1934** Law passed regulating the work of the Corte.
- 1939** Royal Decree provided that the Corte may comment on legislation affecting its rights.
- 1948** The Corte's functions were enshrined in the Italian Constitution.
- 1958** The Corte was authorised to audit bodies to which the state provides contributions on a regular basis.
- 1981** All provinces and town councils with more than 8,000 inhabitants were required to submit their accounts to the Corte.
- 1994** New audit legislation changed significantly the way the Corte worked by reducing its a priori control of expenditure, by increasing its a posteriori audits and by developing performance audit in central and regional administrations.
- 2001** Amendments were made to the Italian Constitution further strengthening the role of the Corte in respect of the budgets of Regions, Provinces and local authorities, and extending its performance audit to the financial management of these authorities.
- 2003** In accordance with the 2001 constitutional reform, an ordinary law defined the Corte's audit remit in respect of Regions, Provinces and local authorities.

The Constitution also entrusts to the Corte dei Conti the exclusive jurisdiction in "matters of public accounting". (The Corte not only passes judgement on the yearly accounts of accounting agents, but also on personal, accounting and administrative responsibilities of public managers and executives for the damages caused in carrying out their functions.)

The Corte comprises 514 magistrates, including the President, the head of the Corte, the Secretary General, the General Prosecutor, Presidents of Chambers counsellors, deputy general prosecutors, principal referendaries and referendaries. 198 magistrates are responsible for audit functions and 284 magistrates have jurisdictional functions; the remaining 32 have institutional tasks outside the Corte.

The President is appointed by a decree of the President of the Republic upon a proposal from the President of the Council of the Ministers, after consultation with the Corte's Council of Presidency. The President is chosen from the Corte's Presidents of Chamber. The appointment is until retirement at the age of 72 (with the extension possibility to 75). Magistrates at the Corte are professionally qualified lawyers. They are appointed by a decree of the President of the Republic after a competitive public examination open to certain categories of civil servant, such as lawyers, university professors as well as to members of the Bar.

THE PRESIDENT IS APPOINTED BY A DECREE OF THE PRESIDENT OF THE REPUBLIC UPON A PROPOSAL FROM THE PRESIDENT OF THE COUNCIL OF THE MINISTERS, AFTER CONSULTATION WITH THE CORTE'S COUNCIL OF PRESIDENCY

Magistrates, either with jurisdictional or audit functions, enjoy a status similar to that of judges, being independent and irremovable, and they are appointed until a retirement age of 72 (with the extension possibility to 75). Counsellors and those above them can only be removed from office on the approval of a special committee composed of the President and Vice President of both houses of the Italian Parliament. Some counsellors (37), mainly high ranking officials who are appointed by the Government following advice by the Corte, are appointed from outside the Corte.

The recruitment, remuneration and qualifications of staff and other resources

The Corte employs 2555 administrative and audit staff who are categorised as civil servants. 929 carry out audit work and the remainder are administrators divided between the administrative offices, the General Prosecutor's Office and the jurisdictional chambers. About 1350 work in Rome. Staff are appointed to the administrative and audit grades by a decree of the Secretary General and after a public competitive examination. Senior administrative and audit staff with a degree in law may sit the examination to become a magistrate after a minimum of five years in the Corte (or in any other ministry). The upper audit grades and administrative staff receive training from the School of Public Administration and from the "Seminary" which is a training school of the Corte.

Since 1995 the Corte has had a separate budget, and Parliament ultimately decides on the level of resources available to the Corte.

The scope, role and rights of access of the Corte dei Conti

The Corte has wide ranging audit and jurisdictional responsibilities, and ultimately all state spending falls within its remit. As well as the accounts of ministries and government bodies the Corte audits the accounts of all state owned enterprises. The Corte also audits the most important bodies receiving regular subsidies from the state, or having the power to collect contributions from citizens.

The Corte's functions are divided between its various component parts as follows. The United Chambers reports to Parliament on the audit of the financial management of the state budget and of the state balance sheet. The Audit Chambers carry out "a priori", "a posteriori" and value for money audits.

The Central audit Chambers carry out: a) a limited "a priori" audit; b) a generalized "a posteriori" and value for money audit. The results of the "a posteriori" and value for money audits are reported to Parliament. The specialised Chamber reports to Parliament on the financial management of public bodies and state owned enterprises, local authorities and EU funds.

A complex structure exists for audit in the regions. The audit of the Regions' financial management is carried out by the relevant Corte's regional audit Chamber which reports annually to the relevant regional council. The performance audit of local authorities is carried out by the competent Corte's regional audit Chamber. The internal audit of local authorities is carried out by auditors, who examine the regularity of financial management and certify the annual accounts. They report to the elected bodies of the local authorities. The Corte's special chamber for local authorities also reports to Parliament, at least annually, on the overall situation of the regional and local finances.

Public bodies, entities and state owned companies have their own internal audit functions consisting of a board of auditors appointed by the Minister of Economy and Finance and the supervising ministries. The board's task is to verify the regularity of the financial management and to certify the annual statements. The board reports the results to ministries. The Corte's special chamber for public bodies carries out external audit of some 300 of those bodies and reports to Parliament.

The General Prosecutor has 'the power to act in defence of the public treasury' and prosecutes public employees or officials, including ministers, who, through negligent or fraudulent behaviour, have caused financial loss to the public administration. Demands for damages are imposed and these must be met personally by public employees.

The jurisdictional chambers investigate the General Prosecutor's allegations against those responsible for managing public money and assets, and pass judgement on the accounts of those holding these responsibilities.

The auditing process

A priori audit

Until 1994 the Corte was legally required to audit almost all individual decrees and payment orders issued by Government or individual ministries before their execution. Only very minor items of expenditure were excluded from this process, which was designed to prevent unlawful expenditure. This requirement gave the Corte a key role in the control process for public spending, but with some five million transactions per annum for examination, the work was time consuming and in many ways duplicated the work carried out by the central accounting offices located in each ministry.

THE CORTE HAS WIDE RANGING AUDIT AND JURISDICTIONAL RESPONSIBILITIES, AND ULTIMATELY ALL STATE SPENDING FALLS WITHIN ITS REMIT

The 1994 legislation retained the a priori audit function but restricted the work to far fewer, but more important, transactions – those transactions covering general planning acts, administrative measures emanating from the Council of Ministers, acts disposing of public property, and high value contracts. The Corte can also carry out a priori audit of acts in areas where repeated errors have been detected in the a posteriori audit, or where the President of the Council of Ministers specifically requests it.

Transactions subject to a priori audit must be sent to the Corte with all the relevant documentation. The Corte examines whether the transaction has been properly authorised, has a legal basis, and is for the correct amount. The Corte then either sanctions the act or the payment by attaching its visa or, if irregularities are found, returns the documentation to the relevant ministerial body. The law imposes a strict timetable on the work of the Corte and the transaction is enforced or the payment is effected automatically if the Corte has not given approval, or not objected to the act or payment within 30 days of receipt of the documentation.

Cases of irregular expenditure are referred initially to the ministerial body under examination, which has the opportunity to reassess its decision and cancel the payment if appropriate. If the administration does not accept the view of the audit office of the Corte the case is referred to the Corte's "a priori" Audit Chamber, which issues an official pronouncement following discussions with the administration. The power to refuse the visa therefore rests solely with the Audit Chamber.

The Government is able to override the decisions of the Audit Chamber using a procedure known as 'visa with reservation'. This "visa", issued by the United Chambers, does not in itself legalise a decree, a contract or a payment but effectively transfers the debate from a legal to a political level. Parliament must be informed by the Corte every 15 days of any such action, and will hold the Government to account. In practice few 'visas with reservation' are issued each year because Government normally decides to either withdraw or modify its provisions.

THE CORTE HAS COMPLETE POWERS OF ACCESS TO AUDITED BODIES AND TO THEIR INTERNAL AUDITORS

A posteriori audit

Since the 1994 legislation a posteriori audit has been the main focus of the Corte's work. It is designed to establish who is responsible for identified unlawful acts and irregularities. There are three types of work: checking individual acts of state administration; verifying individual management and related accounts; and auditing the state's annual balance sheet.

The a posteriori verification of individual acts is similar in nature to that carried out for a priori audit work.

Under the 1994 law, the task of the Corte is to audit the legality and regularity of the management of public resources, as well as the internal audit and control systems of each administration - national, regional and local government and non-economic public bodies, the national health service and the European Community funds.

The audit of performance

The 1994 legislation expanded the Corte's ability to examine aspects of performance. The Corte defines this task as being an assessment of the results achieved by audited bodies in accordance with objectives set by law, and further an evaluation of the costs, procedures and timeliness of administrative action. In order to carry out this work the Corte has complete powers of access to audited bodies and to their internal auditors.

The audit approach

Audit work (a priori, a posteriori, value for money) is carried out by the Corte's central and regional Chambers, with specific audit offices examining, at central level, each ministry. An annual programme for a posteriori and performance audits is approved by the different audit Chambers and communicated to the audited administrations and the relative elective bodies (Presidents of the two Chambers of Parliament, and, for the Regions, the relevant presidents of the Regional Councils).

The audit of the state budget

The United Chambers of the Corte, with the intervention of the General Prosecutor, examines the implementation of the annual budget as a whole and by departments each year. In doing this it reviews the individual expense categories and compares the budget to out-turn. It also reconciles the records on financial statements produced by the Ministry of Economy and Finance's General Accounting Department with those of the Corte. The Corte examines the accounts, comparing them with its computerised records and the terms of the budget laws. It checks to see whether the revenue and the expenditure, as well as the balances outstanding for collection or for payment, match the figures given in the periodic reports and the general summary accounts submitted by individual departments and the General Accounting Department. In addition, it ascertains the size of the deficit balances on the basis of documentary evidence supplied by ministries. The purpose is to issue a declaration of the final balance or on the existence of a surplus or deficit on the account.

For the state balance sheet, the Court's examination is first of all addressed to ensuring that the opening and closing assets and liabilities relating to budgetary operations match the results to which they refer, and also to confirming the sound management of these assets and liabilities.

The audit of bodies receiving contributions from, or owned by, the state

The Corte is able to audit all bodies that receive public money on a regular basis and public companies owned or controlled by Government. These bodies are audited by a special chamber of the Corte, with examination covering the financial management of the body, including economic and commercial aspects. The Chamber is required to report annually to Parliament on the financial management of these bodies.

Such bodies forward their accounts to the Corte annually, along with supporting documentation and the reports of the internal auditors. In practice, however, the Corte may audit several years' accounts simultaneously. Where necessary, the Corte has access to these bodies to carry out the audit and form a view about the legality of the transactions in the account. Where it has doubts, the Corte does not declare transactions null and void but reports such matters with recommendations for improvement to the body concerned and any relevant ministry, to Parliament, and to the Prime Minister. The onus is then on the body and the ministry to take remedial action as necessary. The Corte's report also includes a judgement on the cost of services provided by the body and the balance between resources and outputs.

The audit of EU funds

The Corte reports annually to Parliament on the way in which the funds received from the European Union and those applied by the State are managed by the public administration in accordance with European Community and national rules. In carrying out this work, the Corte cooperates with the European Court of Auditors.

The four-monthly report on the financial coverage of the spending laws.

Every four months the Corte (United Chambers), as required by law, transmits to Parliament a report on the adequacy of financial backing of expenditures authorized by all legislation passed in that period, as well as on observations regarding the techniques of quantification of the burdens.

Clearance procedures

The Corte undertakes a clearance procedure for the results of its performance audit work. The audit draft report, prepared by the relevant magistrate, is sent to the audited administrations who may comment when the relevant audit Chamber meets to approve the report.

The Annual Report to Parliament

The Corte is required by the Constitution to report the results of its work directly to Parliament. It delivers its Annual Report to the Presidents of the two legislative assemblies and the Minister of Economy and Finance by the end of June each year. This report is the responsibility of the Corte's United Chambers and is a wide-ranging document covering the general government accounts and drawing on information gained from all the Corte's work. The purpose of the report is to provide Parliament with an insight into the way in which the activities of the administration have been carried out.

The Annual Report includes the results of all the tasks carried out by the Corte. It also includes a general section covering matters relevant across the administration, such as budgeting or contractual activities, and a section with chapters devoted to each ministry. Another section presents an overview of all public administration, including information on the region and local authorities. The report also includes a summary of the results of the Corte's comparative analysis of all ministries (a task undertaken centrally within the Corte, using information collected during the course of audit work).

The Annual Report is not simply an evaluation of the legality of government action, but also includes a review of budget management in order to ascertain whether the most important objectives set by Parliament have been achieved. In addition, it includes the assessment of the overall management of the public sector aimed at verifying the respect of the European Union's parameters (with regard to the stability and growth pact). Finally, the report includes recommendations for improvements needed in laws and regulations governing public administration.

Before submitting its Annual Report the Corte is required to give a prior compliance ruling on the central government accounts. This is effectively the seal of approval on the Government's overall financial management of the previous year. This ruling comes in the form of a 'judgement' arrived at by the Corte's United Chambers, sitting as a court of law in a public hearing with the General Prosecutor intervening.

Other reports to Parliament

The Corte periodically presents to Parliament other reports concerning sectors of special importance such as universities, public expenditure or labour cost in public administration, information technology and national collective work contracts of the civil service. These are functions that emphasize the relationship with Parliament and the increasingly greater role assumed by the Corte in order to assure that macro-economic decisions are taken by Government with the maximum awareness of their impact and effects.

Hearings

Traditionally, Parliament receives the opinion of the Corte at special hearings when the Government presents the four year economic and financial document (in July) and the Finance Bill (in September). The Corte offers neutral advice to the Parliamentary joint budget committee, responsible for preparing Parliamentary decisions on the Finance Bill and Budget. The Corte may, if required, report on other matters to committees of the Chamber of Deputies and Senate.

Follow-up action

The reports of the Corte are not presented to a single parliamentary committee. Instead, sections dealing with individual ministries are considered by the appropriate parliamentary committee. Recommendations of the Corte have no binding force. Administrations are, however, obliged to report on whether, and in which terms, they have adopted corrective measures following the Corte's findings and recommendations. Their purpose is to provide a basis for Parliament to exert its control. An example of this can be seen in the examination of the financial situation and of the public debt for Italian participation in European Monetary Union. From 1995 public debt fell rapidly in Italy and the Corte dei Conti contributed, through its careful audit, to the legitimacy and regularity of the financial management.

The Media

The Corte's reports are publicly available. The results of the audit activities are communicated to citizens and media through press releases and publication on the Corte website.

SUMMARY

The Corte dei Conti is an independent constitutional body that exists to provide Parliament with the information necessary to hold the Government to account. There have been significant changes to the Corte's approach to its work in recent years. The key aspects of the Italian system are:

Appointment of magistrates

- The President of the Corte is chosen among the Corte's Presidents of Chamber and appointed by the President of the Republic on a proposal by the Head of Government after a resolution of the Council of Ministers and the advice of the Corte's Council of Presidency.
- The magistrates of the Corte are independent and appointed for life by the President of the Republic following open competition. They enjoy a similar status to judges.

Control over the Corte

- The Corte is governed by laws regulating its work. However, within the legislative framework the priorities are set by the individual audit Chambers. Parliament can ask the Corte to carry out specific reviews.

Skills of magistrates and staff

- The magistrates are professionally qualified in law. Audit staff are often graduates in law or economics.

Audit remit

- The Corte has a wide audit remit covering all ministries, public bodies, public enterprises, bodies receiving State subsidies, as well as regional and local authorities.

- The tasks carried out by the Corte include a priori audit of significant transactions, a posteriori audit of individual accounts and the accounts of the Government as a whole, and performance audit. The work of the Corte provides Parliament with the information it needs to grant discharge to the Government for the previous year's spending.

Jurisdictional Functions

- The Corte also has jurisdictional functions, including responsibility for prosecuting those it suspects of misusing public funds.

Access

- The Corte has complete rights of access to all the bodies that fall within its remit and to the work of internal audit and other central government control offices.

Reporting

- The Corte reports the results of its work to Parliament each year, and can produce special reports on topics requested by Parliament. Its regional Chambers report to the regional assemblies. Reports are publicly available.

Legislation

- The activities of the Corte are governed by various pieces of legislation dating back to 1934. Recent legislation includes: Law No 19 and 20, passed in 1994; Law No 639 passed in 1996; Decree No 286 passed in 1999 (which relates to the co-ordination of internal and external controls) and Law No 131 passed in 2003.

STATE AUDIT OFFICE LATVIA



Key Facts

Economic and general information

- In August 1991, Latvia gained its independence, establishing itself as a democratic state with a market economy. Latvia became a member of both NATO and the EU in 2004.
- Latvia has a population of 2.3 million and an area of 64,600 square kilometres. Sixty nine per cent of the population live in urban areas and 31 per cent in rural areas. Riga, the capital city, is home to one third of the population.
- Nearly 59 per cent of the population is ethnic Latvian, with Russians being the main minority – nearly 30 per cent. Belarussians, Ukrainians, Poles, Lithuanians, Jews, Romams, Germans, Estonians and other nationalities form the basis of a multiethnic society. The official language is Latvian.
- Since the 9th century Latvia has been an important trade route, linking the Baltic Sea Region to the Black Sea. Latvia is situated on a trading crossroads and has long since served as a bridge between Western Europe and Russia. Latvia has had many settlers over time.
- Following the Great War of 1700-1721 between Sweden and Russia, the Eastern Baltic region came under the control of the Russian Empire. During the eighteenth and nineteenth centuries, Latvia, and especially the capital Riga, prospered through agriculture and trade.
- Latvia declared its independence in November 1918, following the end of World War I, and enjoyed a period of great economic development and prosperity.
- This came to an end with the outbreak of World War II. In 1940 Latvia was occupied by Russia and, from 1944 to 1945, by Nazi Germany. Following the end of the war, Latvia became one of the republics of the Union of Soviet Socialist Republics and by the late 1980s native Latvians made up only 50 per cent of the population.
- The Latvian economy suffered from the 1998 financial crisis in Russia but policies of budget stringency and the reorientation of exports toward EU countries, reducing the dependence of the economy on Russia, led to recovery.
- By 2003, the privatisation of banks, companies and real estate was almost complete, although a few larger companies were still partially state owned. In 2003, the main sectors of employment were the service sector employing 59 per cent of the labour force, industry (27 per cent) and agriculture (14 per cent).

The Structure of the Latvian State

Constitution

The Republic of Latvia is a democratic independent state. Its current constitution, Satversme, dates from 1922, although its application was interrupted between 1940 and 1991. When independence was proclaimed in 1991, a Supreme Council for the Republic of Latvia was established and elections were held. The Council set up 16 committees and reinstated the legislation of the original constitution.

Head of State

The Head of State is the President, who is elected by a secret ballot of the Saeima (Latvia's Parliament) for a four year term. The President represents the State in international relations, appoints Latvia's diplomatic representatives and receives diplomatic representatives from other states. The President has the right to initiate legislation and is Commander-in-Chief of the armed forces. All orders of the President must be jointly signed by the Prime Minister or an appropriate departmental minister, who take political responsibility for the implementation of the orders.

A majority of members of the Saeima is required to elect the President. The candidate for the position of President must be at least 40 years of age and cannot be a member of the Saeima concurrently. The President may not hold the position for longer than eight consecutive years.

The Executive

Executive power in Latvia is vested in the Cabinet of Ministers. The Prime Minister proposes members of the Cabinet of Ministers to the Saeima and the Cabinet can only begin its duties after receiving a vote of confidence from the Saeima. The Prime Minister leads the works of the Cabinet of Ministers and is accountable to the Saeima. If the Saeima passes a vote of no confidence in the Prime Minister, then the whole Cabinet must resign. In addition to leading the Government, the Prime Minister may also head a departmental Ministry. The Cabinet of Ministers deliberates on draft laws prepared by individual Ministries. All public institutions are subject to the authority of the Cabinet of Ministers.

Legislature

Latvia's Parliament, the Saeima, is a unicameral assembly of 100 Deputies who are elected under a system of proportional representation. Any Latvian citizen over 21 years of age is eligible to stand for election to the Saeima. Following independence, Latvia established its fifth Saeima in 1993.

Draft laws may be submitted to the Saeima by the President, the Cabinet or committees of the Saeima, by at least five Deputies or by a petition of at least one tenth of the electorate. The Saeima makes decisions by a majority of members present at a sitting, although amendments to the Constitution require a two-thirds majority. Constitutional amendments must be submitted to a National referendum and approval requires at least half the electorate to vote in favour.

The Saeima has a Presidium, composed of a chairperson, two Deputies and secretaries. This is the body responsible for the rules of order of Parliament. The Saeima can establish committees and determine the number of members and their duties. The Saeima may also appoint parliamentary investigatory committees on specific issues at the request of at least one-third of its members.

Regional and local government

There are five planning regions in Latvia which are used by central government as a basis for economic and development planning. In addition, there are two levels of local administration, comprising, at the beginning of 2005, of some 556 local government bodies. At the first level there are 530 Local Administrative bodies comprising seven cities, 53 town councils, 444 Parish Councils and 26 amalgamated local municipalities. Each body is run by a number of elected Councillors. Latvian citizens and EU citizens who reside permanently in Latvia, are eligible to vote.

At the second level there are 26 counties which provide Latvia's regional administration. In this case the councillors are the Council chairmen from the lower tier bodies. The activities and functions of the local municipalities and regional administrative bodies are defined in 'The Law on Local Governments', which came into force in May, 1994.

Administration

Currently Latvia's central public administration is divided into the State Chancellery, 15 Ministries and 2 Secretariats – one for Electronic Government Affairs and another for Society Integration Issues. All central administration is subordinated to the Cabinet of Ministers. There are 182 subordinated institutions under the Ministries, including 30 public agencies. Two institutions - the Civil Service Administration and the Anti-Corruption Bureau - are subordinated directly to the Prime Minister.

There are also a number of independent institutions outside the direct supervision of the Cabinet of Ministers. These include the National Bank, the State Audit Office, the Human Rights Protection Bureau, the Central Election Committee, the Committee for the Supervision of Financial and Capital Markets and the National Television and Broadcasting Council.

The term civil servant is used for staff at senior officer level, or above, in the central administration. Staff of other grades have the status of employees. At the end of 2004, Latvia had some 39,250 personnel in the central administration, of which, 28,780 were classified as civil servants. In the total public sector there were approximately 216,000 staff.

Recent developments and initiatives

In recent years a number of initiatives have been started to reform the public sector administration. These have included:

- **New legislation**, to define more clearly the legal status of public institutions and to pave the way to change the status of institutions, for example into Public Agencies;
- **State budget reform** – this initiative is to improve Latvia's medium term budget planning and will involve the implementation of strategic planning systems in Ministries and Public Agencies, the development of performance measurement systems, indicators, and increased transparency in the budget process;
- **Human resources management reform** – these are initiatives to reform the pay structure for public servants, which will also include a review of the job classification system in the public sector. Other reforms include a competency-based human resource management system and a comprehensive information system to improve public sector human resource management; and
- In **Local Administration**, there are initiatives to review the structure of local Government, one of the aims being to reduce the number of local municipalities from over 500, to around 100. Work in this area has already been on-going for a number of years.

Public Accounting System

In accordance with the Law on Budget and Financial Management, the financial year in Latvia runs from 1 January to 31 December. At the beginning of each financial year the Cabinet submits a draft budget to the Saeima for consideration. If the Saeima makes a decision that involves expenditure not included in the Budget, funds must be allocated to cover such expenditure. After the end of the budgetary year, the Cabinet is required to submit an account of budgetary expenditures for the approval of the Saeima. The basic principles of Latvian Government Accounting are:

- Parliamentary scrutiny and accountability;
- The nomination of an Accounting Officer, in each Ministry or other organization, who is personally responsible for the funds under their control;
- A Statutory common basis for executing all expenditure, whether from national or EU sources; and
- Statutory responsibility by the head of the budgetary institution for the accounting of budgetary expenditure.

The Treasury of the Republic of Latvia has established a common methodology for accounting for budget execution transactions in central and local government. This unified format is set out in the Ministry of Finance Instruction, 2001 (as amended) on the "Keeping the Accounts of Central Government Budget Agencies and Local Government Budgets". Similarly, the Treasury is responsible for establishing a methodology for central government budget institutions to follow when preparing and submitting reports to the Treasury.

Accounting for revenue and expenditure for budgetary execution purposes is done on a cash basis although budget institutions also have to prepare and submit Balance Sheets to the Treasury. These are used by the Treasury to prepare and submit a consolidated financial balance sheet for the State to the Parliament as part of the Report on the consolidated State Budget, which is produced annually.

Internal Audit

The Internal Audit system in the Latvian public administration was established by the Internal Audit Law, which came into force in 2002. The main purpose of the Law was to ensure a proper evaluation of the operation of the internal control system in Ministries and other institutions, as well as in programmes and projects that are implemented by institutions which are fully or partially financed by the State and the European Commission. The State Secretary or Head of Institution is responsible for establishing a comprehensive and effective Internal Audit system, as well as for the regular improvement and monitoring of Internal Audit.

The structure and organisation of the State Audit Office

The SAO is headed by the Auditor General, who is appointed by the Saeima for a term of four years. Members of the Saeima nominate candidates for the post. The Auditor General manages and represents the SAO and supervises its work, reports to the Saeima and Cabinet of Ministers on issues under his or her authority. The SAO has a Council composed of the Auditor General and six other members. Candidates are nominated by the Auditor General and approved by the Saeima. Members of the Council are also elected for a term of four years. The SAO Council examines the annual report prepared by the Cabinet of Ministers on implementation of the State Budget and issues its opinion on it to the Saeima. In addition, the Council approves the annual audit plan and the Strategic Development Plan of SAO and establishes the division of the audit fields among audit departments. The Council also takes decisions regarding requests submitted by audited entities to review decisions of an audit department. The Auditor General appoints the Directors of audit departments from among the members of the Council.

The Supreme Audit Institution

Historical development

- 1923** The first supreme audit institution in Latvia was created when the law on the State Audit Office (SAO) and Audit Regulation came into effect, establishing the SAO as an independent body.
- 1934** Following a coup which dissolved the Saeima and replaced it with a Cabinet of Ministers, the SAO was incorporated into the executive which appointed the Auditor General. The SAO continued to function in this manner until the occupation of Latvia in 1940.
- 1992** After the restoration of the independent Republic of Latvia in 1991, the Supreme Council adopted the Law on the State Audit Office. The SAO was reinstated as an institution and became operational but was subordinate to the Supreme Council.
- 1993** Latvia's Parliament adopted the Restoration of the State Audit Office Law (1922), which laid down the independent structure and authority of the SAO in line with international guidelines.

The audit work of the SAO is divided between five audit departments. Four deal with the audit of Ministries and Central State institutions, and the fifth with the audit of Local Authorities.

The work of each department is decided by the Director and Sector Heads of the relevant department. The Director of an audit department decides on the division of audit work among the sectors, oversees the department's contribution to the draft SAO annual audit plan, examines the results of audits and submits draft reports for Saeima and the Cabinet to the SAO Council.

Candidates for the offices of the Auditor General, members of the Council, must be citizens of Latvia and have obtained higher education and have at least five years relevant experience. The Auditor General appoints Sector Heads from candidates recommended by the SAO's Certification Commission.

Recruitment, remuneration and qualifications of staff and other resources

In 2003, there were 178 full time employees in the State Audit Office, 70 per cent of whom were auditors. The requirements for auditors who are recruited are: a University education in economics, accounting or law; three years experience in a field related to economics, accounting or law relevant to the State Audit Office's tasks; knowledge in economics, accounting, auditing, international standards of auditing and accounting and basics of law; knowledge of two foreign languages; computer skills; work organization skills; skill in preparing written reports and statements; and good communication skills and analytical ability.

According to the State Audit Office Law, candidates to the position of auditor cannot be persons who:

- Have been convicted for committing an intentional criminal offence (regardless of whether or not the conviction is extinguished or expunged);
- Have previously committed an intentional criminal offence, but have been released from serving the sentence because of the expiration of the limitation period, amnesty or clemency;
- Are, or have been, employees or supernumeraries of the security office, intelligence service or counter-intelligence service of the USSR or Latvian SSR or a foreign state, or agents, residents or keepers of safe houses of the referred to institutions; or
- Are, or have been, members of organisations prohibited by the laws of the Republic of Latvia, by decisions of the Supreme Council or by court adjudication after the prohibition of such organisations.

Under the SAO Law, the SAO shall recruit staff by first announcing a competition in the newspaper *Latvijas Vestnesis* [the official Gazette of the Government of Latvia]. A competition commission, formed according to an Auditor General's order, then evaluates the candidates' compliance with the qualification requirements for the respective position.

In 2003, under its Personnel Management Strategy, the SAO's Training and Development Strategy and its Training Plan were developed with the aim of training staff, improving the quality of work and ensuring the development of competence in accordance with International Auditing Standards, and any changes in the goals set by the SAO Strategic Plan.

As in previous years, under the training plan, much work is being done to raise the staff's qualification level and to continue their education. The main training courses delivered are: Topical Issues in Auditing, Using Information Technology, International Accounting Standards in the Public Sector, Project Management, and foreign language training.

THE OBJECTIVE OF THE SAO'S AUDIT WORK IS TO ESTABLISH WHETHER PUBLIC RESOURCES AND ASSETS HAVE BEEN USED LEGALLY, APPROPRIATELY, EFFICIENTLY AND EFFECTIVELY

In 2003 the educational status of the State Audit Office's audit staff was as follows:

- 80 per cent had a university level education;
- 15 per cent were still studying in some form of Higher Education; and
- 5 per cent had secondary or secondary special education.

The education spheres of the State Audit Office's staff are economics, accounting, finance (67 per cent), law (6 per cent), engineering (6 per cent), management (5 per cent) with the remainder (16 per cent) graduating in other subjects.

The annual budget of the SAO in 2003 was LVL 2.07 million, or €3.07 million (including EU PHARE financing).

Scope, role and rights of access of the State of Audit Office

The objective of the SAO's audit work is to establish whether public resources and assets have been used legally, appropriately, efficiently and effectively. The SAO reports on the truth and fairness of financial statements prepared by Ministries and other central government departments and reports to the Saeima and the Cabinet of Ministers on significant findings.

As well as central government departments, the scope of the SAO's work covers state institutions, state companies and companies in which the state has a stake; local government and institutions and companies established by local government; and other companies, public organisations or individuals if the state or local government resources are at their disposal or in their keeping, if they carry out state or local government procurement and if they receive funds from the state. The SAO also audits the recipients of resources allocated by the European Union and other international organisations or institutions. The SAO does not audit the Saeima.

THE SAO IS FREE TO DECIDE ON ALL MATTERS CONCERNING THE AUDIT APPROACH AND AUDIT METHODS

The auditors of the SAO have full rights of access to central and local government, and the other institutions and bodies within the office's audit remit. Audit staff have the right to request all necessary information from audited bodies and the right to request and receive explanations from officials and private individuals in order to clarify audit issues. If requested, banks and other credit institutions have a duty to provide the SAO, in accordance with the procedures determined by the Credit Institution Law, with the information requested by it with respect to the accounts and transactions performed by the audited entities, if such is necessary in order to perform audit. The Auditor General has the authority to impose sanctions on officials who fail to comply with the legal requirements of SAO officials.

Relations with Parliament and Government

In October 2002, the 7th Saeima of the Republic of Latvia adopted the law 'Amendments to the Rules of Procedure of the Saeima', establishing the Public Expenditure and Audit Committee. This Committee reviews the opinions prepared by the State Audit Office regarding the Finance Minister's financial year report on the implementation of the State and Local Authorities' Budget, as well as other reports, and the SAO's comments on draft legislation. The main focus of the Public Expenditure and Audit Committee is on the output of the SAO audits and any problems which are disclosed during the audits that might require changes in legislation. In 2003 the State Audit Office submitted proposals to amend a number of laws, including the law on Procurement for state and local government.

The audit process

In June 2002, a new State Audit Office Law brought together two earlier laws governing the work of the SAO. The Law on the State Audit Office (1993) which stipulated the structure, legal status and key tasks of the SAO, and the Law on the Rules of Procedure of the State Audit Office (1995) which outlined the audit procedures, rights and responsibilities of auditors, and the rights and obligations of auditees. The revised legislation ensured that the SAO would be able to undertake audits on the resources allocated by European Union and other international organisations. The SAO cooperates within the scope of its competence with the institutions of the European Union and other international organisations or institutions. In December 2004 amendments were made to the 2002 SAO Law, which among other things, reduced the period of appointment of the Auditor General and Council members from seven to four years. In June 2005 further amendments were made to make the structure and decision-making within the SAO more effective. The requirement for the SAO to provide an audit opinion on the accounts of all local authorities was also removed.

The State Audit Office performs legality/financial audits and value for money (performance) audits. The SAO's audits include the certification of financial statements, by examining the financial accounts of ministries and Central State institutions. It also carries out performance audits, examining the economy, effectiveness and efficiency of the activities of the audited entity.

In 2003, in addition to providing audit opinions on the financial statements of 24 Central State institutions and all 567 local governments of Latvia (the latter having already been audited by private sector auditors), the SAO completed 242 other audits (220 financial/legality audits and 22 performance audits).

The SAO is free to decide on all matters concerning the audit approach and audit methods. The Auditor General submits an annual plan to the Saeima for information, once it has been approved by the Council of the SAO. The SAO Law requires it to perform audits in conformity with international audit standards recognized in the Republic of Latvia.

Once the audit fieldwork has been completed, the auditors send a report to the audited body, giving it the opportunity to respond in writing to their findings. The Director of an audit department is responsible for closing an audit and issuing an audit opinion. The audited body then has 15 days to appeal against this opinion. If no appeal is lodged, then the SAO's audit opinion becomes final. The SAO has the right to give recommendations to audited entities to eliminate any detected irregularities. The SAO also has the right to set deadlines within which audited entities have to report on progress made in eliminating such irregularities.

Reporting

The SAO must submit an opinion to the Saeima each year on the overall implementation of the State and Local Government budgets. The SAO must also submit a report to the Saeima on the results of its performance audits and reports focussing on important and significant findings.

The SAO publishes audit opinions on completed audits in the SAO's web site. In this way findings of the SAO are accessible for every member of society as well as the media.

SUMMARY

Appointment

- The Auditor General is nominated and appointed by the Saeima for a term of four years.
- Members of the SAO Council are nominated by the Auditor General and approved by the Saeima.

Audit Remit

- As well as central government departments, the scope of the SAO's work covers state institutions, state companies and companies in which the State has a stake; local government and institutions and companies established by local government; and other companies, public organisations or individuals if the State or local government resources are at their disposal or in their keeping, if they carry out state or local government procurement or if they receive funds from the State.
- The SAO also audits the recipients of resources allocated by the European Union and other international organisations or institutions. The SAO does not audit the Saeima.

Access

- SAO staff have full rights of access to central and local government, and other institutions and bodies within the Office's remit.
- Audit staff have the right to request all necessary information from audited bodies and the right to request and receive explanations from officials and private individuals in order to clarify audit issues.

Reporting

- The SAO submits an annual statement on the implementation of the State and Local government budgets to Parliament.
- The SAO must submit a report on its value for money work to the Saeima.

Key Legislation

- State Audit Office Law 2002.

VALSTYBĖS KONTROLĖ LITHUANIA



Key Facts

Economic and general information

- Lithuania lies on the Baltic Sea at the western end of the Eastern European Plain. It shares borders with Latvia, Belarus, Poland and Russia (Kaliningrad District) and is the largest of the three Baltic states with an area of 65,301 square kilometres.
- The population of 3.4 million is 83.5 per cent Lithuanian, 6.7 per cent Polish and 6.3 per cent Russian. The official language is Lithuanian and ranks among the oldest languages in Europe.
- Major cities include the capital Vilnius and also Kaunas and Klaipeda. Vilnius houses a population of 541,300 and its old town is listed by UNESCO as a World Heritage Site. Klaipeda is home to the country's major ice-free port.
- In 1791, the first constitution of Europe was drawn up in Lithuania, which gave the residents of towns the right of representation in Parliament. However, this finished when Lithuania was annexed by Russia in 1795.
- The state of Lithuania was reinstated in 1918, although the newly set-up parliamentary democracy did not survive when in 1926 an authoritarian regime was introduced. With the outbreak of World War II Lithuania was occupied firstly by the USSR, then by Nazi Germany and finally by the USSR again from 1945 to 1990.
- In February 1990, in opposition to the Communist Party the Sajudis independence movement won a majority in the elections to the Supreme Council. The Council proceeded to restore Lithuanian's independence in March 1990.
- Lithuania joined the UN in 1991 and in late 2002 was invited to join both NATO and the EU (in May 2004).
- Following independence, Lithuania developed a functioning market economy. However, further developments will be reliant on the country continuing its structural reform to ensure that it can cope with competition pressures from the EU.
- Major exports of Lithuania include textiles, clothing, fertilisers and industrial machinery. The country has a limited range of natural resources.

The structure of the Lithuanian state

Constitution

The state of Lithuania was declared independent on the 11th March 1990. The constitution of 1992 states that Lithuania is an independent and democratic republic. In Lithuania, state power is exercised by the Seimas, the President of the Republic, the Government, and the Judiciary.

Head of State

The Head of State is the President of the Republic of Lithuania. The President has the power to issue Decrees of the President, however these must carry the signature of the Prime Minister or a Minister. The President, with approval from the Seimas (Parliament), appoints the Prime Minister, whom is then required to form a Government. The President holds the right to veto legislation and can exert significant influence on proceedings in the Seimas.

The President of the Republic of Lithuania is elected for a five year term by direct, universal and equal suffrage by secret ballot. Any person who is a citizen of Lithuania by birth, has lived in Lithuania for the three years prior to the elections, and has attained the age of 40 years, is eligible to be a presidential candidate. Presidential candidates require the signatures of 20,000 voters. The number of presidential candidates contesting the election is unlimited. The Presidential elections take place two months before the expiry of the term of office for the President.

Legislature

The Lithuanian Parliament, known as the Seimas, is the key legislative institution and is the seat of national representation. The Seimas consists of 141 members who are representatives of the people of the Republic. The Seimas sits in two regular sessions during the year. The President of the Republic convenes the first sitting of the newly elected Seimas which must be held within 15 days of the Seimas elections.

Members of the Seimas are elected by universal, equal and direct suffrage by secret ballot for a four-year term of office. Eligible candidates for election must have attained the age of 25 years and be a citizen of Lithuania permanently residing within the Republic. Elections are held no earlier than two months and no later than one month prior to the expiration of the powers of Seimas members.

The Seimas elects committees from its members to explore draft legislation and to clarify other issues. The committees are formed during the first session of the newly elected Seimas; each committee must have between seven and seventeen members. They are elected on the principle of proportional representation of parliamentary groups. Each committee elects a Chairman and Deputy Chairman both of whom are approved by the Seimas. Parliamentary commissions, both standing and ad hoc, are formed to carry out short-term or limited assignments.

The Assembly of Elders is comprised of 21 members from the Seimas, members of the Board of the Seimas, Elders of Parliamentary groups, Deputy Elders and representatives of the parliamentary groups. Each parliamentary group appoints one representative for every ten members of the group. Their principle task is to consider and approve work programmes of the Seimas session, consider agendas of sittings and to organise the work of committees and parliamentary groups. The assembly also provides advice to the Chairman of the Seimas.

The Executive

Executive authority in the Republic is vested in the Government, which consists of the Prime Minister and Ministers. The President of the Republic appoints the Prime Minister on approval of the Seimas. Ministers are also appointed by the President. The Government is responsible for the administration of the affairs of the country, ensuring State security and public order, implementing laws and resolutions of the Seimas along with the decrees of the President, drafting bills and submitting them to the Seimas for consideration, preparing the draft state budget and coordinating the activities of ministries and other Government institutions. In 2005 the Government was divided into 13 Ministries.

Regional and local government

Lithuania is divided into ten counties and four cultural regions. The 1992 Constitution provides for local government councils who possess the right, within limits, to establish local dues and provide leverage of taxes and duties. These local government councils form executive bodies which are accountable for the implementation of laws of the Republic and decisions of local government and local government councils. Local government councils are funded by the state and have the responsibility of drafting and approving their budget. Council members are elected for four-year terms.

Public Accounting System

The constitution of Lithuania provides for an independent state budget and independent local budgets. These budgets are prepared by the government and submitted to the Seimas for consideration no later than 75 days before the end of the previous budget. The Seimas may only make changes to the draft budget which increase expenditure. If the State Budget is not approved, monthly budget expenditures at the beginning of the budget year may not exceed one-twelfth of the State Budget expenditures of the previous year. During the year, changes may be made to the budget following the same procedure by which it was drafted, adopted and approved.

The internal control system in Lithuania is regulated by several laws defining the general systems of the State Treasury; all aspects of the State Budget; the management and control of Budget Institutions; the principles of public sector accounting; the framework for public sector internal control and internal audit; and the powers of Municipalities.

Under the Law on Internal Control and Internal Audit, the Ministry of Finance provides methodological guidance in financial control and internal audit matters and performs the assessment of internal audit services activities. It prepares and provides the Government and the Budget and Financial Committee of Parliament with an annual report on the functioning of the internal audit services and it co-ordinates internal auditors' training, professional development and their certification system.

A Financial Control Methodology Department was established within the Ministry of Finance to implement the above functions and ensure centralised harmonisation of methodologies for financial management and control and internal audit. It prepares and amends drafts of legal acts and methodological recommendations relating to financial control and internal audit, including internal audit of European Union financial support programmes or Structural Funds expenditure, and it co-ordinates the implementation of the said acts and recommendations

The public sector institutions' internal audit service is required to assess whether a public legal entity conducts its activities in compliance with applicable legal acts; to advise the head of a public legal entity on the reduction of risk factors; to provide recommendations to the head of a public legal entity with the goal of improving the activities of management and internal control; to assess strategic and/or other action plans and the implementation of the programmes of a public legal entity and the economic, efficient and effective use of state and municipal assets; and to assess the administration and use by the public legal entity of funds received from EU and foreign institutions or other funds.

The Supreme Audit Institution

Historical development

- 1919** The State Control Act defines state control as a "part of public administration" and sets the objects, rights, and duties adhering to the standards set for the analogous institutions of developed states.
- 1990** The Law on the State Control Department of the Republic was enacted charging the State Control Department with the responsibility for exercising supervision over the legality of management and use of state property and the execution of the state budget.
- 1995** State Control was defined as the supreme institution of economic and financial control accountable to the Seimas. Provisions for financial independence, the scope of inspections, the appointment of the head of the State Control office, organizational and other issues were set out in this law.
- 2001** The Law on the State Control was amended and now defines the State Control as a supreme public audit institution, accountable to the Seimas and sets out the provisions for government auditing. It has changed the nature of the State Control activity – from a control approach to an audit approach. This law mandated the State Control to audit European Union funds allocated to Lithuania and the implementation of programmes in which Lithuania participates, including use by respective fund management institutions and beneficiaries.

The structure and organisation of the State Control Office

The Auditor General is the head of the State Control and is appointed for a five-year term, which is renewable by the Seimas on the recommendation of the President of the Republic. The Auditor General has a duty to lay before the Seimas a conclusion on the account of the execution of the State budget, a conclusion on the Government report on public debt, an annual statement on State Property, and an annual statement on the Draft of the State budget. The Auditor General is also responsible for presenting an annual report on the State Control performance. He is also entitled to attend plenary sittings of the Seimas and present his views when issues related to the activities of the State Control are being considered. The Auditor General has a right to make proposals for the improvement of legal acts to the Seimas, the President of the Republic or the Government.

The independence of the Auditor General is secured by law. He cannot be removed from office except for health reasons, or as a result of a vote of no confidence by Seimas or the President of the Republic, or if a conviction becomes effective. The Auditor General retires at 65 years of age.

The Board of the State Control is an advisory body to the Auditor General that considers the main issues of the State Control's activities and service with the State Control. The Auditor General defines the number of members of the Board, its composition, its competence and its work procedure. Currently, the Board has seven members.

The State Control is structured along specialist lines with separate support functions. The present structure of the State Control Office was formed in 2002 in accordance with the Office's Strategic Development Plan. There are three primary audit departments comprising: Performance Audit Management covering four line audit departments; Financial Audit Management covering 11 line audit departments of which three are regionally based; and Public Accounts and Revenues Audit Department covering sections dealing with State Budget execution, State-owned property, National Debt accounts and Revenue matters.

The departments supporting the State Control's core business are Information Management, Personnel & Training, International Relations, Information Technologies, Law, Finance & Accounting, Property Maintenance and the Internal Audit Service.

At 1 January 2005 the State Control had a staff of 331, 55 per cent of them public auditors, including some 67 performance auditors, 159 financial auditors, 6 auditors in the Public Accounts & Revenues Audit Department and about 105 support staff.

Recruitment, remuneration and qualifications of staff and other resources

Recruitment is organised in accordance with the requirements of the Law on Civil Service and the relevant regulations. Public auditors are accepted to office on a public competition basis. The competition procedure is strictly regulated by the rules for acceptance to public service, with no exceptions allowed. There are general requirements for acceptance to the post of a public auditor and additional restrictions and requirements for employment at the State Control Office (impeccable reputation). The Auditor General, his deputies, and officers of the State Control must submit their declarations of private interests.

All public auditors of the State Control Office have higher education. The majority of the audit staff are economists (31 per cent), followed by engineers (19 per cent), accountants (13 per cent), finance specialists (14 per cent), lawyers (12 per cent), management specialists (6 per cent) and others (5 per cent).

New members of staff receive induction training allowing them to develop further professional skills/experience in the course of practical auditing. The State Control has also developed a professional training programme (290 hours in total), consisting of modules on accounting, auditing, economics, law and IT. This is based on the Skills Improvement Plan (SIP) approved on an annual basis. The SIP is drawn up according to individual needs of employees, recommendations of supervisors and projected amendments to the laws, and covers the main issues relevant to audits. The approved SIP is implemented by means of courses, workshops, discussions and advanced training. During recent years many training experiences have been organised using pilot audits (within Phare twinning arrangements) with experts from the Audit Offices of the United Kingdom, Sweden, Denmark and Portugal.

Remuneration for work for public auditors is fixed under the provisions of the Law on Civil Service. It consists of basic salary, qualification pay (extra to basic salary) and, where appropriate, pay for additional tasks. Annual evaluations are conducted according to the criteria set by the Government (workload, quality of work, complexity of tasks, ability to use knowledge and skills, communication and cooperation skills).

The budget of the State Control for 2005 was 20,5 million Litas (€5,9 million).

Scope, role and rights of access of the State Control Office

The State Control is accountable to the Seimas. The State Control shall carry out audit of the State budget implementation, use of State funds, management, use and disposal of the State property, implementation of the budget of the State Social Insurance Fund, implementation of the budget of the Compulsory Health Insurance Fund. The State Control shall have the right to audit subsidies allocated to the municipal budgets from the State budget.

The State Control also carry out audit of the use by respective fund management institutions and beneficiaries of the funds of the European Union allocated to the Republic of Lithuania and implementation of the programmes in which Lithuania participates.

THE SEIMAS AUDIT COMMITTEE WAS ESTABLISHED IN 2004. THE MEMBERS OF THE COMMITTEE ANALYSE REPORTS AND OPINIONS, PREPARED BY THE STATE CONTROL

Auditors have the right to select audit procedures and to acquire from the auditee documents and information that are necessary to perform the audit. They can also carry out control measurements, check inventories of valuable assets or examine property of the auditee in other ways, as well as perform other necessary actions. Auditors have a right to receive from the auditee necessary explanations in writing, to draw up statements on the administrative breaches of law, to receive via electronic communications data and information such as state property registers and to receive conclusions from agencies of expert examination on the submitted audit documents as well as to use experts of appropriate fields and audit companies when carrying out specific audits.

Relations with Parliament and Government

The Seimas Audit Committee was established in 2004. The members of the Committee analyse reports and opinions, prepared by the State Control. The Committee can discuss with other committees when the report or opinion is relevant to the activity of the other committee. The Auditor General, his Deputy and the auditors who have signed an audit report or opinion can be invited to participate in these discussions as well as auditee's senior staff (state secretary, undersecretary, etc.). According to the amended Statute of the Seimas, the Audit Committee considers audit reports sent by the Auditor General and implements parliamentary means to assist the State Control in the follow-up of the audit work.

Relations with other auditors

The State Control cooperates with the Lithuanian Chamber of Auditors (private sector auditors), the Association of Internal Auditors, and the Association of Municipal Controllers, in the preparation of common standards for external audit, to solve auditee's problems arising from accounting and financial statements, to develop audit methodology and set areas for training external and internal auditors, and to develop legal acts. Meetings of the representatives of these institutions are held quarterly.

The auditing process

Public auditing requirements (standards) and new manuals were prepared for financial and performance audit. These manuals were adopted in 2003 and they are undergoing further development, based on best practices. Public auditing is conducted through the main stages: planning, execution, reporting, follow-up. Quality control and quality assurance systems are implemented in every audit stage.

Financial audit

The aim of the financial audit is to identify whether financial statements of an audited entity give a true and fair view and whether they have been prepared in accordance with relevant laws and other legal acts of the Republic, and to assess whether transactions have been conducted in compliance with laws.

Every year the Financial Audit Management Department submits an annual audit plan to the Auditor General for approval. Financial statements of all appropriations managers are audited every year. When it is necessary an audit task is undertaken by both financial and performance auditors. The Financial Audit Manual covers planning of financial audit, execution, reporting and quality assurance of audit work.

Planning: Auditors are assigned to perform the audit by a written assignment. Evaluation of internal control system entails assessing performance of the audited entity's management and evaluating their views towards the activities of the audited entity, its organisation, staff policies and various external factors.

Execution: Auditors collect audit evidence and perform substantive procedures, based on the results of the evaluation of the internal control system.

Reporting: Auditor's opinion should be based on sufficient, appropriate and reliable evidence. Auditors should prepare extensive and detailed working papers which support the audit evidence on which auditor's opinion is drawn. Auditors may issue an unqualified, qualified or adverse opinion or a disclaimer of opinion.

A Director and a Chief Accountant of an audited entity familiarize themselves with an audit report and sign it. The audited entity has a right to submit remarks on the audit conducted together with the audit report.

Performance audit

The aim of the performance audit is to evaluate an audited entity's performance and management in terms of economy, efficiency and effectiveness and to provide recommendations on how to improve the performance of the said entity.

Performance audit in the State Control was started at the end of 2000 and is divided among four performance audit departments and usually conducted by audit teams. The division is based on specific areas of public administration. The Director of each audit department is responsible for supervision of audit work.

The most recent performance auditing projects included the management of public enterprises established by ministries or partially owned by them; state owned parks: coordination of functions of management and control seeking to preserve the landscape; and evaluation of the activities of the Lithuanian Bank.

QUALITY CONTROL AND QUALITY ASSURANCE
SYSTEMS ARE IMPLEMENTED IN EVERY
AUDIT STAGE

The annual performance audit planning is based on the selection of problems – preliminary proposals are discussed in performance audit departments and then reports about material problems are delivered to the Performance Audit Management Department which submits an annual audit plan to the Auditor General for approval. The Performance Audit Manual covers planning of performance audit, execution, reporting and quality assurance of audit work.

Planning: Auditors are assigned to perform the audit by a written assignment. The decision whether to launch the main research depends on the preliminary study results.

Execution: Auditors collect evidence using various techniques. All information obtained must be documented in working papers.

Reporting: Auditors prepare a volume of recommendations to every audited entity showing how its activities could be improved. After the audit is completed the State Control follows up on the implementation of its recommendations. The latest figures show that about 70 per cent of recommendations are implemented or are under implementation.

Findings of performance audit reports are discussed in Ministries as well as in the Audit Committee of the Seimas with the aim of strengthening parliamentary oversight.

Reporting

Based on financial audit reports and performance audit reports the State Control annually submits to the Seimas:

- conclusion on the account of the execution of the State budget;
- conclusion on the Government report on public debt;
- annual statement on State property;
- annual statement on the Draft of the State Budget and annual report of the State Control performance.

The State Control's work is publicised via the media (press articles and television coverage of audit results) and as well on its website (www.vkontrole.lt).

SUMMARY

Appointment

- The Auditor General is appointed for a five-year term, renewable, by the Seimas on the recommendation of the President.
- The Auditor General defines the composition and competence of his advisory body, the Board of the State Control.
- Audit staff are appointed through a process of public competition.

Audit Remit

- The State Control shall carry out audit of the State budget implementation, use of State funds, management, use and disposal of the State property, implementation of the budget of the State Social Insurance Fund, implementation of the budget of the Compulsory Health Insurance Fund. The State Control shall have the right to audit subsidies allocated to the municipal budgets from the State budget.
- The State Control also audit the use of European Union Funds allocated to the Republic of Lithuania and implementation of the EU programmes in which Lithuania participates.

Access

- Auditors have the right to acquire from the auditee documents and information that are necessary to perform the audit and to receive from the auditee necessary explanations in writing.

Reporting

The Auditor General must present to the Seimas a conclusion on the account of the execution of the State Budget.

- conclusion on the Government report on public debt;
- annual report of the State Control performance;
- annual statement on state property; and
- annual statement on the Draft of the State Budget.

COUR DES COMPTES LUXEMBOURG



Key Facts

Economic and general information

- The Grand Duchy of Luxembourg occupies a land area of around 2,600 square kilometres and has a population of some 420,000. It is landlocked and bordered by Belgium, France and Germany. Around 90 per cent of its area is agricultural or woodland. Letzebuergesch is the spoken and official language, but French is used for administrative purposes and German is widely used in commerce and the press.
- Luxembourg was established as an independent state by the Congress of Vienna of 1815 under the sovereignty of the King of the Netherlands as Grand Duke. It was included in the Germanic Confederation from 1815 until 1866.
- The 1867 Treaty of London established Luxembourg as a neutral territory and in 1890 sovereignty was vested in the House of Nassau. The Grand Duchy was occupied in both the 1914-18 and 1939-45 wars.
- After World War Two its neutral status was abolished and it became a founder member of the North Atlantic Treaty Organisation (NATO). Luxembourg has played a major role in the postwar move towards European integration and it is one of the main bases for institutions of the European Union.
- Luxembourg is one of the most prosperous countries in the world. Its economy relies significantly on the financial sector, with a liberal tax climate encouraging financial institutions to locate in Luxembourg City. This sector now represents some 28 per cent of its GDP. Approximately one-fifth of the working population are engaged in industry, in particular in a strong iron and steel industry. The main agricultural outputs are cereals and root vegetables.

The structure of the Luxembourg state

Constitution

The Grand Duchy of Luxembourg is a hereditary and constitutional monarchy. The original Constitution was established in 1868 and revised most recently in 1999.

Head of State

Luxembourg has a parliamentary form of government with an inherited constitutional monarchy. The present sovereign, Grand Duke Henri, succeeded his father, Grand Duke Jean, on 7 October 2000. Executive power is exercised by the Grand Duke and the Council of Government, which consists of a Prime Minister and several other ministers.

Legislature

Legislative power is exercised by the unicameral Chambre des Députés. Legislation is passed initially but must return for a second vote three months later, thereby providing the opportunity for the public to raise objections. In practice the three month rule can be waived if the Conseil d'Etat agrees.

Luxembourg has a unicameral parliamentary system with election to the Chambre des Députés by universal suffrage every five years. Voting is compulsory. Electors must be citizens of Luxembourg and be over 18 years of age. The country is divided into four electoral districts with voters selecting from party lists in multi-member constituencies. There are 60 members of the Chambre des Députés with 23 representing the South, 21 the Centre, nine the North and seven the East.

Executive

Executive power is vested in the Grand Duke but is usually exercised by the Council of Ministers, led by the Prime Minister. The Grand Duke countersigns all Acts of Parliament and also exercises some executive and judicial powers. He plays a part in the selection of the Government, and in particular the Prime Minister. Ministers can head a number of departments and there is a strong tradition of ministerial responsibility for the operation of government.

The Conseil d'Etat comprises 21 members appointed by the Grand Duke for 15 years. The Grand Duke also selects a President for the Conseil each year from among their number. The Conseil d'Etat acts almost as a second legislative chamber. It deliberates on proposed laws and can postpone enactment of bills, but decisions made by it can be overruled by the legislature. It can also form an opinion on any issue referred to it by the Grand Duke or the Government. There are also official groups, the chambres professionnelles, representing agriculture, handicrafts, commerce, private employees and labour, which are consulted on legislation that will affect them.

Administration

There are two levels of administration in Luxembourg – central government and the Communes. Communes relate to electoral districts and each has a local council elected every six years. The Mayor and Aldermen are appointed by the Grand Duke. The Communes have responsibility for public money, health and education.

Regional and Local Government

Communes form autonomous authorities, on a territorial basis, possessing legal personality and administering their patrimony and own interests. The financial control is operated by the ministry of internal affairs.

Public Accounting System

Each year, the Chambre des Députés passes the Accounts Bill and votes the budget. All revenue and expenditure of the State is shown in the budget and in the accounts. Internal control is operated by the Direction du Contrôle financier (Ministry of Finance). External control is undertaken by the Cour des comptes. Accounting is established on both an accruals and cash basis under legislation of 8 June 1999.

The Supreme Audit Institution

Historical development

1840 The former Chambre des Comptes was established as an independent institution by the Royal Grand Ducal Decree. It exercised control over all the financial operations of the State and had the power to refuse to meet expenditure. In this way it exercised a priori control over State expenditure (the system of certifying edicts) providing a check on the legality and regularity of expenditure before payment but after the commitment of expenditure.

However, the system of a priori audit is compromised when it exercises no systematic control over the commitment of expenditure. In addition, the use of a preliminary check for each item of State Expenditure engaged the responsibility of the Chambre des Comptes at this stage and prevented the auditor from presenting a posteriori qualitative observations relating to best practice in the financial management of public funds.

In the exercise of its functions the Chambre des Comptes was therefore relatively lacking in independence from the executive function. It was directly involved in internal control of the financial operations of the State and was dependent on the Government for both its funding and the recruitment of staff.

1999 New legislation gave the Cour des Comptes an external audit function, encompassing not only legality and regularity of expenditure but also the sound financial management of public funds. The audit function of the Cour therefore covers the economy, efficiency and effectiveness with which the budget is implemented, without making any judgements on the appropriateness of expenditure.

The structure and organisation of the Cour des Comptes

The Cour des Comptes was set up by article 105 of the Constitution which was revised in 1999. It is now organised and functions according to the provisions laid down by the legislation of 8 June 1999. The Cour comprises five members, the president, the vice president and three counsellors.

The Grand Duke appoints the members of the Cour from a list of three qualified candidates presented to him by the Chambre des Députés for each vacancy. The members of the Cour hold office for six years and can be reappointed.

The members of the Cour des Comptes cannot exercise any other public function, whether elected or not, nor can they take part directly or indirectly in any undertaking, the supply of goods or any other business activity in which their interests might be in conflict with those of the state.

THE COUR DES COMPTES MAY CALL ON EXTERNAL CONSULTANTS WHO ACT UNDER THE CONTROL AND RESPONSIBILITY OF THE COUR

The Cour makes decisions on a collegiate basis. Its work programme, general annual report, special reports and opinions, internal rules for preparing and implementing the budget and regulations, are all passed by a majority of all members. All other decisions made by the college are taken by a majority vote of members present at a meeting of the Cour, with a quorum of three members and the president holding the casting vote in the event of a split decision. Internal regulations passed by the Cour must be approved by the Chambre des Députés.

The recruitment, remuneration and qualifications of staff and other resources

In the exercise of their functions, the members of the Cour des Comptes are assisted by around forty staff of various grades, whose responsibilities and rights, notably conditions of appointment, remuneration and pension are linked to those of civil servants. Recruitment is carried out to specific posts and in accordance with the staffing framework approved by the Chambre des Députés. The Cour des Comptes may call on external consultants who act under the control and responsibility of the Cour.

The State budget each year makes a provision for the Cour's maintenance on the basis of the Cour's estimates. This arrangement ensures the independence of the Cour des Comptes from the executive power it is charged with auditing. Moreover, a system of annual settlements means that the Chambre des Députés can monitor whether the Cour has the necessary level of staffing. The accounts of the Cour are audited each year under arrangements made by the Chambre des Députés and in parallel with the audit of the accounts of the Chambre des Députés.

ANY DOCUMENT OR OTHER INFORMATION WHICH THE COUR DEEMS NECESSARY FOR CARRYING OUT ITS AIMS MUST BE PRESENTED TO THE COUR ON REQUEST

The scope, role and rights of access of the Cour des Comptes

The Cour des Comptes audits the financial management of the instruments, administration and services of the State. The Cour is also entitled to examine other public bodies insofar as these are not subject to another system of financial audit prescribed by legislation. The Cour can audit the use of public funds granted to private sector bodies for a particular purpose.

The auditing process

The Cour des Comptes examines the legality and regularity of receipts and payments a posteriori, i.e. after revenue is collected and expenditure is incurred, as well as the sound financial management of public funds. The Cour determines the timing and type of audit undertaken, either at the Cour or at audited bodies through mandated agents and it takes all precautions to maintain the confidentiality of its investigations.

Any document or other information which the Cour deems necessary for carrying out its aims must be presented to the Cour on request, including those regarding the internal financial controls of each ministerial department relating to the commitment and payment of expenditure. Any representative, administrator, agent or civil servant of an audited body, any representative or agent of the State, any manager of public funds or member of an audit or inspection team where audit evidence is judged necessary is obliged to respond to a request from the Cour des Comptes. In this context, financial managers, accountants and consultants of audited bodies are released from their duty of confidentiality and can give evidence to mandated agents of the Cour des Comptes during investigations carried out in their departments.

The Cour's audit involves an exchange of correspondence with the audited body. The Cour informs the relevant minister or other responsible official of its audit findings so that they can comment at a time fixed by the Cour.

The Cour des Comptes presents its findings to the staff of the audited body on completion of each audit. If it decides that a fact or circumstance brought to its attention is of a nature which is likely to lead to a legal case or disciplinary action, it informs the Chambre des Députés and other interested parties.

Reporting

The Cour has a statutory duty to produce a general report each year on the general accounts of the State. This report is submitted to the Chambre des Députés, together with any response from the Government or other relevant organisation. The Cour can also present, at any time, either at the request of the Chambre des Députés or on its own initiative, its observations on specific areas of financial management in a special report. These reports, which may take into account the results of audits covering several years are submitted to the Chambre des Députés, together with any response from the Government or other relevant organisation.

In its observations the Cour des Comptes focuses in particular on:

- the consistency between amounts in the State's budget and those in the accounting records and the regularity of audited receipts and payments;
- the significant cases in which budgetary rules and principles of sound management have not been observed;
- the main observations resulting from the audit of public bodies or private bodies in receipt of public funding; and
- lessons which might be learnt and recommendations for the future.

Finally, the Cour can be consulted by the Chambre des Députés on draft legislation which has implications for Treasury funds, as well as on the management of the budget and proposals for legislation relating to the accounting systems of the State and other public sector bodies.

SUMMARY

The role of the Luxembourg Cour des Comptes is enshrined in the Constitution and it is organised and functions as set out in legislation of 8 June 1999. Its key features are:

Appointment of Members

- The Members of the Cour - the President, the Vice President and the three counsellors of the Council are appointed by the Grand Duke from a short list produced by the Chambre des Députés.

Security of tenure

- The Members are appointed for six years, although this term can be renewed.

Staff

- The Cour has around forty staff of various grades. Their responsibilities and rights are linked to those of civil servants. Recruitment is carried out in accordance with a staffing framework approved by the Chambre des Députés.

Budget

- The State's budget makes a provision each year for the Cour's running costs based on the Cour's plans.

Audit Remit

- The Cour audits the financial management of the instruments, administration and services of the State. It can examine other public bodies as long as they are not subject to another system of financial audit and can audit private sector bodies which have received public funding for a particular purpose.

Reporting

- The Cour produces a general report each year which is submitted to the Chambre des Députés, together with any response from the Government or other relevant organisation.

Key legislation

- The Cour des Comptes is organised and functions according to the legislation of 8 June 1999.

NATIONAL AUDIT OFFICE MALTA



Key Facts

Economic and general information

- The Republic of Malta lies in the Mediterranean Sea, 93 kilometres from the south coast of Sicily. The Maltese archipelago consists of three islands, Malta, Gozo and Comino with a total area of 316 square kilometres.
- Malta's population is 400,000 of which 89 per cent live in urban areas. The official languages are Maltese and English. The capital city is Valletta.
- Malta has a rich cultural history. In 1814 it became part of the British Empire under the Treaty of Paris. In 1942 Malta was awarded the George Cross by King George VI of Britain for the bravery of its people during the Second World War. In 1947 Malta was granted the right to be self-governing although this was temporarily revoked in 1959. Self government was reinstated in 1962 and Malta was granted full independence in 1964. It became a republic in 1974.
- Tourism is Malta's major source of income. Other important economic sectors include manufacturing, financial services, shipbuilding and ship repair. Exports include machinery and transport equipment, semi-conductors, clothing, furniture, leather, rubber and plastic products and footwear. Malta is the second largest ship register in Europe and one of the largest ship registers in the world. At the end of September 2004, the number of ships registered under its Merchant Shipping Act was 3,660 with a total gross tonnage of 24.5 million.
- Natural resources and agriculture are limited on the islands. However, intensely farmed areas have led to small amounts of produce being exported. The strategic position of Malta has allowed it to develop as an important trading post. The Malta Freeport is one of the Mediterranean's leading ports for container transshipments.

The structure of Maltese state

Constitution

Under the amended constitution of 1964, Malta is a Republic with a Parliament consisting of the President and the House of Representatives.

Head of State

The Head of State is the President of the Republic who is appointed by resolution of the House of Representatives. The candidate for the position of President must be a citizen of Malta and must not have held the position of Chief Justice or Judge of the Superior Courts. The President is elected for a five year term of office. In exercising his functions the President acts in accordance with the advice of the Cabinet or a Minister acting under the general authority of the Cabinet.

Legislature

Legislative power is vested in the Parliament of the Republic, the House of Representatives. Members of the House of Representatives are elected by means of the single, transferable vote. Candidates for election to the House of Representatives must be Maltese citizens and have the right to vote.

Standard bills are passed by a simple majority of the House of Representatives and given assent to by the President. A two-thirds majority is required to pass a bill which amends the constitution.

The Executive

Executive authority within the Republic is vested in the President and may be exercised by the President directly or through officers subordinate to him. However, in exercising his functions, the President acts in accordance with advice from the Cabinet of Malta or Ministers acting under the general authority of the Cabinet. The Cabinet of Malta consists of the Prime Minister and other Ministers. It controls the direction of the Government's work and is collectively responsible to Parliament. The President appoints the Prime Minister and, on the advice of the Prime Minister, appoints Ministers from among members of the House of Representatives.

Administration

The central administration of Malta (as on 1 August 2005) consisted of fourteen Ministries, including the Office of the Prime Minister. The Ministries fall under the responsibility of Ministers, in some cases assisted by Parliamentary Secretaries. Ministers and Parliamentary Secretaries are Members of Parliament. The administrative and financial heads of the Ministries are Permanent Secretaries. Each Ministry has a number of Departments that may be headed by a Director General and/or one or more Directors. The head of Treasury, which falls under the Ministry of Finance, is the Accountant General. The accounting operations of the Government are under his general management and supervision. Public Bodies (entities set up by legislation) also fall under the responsibility of different Ministries, according to the Public Body in question. For instance, Local Government falls under the responsibility of the Ministry for Justice and Home Affairs; the Central Bank of Malta and Malta Statistics Authority fall under the Minister responsible for Finance.

At 30 September 2004 Malta's labour force stood at 145,414 of whom 46,649 were employed in the public sector.

Regional and Local government

As from their inception in 1993, the Government of Malta adopted a policy of devolution of power and responsibilities to Local Authorities. Malta has a system of Local Councils which provide one-stop services to the community. Functions include, *inter alia*, the provision of collection and removal of all refuse; the provision of the upkeep and maintenance of any street or footpath not being privately owned, and the cleaning and maintenance of parks and beaches. Functions also include the application and enforcement of laws at local level relating to traffic, building and site developments, litter, as well as bye-laws issued by Local Councils.

Local Councils' representatives are elected every three years by local voters under the single transferable vote system. The Mayor is the political head of the council and has a duty to supervise all the functions of the council.

The Local Councils Act 1993 empowers the Minister of Finance, in conjunction with the Minister responsible for Local Government, to make regulations to control the financial functions of the Local Councils, including the keeping of records and reporting. The financial year for Local Councils is 1 April to 31 March of the following year. The Department of Local Government ensures that Local Councils comply with laws and regulations.

Public Accounting System

The Financial Year for Government Accounts runs from 1 January to 31 December. Three Year Business Plans are compiled within specified, pre-set indicative budgetary allocations, and constitute one of the main components leading to the figures eventually appearing in the annual Financial Estimates. The draft annual Financial Estimates of revenue and expenditure comprise the input of several officers, and are usually consolidated at Director/Director General and Head of Department level, together with the Permanent Secretary, as the case may be. These draft Estimates are also discussed with the Minister concerned. The draft estimates are then evaluated by the Ministry of Finance which lays the final estimates of revenue and expenditure before the House of Representatives.

In practice, the Budget Speech, together with the Financial Estimates in respect of a forthcoming year, are presented by the Minister responsible for Finance usually between one and two months prior to the end of a Financial Year. The Financial Estimates of each Ministry are then discussed and approved by Parliament, with or without amendments.

The Annual Financial Statements of Government, certified (as to the tallying of figures reported against Treasury records) by the Accountant General and counter-signed by the Auditor General, are presented to Parliament by April following the end of the financial year being reported upon. The Financial Report of Government for the same financial year is published within six months following the end of the financial year being reported upon. An Audit Opinion on this report is issued by the Auditor General not later than twelve months following the end of the financial year being reported upon. Supplementary Estimates may also be laid before the House of Representatives, usually before the year end.

The Accountant General manages and supervises the accounting operations of the Government. Accounting Officers include Heads of Ministries and Government Departments. The term "Accounting Officer" also includes those who receive, disburse or account for public money or resources, and those who receive, dispose of or have custody of stores. Accounting officers have a duty to observe regulations issued by the Accountant General.

Heads of Government Ministries and Departments are responsible for establishing internal controls in line with good practice and Ministry of Finance and Accountant General Directives. The Government accounting system is electronic ("Electronic Departmental Accounting System" – DAS) and has in-built controls to enhance internal controls and reporting.

The Internal Audit and Investigations Directorate (IAID) is functionally responsible to the Internal Audit and Investigations Board, that is chaired by the Secretary to the Cabinet of Ministers. The IAID is mandated to perform internal auditing and financial investigations within Government. Its mandate extends to public sector entities, such as corporations and authorities, but excludes public sector companies set up under the Malta Companies Act. The IAID also provides assurance that proper controls and procedures in all government departments meet pre-conditions for EDIS (European Commission Extended Decentralised Implementation System), and for internal controls relating to structural and cohesion funds. The IAID is the certifying body on internal control systems and ex post winding-up certification for EU purposes. It functions as the national coordinator with those EU Commission services responsible for internal control and audit, as well as the protection of EU financial interest – particularly against mismanagement and fraud.

Where EU Funds are concerned, other main players include the Planning and Priorities Co-ordination Division (PPCD) within the Office of the Prime Minister, as EU Managing Authority; the EU Paying Agency within the Ministry of Finance, as EU Paying Authority; and line Ministries, as Implementing Agencies.

The Maltese public sector has, over the past few years, been undertaking a project to replace the cash based accounting with accruals accounting. A number of Government Circulars have been issued to increase and improve the information submitted by Government Ministries and Departments on the different categories of Assets, Liabilities, Revenue and Expenditure. Malta Government Accounting Standards, based on the IFAC International Public Financial Reporting Standards, have also been prepared. Training on accruals accounting to a substantial number of government officials has also been provided. A number of activities are also in hand to ensure that the proper infrastructure is in place for the eventual introduction of this accounting system over the next few years. The financial statements of Local Councils (Local Government) and Government entities, agencies and other organisations established by legislation or regulated by the Companies Act are already prepared on an accruals basis.

The Supreme Audit Institution

Historical development

- 1814** An Audit Department was established by the then British Governor of Malta, following the introduction of a centralised system of financial control.
- 1964** Public audit in Malta was carried out by a Department of Audit within the Ministry of Finance staffed by civil servants answerable to the finance minister.
- 1997** The National Audit Office of Malta was established through the Auditor General and the National Audit Office Act. The Office is now independent from the executive branch of Government and the independence of the Auditor General is entrenched in legislation.

The structure and organisation of the National Audit Office

The National Audit Office of Malta is headed by the Auditor General. The Auditor General is an officer of Parliament appointed by the President of Malta acting on a resolution of the House of Representatives supported by a two-thirds Parliamentary majority. The Deputy Auditor General is appointed in the same way. The Auditor General and his Deputy are appointed for a term of five years which may be renewed for a further five years. They may only be removed from office by the President of the Republic upon address from the House of Representatives supported by not less than two-thirds of all members in the House. This process of removal is similar to that of a judge of the Superior Courts. The Auditor General's office has been entrenched in the Constitution since 1997.

In July 2005 the Malta NAO had 64 employees, of which 46 held audit posts. These consisted of 2 Assistant Auditors General, 6 Audit Managers, 11 Principal Auditors, 10 Senior Auditors, 12 Assistant Auditors, 2 Audit Technicians and 3 Audit Clerks. Other posts within the organisation included 18 staff of various grades in Support Services (Finance, Human Resources, IT, International Relations, Registry, Minor Staff).

The Malta National Audit Office has two Audit Sections. One Section is responsible for Financial and Compliance (Regularity) audits and is headed by an Assistant Auditor General. This Section includes four Audit Units, each headed by an Audit Manager. Three Units have a portfolio of a number of Ministries and Departments. One of these Units is also responsible for the audit of Local Government and other Public Bodies. The fourth Unit is responsible for investigative and special audits. The other Section, also headed by an Assistant Auditor General, is responsible for Performance/ Value for Money audits. This Section includes two Audit Units, each headed by an Audit Manager. Both Units are further sub-divided into two Sub-Units, each supervised by a Principal Auditor. Other Units and functions fall under the Support Services Section and are headed by Managers who are responsible for Malta NAO policy, finance and human resources, training, information and communications technology and international relations.

Recruitment, remuneration and qualifications of staff and other resources

Under the Constitution, the salary of the Auditor General is pegged to that of a Judge of the Superior Courts. The salary of his/her Deputy is pegged to that of a Magistrate of the Inferior Courts. The Auditor General appoints his own staff and determines their numbers, grades, salaries and conditions of service.

Thirty-eight staff held university degrees or diplomas in July 2005. Employees are encouraged to attend part-time university and other courses to acquire additional skills and qualifications. Audit staff also regularly attend overseas training events and seminars. On the job training is also delivered by experienced members of staff on different Financial and Compliance and Performance audit areas.

Staff employed with the Regularity Audit Section consist mainly of qualified accountants and auditors. They undergo continuous professional education either through internal training, seminars organised by the Malta Institute of Accountants, or through seminars and courses organised by other local and overseas bodies.

Staff employed with the Performance Audit Section receives similar continuous professional development. Training by experts from the University of Malta is also provided in tools and techniques tailored to suit their individual needs and the overall needs of the Office to maintain a balance of skills required in Performance Auditing.

The Malta NAO is directly funded by Government. During 2004 it received Lm825,000 (EUR 1.9 million).

Scope, role and rights of access of the National Audit Office

Under the provisions of the Auditor General and National Audit Office Act 1997, the primary objective of the Malta NAO is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (particularly local councils) account for and use public funds. The Act also explicitly enables the Auditor General to carry out performance audits. The Malta NAO is not entitled to question Government policy, although it may evaluate the bases for, and the implementation and results of, such policies.

Central government receipts and payments, as well as Local Government revenue and expenditure, constitute the core responsibility of the Malta NAO. However, any public body in which the Government has a stake may come under its scrutiny if deemed necessary by the Auditor General, or as may be requested by the Public Accounts Committee (PAC) or the Minister of Finance.

The Malta NAO may express views on draft primary and secondary legislation, particularly if requested by Government or by the Legislature. The Malta NAO has a representative, in an observer capacity, on the Government Accruals Accounting Task Force.

The Auditor General and all authorised officers of the Malta National Audit Office, are entitled to free access at all reasonable times to any information from officers and other personnel of government departments or offices, or of bodies subject to his audit, that may be required by them for the proper execution of their functions according to law. They are entitled to receive from such officers and other personnel such reports and explanations that they may deem necessary for such purposes.

The Auditor General may, in carrying out his functions and responsibilities, rely on the reports of other auditors as long as he/she is satisfied that the audits have been performed competently.

THE PUBLIC ACCOUNTS COMMITTEE HELPS TO ENSURE THAT FINDINGS OF THE MALTA NAO ARE GIVEN DUE ATTENTION

The Auditor General can examine any person on oath on any matter pertaining to any account subject to his audit or investigation. The Auditor General is also entitled to report any serious irregularity to the Minister responsible, and may recommend to the Minister that a surcharge be made against that person committing the irregularity.

Relations with Parliament and Government

The Malta NAO principally interacts with two Parliamentary Committees – the Public Accounts Committee and the National Audit Office Accounts Committee.

The Public Accounts Committee (PAC) has seven members, four from the Governing Party and three from the Opposition Party. The Chairman of the Committee is nominated by the Leader of the Opposition after consultation with the Leader of the House of Representatives. The main roles of the Committee are to scrutinise and assess the financial administration of the public sector and to promote improvements, to encourage the economic, efficient and effective utilisation of public sector resources and to enhance the accountability of the executive government to Parliament and the public.

The Public Accounts Committee helps to ensure that findings of the Malta NAO are given due attention. It normally meets once every two weeks when Parliament is in session. Most of the meetings are focused on issues raised in the Annual Malta NAO Financial Audit report or Performance/Value for Money Audit reports. The Committee is empowered to take evidence from senior officials of ministries and departments or other government related bodies. The PAC can also review the activities of non-central government organisations which are required to present their accounts to Parliament. The Committee, through at least three of its members, may also request the Auditor General to carry out investigations and other enquiries relating to matters within the Malta NAO's mandate.

The Malta National Audit Office Accounts Committee is composed of the Chairman of the Public Accounts Committee, the Leader of the House of Representatives, two members from the Governing Party and one from the Opposition Party. The Committee elects the chairman from among its members. The Committee meets at least once a year and presents to the House of Representatives a report of its activities and a report of its examination of any estimates prepared by the Auditor General. The accounts of the Malta NAO are also audited by certified private sector auditors appointed by the Committee. The private sector auditor presents his audit report to the Committee which, through the Leader of the House of Representatives, presents the audit report to the House of Representatives together with any comment thereon by the said Committee.

The auditing process

Regularity Audit

The Financial & Compliance Audit Section is responsible for regularity audits covering all Ministries, Departments and Agencies falling within the Central Government. It also covers Public Authorities and Corporations, other Public Entities and Non-Government Organisations (NGO's) benefiting from any Government assistance or subsidies. Local Government (Local Councils) also falls within Malta NAO's remit.

A Unit within the Malta NAO supervises the audits of Local Councils, which are contracted out to private sector auditors, as required by legislation. A report on these audits is included in the Auditor General's Audit Report on Public Accounts.

The main aim of the Financial & Compliance Audit Section is to form an independent opinion as to the true and fair presentation of the Government Financial Report and all the statements included therein, principally the Consolidated Account which represents all the revenue and expenditure of the Government for each financial year. The section also provides independent assurance that Government entities comply with the prevailing financial rules and regulations and ensures that proper internal controls are in place and are operating as intended. The Office provides independent assurance that government departments and other audited bodies properly account for the money that Parliament has approved and that such monies have been spent as Parliament intended.

In 2004, covering the financial year 2003, the Section carried out around 90 major audits, besides the detailed audit of the Government Financial Report. The Section was also responsible for other audit tasks, as required by various pieces of legislation. The Section aims to cover all major areas within a three-year period. With the planned introduction of accrual accounting this strategy is to change with the responsibility of certifying all Financial Statements each year.

Financial audits are carried out according to a three year audit plan. The bases for the conduct of the audits are the risk and materiality elements and the internal controls in place so that an opinion may be formed on the reliance that may be placed on internal controls, and the extent of substantive testing required.

The Annual Government Financial Statements are presented annually by the Accountant General to the Auditor General for examination. When the examination and certification of these Statements has been completed they are presented by the Accountant General to the Speaker of the House. The detailed Government Financial Report is published later by the Accountant General and submitted to the Auditor General for examination. The result of this audit is included in the Annual Audit Report, along with the individual audits carried out on Ministries, Departments and other entities.

Performance Audit

Under Sections 3 and 8 of the first schedule to the Auditor General and National Audit Office Act 1997, the Auditor General may examine and report on issues of economy, efficiency and effectiveness.

The roll-out of performance audit reports commenced in 2000. 15 specific reports have been published, up to 1 August 2005 covering such topics as pollution from ships at sea, road construction and restoration, property acquisition, inventory strategy and distribution of pharmaceutical products in the public health service. In addition, performance audit issues have featured as short reports in the Auditor General Annual Reports. Issues covered include benchmarking, social housing, and tax arrears.

THE AUDITOR GENERAL'S OFFICE HAS
BEEN ENTRENCHED IN THE CONSTITUTION
SINCE 1997

Suitable audit topics are identified and researched by audit teams and a Study Proposal is compiled for each topic. Each proposal is graded and evaluated using a Study Selection Criteria template. Once approved, a more detailed Preliminary Study document is drawn up. Such reports are collated into the Section Annual Audit Plan which is submitted to the Auditor General for approval.

Following the drawing up of the Annual Plan, an audit study commences with a more in-depth appraisal of the subject. This takes the form of further desk research and initial data gathering exercises, including preliminary meetings with the auditee. This results in a formal audit plan, setting out the scope, objectives and methodology, and detailing the internal and external resources required. Following the conclusion of the audit plan an 'entry conference' is held and the objectives of the audit are discussed by the Assistant Auditor General with the Permanent Secretary concerned and other officials. The Assistant Auditor General also introduces the audit team during this meeting. Methodology applied during audit fieldwork varies according to the audit being carried out and may include interviews, document inspection, use of surveys and/or questionnaires and data extraction from manual and electronic systems.

Reporting

On completion of audit fieldwork and internal quality control by the Assistant Auditors General, a First Draft Report, supported by detailed working papers, is produced and submitted to both the Auditor General and the auditee's top management, for views, comments and feedback.

An Exit Conference is also held with auditees for all VFM Audit Reports, as well as a number of Financial and Compliance Audit Reports. Auditees' submissions are considered for inclusion within a revised report, which is reviewed again by the Auditor General before publication.

The impact of the Malta NAO's performance audit work is partly gauged through follow-up audits. As of 2004, Malta's NAO has started to include two such follow-up audits in its annual plan. A number of yearly financial and compliance follow-up audits are also carried out.

Financial and Compliance Audits are reported in the Auditor General's Mid-Year and Annual Audit Reports. Performance Audits and Special Reports that are requested by the Public Accounts Committee or by the Minister of Finance are reported upon in separate reports. Audit Reports are presented to Parliament, through the Speaker of the House and taken up by the Public Accounts Committee.

PAC discussions of audit reports are attended by both the Malta NAO and auditee's management and staff. Also in attendance are Permanent Secretaries from the Office of the Prime Minister and the Ministry of Finance. Their role is to ensure that any recommendations made by the PAC are taken up by the civil service entities concerned.

The substance and extracts from the audits reports presented to Parliament are well covered in the media. The PAC meetings are also reported upon.

SUMMARY

Under the provisions of the Auditor General and National Audit Office Act 1997, the primary objective of the Malta NAO is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (particularly local councils) account for and use public funds. The Act also explicitly enables the Auditor General to carry out performance audits. The NAO of Malta is not entitled to question government policy, although it may evaluate the bases for, and the implementation and results of, such policies. Key features are:

Appointment

- The Auditor General is an Officer of Parliament appointed by the President for a five-year renewable term on a resolution of the House of Representatives. The Deputy Auditor General is appointed in the same way.
- Audit staff are appointed by the Auditor General, who determines their numbers, grades, salaries and conditions of service.

Budget

- The National Audit Office of Malta is funded by Government. The estimates of the sum yearly required by the NAO are prepared by the NAO itself. This sum is then reviewed by the National Audit Office Accounts Committee, which is a Parliamentary Committee, prior to consideration of the sum by Parliament.

Audit Remit

- The Office carries out and reports upon Financial and Compliance audits of central government and a number of entities holding, administering or using public funds.
- The Office examines and reports on issues of economy, efficiency and effectiveness.
- The Office also carries out Special Audits and Investigations requested by the Public Accounts Committee or by the Minister of Finance.
- The Malta NAO may express views on draft primary and secondary legislation, particularly if requested by Government or by the Legislature.

Access

- The Auditor General and all authorised officers of the Malta National Audit Office are entitled to free access at all reasonable times to any information from officers and other personnel of government departments or offices, or of bodies subject to their audit, that may be required for the proper execution of their functions according to law.

Reporting

- Major audits are reported in the Auditor General's Mid-Year and Annual Audit Reports, as well as in Performance Audit Reports and other Special Audit Reports. These are presented to Parliament, through the Speaker of the House, and may be taken up by the Public Accounts Committee for its consideration.

Key Legislation

- Section 108 of the Constitution
- The Auditor General and National Audit Office Act 1997

ALGEMENE REKENKAMER THE NETHERLANDS



Key Facts

General and Economic information

- Under the leadership of William of Orange independence from Spain was declared in 1581. During the 18th century it became part of the French Empire until 1814 when the northern and southern Netherlands were united into one kingdom. In 1830 the southern provinces seceded to become Belgium. The Duchy of Luxembourg became an independent state in 1867.
- The Netherlands occupies a land area of less than 42,000 square kilometres and is one of the most densely populated countries in the world, with a population of approximately 16.3 million.
- Since 1944 the Netherlands, Belgium and Luxembourg had cooperated closely as the Benelux Economic Union. An economic treaty between the three countries was signed in 1958 promoting the free movement of workers, capital services and goods throughout the region. Its founding contributed to the founding of European Economic Communities. The Netherlands also became a member of NATO in 1949.
- The Dutch economy is heavily oriented towards the service sector with around 60 per cent of GDP coming from this source. A further 30 per cent comes from manufacturing and much of the remainder from agriculture. The Netherlands has been a major trading nation for centuries, with banking, shipping and general commerce contributing to its balance of trade and payments surplus.

The Structure of the Dutch State

Constitution

The Netherlands is a constitutional monarchy. The balance of authority within the state has changed since the first constitution of 1814, which laid down that the executive would be accountable to the monarch. The second constitution, of 1848, established the monarch as part of the executive, accountable to the States General (the parliament). The constitution is the highest authority in the Netherlands, even regulating the royal succession. There is no separate body to interpret the constitution, and the legislature considers any constitutional implications during the passage of other laws.

The constitution provides for a series of High Councils of State. These include the States General (the Senate and the House of Representatives), the Council of State, the Netherlands Court of Audit (Algemene Rekenkamer) and the National Ombudsman. The Council of State comprises former politicians, judges, businessmen and academics appointed until their retirement at 70. Formally it is headed by the monarch and advises the government on all legislation. It arbitrates on disputes between ministries and also has separate divisions that monitor the activities of each ministry. The National Ombudsman investigates whether the government has behaved correctly towards members of the public.

Other important advisory bodies include the Social and Economic Council, the Netherlands Bureau for Economic Policy Analysis, the Social and Cultural Planning Office and the Scientific Board for Government Policy. In addition, there are a large number of other external advisory bodies and professional advisory committees.

Head of State

The Kingdom of the Netherlands is a constitutional monarchy: in other words, the monarchy is based on the constitution and the monarch's position is governed by the constitution, certain acts of parliament and unwritten constitutional law. The Dutch constitution refers to the head of state as 'the King', even when the monarch is a woman, like the present Queen Beatrix.

Monarchs are not crowned in the Netherlands but invested as heads of state. The legitimate descendants of the monarch have the right of succession to the throne. The government consists of the sovereign and the ministers. Under the 1848 constitution, the "King" is inviolable and the ministers are responsible for affairs of government. Acts of parliament and royal decrees, which do not require the approval of parliament, are always signed by the Queen, giving the royal assent, and countersigned by a minister who accepts full constitutional responsibility.

The monarch has one significant constitutional role in selecting the person (usually the future prime minister) who will be responsible for forming the next government. This power is of significance given the history of coalition governments in the Netherlands.

Every year on the third Tuesday in September the Queen addresses a joint session of the States General in the Ridderzaal or Hall of Knights in The Hague. The Speech from the Throne sets out the main features of government policy for the coming parliamentary session.

Legislature

The States General is a bicameral institution. The House of Representatives (lower house) is elected by a system of proportional representation with universal suffrage. It comprises 150 members, who are elected for a period of four years. The Senate (upper house) has 75 members who are elected indirectly by the Provincial Councils (thus reflecting the interests of the provinces), also for a period of four years. The political composition of the two houses tends to be similar and government in the Netherlands is invariably by coalition.

Laws are passed when they gain approval in both houses of the States General, and following signature by the sovereign, the responsible minister and the minister of justice, who is responsible for the proclamation of laws.

Each house has different powers. The House of Representatives can initiate and amend legislation, although in practice most legislation comes from the government. The Senate can revise legislation. Both houses operate a comprehensive committee system, the composition of which broadly reflects the composition of each house.

The House of Representatives and Senate both have a number of permanent committees and can set up special committees on an ad hoc basis.

The States General has three other ways in which it can hold the government to account. The first is in the setting of the state budget, where it considers the proposals put forward by the executive. The second is the right of interpellation, through which either house can question ministers about present or future policies. Finally, it has a right of enquiry, whereby it can set up specific investigations.

The Executive

The government consists of the prime minister, 15 ministers and 10 state secretaries. Ministers are not members of the legislature but the government must have the support of the House of Representatives. It will thus broadly reflect the majority of the political composition of that house. The prime minister is usually the leader of the largest political party in the House of Representatives and the government will be a broad coalition, agreed after consultation with the members of the Senate.

Dutch ministers have considerable autonomy in the exercise of their functions and are subject to little central control. Ministerial responsibility covers both ministers' personal actions and action taken by their departments. However, in practice ministers are unlikely to resign because of mistakes made within their departments.

The constitution allows for a clear separation of powers. The government (the executive) comprises the monarch and ministers, but the constitution specifies that ministers are responsible to the States General (the legislature) for all the actions of government, including the actions of the monarch. (www.koninkrijkhuus.nl)

Administration

The Netherlands has 13 ministries headed by one and occasionally two ministers: The ministers bear political responsibility for the policy pursued by their ministries. The majority of the ministers are supported in this task by state secretaries. The civil servants in each ministry assist the minister and state secretary or secretaries in their work. They maintain an apolitical stance (loyalty principle). After elections, the civil servants continue to work at the same ministries for the newly appointed ministers and state secretaries.

THE NETHERLANDS COURT OF AUDIT IS THE
EXTERNAL AUDITOR OF CENTRAL GOVERNMENT

All ministries enjoy a great deal of autonomy. Certain ministries have central responsibilities, for example the Ministries of the Interior & Kingdom Relations, Finance and Justice. The Ministry of the Interior & Kingdom Relations includes the Directorate General for Public Management, which covers a range of issues from ensuring equality and evaluating performance to promoting economy, efficiency and effectiveness. The Directorate General of the Budget within the Ministry of Finance coordinates the financial management of all ministries.

In addition, many government tasks are devolved to other bodies that have regulatory functions as well as judicial, administrative and advisory duties. They exercise these functions independently but can be influenced where necessary by ministers, and may be either public or private entities. There is also state involvement in enterprises, including telecommunications, airports and seaports. The level of state participation varies from one per cent to 100 per cent ownership of capital. Many of the ministries' tasks are carried out by decentralised governmental services. These employ over half of all civil servants and are within the hierarchy of ministries, but enjoy significant independence.

Public Accounting System

The Netherlands has an outcome-based budget system. The overriding principle of this outcome-based budget system is that budgets and accounts should contain related and consistent information on policy objectives and on budget execution and financial resources. This principle takes shape in the three W questions in the budget and the three H questions in the Annual Report (see The Audit Process below). The budget cycle as a whole consists of three phases: preparation, execution and rendering account. Ideally, an outcome-based budget system is combined with accruals accounting (instead of cash-based accounting), as it requires a focus on costs instead of (or as well as) expenditure and a greater understanding of income, expenses and financial position. The introduction of accrual budgeting and accounting, however, has been postponed indefinitely.

THE COURT OF AUDIT CANNOT JUDGE OR SANCTION THOSE RESPONSIBLE FOR PUBLIC EXPENDITURE OR ACT AS A COURT OF APPEAL

Each ministry has an audit committee and an audit department. The audit committee's task is to advise on the annual audit plan, to take note of the most important audit findings and recommendations for improvement, to advise on and implement measures to overcome shortcomings, to advise on internal control and control measures and to advise on audit policy. Ministers instruct their ministry audit departments (MADs) to audit their operational management, the records kept for that purpose, the financial information in the annual reports, the ministry's trial balances and the preparation of policy information and operational management. Their audits culminate in a report containing an opinion on the regularity of obligations, expenditure and receipts in compliance with budget acts and other regulations, and on the true and fair view given by each ministry's financial statements. The MADs report primarily to their respective ministers since the ministers are ultimately responsible to parliament.

The Netherlands Court of Audit is the external auditor of central government. Its systems based audit approach implies that its opinion on each account is based largely on the results of internal audit. The MADs share their findings with the Court

of Audit, which examines their audit programmes and the conclusions reached, and plans its own audit around them. The Court of Audit carries out further regularity audits as necessary.

Local and Regional Government

The Netherlands has a strong tradition of regional and local government. There are 12 provinces, each of which is administered by a Provincial Council, a Provincial Executive and the Queen's Commissioner. The members of the Provincial Councils are elected directly. Each Provincial Council appoints its own Provincial Executive, which is responsible for the day-to-day administration of the province. It is by the individual Provincial Councils that members are elected to the Senate. The Queen's Commissioner acts as chairman of both the Provincial Council and the Provincial Executive. The Netherlands is further subdivided into 467 municipalities.

The structure and organisation of the Court of Audit

The Court of Audit has a Board of three members, including the President, each of whom is appointed by the government on the recommendation of the House of Representatives. Each member is appointed for life or until the state retirement age of 70 (in practice recent Presidents have retired at the age of 65). The Board's composition is politically balanced. In 2005 it was made up of a former state secretary at the Ministry of the Interior and member of the Labour Party; a former Mayor and Dike Reeve of one of the Dutch water boards and member of the Liberal Party; and of a former member of the House of Representatives for the Christian Democratic Party. The Board is supported by about 290 employees, headed by the Secretary-General.

The Court of Audit has three audit and two support directorates. The audit directorates are divided into audit divisions most of which are based at the ministries. This process of situating staff at the auditees started in 1930 as it facilitated communication between the Court and the ministry audited. At the moment, the Court's audit divisions - with between 10 and 20 auditors - are located at every ministry. The support departments and the government-wide audit division are located at the headquarters.

The Supreme Audit Institution

Historical development

The origins of state audit in the Netherlands can be traced back to the 14th century. Over the following 600 years the organisation underwent many changes but traditionally carried out its work on behalf of the sovereign.

- 1447** The Netherlands Court of Audit first appeared in the Burgundian Netherlands. The Netherlands then consisted of a conglomerate of principalities ruled by the dukes of Burgund. The dukes of Burgundy were in need of mechanisms to keep an eye on their remote possessions.
- 1608** The Estates-General of the Confederation of Utrecht, which existed of nine sovereign states, installed a court of audit called De Generaliteitsrekenkamer in The Hague.
- 1802** In the time of the Batavian Republic, which was created under French influence in 1798, the National Court of Audit was installed in The Hague.
- 1814** The present Court of Audit was established. In the first year of the reinstatement of the rule of the House of Orange, King William I provided the enactment of the first Constitution for the Kingdom of the Netherlands. The 1814 Constitution is the first one in which the name "Algemene Rekenkamer" appears and by which the audit institution was given a constitutional basis.
- 1927** In the 1814 constitution the Netherlands Court of Audit was given the task of auditing and approving the yearly financial accounts of the ministries and the State as a whole. The necessary procedures were to be elaborated by means of a specific law. At first these laws were called Instruction. Since 1927 the name given to this law is Comptabiliteitswet (Government Accounts Act).
- 1976** The 1927 Comptabiliteitswet underwent an important change. This change formalised the possibility of the Netherlands Court of Audit to conduct performance audits. The need for performance audits started after World War Two. After that period the need to audit public expenditure and improve the performance of government resulted in the Court of Audit placing considerable emphasis on developing performance audits to complement its regularity audits, the principal focus of its work.
- 1985** In the 1980s there were major problems with central government accounts. An examination by the Netherlands Court of Audit in 1985 found significant staff shortages at the audit divisions, a lack of qualifications; weak audit programmes and poor accounting systems and procedures. In 1986 the Minister of Finance introduced, under strong pressure of Parliament, Operation Accounting Reform. The goals of this operation were accomplished by the mid-1990s in which the Court of Audit had played an active and important role.
- 1998** The mandate of the Netherlands Court of Audit was broadened to quality of financial management and European funds.
- 1999** New change process launched, named *From Policy Budgeting to Policy Accountability*, based on the principles of outcome-based budgeting. Increased accountability and transparency, and the need for better information on effectiveness and efficiency, were important motives of the Court to participate actively in this process, which was introduced by the Ministry of Finance.
- 2001** The principles of the aforementioned process are worked out in the technical details of a new Governments Accounts Act, which came into effect with the 2002 budget. This new act lays down the requirements that the government's budget and annual report must satisfy.

Recruitment, remuneration and qualifications of staff and other resources

In 2005 the Court of Audit had about 290 staff. Of these, some 215 are involved directly in auditing and the remainder are support staff. Eighty per cent of the auditors are graduates in such disciplines as economics, law, politics, social sciences, accountancy and statistics. All employees undergo a one-year internal training course explaining the Court's audit approach.

THE COURT OF AUDIT'S LEGAL BASIS IS EMBEDDED IN THE CONSTITUTION

The Court of Audit's budget is set following discussions with the Ministry of the Interior and Kingdom Relations and the Ministry of Finance. If there is any disagreement, the Court may raise the issue with the Public Accounts Committee, but it must rely on members of the House of Representatives to propose amendments to the budget.

Scope, role and rights of access of the Court of Audit

'Algemene Rekenkamer' means the 'General Chamber of Audit', 'General' being a reference to the fact that it audits all national government activities. The term 'Chamber' is a reflection of the tripartite nature of the Court of Audit's leadership rather than an indication of legal competence, as it no longer possesses the powers of a court. The Court of Audit cannot judge or sanction those responsible for public expenditure or act as a court of appeal. The Court of Audit's legal basis is embedded in the constitution. Its other competences are laid down in the Government Accounts Act. The Court of Audit conducts regularity, performance and section 91 audits. Section 91 audits relate to certain bodies funded from budgets or levies.

The Court of Audit has a very broad audit remit and the constitution lays down that it 'is responsible for auditing state revenue and expenditure'. To further define its role the Court of Audit has formulated the following mission statement:

'The Netherlands Court of Audit aims to audit and improve the regularity, efficiency, effectiveness and integrity with which the State and its associated bodies operate. It also audits compliance with the Netherlands' obligations under international agreements. As part of this process, it passes on the results of its audits, as well as its accumulated experience, to the government, to parliament and to those responsible for the bodies audited. As a rule, this information is also available to the public. It consists of audit findings, opinions and recommendations concerning organisation, management and policy. Another task of the Netherlands Court of Audit is to contribute to sound public administration through cooperation and knowledge exchange at home and abroad. The Netherlands Court of Audit sees quality, reliability and utility as the hallmarks of its work, and independence, efficiency and effectiveness as the hallmarks of its working methods. It strives to be a transparent organisation, continually investing in the quality of its staff and procedures.'

The Court of Audit has extensive rights of access to all documentation, even personal notes. Generally, relations with bodies audited are good and this is helped by the physical location of part of the Court's staff within ministries.

Legislative amendments extended the Court of Audit's audit remit in 1989 because the States General wanted an independent view of key spending decisions. Such rights of access are extremely important in a country where a good deal of the administration of government - for example, the social security payment system - is already undertaken by non-government bodies. Section 91 of the Government Accounts Act 2001 enables the Court to audit (not certify) both the regularity and performance of:

- public limited companies and private companies whose issued share capital is completely or partially held by the state (minimum five per cent stake and a financial interest of more than €500.000);
- corporate entities and partnerships to which the state has given, directly or indirectly, a grant, loan or guarantee;

- corporate entities performing a function regulated by statute and funded wholly or partially by receipts from levies instituted by statute - for example, social security, educational, employment and broadcasting institutions.

Such audits are carried out initially by inspecting audit reports and files held by the relevant ministry but the Court of Audit can request further information from the organisations themselves. If still not satisfied, it can inspect an organisation's books after giving notice to the appropriate minister. The Court of Audit views its power of access to state aided bodies as 'an excellent tool to obtain information from agencies and public bodies at a distance from their former departments'.

Audits at Local Level

Both the provinces and the municipalities are responsible for administering and managing local and regional services and programmes. Each tier of government is financed by a combination of central government grants and locally raised taxes. The financial audits of the organisations and bodies associated with the services and programmes are conducted by a growing number of regional and municipal audit institutions and are outside the mandate of the Court of Audit. An exception is made for European funds. The Court can also audit beneficiaries of these funds that are not part of central government by an extension of its mandate under the Government Accounts Act (1 May 2002).

Under the 2002 Local Authorities (Separation of Powers) Act, all local authorities must have an audit office or function in 2006. Something similar must be achieved for the provinces under the 2003 Provinces (Separation of Powers) Act. Financial statements are not audited by the local audit office but by an external auditor.

The Court of Audit regards it as its task to support local and provincial authorities with its knowledge and experience.

Strategy

The Court of Audit periodically revises its strategy. The Court tries to respond as effectively as possible to issues and developments in its environment and to introduce order into its work (or to re-order it). The Court's strategy for 2004-2009 is centred on the concept of Good Governance. This term is defined with reference to the 'good governance' diagram developed by the United Nations, which is based on eight characteristics. In accordance with its statutory task and mission, the Court considers four of these aspects of good governance to be within its domain. They are *transparency*, *public accountability*, *effectiveness and efficiency* and *responsiveness*. The Court has incorporated these aspects into the two pillars of its strategy: *Accountability and Supervision* and *Link between Policy and Implementation*.

THE COURT OF AUDIT HAS A VERY BROAD AUDIT REMIT AND THE CONSTITUTION LAYS DOWN THAT IT 'IS RESPONSIBLE FOR AUDITING STATE REVENUE AND EXPENDITURE'

The Court shapes its work programme so that it can detect trends, which in turn, can help the Court to identify structural opportunities to improve the performance of government. The Court works actively to improve public administration not only through auditing but also through the further development of monitoring, communications, timing, the exchange of know-how and by building networks.

Relations with Parliament and Government

It is the task of the Netherlands Court of Audit to investigate and improve the internal operation and external performance of central government and the institutions associated with it. Therefore the Court operates in a triangular relationship with parliament and government, which are in a position to put the Court's recommendations into practice.

The relationship between the Court of Audit and the States General has evolved gradually. The House of Representatives now frequently uses the Court's reports to question ministers. The Court recognises that it needs parliamentary interest for its work to be effective. There is therefore a mutual understanding that parliament and the Court of Audit are partners in good governance.

In terms of contact with the government the formal relations of the Court with ministers are restricted to the clearance process. During that process the draft audit report is communicated with the relevant minister. Generally the minister has two months to comment on the audit findings.

The Court of Audit's final reports (including the minister's comments) are submitted to the States General and, as official parliamentary documents, are in the public domain. Any parliamentary committee can discuss the reports but they are first considered by the Public Accounts Committee.

The Court of Audit has complete independence regarding the subjects it audits although it must approve the State Account each year. It reports on its audits to the States General. Both houses of the States General can request work to be carried out but the Court of Audit determines its final work programme. The Court and the Public Accounts Committee meet regularly to discuss matters of mutual interest.

THE COURT OF AUDIT CAN EXAMINE THE EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT POLICY, BUT NOT THE POLICY ITSELF

The auditing process

The Government Accounts Act 2001 lays down the Court of Audit's tasks and responsibilities with respect to public expenditure and internal control. The 2001 version of this act came about as a result of two important changes in government accounting in the past two decades: *Operation Accounting Reform* and *From Policy Budgets to Policy Accountability*.

Operation Accounting Reform

In the 1980s there were major problems with central government accounts:

- financial statements were five years overdue;
- many items of expenditure were irregular or doubtful;
- financial management at the ministries was poor.

Some of the causes of these problems were due to the performance of the ministries' internal audit divisions. An investigation by the Court of Audit in 1985 found significant staff shortages at the audit divisions, lack of qualifications, weak audit programmes and poor accounting procedures.

As a result, the mid-1980s saw a radical change in approach, signalled by Operation Accounting Reform. With the support of parliament, the minister of finance introduced this five year plan in 1986 to improve financial management. This operation's objectives were to:

- improve internal control at the ministries;
- prepare manuals on administrative procedures and control;
- establish Ministry Audit Departments (MADs) at all ministries;
- have the MADs issue unqualified audit opinions on the ministries' financial statements.

These goals were achieved by the mid-1990s.

The Court is working to encourage a similar operation at the European Union level by annually publishing its EU Trend Report on the status of the financial management of EU funds in the Netherlands and other EU member states. By means of the EU Trend Report the Court wishes to contribute to improving the financial management of EU funds in the member states.

From Policy Budgets to Policy Accountability

In 1999 a new and comparable development was initiated under the name 'From Policy Budgets to Policy Accountability' (Dutch abbreviation: VBTB). One of its main goals is to focus on the achievements of government policy.

The new government budget system focuses on 'outcomes'. The underlying policy model establishes causal relationships between government resources (budgets, personnel, etc.) and instruments (subsidies, legislation, etc.) on the one hand, and between outputs and the final outcome in society on the other.

The general objective of the budget reform is to increase the information value of budget and accountability documents.

The government's budget must answer three W questions:

- What policy objectives does the government want to achieve?
- What actions is government going to undertake to achieve those objectives?
- What may those actions cost?

The Annual Report should answer a corresponding set of accountability questions, the three H questions:

- Has the government achieved the objectives set in the budget?
- Has the government completed the actions planned in the budget?
- Have costs remained within the limits set in the budget?

Regularity audits

There is a strong onus on ministers to ensure that checks and balances are in place to safeguard the proper use of public money and they are accountable to the States General for this. A minister must secure the agreement of the Ministry of Finance and the Court of Audit before financial systems can be changed. Ministers are supported in this by the MADs, which form their own opinion of the accounts.

The Court of Audit's audit approach is systems based and relies heavily on the work of the MADs. This is permitted by section 86 of the Government Accounts Act 2001.

The Court must therefore be confident that it can rely on internal audit. To this end, it investigates the planning, execution and close of the MAD audits. It also carries out additional investigations. If it considers the MADs' audits to be reliable, which is usually the case, it adopts their

audit findings. The Court then determines whether errors or uncertainties at budget article level are sufficiently material to warrant reporting to parliament. It also considers which shortcomings in the financial management control systems should be reported.

If the MADs' work is weak or reveals problems, the Court of Audit can carry out further audits. After reviewing the MADs' audit work and completing its own investigations, the Court issues 24 reports on the annual reports prepared

PERFORMANCE AUDITS INVESTIGATE WHETHER PUBLIC FUNDS ARE SPENT TO GOOD EFFECT

for each budget (ministerial budgets, special budgets and budget funds). The reports set out the findings and opinions regarding the operational management and financial statements of the ministries, departments and budget funds. Most of the Court of Audit's reports on annual reports refer to weaknesses in financial control systems. The Court's opinion relates to both the true and fair view given by the financial statements and the regularity of obligations, expenditure and revenue in compliance with the budget acts and other regulations. The Court's audit reports are amalgamated to produce the opinion on the State Account, which the Court of Audit must approve before discharge can be given by the States General. The annual reports of the ministries and budget funds have not yet been consolidated with those of state-owned enterprises and public bodies.

If the Court of Audit objects to certain elements of irregular spending and the minister refuses to accept the recommendations for changes, the Court can report its objections and thus force a minister to submit a bill eliminating the objection. This bill is called an Indemnity Act and permits the inclusion of 'irregular' expenditure in the State Account. Once the Court has issued its reports on the annual reports and the final budget acts have been passed, parliament discharges the minister regarding the financial management during the year.

Performance audits

Performance audits form an important part of the Court of Audit's work. The statutory basis for this work is section 85 of the Government Accounts Act 2001, which requires the Court of Audit to 'examine the effectiveness and efficiency of the policy pursued, and the efficiency of financial and tangible asset management, of the records kept for this purpose and of the organisation of central government'. The legislation also enables the States General to ask the Court to carry out specific audits. The States General cannot order it to do so, however, as the Court itself decides what it audits. In practice, it seeks to ensure that such requests are incorporated into its work programme. The importance attached to performance audits has increased since the mid-1980s, largely as a result of the increased attention paid to them by parliament.

In choosing the subjects for its performance audits for 2004-2009, the Court of Audit prioritised the gap between policy and implementation.

The Court of Audit can examine the efficiency and effectiveness of government policy, but not the policy itself. The audit process is well established, starting with the policy decision and then developing criteria against which the policy can be evaluated. The specific criteria vary with each audit. However, criteria on policy goals and policy information are used in almost all of the performance audits.

The Court of Audit aims to secure future change rather than apportion blame. It believes early intervention can reveal areas where ministers should clarify or further define their objectives. It interprets its a posteriori audit mandate as permitting examination of a subject as soon as the minister has taken a decision that has financial implications.

The Court of Audit conducts performance audits in two areas: the government's obligation to evaluate, and outputs and outcomes.

Audits of the Government's Obligation to Evaluate

In 2002, the Court of Audit examined how well the ministries were meeting their obligation to set up usable policy evaluation systems. This was the first in a series of audits to be conducted over several years of the structure and operations of the ministries' evaluation systems.

Audits of outputs and outcomes

Performance audits investigate whether public funds are spent to good effect. The best possible result has to be achieved with the least amount of money. After all, the financial resources at the government's disposal are 'public funds'. Ministers must make sure that they are spent correctly and that their policies have the desired effects.

The Clearance Process

The Court of Audit submits its reports to the auditee for comment although it is not obliged to do so. The audit findings will normally be discussed with senior civil servants at the ministry audited and their responses will be considered when the final report is drafted. The relevant minister is given two months to comment on the audit findings. Depending on the findings and the responses, the Court of Audit may choose to treat the audit as complete and 'close the file', but in most cases the audit findings and conclusions will be presented to the States General. The auditee's response may be included in the final report, as might a further response by the Court itself.

Reporting

The Court of Audit reports to the States General at various times during the year. It is required to publish an Annual Report on its activities by 31 March each year, and it publishes its report on the State Account on the third Wednesday in May.

The findings of performance audits are published throughout the year. Any reports that are published through the States General automatically pass into the public domain as parliamentary documents and are thus available for public inspection.

The Court of Audit assesses the impact of its work by carrying out follow-up audits on a regular basis. These normally take place between one and three years after the initial report is published and the results of the follow-up work are published in the Annual Report. In the follow-up work, the Court indicates which of its recommendations have been implemented.

SUMMARY

The Netherlands Court of Audit (Rekenkamer) follows in a long established tradition of independent state audit in the Netherlands. Its purpose is set out in the Dutch Constitution and its detailed tasks are set out in public law. Key features of the Rekenkamer are:

Appointment

- Members of the Board, which is politically balanced, are appointed for life (i.e. until the retirement age of 70) by the government on the recommendation of the House of Representatives.
- Audit staff are usually graduates in such disciplines as economics law, politics, social sciences, accountancy and statistics, and undergo a one-year internal training course.

Budget

- The Court's budget is set following discussions with the Ministry of the Interior and Kingdom Relations and the Ministry of Finance. In cases of disagreement the Rekenkamer may raise issues with the Public Accounts Committee.

Audit Remit

- The Rekenkamer has a very broad audit remit embedded in the Constitution and expanded upon in law, covering both regularity audit and performance audit.

Access

- The Rekenkamer has extensive rights of access to all documentation, including personal notes.

Reporting

- The Rekenkamer reports to the States General at various times during the year. It is required to produce two statutory reports: an Annual report on its activities and a report on the State Accounts.

Key Legislation

- The Government Accounts Act 2001.

NAJWYŻSZA IZBA KONTROLI POLAND



Key Facts

Economic and general information

- Poland is situated in Central Europe and has borders with Germany, Lithuania, Belarus, the Ukraine, Slovakia, the Czech Republic and Russia (Kaliningrad District).
- Poland has an area of 322,500 square kilometres and a population of 38.2 million.
- Poland has a wide array of natural resources including copper, iron, zinc and coal along with some gas reserves. Poland's main industries are metalwork, steel, chemical and textile production.
- The state of Poland dates back over a thousand years. During the sixteenth century, Poland prospered and became rich and powerful. Between the fourteenth and eighteenth centuries Poland formed a close union with Lithuania, initiated by a royal marriage in 1385. From 1569 onwards the two states were united in a commonwealth with one king, one Parliament and a common foreign policy, and in 1791 they drew up the first written constitution in Europe. However, soon afterwards the commonwealth was divided up by Prussia, Austria and Russia.
- In 1918 Poland regained its independence, but was invaded by Germany in 1939 and suffered a division of its territory between Germany and the Soviet Union under the Ribbentrop Molotov Non Aggression Pact.
- Following the Second World War, Poland was controlled by the Soviet Union, although there was regular resistance against Communist rule.
- In 1989, partially free elections were held which saw the defeat of Poland's communist rulers and marked the peaceful re-emergence of Poland as a democratic state.
- The private sector developed rapidly from 1989 and in 2003 accounted for some 75 per cent of economic activity. Important areas for employment include high technology industries and the service sector. The agricultural sector produced some five per cent of Poland's GDP in 2002. Some 54 per cent of the country's land was cultivated in 2002, with the main outputs being potatoes, sugar beets, fodder and livestock.
- Poland became a member of NATO in 1999 and a member of the European Union in 2004.

The structure of the Polish state

Constitution

The Republic of Poland is a democratic state with the rights of its citizens guaranteed by the Constitution of 1997. Under the Constitution, legislative power is vested in the Sejm and the Senate, respectively the lower and upper chambers of the National Assembly. Executive power is vested in the President and Council of Ministers. Judicial power is vested in the courts and tribunals.

Head of State

The Head of State is the President of the Republic who is elected for a five-year term of office by direct and universal suffrage and can only be re-elected once. A candidate for the position of President must be a Polish citizen, of at least 35 years of age who has the support of 100,000 citizens. The elections are ordered by the Speaker (Marshal) of the Sejm and are held no sooner than 100 days and no later than 75 days before the expiry date of the term of office of the existing President.

The main functions of the President include representing Poland in international affairs, ratifying the acts of the National Assembly, proclaiming elections to the National Assembly, and acting as the Commander in Chief of the armed forces.

Legislature

The Sejm and the Senate together form the National Assembly, which is composed of 460 Deputies in the Sejm and 100 Senators in the Senate. Members of the National Assembly are elected for a four-year term of office. Candidates for the position of Deputy must be Polish citizens, of at least 21 years of age. Candidates for the Senate must be Polish citizens who are at least 30 years old. A candidate cannot run for election to both chambers.

Legislation can be introduced by Deputies of the Sejm, Senators, the President of the Republic or the Council of Ministers. Legislation may also be introduced collectively by 100,000 eligible voters. The Sejm has the dominant role in legislative proceedings and new legislation is considered in three readings. Legislation is passed by a simple majority of Deputies. Bills passed by the Sejm are submitted to the Senate by the Speaker (Marshal) of the Sejm. The Senate has 30 days to examine the draft legislation although urgent cases can be reduced to 14 days. If an amendment to the constitution is involved, the Senate has 60 days for analysis. The exact wording of amendments to the constitution must be agreed by both the Senate and the Sejm. The Senate may adopt a bill without amendment, amend it or reject the bill. If the Senate rejects a bill or amends it, the Sejm can overturn this decision by a subsequent majority vote. The President of the Republic of Poland signs a bill within 21 days and orders its publication in the Journal of Laws of the Republic of Poland.

Executive

Executive authority is vested in the Prime Minister and the Council of Ministers. The Council is comprised of the Prime Minister, the Deputy Prime Minister and departmental ministers. Candidates to the Council of Ministers are proposed by the Prime Minister under mandate from the President and approved by the National Assembly. The Sejm can hold members of the Council to account for deviation from the constitution at the Tribunal of the State. The Council of Ministers remains in office until the end of Parliament's term unless a vote of no confidence is passed by the Sejm.

Administration

The administrative tasks of the Council of Ministers in 2003 were divided into 15 ministries and additional committees. Other state bodies within Poland include the National Bank of Poland, the Supreme Chamber of Control, the Commissioner for Citizen's Rights and the National Council of Radio Broadcasting and Television.

Regional and local government

Under the constitution of 1997 the Republic of Poland has three levels of local government - the Region (Voivodship), the County (Powiat) and the Commune (Gmina). At the end of 2002 there were 16 regions, 314 counties and 2,478 communes. Local governments perform all public duties relating to the needs of the local community, for example, they are responsible for primary and secondary education. Policies that concern the local community can be decided by means of a local referendum. Local authorities have the right to set the level of local taxes and charges, although central government also contributes towards their funding needs. A Regional Governor (Voivode), appointed by the Prime Minister, represents the central government and state administration within the local region.

Audit at the local level is carried out by Regional Accounting Chambers which cover all three levels of local government and report to local political institutions. The Regional Accounting Chambers may also carry out work in cooperation with the NIK or at its request.

Public Accounting System

The Council of Ministers has the exclusive right to introduce legislation concerning the budget and is required to submit a draft budget to the Sejm no later than three months before the commencement of the financial year, which runs from 1 January to 31 December. The draft budget is discussed by the Sejm and then by the Senate before being approved. The level of detail and requirements of the state budget along with the principles and procedure for its implementation, are determined by statutes. The Council of Ministers is required to submit a report on the implementation of the state budget together with information on the state debt within five months of the end of the financial year.

The Supreme Audit Institution

Historical development

The first state audit bodies in Poland date back to the beginning of the nineteenth century although the idea of public accountancy can be traced back to the sixteenth century.

- 1918** The Supreme Chamber of Control was established as an independent institution when Poland regained its independence.
- 1921** With the passing of the Polish Constitution, the title Najwyższa Izba Kontroli (NIK) was introduced for the first time and the subordination of the audit institution to Parliament and its independence from government were emphasised.
- 1939** During World War II, the NIK operated officially in exile and unofficially at home.
- 1944** Under the period of communist rule between 1944 and 1989, the NIK managed to preserve relative independence although it suffered two short breaks, totalling eight years, when its powers were dissolved and audit functions were administered directly by the government.
- 1995** The current legislation governing the remit, structure and operation of the NIK was introduced.
- 1997** The new Constitution of the Republic of Poland underlined the NIK's constitutional independence from government and its relationship with the Sejm.

Each ministry has a Director-General who is responsible for administration and personnel. Directors-General are accountable for expenditure on internal administrative matters but it is the minister who is responsible for the expenditure intended to achieve policies.

Budgetary institutions have been required to have an Internal Audit function since 2001, reporting to the senior management of the institution. The Chief Inspector of Internal Audit within the Ministry of Finance has a standard setting and quality assurance role.

THE NIK IS HEADED BY A PRESIDENT WHO IS ACCOUNTABLE TO THE SEJM FOR ITS ACTIVITY

The system of accounting within Poland is a mixture of both cash and accruals. Book keeping is carried out on an accruals basis, financial statements are generally prepared on a cash basis. The state budget is prepared on a cash basis but elements in the appendices, for example plans of government agencies or special funds, are prepared on an accruals basis.

The structure and organisation of the NIK

The NIK is headed by a President who is accountable to the Sejm for its activity. The President of the NIK is appointed on the request of the Speaker of the Sejm or a group of at least 35 deputies, by an absolute majority of votes in the Sejm and with the approval of the Senate. The President is appointed for a period of six years and may be reappointed once. The President may not be a Member of the Sejm or Senate, cannot belong to any political party or trade union and cannot hold any other post except that of a university professor. The President is immune from criminal proceedings and cannot be deprived of his liberty without the consent of the Sejm.

The NIK acts under the collegiate principle through its Council. The Council of the NIK is chaired by the President and consists of all NIK Vice Presidents, the Director-General and fourteen other members. By law, between two and four Vice-Presidents are permitted. In 2003 four were in post. Like the President, neither the Vice Presidents nor the Director-General may hold political office or posts, other than that of a university professor. The Vice Presidents and the 14 other Members of the Council are appointed and dismissed by the Speaker of the Sejm on the request of the President of the NIK. The Director-General is appointed and dismissed by the President with the consent of the Marshall of the Sejm.

The 14 Members of the Council are appointed for a period of three years and fall into two categories – seven are academics in law or economics, independent of the NIK; and seven are drawn from among the directors of the NIK's departments, regional offices or the President's advisors. The Members of the Council are independent in the exercise of their duties and can register a minority opinion in the Council's minutes. The main functions of the Council include adopting the NIK's work plans, resolutions on its audit findings, and approving the NIK's analysis of the implementation of the State Budget and monetary policy guidelines and its annual activity report.

The NIK is organised into 26 operational departments – eight audit departments based in Warsaw, 16 regional offices and two technical audit-support departments. The regional offices function as branches of the NIK and have the same status as the eight Warsaw based audit departments. In addition, the NIK has four general administrative departments providing core business services such as personnel and facilities management.

Recruitment, remuneration and qualifications of staff and other resources

At the end of 2004 the NIK's Council was supported by some 1,700 staff, of whom some 1,250 were auditors or audit supervisors and 450 were support staff. All audit staff are required to have a university degree and some 30 per cent were lawyers, 27 per cent economists and 33 per cent graduates in science, agriculture and related fields. Staff are not permitted to be members of political parties or to be involved in political activity and they do not have the right to strike. Remuneration policy is vested in the NIK President under the 1994 Act, and is comparable with, though slightly higher than, that of the Polish civil service.

Audit staff are required to undertake internal audit training and to pass an examination. Training contracts last for three years and incorporate practical work experience and internal academic training. Internal training takes place at the NIK's academy and lasts for up to one year. Only after a successful examination may audit staff be nominated by the NIK President for the position of State Auditor. Nomination is a special form of employment which provides for greater stability, and therefore more independence, than under a regular employment contract.

In 2002, the NIK's budget was sum PLN 196,352,000 (€50,450,000) with 55 per cent spent at the central level and 45 per cent by regional offices.

Scope, role and rights of access of the NIK

The NIK's independence from government is guaranteed in a number of ways. In particular it submits its draft budget directly to Parliament for approval; its President and staff have secure contracts of employment and cannot be dismissed without due cause; and the NIK has freedom to select audit subjects on which it wishes to report.

The NIK audits the activities of central government departments and other bodies and the National Bank of Poland. It may audit the activities of local government and local government level bodies. It may also audit the activities of bodies and businesses in receipt of public funds and resources or contracted to carry out functions on behalf of the state, including contractors, companies owned at least partially by the state (for example, privatised companies in which the state still holds a number of shares) and public industries.

At the central level, the NIK audits the legality of public expenditure and the sound management, efficacy and integrity with which public funds have been used. At the local level the NIK performs audits from the point of view of legality, sound management and integrity. The NIK's audit of other bodies and recipients of public funds is limited to examining the legality and integrity of expenditure.

THE NIK'S INDEPENDENCE FROM GOVERNMENT IS GUARANTEED IN A NUMBER OF WAYS... AND THE NIK HAS FREEDOM TO SELECT AUDIT SUBJECTS IT WISHES TO REPORT ON

The NIK examines the legality of the implementation of the state budget and compliance with laws and regulations. The NIK submits its opinion on monetary policy and its analysis of state budget execution to the Sejm.

The NIK may undertake audits on its own initiative, on the order of the Sejm or its bodies, or on the request of the President of Poland or the Prime Minister. In order to carry out its audits, the NIK has rights of access to all the information it requires. NIK staff have free access to the premises of audited bodies and the right to examine relevant documents and other materials. The NIK has the right to summon witnesses from the audited body or related bodies and receive their evidence, to demand oral or written explanations from employees of audited bodies, to call experts and specialists and to participate in the management meetings of audited bodies.

Relations with Parliament and Government

The NIK has a close relationship with the National Assembly of the Republic of Poland and cooperates actively with the Sejm. The Sejm can order the NIK to carry out audits on its behalf - in 2004 the NIK undertook two audits ordered by the Sejm. The NIK President, or one of the Vice Presidents acting as the representative of the President, may participate in plenary sessions of the Sejm. In 2002, the President and Vice Presidents participated in debates on the analysis of the execution of the State Budget, monetary policy guidelines and the NIK's annual report on its activities for 2001.

NIK staff also present information to parliamentary committees on the results of audit work. The State Audit Committee deals with all the NIK's reports and reports may also be reviewed by relevant departmental committees. Committees can hold hearings attended by the minister of the department concerned and NIK representatives. The NIK can put forward proposals arising from its audit work to amend existing legislation or regulations.

Other public sector audit institutions

Regional Accounting Chambers audit the financial statements of local governments. The chambers are supervised by the Prime Minister and report to their local legislative body. The NIK can cooperate with the Regional Accounting Chambers and signed a cooperation agreement in February 2002 for this purpose. The first joint audit was completed in 2003.

The NIK may also cooperate with regulatory bodies in Poland such as the Tax Audit Offices.

The auditing process

The NIK's remit allows it to carry out both financial and regularity audits and performance audits. In undertaking activities to meet these responsibilities the NIK does not draw a firm line between financial audit and wider financial management activities.

Audit procedures are regulated by the 1994 Act and the Regulation of the President of the NIK on Audit Proceedings of March 1995. The NIK has developed its own Auditing Standards and Code of Ethics, which are consistent with internationally recognised auditing standards. The NIK's Auditing Standards form the basis for its comprehensive audit manual, which set out the principles and methodological guidelines applicable to all audits. The NIK has also developed additional guidelines for audits in specialised areas (currently there are four specialised guidelines on the audit of the state budget, audit of privatisations, audit of IT investments, and audit of areas with a high risk of corruption). The audit manual is subject to continuous review and upgrading.

The Council of the NIK sets out the office's longer term strategy in three year plans which establish the broad audit priorities. Audit activities are planned in detailed annual and quarterly work plans which are approved by the Council of the NIK. The NIK's three year strategic plan and annual work plan must be submitted to the Sejm for information. The NIK uses the annual plan, which describes audit activities and responsible units in detail, to monitor the progress of its audit activities. In addition to planned activities, the NIK can also conduct ad hoc audits. In planning its activities the NIK focuses on key problems related to the functioning of the state, such as the management of public property and the role of the public sector in addressing major social problems, e.g. unemployment and poverty.

The NIK normally carries out its audit work on a coordinated basis - i.e. thematic topics are agreed by the Council of the NIK and audits are carried out according to a common audit programme by a number of the NIK's audit departments and regional offices. Examples of coordinated audits in 2003 carried out by the NIK include the implementation of the government scheme to promote professional employment opportunities for graduates (with the participation of 12 audit departments) and the audit of safety at airports (with the participation of six audit departments).

Once fieldwork has been completed, an audit protocol is drawn up by the audit team and sent to the head of the audited body. The audit protocol describes the findings of the audit, the scope and effect of any irregularities and the persons responsible.

Auditees can appeal against the findings of the audit protocol within 14 days and the auditor is obliged to consider objections and to amend the report where they are justified. In the event of continuing disagreement between the auditor and the audited body an Appeal Committee will be appointed to review the case and submit a recommendation to the President of the NIK. If the President accepts the Appeal Committee's recommendation, the audited body has no further right of appeal; if he disagrees with the Appeal Committee, he can appoint a Resolution Committee to look at the matter again and the Resolution Committee's decision is final. If the audited body continues to disagree, its Head can refuse to sign the audit report and this will be acknowledged in the text.

The NIK then prepares a post-audit statement addressed to the heads of the audited body and, if necessary, to relevant central or local government bodies. The post audit statement contains the audit opinion and evaluation of audited activity. In most cases it will include recommendations for improvement. The post audit statement may also assess the performance of the officials responsible for the irregularities and indicate whether or not they are suitable for their posts, although the NIK rarely needs to use this power. A similar appeal procedure applies to the post audit statement as to the audit protocol.

On the basis of its audit protocols and post audit statements, the NIK draws up pronouncements on audit results containing overall assessment of the audited activity and recommendations which are submitted to the appropriate central government bodies. They are entitled to comment on the pronouncement within seven days and the NIK may attach such comments to its pronouncement. This is then submitted to the Sejm, the President of the Republic of Poland and the Prime Minister. Subsequently the NIK's pronouncements are presented to the public, unless matters of national security are involved.

Participation in legislative work

The NIK has a role in commenting on both draft legislation and the functioning of legislation already in force. In relation to draft legislation, the NIK receives bills from Government departments to which it can attach its comments. In addition, the NIK may on its own initiative prepare analysis or papers on bills before Parliament and make them available to the Sejm for consideration. The President of the NIK has the right to participate in Sejm debates and in plenary meetings on any topic if he so chooses.

The NIK regularly comments on how extant legislation is working in practice, drawing much of its input from the results of its audit work. The NIK's post audit statements note irregularities and suggest amendments which the NIK considers would improve existing legislation. Between 1996 and 2000 the NIK submitted over 250 such proposals, leading to the passing of some 120 amendments by Parliament.

The NIK may participate in the debate on the draft state budget making comments based on its audit findings and experience.

Reporting

The NIK submits an annual report to the Sejm entitled 'Analysis of the execution of the State Budget and the Monetary Policy Guidelines', summarising the results of audits carried out on the accounts and performance of institutions authorised to spend and distribute budgetary funds. The document is very popular with the media and the public and journalists sometimes refer to it as the 'NIK report on the condition of the state'.

The NIK submits its pronouncements on audit results, arising from individual audits to the Sejm throughout the year. In addition, the NIK publishes an annual report on its own activities, presenting an overview of the assessments and recommendations arising from its audit work during the year.

The NIK is active in informing the public of its audit work, holding press conferences and management briefings. It produces two specialised publications – the in-house NIK Information Bulletin and external Bulletin which comment on technical auditing and accountability issues for practitioners in the field. The NIK has produced a magazine 'State Audit' ('Kontrola Państwowa') for more than forty years containing articles on its most significant audit work and on auditing standards, which has a wide circulation among libraries, universities and academics. The NIK also maintains a website which provides information about its ongoing work and includes copies of its pronouncements, annual report and other published material.

SUMMARY

The NIK is an independent body, reporting to Parliament, guaranteed by the Constitution and subject to law. It has the power to carry out financial, regularity and performance audits of the activities of central government departments and other bodies and the National Bank of Poland. Key features are:

Appointment

- The President of the NIK is appointed for a period of six years, renewable, by the Sejm, at the request of the Speaker and with the approval of the Senate.
- The NIK's Vice Presidents and Council members are appointed by the Speaker at the request of the NIK's President.
- State Auditors are nominated by the NIK's President from audit staff who have completed internal training and examinations.

Budget

- The NIK submits its budget direct to the Sejm for approval.

Audit Remit

- The NIK audits the activities of central government departments and other bodies and the National Bank of Poland.
- It may audit the activities of local government and local government level bodies. It may also audit the activities of bodies and businesses in receipt of public funds and resources or contracted to carry out functions on behalf of the state, including contractors, companies owned at least partially by the state and public industries.

- At the central level, the NIK audits the legality of public expenditure and the sound management, efficacy and integrity with which public funds have been used. At the local level the NIK performs audits from the point of view of legality, sound management and integrity. The NIK's audit of other bodies and recipients of public funds is limited to examining the legality and integrity of expenditure.
- The NIK may undertake audits on its own initiative, on the order of the Sejm or its bodies, or on the request of the President of Poland or the Prime Minister.

Other Duties

- The NIK examines the legality of the implementation of the state budget and compliance with laws and regulations. The NIK submits its opinion on monetary policy and its analysis of state budget execution to the Sejm.

Access

- In order to carry out its audits, the NIK has rights of access to all the information it requires. NIK staff have free access to the premises of audited bodies and the right to examine relevant documents and other materials.

Reporting

- The NIK submits a report on the audit of the State Budget, an annual report on its audit activities, and the results of individual audits, to the Sejm.

Key Legislation

- Supreme Chamber of Control Act 23 December 1994.

TRIBUNAL DE CONTAS PORTUGAL



Key Facts

Economic and general information

- Portugal occupies a land area of 92,000 square kilometres and has a population of about 10 million. As well as the mainland on the Iberian peninsula (the Continent, with 88,796 square kilometres), there are also the archipelagos of Azores (9 islands) and Madeira (2 islands) in the Atlantic, which are autonomous regions with their own legislative and administrative powers.
- Between the twelfth century and 1910 Portugal was a Monarchy. The First Republic lasted from 1910 to 1926. The Republic was overthrown in 1926 and from then until 1974 Portugal was a conservative dictatorship, during which the state managed the economic and political activities of the country and the formation of independent and competing interests, movements and ideologies was inhibited. The condition of the Portuguese economy was poor throughout this period and was heavily based on agriculture, some traditional industries (like textiles) and natural resources of African colonies such as Angola and Mozambique.
- The revolution of 25 April 1974 transformed Portugal into a Democratic State of Law. Later, in 1986, joining the European Community contributed decisively to a gradual process of political stabilisation and cultural, social and economic development. Nowadays, Portugal is one of the members of the European Economic and Monetary Union.
- In 2003 the services sector employed 53 per cent of the active population and represented 67 per cent of the gross value added (GVA), while the energy, construction and industry sectors occupied 34 per cent of the active population, contributing 29 per cent to the GVA. The agricultural sector only represented 13 per cent of the employment and contributed 4 per cent to the GVA.
- In the years leading up to 2003 industry was transformed from its traditional structure, which was highly dependent on the textile, footwear, ceramics, cork and other industries. The automotive, electronic and pharmaceutical sectors have also reached an important position in the national economy. Important industries in the service sector include commerce, transport and communications, tourism and financial services.

The structure of the Portuguese state

Constitution

Under the Constitution of the Portuguese Republic of 1976, Portugal is a sovereign republic, based upon the dignity of the human person. It is a democratic state based upon the rule of law, the sovereignty of the people, the pluralism of democratic expression and democratic political organisation, respect and effective guarantees for fundamental rights and freedoms and the separation and inter-dependence of powers. It aims to achieve economic, social and cultural democracy and the deepening of participatory democracy.

Head of State

The Portuguese government system is a mixed parliamentary-presidential system. The President of the Republic is the Head of State and is elected by universal, direct and secret suffrage for a five year period (with a maximum of two consecutive terms). Although the President does not hold legislative initiative, he has the right of political veto. In 1982, the Council of State was formed which is the consultative body of the President of the Republic. The President of the Republic, under certain circumstances, has the power to dismiss the Government, as well as to dissolve the Assembly of the Republic.

Legislature

The Parliament (Assembly of the Republic) is the representative assembly of all Portuguese citizens and is elected by secret, direct and universal suffrage. It is composed of Members of Parliament who are elected by geographic electoral districts defined in law. Parliament may dismiss the Government through the rejection of the Government Programme, a motion of trust or through the approval of a censure motion.

The legislative organs are the Parliament, the Government and the Regional Legislative Assemblies. Some issues are absolutely reserved for Parliament's legislative authority. Parliament may delegate to the Executive powers to legislate on other issues, which is its (Parliament's) prerogative, relating to its organisation and functions. The Government may also institute primary legislation for subjects that are not reserved for Parliament. The Regional Legislative Assemblies may legislate on matters of specific interest to the Autonomous Regions (Azores and Madeira), since those issues are not reserved to the peculiar competency of the sovereignty bodies.

The Executive

The Portuguese Constitution recognises Government as a sovereign body, which conducts general policy in the country and is the superior organ of public administration. The Government comprises the Prime Minister (Head of the Executive), Ministers and Secretaries and Under-Secretaries of State. The Prime Minister is appointed by the President of the Republic, in consultation with the parties represented in the Assembly of the Republic and with due regard for the results of the general election. The other members of the Government are appointed by the President of the Republic, on the Prime Minister's recommendation. The Government is politically accountable to the President of the Republic and the Assembly of the Republic.

Administration

On 31 July 2005, the Government consisted of the Prime Minister, 16 Ministers and 37 Secretaries of State. Each Minister is supported by integrated services which constitute the direct administration of the state. Within each Ministry there are also other services, over which a Minister has limited powers of guidance and supervision, that have specific functions and financial autonomy and constitute the state's indirect administration. The current number of civil servants stands at around 608,000 – with 437,000 in the central administration, and 171,000 in local administration.

Public Accounting System

The Ministry of Finance is responsible for conducting state financial policy, the execution of fiscal policy, the co-ordination of the other public entities' finances and the state's financial relations with the European Union, other states and international organisations.

The State Budget – which covers all services of the central administration and social security – is proposed by the Government and approved by the Assembly of the Republic via the Budget Law. In addition to forecasts of revenue and expenditure and the authorisation granted to the Government in order to carry out such operations, the Budget Law contains provisions on various other relevant matters such as taxes and public debt. The content of the budget and the preparatory procedures to be adopted are subject to the principles and rules established by the Budgetary Framework Law.

During the financial year the Government is obliged to provide information, on a monthly or quarterly basis, to the Assembly of the Republic on budgetary execution. The General State Accounts must be presented before June 30 of the following year, showing the final results of execution of the budget, for revenues, expenditure, public debt, loans granted, responsibilities for guarantees provided and extra-budgetary operations.

The State Budget is drawn up on a cash-flow basis, and all entities covered by the budget present their accounts on the same basis. However, the Official Charter of Public Accounts is gradually being implemented at all levels of public administration, drawn up on an accruals basis, with adaptations to the specific needs and characteristics of the health, education, social security and local administration sectors, as a result of which a growing number of services also present their accounts on the same basis.

A National System of Internal Control has been established by law, and structured across three levels – operational, sectorial and strategic. Operational control is devolved to the management of entities and is exercised by specialised bodies integrated within the organisation's own structure. Sectorial and strategic control are the responsibility of bodies which are independent of the entities subject to control but integrated within the Public Administration and distinguished by the framework of the control. While sectorial control is exercised by bodies operating within each ministry and its focus is the activity of the other services of the ministry, strategic control operates across the entire Public Administration and lies under the responsibility of the Inspectorate-General for Finances, the Directorate-General for the Budget and the Institute of Financial Management of Social Security.

The functioning of the overall system is guaranteed by a Co-ordinating Council made up of senior officials of the bodies of sectorial and strategic control. The President of the Tribunal de Contas (Court of Auditors) has the right to attend meetings of the Council as an observer.

Local authorities

The democratic organisation of the Portuguese State includes local authorities, which are bodies serving the particular interests of the population in their territorial areas. These bodies include parishes and municipalities and their functions and organisation are established by law. In order to fulfil their duties, local authorities have their own assets and financial resources, including a system of local finance set out by law.

Courts

The Courts have the power to administer justice and are independent and exclusively subject to the law. The Tribunal de Contas is explicitly recognised by the Constitution as a sovereign body and is the highest body for reviewing the legality, the economy, efficiency and effectiveness of public expenditure and revenues and for delivering judgement of financial responsibility.

The structure and organisation of the Tribunal de Contas

The Tribunal de Contas is an independent, sovereign court, subject only to the law (articles 202, 203 and 214 of the 1976 Constitution and article 24 of Law 98/97). It is not part of the judicial system, but it can judge, fine or reduce penalties imposed upon those judged to be guilty of public finance contraventions. It is thus constitutionally on a par with the judicial, administrative, military and other courts. Since 1989 the Tribunal has had the right to determine its own budget.

The Tribunal is composed of a President and 16 Members for the Portuguese mainland based at its headquarters in Lisbon. There are also two additional Members at the regional sections of the Tribunal in the Azores and Madeira. The Members of the Tribunal in Lisbon include four who work on a priori and concomitant audit (the 1st Chamber), nine on the concomitant and a posteriori audit (the 2nd Chamber) and three on the judicial work (the 3rd Chamber). There are ten departments dealing with a posteriori audit and two dealing with a priori and concomitant audit, which is divided into three divisions.

THE TRIBUNAL DE CONTAS IS AN INDEPENDENT, SOVEREIGN COURT, SUBJECT ONLY TO THE LAW

The President of the Tribunal is appointed by the President of the Republic on a proposal of the Government. The term of the office is for four years but can be renewed. The Vice President is elected by the Members for a period of three years. The President may delegate powers to the Vice President. The Members of the Tribunal are selected by a panel comprising the President, the Vice President, the oldest Member and two senior academics appointed by the Government. After the selection Members are sworn in by the President of the Tribunal. They enjoy the same rights of independence as judges of other supreme courts. Members are not entitled to take part in party political activities.

The Supreme Audit Institution

Historical development

The very earliest origins of the state audit function date back to 1389. As Portugal was a monarchy for the period from the twelfth century to 1910 the role of the forerunners of the Tribunal was closely associated with verifying the 'royal purse'.

- 1849** Tribunal de Contas was established.
- 1886** Powers and jurisdiction of the Tribunal gradually increased to include a priori and a posteriori audits.
- 1910** The Tribunal was abolished during the First Republic and replaced by the Supreme Council for Financial Administration.
- 1919** As the Supreme Council contained no auditors and failed to fulfil its expectations, it was replaced by the Supreme Finance Council which had powers of a priori audit.
- 1926** With the abolition of the First Republic a provisional auditing institution was established.
- 1930** The Tribunal de Contas was re-established.
- 1933** The Tribunal de Contas was incorporated as a constitutional body, with its President nominated by the Minister of Finance.
- 1976** Under the new Constitution the Tribunal was formally integrated into the system of the courts, and the procedure for nominating the President and Members was modified.

Substantial alterations were made to the regulatory framework that had governed the organisation, operation and activity of the Tribunal by the Reform of the Court of Auditors, Acts 1989 (Law 86/89) and 1997 (Law 98/97).

The Members of the Tribunal include lawyers and economists. The Tribunal meets in general plenary sessions, chamber plenary sessions, in sub-chamber and seal approval meetings. The general plenary sessions include all Members, while chamber plenary sittings include all Members belonging to a chamber.

Located within the Tribunal de Contas is a representative of the Public Prosecutor – the Attorney General. His role is to 'represent the state, prosecute and defend democratic legality and the interests of the state', and to inform the Public Prosecutor at other courts of contraventions discovered in files examined by the Tribunal.

The recruitment, remuneration and qualifications of staff and other resources

On the 31 December 2004, the Tribunal de Contas had 18 judges (16 in the Headquarters and one in each regional chamber) and nearly 600 officials in its support services. Approximately 500 of these staff performed their duties in the Headquarters, with the remainder in the Azores and Madeira Regional Chambers.

Remuneration of Tribunal staff has not always been equivalent to that found in the private sector, but the Tribunal's legislation now states that it must not be inferior to that of others within the general pay scheme of the civil service and in particular those charged with control responsibilities. The Tribunal's staffing costs are met by the state. In addition, all audited bodies are charged for audit work undertaken, and for any special audit projects. This revenue can be used to recruit more staff or purchase other resources.

The scope, role and rights of access of the Tribunal de Contas

The Tribunal has a number of main functions. These are to provide an opinion on the General State Account and the Social Security Account; to verify the legality, economy, efficiency and effectiveness of public expenditure; and to examine any accounts the law specifies must be submitted to it. Under the 1976 Constitution the Tribunal de Contas has wide powers of access which were confirmed in Law 98/97. Article 1 of Law 98/97 states that the Tribunal holds powers of jurisdiction and financial control within the scope of the whole legal system, whether on national territory or abroad.

THE TRIBUNAL HAS A NATION-WIDE REMIT AND THERE IS NO LOCAL OR REGIONAL AUDITING BODY. IT HAS THE POWER TO FOLLOW STATE FUNDS WHEREVER THEY ARE SPENT

The following entities are subject to the financial control and the jurisdiction powers of the Tribunal: the state and its services, whether financially autonomous or not; the autonomous regions; public institutes; social security institutions; local government and city council associations and federations; and other bodies that the law directs the Tribunal is responsible for supervising at a national level, for example private recipients of public funds, including those from the European Community.

Other entities are subject only to the financial control power: public associations which are mostly financed by public entities or subject to its management control; public corporations; corporations formed under commercial law, whose capital is shared by the private and public sectors from Portugal and abroad and where the public sector holds directly the majority of the share capital or has direct control of the respective management; concessionaires companies for the management of public companies, with public share capital or mixed private and public companies controlled by the public sector and concessionaires or managers of public services companies; private law foundations which, annually and regularly, receive funds from the State Budget or from the local authorities.

The Tribunal has a nation-wide remit and there is no local or regional auditing body. It has the power to follow state funds wherever they are spent, albeit at times through the audit of the sponsoring ministry.

A distinguishing feature of the Tribunal de Contas is that, in line with some other 'court' systems of state audit, it has the power to judge and punish those it finds guilty of contraventions of financial regulations. Under articles 65 and 66 of Law 98/97 it can impose fines in a variety of cases, including the non settlement, non collection or non delivery of assessed revenue, infringements of regulations relating to the preparation and implementation of budgets, the failure to submit accounts within the legally defined timetable, and the unjustified failure to cooperate with the Tribunal.

THE MOST SUBSTANTIAL AREA OF WORK IS A POSTERIORI AUDIT, INCLUDING PERFORMANCE AUDIT

Fines reflect the seriousness of the offence, with the maximum half the net annual salary of the guilty party. Under articles 59 and 60, the Tribunal can also order reimbursement of any sums embezzled. Under article 64 the Tribunal can also absolve the guilty party from financial liability, or reduce the liability if the error or neglect is not deemed too serious. Where such decisions are taken they must be recorded in official records.

The auditing process

Types of audit

The Portuguese state audit function can be divided into three elements. The first is an a priori audit primarily concerned with compliance issues. According to article 44 of Law 98/97 the aim of this is to check whether charters, dispatches, contracts and other documents subject to control 'are in pursuance with the law in force and whether the respective obligations are financially covered by their budget'. A priori audit control is executed by applying 'seal approval and a certificate of conformance' (the indication of Tribunal approval). Article 47 of Law 98/97 increased the range of a priori audit control exemptions. Since then the level of computerisation of files requiring a priori audit control has increased and this has led to a significant improvement in the management of this work so that it is now essentially compliance oriented.

Four of the Tribunal's 16 Members and around 91 of the staff (some 17 per cent) are responsible for a priori audit. Although this area of work is declining and of diminishing importance, these staff are also committed to concomitant control (the second area of competency). In addition, it is through the a priori audit work that the Tribunal gives approval to general funded government debt bonds and other contracts that have the effect of increasing the public debt. In this sense the Tribunal plays a role in controlling government debt.

The most substantial area of work is a posteriori audit, including performance audit. This work involves preparing the report on the General State Account, examining and verifying management accounts of departments and services with administrative autonomy, and other supervisory functions such as oversight of projects financed by the European Union.

Frequency of audit

Some 11,000 public bodies fall within the Tribunal's remit, but certain factors – such as the size of its annual income – exempt bodies from audit. In practice around 3,000 bodies are regularly examined, a few annually and the others on a cyclical basis.

The accounts of customs and excise, the Inland Revenue and the Directorate-General of the Treasury are examples of accounts examined annually.

The Tribunal de Contas classifies its work as "internal" or "external" audit. For internal audits files are inspected at the offices of the Tribunal. These audits are general examinations concerned with legality and regularity, but it is from the internal audits that problem areas are identified, after which specific "external" audits will be undertaken at the audited body. It is in the course of specific audits that assessments of departmental managerial performance are undertaken. Other "stimuli" for specific audits are the identification of problems at ministries by politicians or the media.

Performance audit

Under article 5 of Law 98/97, the Tribunal measures a department's performance and progress against its past performance rather than against a standard benchmark. Performance audits of managerial effectiveness are a relatively recent development and are undertaken as part of specific, on site audits. The Tribunal sees the audit of economy, efficiency and effectiveness as an important strand of its work, and one that represents a growth area for its future development.

Article 5 of Law 98/97 also states that the Tribunal can, at the request of Parliament or the Government, conduct audits of specific aspects of state financial management or that of other public bodies subject to its examination. The Tribunal draws up a report with its findings and presents it to these bodies. As a result, an audit developed to consider regional investment grants, for example, would not only examine the compliance and legality issues associated with the contracts awarded but would also consider the social and economic impact of the schemes.

Reporting

The Members of the Tribunal are responsible for delivering audit reports. Therefore, once an audit is complete, a draft report is sent to a committee of three Members (including the reporter) who must analyse and approve it.

Before approval and public availability, the draft report is sent to the audited entities and their views may be attached as appendices. However, the Tribunal is not compelled to obtain their agreement. If there is significant disagreement, the counter argument to the Tribunal's findings may be included in the main body of the report.

The Tribunal's Report on the General State Account and the separate Social Security Account, which analyses implementation of the budget, must be submitted within six months of the year end (by 30 June). The report is approved by the General Plenary and submitted to the President of the Republic, Parliament, Government and the organs of government of the autonomous regions. On the basis of the report the Parliament approves the General State Account.

The Annual Report of Activities and other statements by the Tribunal are publicly available in the official newspaper – *Diário da República*.

SUMMARY

Status of the SAI

- The Tribunal de Contas is an independent body with a role enshrined in the Constitution of Portugal. It has an extensive range of duties and powers and plays an important part in the public expenditure and revenue processes.

Appointment of Members

- The President of the Tribunal is appointed by the President of the Republic on a proposal from the Government.
- The Vice-President is elected by the Members.
- Other Members are appointed by the President of the Tribunal, after recruitment by public competition, with a jury composed of the President, the Vice President, the oldest Member and two academics appointed by the Government.

Control over Members

- The Members are independent and have the status of the judges of the Supreme Court of Justice. Their tasks are defined in law, but they have discretion in the way they carry them out.

Audit remit

- The Tribunal has a wide audit remit, including all of the state and its services, the autonomous regions, public enterprises, institutes, the social security institutions, local authorities and a variety of other bodies.
- The Tribunal's report on the General State Account is used by Parliament to give discharge for public spending.
- The Tribunal has judicial functions and can judge and punish those it finds guilty of violations of financial regulations.

Access

- The Tribunal can examine information at the audited body or it can request documentation to be sent to it.

Key legislation

- The legislation that determines the way the Tribunal works is the 1976 Constitution, which formally integrated the Tribunal into the system of constitutional courts, the Reform of the Court of Auditors Act (Law 98/97), which made substantial alterations to the regulatory framework governing the Tribunal and the organisation and structure of the Tribunal Support Services (Decree-Law 440/99).

NAJvyšší KONTROLNÝ ÚRAD SLOVAK REPUBLIC



Key Facts

Economic and general information

- The Slovak Republic is a landlocked country in Central Europe, surrounded by the Czech Republic, Austria, Hungary, Poland and the Ukraine. It has an area of 49,000 square kilometres and a population of 5.4 million, some 57 per cent of whom live in urban areas.
- The population is 86 per cent Slovak, 10 per cent Hungarian, 2 per cent Roma, with the remainder being made up of smaller ethnic minorities, including Czechs and Germans. The official language is Slovak. The capital city is Bratislava which has a population of some 427,000.
- The Slovak Republic came into existence on 1 January 1993. Throughout the centuries, the territory of Slovakia had been a part of other multinational states.
- In modern times it was part of the Austro-Hungarian Empire until 1918. At the end of World War I the Slovaks joined the Czechs to form the state of Czechoslovakia. For a brief period during World War II a Slovak Republic existed as an autonomous state.
- The Republic was created as a consequence of the 1938 Munich Agreement and Vienna Arbitration. However, there is no legal continuity between the former and present-day Slovak republics. The second Czechoslovakian state was established after World War II and from 1948 was part of the Soviet bloc, with its central administration based in the Czech capital, Prague.
- The constitution of 1960 gave Czechs and Slovaks equal rights, but these rights were only realised in 1968 after the 'Prague Spring' reforms when Czechoslovakia became a federal rather than a unitary state. After the fall of Communist rule in 1989, there was a revitalisation of Slovak identity and Slovak autonomy.
- Slovakia and the Czech Republic separated in 1993, following the 'velvet divorce'. Slovakia was invited to join both NATO and the European Union in 2002, and became members of both in 2004.
- Slovakia has had a relatively difficult transition to a market economy. By 2003 major privatisations were nearing completion and foreign investments had increased in volume.
- Slovakia's major industries are metal products, electricity, oil refining, rubber products and agriculture. The country has some natural resources in the form of brown coal and small reserves of iron, copper and manganese ore.

The structure of the Slovak state

Constitution

The Constitution of September 1992 established the Slovak Republic as a sovereign and democratic state. Article 60 of the Constitution confirmed the status of the Supreme Audit Office as the independent external audit body of the Slovak Republic.

Head of State

The Head of State is the President of the Republic who is directly elected for a five year term and may only be elected for two consecutive terms. Candidates for the Presidency are nominated by a group of 15 members of the National Council (Parliament) of the Slovak Republic or by a petition signed by at least 15,000 citizens who are eligible to vote. The President must not hold any other paid position. The main roles of the President are to represent the Slovak Republic in international matters, to sign laws, appoint or remove the Prime Minister and other members of the government and to appoint or remove principal officers of national bodies, including university professors.

Legislature

The National Council is the unicameral legislative body of the Slovak Republic. It has 150 members who are elected for a four-year term by direct universal suffrage. The National Council can establish committees to take forward its work. Committees can table legislative bills and have the right to submit modifications and amendments to bills. Bills may also be introduced by the government and individual members of the National Council. The consent of the majority of National Council members present is required to pass a bill. For legislation in significant areas, such as constitutional amendments, impeachment of the President or a declaration of war, a majority of three fifths is needed.

The National Council also approves the establishment of government departments and other bodies and authorises the appointment of judges and other officials including the Chairman and the Vice Chairmen of the Supreme Audit Office of the Slovak Republic.

The Executive

The government of the Slovak Republic consists of the Prime Minister, Deputy-Prime Ministers and departmental ministers. The government is collectively responsible to the National Council for the exercise of its powers. The Prime Minister is appointed and removed by the President of the Republic. Any citizen who is eligible for election to the National Council may be appointed Prime Minister. Other ministers are appointed by the President on the advice of the Prime Minister.

Within 30 days of its formation the government must present its Government Programme to the National Council for approval. This constitutes a vote of confidence in the government. At any time throughout the life of the parliament, the National Council, or the government itself, can initiate a vote of confidence in the executive. In the event of the government losing the confidence of the National Council, the President is required to dismiss the government. Individual government ministers may also be subject to votes of confidence on their performance.

Administration

In 2003 the government of the Slovak Republic was administered through 14 ministries. Overall the Slovak Republic has some 50 budgetary units, including ministries and other public bodies such as the Statistics Office, the Constitutional Court and the Supreme Audit Office.

Regional and local government

The basic unit of local administration in the Slovak Republic is the municipality. The municipalities are independent territorial and administrative units financed by their own funds and national subsidies. In 2003 there were 2,887 municipalities, ranging from cities to villages. City authorities are headed by an elected mayor, with a local council of other elected representatives. The Mayor exercises executive powers and represents the municipality in all matters. Villages are represented by a collective council.

The Slovak Republic is also divided into four administrative regions through which central government delivers the regional functions for which it is responsible.

Public Accounting System

The Ministry of Finance prepares and submits the draft state budget to the Government for the coming financial year which runs from 1 January to 31 December. The draft budget is discussed by the Finance, Currency and Budget Committee of the National Council and by departmental committees, and is then presented to a plenary session of the National Council for approval. Once the budget is approved, the Ministry of Finance is responsible for distributing funds to individual budgetary units.

The Ministry of Finance is responsible for internal control and audit arrangements. By law every budgetary unit must have an internal audit unit, which analyses payments after transactions have taken place and reports to management. There is also a Section of Control within the Ministry of Finance, which can carry out internal audit type reviews across all government departments and other bodies.

Accounting in the Slovak Republic is carried out on a modified accruals basis.

The structure and organisation of the Supreme Audit Office

The Supreme Audit Office (NKÚ) is headed by a Chairman, supported by two Vice-Chairmen. Their terms of office are seven years each and no more than two consecutive terms may be served. The Chairman and Vice-Chairmen are elected by the National Council of the Slovak Republic and any citizen eligible for election to the National Council is eligible to be the Chairman or a Vice-Chairman of the NKÚ. While in office, the Chairman and Vice Chairmen are not permitted to be employed in other positions nor to be members of political parties. The National Council has the power to dismiss the Chairman or the Vice-Chairmen if, for example, they are convicted of a criminal offence or they fail to carry out the duties of their office.

The Chairman of the NKÚ is the ultimate authority for the Office's activities. The Office does not act on a collegial basis and the role of the Vice Chairmen is only advisory. The Chairman and Vice Chairmen of the NKÚ have the right to attend and speak at discussions of the cabinet and committees of the National Council. The NKÚ can give its

opinion on draft legislation and has statutory obligation to submit its opinion on state closing account and draft state budget to the National Council.

The NKÚ is structured into four Audit Sections and two regional offices. The Office has the following administrative departments: Finance, Personnel, Legal Affairs, Information Technology, International Relations and Department of Operations. The NKÚ headquarters is in Bratislava and its regional offices are located in Banská Bystrica and Košice.

Recruitment, remuneration and qualifications of staff and other resources

In 2005, the NKÚ employed 232 staff, some 166 of whom were audit staff. Audit staff are required to have a college education and when their appointments are made, there is emphasis on practical and professional audit, accounting experiences and knowledge of the sectors audited by the NKÚ.

New audit recruits are also required to have knowledge of at least one major foreign language. The selection of staff is conducted by the senior staff of the Office on a competitive basis.

The State Service Act stipulates the basic requirements for recruiting personnel and also determines the rules governing professional and educational training. New recruits undertake one week of initial training in audit methodology and the laws governing the NKÚ's work. A training course, "Auditor of the NKÚ", forms part of their professional training.

The budget of the NKÚ in 2005 was 137 million SKK.

The Supreme Audit Institution

Historical development

- 1761** Empress Maria Theresa established the Royal Accounting Chamber, introducing overall control of state financial operations.
- 1782** Emperor Joseph II prescribed accounting and auditing procedures to be implemented across the Habsburg Empire and strengthened the authority of the Royal Accounting Chamber to review public funds.
- 1866** The audit institution changed its name several times, finally adopting the title of Supreme Court of Audit.
- 1919** A Supreme Accounting and Audit Office was established.
- 1939** The Slovak Republic established its own Supreme Control Office when it became independent.
- 1942** The Supreme Control Office was renamed the Supreme Control Court and supervised the financial management of state departments, public corporations, institutes, funds and societies, as well as the management of state assets, accounts and debt.
- 1945** With the re-establishment of the Czechoslovak Republic, two audit bodies existed simultaneously, the Supreme Accounting and Audit Office in Prague, and the Supreme Control Court in Bratislava.
- 1951** The bodies established in 1945 were dissolved and replaced by the Ministry of State Control - a government controlled administrative body rather than an independent audit function.
- 1969** The Slovak National Council passed the Supreme Control Office Act 1969, giving the audit institution powers to examine collection of revenue and the use of the state budget.
- 1970** The Supreme Control Office was replaced by a centralised system of peoples' control bodies, which returned audit functions to the control of the Government.
- 1989** The Czechoslovak Federal Ministry of Control was established, as well as individual ministries for the Czech and Slovak Republics.
- 1993** The Supreme Audit Office in its current form, named the Najvyšší Kontrolný Úrad (NKÚ) dates from the establishment of the Slovak Republic as an independent sovereign state.

Scope, role and rights of access of the NKÚ

The NKÚ Act empowers the Office to audit the method of calculation of taxes and other sources of revenue such as customs duties and fines as well as management of expenditure of the public funds. All levels of public funding fall within the scope of the Office's audit – central and local, European Union funds and those provided by other international bodies. The NKÚ can also audit revenue collected by local municipalities.

The NKÚ's audit remit covers central government ministries, other central bodies and entities subordinate to them the National Property Fund of the Slovak Republic (which manages the proceeds of the privatisation of former state assets) and central government bodies operating at the regional and municipal level and the entities subordinate to them. The NKÚ's remit allows it to follow state money to the level of the final beneficiary, thus its remit includes, for example, bodies contracted to carry out public services, companies where the government owns shares and bodies or individuals in receipt of grants.

The NKÚ has full rights of access to all the information, documents and explanations it requires to carry out its work and all audited bodies are obliged to cooperate with the Office in the execution of its activities. If an audited body or individual fails to cooperate, the Office has the power to impose a penalty. The party concerned has a right of appeal to the Chairman of the NKÚ against the penalty.

Relations with Parliament and Government

The Finance, Monetary and Budget Committee is the key contact partner in the National Council. The main focus of the Committee is the state budget, along with the other responsibilities included in its title. The NKÚ submits its reports on individual audits to the Committee and may also submit its reports to other committees with an interest in the subject of the audit.

The Committee has 12 members elected by the National Council and includes representatives of government, opposition parties and independent parliamentarians. Committee meetings are called and led by the Committee Chairman during sessions of the National Council. The Chairman is required to call a meeting when requested by the National Council, the President of the National Council or by one third of the Committee's members.

The National Council Committees are authorized to invite Government members, representatives of state administration bodies and the attorney general to take part in their meetings in order to obtain explanations, reports and relevant documents. Meetings are open to the public and the press regularly report on the Committee's work.

The auditing process

The NKÚ complies with auditing standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). Internal rules for carrying out audits are issued by the Chairman of the NKÚ to ensure a consistent approach to the Office's work.

The NKÚ has a statutory duty to carry out most of its audits on an annual basis but it can also carry out ad hoc audits which may focus on performance issues.

The NKÚ proposes an annual plan outlining the work to be carried out during this period. An Audit Task Plan is used to plan the work needed to carry out individual audits. This plan details the subject of the audit, entities where audit activities are to be carried out, administrative arrangements, the timetable for doing the work, and the detailed audit methodology to be followed. Each Audit Task Plan must be approved in writing by the Chairman of the NKÚ in order to authorise the start of the audit work.

Individual audits are led by an Audit Task Manager, supported by audit team leaders and audit staff. The Office's internal rules set out the procedures to be followed for liaising with the audited body, gathering and documenting audit evidence and evaluating and reporting audit findings.

THE COMMITTEE OF FINANCE, CURRENCY AND BUDGET IS THE NKÚ'S MAIN POINT OF CONTACT IN THE NATIONAL COUNCIL

The NKÚ sends a written report of its conclusions and recommendations to the management of the audited body and a meeting is held to discuss the issues arising. Minutes of the discussions, setting out the audited body's response to the audit findings and details of how it intends to deal with errors and irregularities identified during the audit, are prepared by the Audit Office and signed by both parties. This is known as the Audit Protocol.

The Audit Task Manager prepares a summary report which is submitted to the Chairman and the two Vice Chairmen of the Office, who discuss any reports containing significant issues. If the audited body is a central government department, the Chairman of the NKÚ communicates the final audit findings to the Slovak cabinet. If the audited body is a lower tier entity, the Chairman sends the audit findings to its sponsoring department.

In instances where audited bodies, their sponsoring departments or the Slovak cabinet have not taken appropriate measures to rectify errors and irregularities identified by the Audit Office, the Chairman can refer the matter to the National Council of the Slovak Republic for discussion.

Reporting

The Office prepares an overall opinion on the draft state budget at the end of October each year. In order to compile this opinion, each section of the NKÚ examines the relevant section of the draft budget and gives their views on it. The NKÚ submits its audit opinion on the final government accounts to the National Council in June of the year following the budgetary year.

By the end of March each year, the NKÚ must submit its Annual Report to the National Council which describes its audit results for the preceding financial year. The National Council may also request ad hoc audit reports on any topic at any time and has the power to require the NKÚ to carry out a particular audit. There are usually two or three such requests a year. The NKÚ also submits between 50 and 60 reports to the National Council each year on the individual audits it has carried out on particular public bodies.

The NKÚ holds press conferences every three months to brief journalists on its work and also regularly makes summaries of audit results available on its website, www.sao.gov.sk.

SUMMARY

The Slovak Constitution of 1992 appointed the NKÚ as independent external audit body. The NKÚ Act empowers the Office to audit the method of imposition and exaction of the taxes, customs duties, payments, charges and penalties that represent a state budget revenue and public finance expenditures. The Office performs the audit in terms of legal public statutes observance, economic efficiency and docility.

Appointment

- The Chairman and Vice-Chairmen are elected by the National Council of the Slovak Republic for a seven year electoral term.
- Individual political parties represented in the National Council of the Slovak Republic submit proposals for election of the NKÚ Chairman and Vice-Chairmen to the National Council.

Audit Remit

- The NKÚ's audit remit covers central government ministries, other central bodies and entities subordinate to them; the National Property Fund of the Slovak Republic (which manages the proceeds of the privatisation of former state assets) and central government bodies operating at the regional and municipal level and the entities subordinate to them.

Access

- The NKÚ has full rights of access to all the information, documents and explanations it requires to carry out its work and all audited bodies are obliged to cooperate with the Office in the execution of its activities.

Reporting

- The NKÚ submits to the National Council: an audit opinion on the draft state budget; an audit opinion on the final accounts of government; an annual report on its audit results; and reports on the individual audits it has carried out.

Key legislation

- The NKÚ Act of 1993.

COURT OF AUDIT SLOVENIA



Key Facts

Economic and general information

- Slovenia is situated in Central Europe and has borders with Austria, Italy, Croatia and Hungary. It has a short 46.6 kilometre coastline along the Adriatic Sea and an area of 20,000 square kilometres with a population of two million. The official language is Slovene.
- Slovenia's capital, Ljubljana, houses around an eighth of the population. Other major towns include Maribor and Slovenia's international port, Koper.
- After World War I Slovenia entered the Kingdom of the Serbs, Croats and Slovenes which was renamed the Kingdom of Yugoslavia in 1929. In 1941, during World War II, Germany, Hungary and Italy divided the territory among themselves. After the war, Slovenia became a federal republic within the reunited Yugoslavia.
- In April 1990, the first multiparty elections since the outbreak of World War II were held. The winning coalition, joined by other political parties, called for independence and in a referendum in December 1990, nearly 90 per cent of Slovenia's population voted for Slovenia to become an independent state.
- Slovenia was the most prosperous federal unit within Yugoslavia, and its transition to a free market economy has been easier than for other countries. Major industries in the country are tourism, electrical equipment, processed food, textiles, paper and paper products, chemical and wood products. Agriculture is dominated by dairy farming and livestock.
- Slovenia's main exports are machinery and transport equipment, chemicals, footwear, furniture and other household goods.

The Structure of the Slovenian State

Constitution

The Constitution of December 1991 established the Republic of Slovenia as a sovereign and independent state. The Constitution provides the basis for a legal system based on respect for human rights and fundamental freedoms, the rule of law, a parliamentary system and the principle of the separation of legislative, executive and judicial powers. It defines its basic orientation towards a free market economy and a social welfare state.

Head of State

The Head of State is the President of the Republic of Slovenia, who must be a Slovenian citizen. The powers of the President include the right to call elections to the National Assembly, ratify laws and appoint some state officials. He is also Commander-in-Chief of the Armed Forces. The President is elected by direct, universal suffrage for a term of five years which is limited to a maximum of two consecutive terms in office. Elections for the position of President of the Republic are called by the President of the National Assembly.

Legislature

The legislative body is the unicameral National Assembly which is composed of ninety Deputies, elected on a proportional representation basis for a four-year term. Elections are called by the President of the Republic no earlier than two months and no later than 15 days before the expiry of the previous term of the National Assembly. The National Assembly is headed by a President who is elected by a majority of Assembly members.

Within the parliamentary framework the National Council – which has some features of an upper chamber – is intended to represent social, economic, professional and local interests. The National Council has forty members, comprising 22 representatives elected by local communities, six representatives from the non-commercial sector (education, health and medical institutions, university and research institutions, arts and sports associations), four representatives of employers' associations, four of employees' unions and four representatives of farmers, crafts and trades and independent professionals. The National Council may

propose laws to the National Assembly for discussion; adopt a veto on laws that have been passed in the National Assembly, suspending their implementation (in which case the National Assembly must reconsider the law concerned and may readopt it by an absolute majority vote); require a referendum to be called (on any issue that is regulated by law); and request inquiries into matters of public interest. The National Assembly can request the opinion of the National Council on individual issues. The members of the National Council are elected for a five-year term. A member of the National Council may not be a Deputy of the National Assembly at the same time.

The Executive

The government consists of the Prime Minister and departmental ministers. Following consultation with the leaders of the parliamentary groups in the National Assembly, the President of the Republic proposes a candidate for the position of Prime Minister, who must be approved by a majority of Deputies in the National Assembly. Other ministers are appointed and dismissed by the National Assembly on the proposal of the Prime Minister. Before being appointed, ministerial candidates are examined by relevant National Assembly committees. The government as a whole can be dismissed by a motion of no confidence, but the National Assembly must also pass a motion to establish a new government (known as a constructive no confidence vote).

The Prime Minister heads the government and is responsible for its political direction. Ministers are collectively accountable for the work of the government and are individually responsible for the work of their ministries. The government's legislative programme is supported by the Secretary General's office, headed by the Secretary-General. He is appointed by the Government on the proposal of the Prime Minister and is responsible for organising the government's work, preparing for government led debates and carrying forward legislative proposals.

The Prime Minister can establish strategic councils to deal with specific issues, give advice and prepare opinions. Each strategic council is led by a ministerial counsellor of the rank of Secretary of State, who is appointed by the Prime Minister and advises and passes on proposals to him.

Administration

In 2003, 14 government ministers were appointed. Two ministers without portfolio can also be appointed, and the only one appointed currently is responsible for regional development policies.

In 2003 a total of 107,000 employees worked in the public sector of which 5,500 worked within central government. A new system, redefining the status of civil servants was introduced in 2003, providing for a new salary system across the whole of the public sector.

Regional and local government

In Slovenia there are around 200 local self-governing communities which include municipalities and other local communities. Local authorities are responsible for local affairs affecting the residents of the municipality such as local roads, water supply, sewage systems, public transport and social services. Other services are the joint responsibility of the local government and central government (education, medical care, social welfare and cultural activities). The work of local government is monitored and supervised by central government and individual ministries to ensure that local self-governing bodies comply with the law. Local government is largely financed from its own resources – certain taxes, income from the property of local communities, for example, rental income – although if local funds are insufficient, supplementary state funding is provided.

Public Accounting System

The process for preparing, approving and executing the annual budget is laid down in the Public Finance Act and the annual Budget Implementation Act. The budget is drawn up by the Ministry of Finance in discussion with spending bodies and must be submitted to the National Assembly for approval by the end of September of the year preceding the budget year. In 2003, there were some 250 direct spending units at the central government level and around 3,000 direct and indirect spending units in total, including local government bodies.

In the year following the execution of the budget, direct spending units are required to submit their financial statements to the Ministry of Finance by the end of February and the Ministry of Finance must submit the consolidated central government financial statements to the Court of Audit by the end of March. The government must submit its financial statements, together with the Court of Audit's final report, to the National Assembly by the 1 October. The procedure for local government budgets is similar with mayors submitting details to their local councils.

Under the Public Finance Act, the head of a direct spending unit – for example, a Minister – is accountable for the legal, economical, efficient and effective use of budget appropriations. The heads of direct spending units may delegate powers to other staff, and in practise financial functions are often delegated to senior civil servants who assume some "Accounting Officer"-type responsibilities. However, the final responsibility is retained by the head of the budget spending centre.

The Ministry of Finance plays a central role in determining accounting policy and issuing regulations and guidelines for financial management and control in the Slovenian public sector. Its Public Accounting Service provides a central accounting service to spending units and maintains a computerised financial control system which ensures that commitments and expenditure remain within approved budgetary limits.

All spending units with an annual budget over 500 million SIT (about 2 million EUR) must ensure their operations are subject to internal audit, either by their own internal audit service or by an independent external provider. Internal audit services have been established in all ministries and in some major bodies within ministries. They are required to submit their reports to the Ministry of Finance's Budget Supervisory Service which can also carry out its own checks on the performance of spending units.

The Public Sector Accounting Act and its implementing regulations define a common accounting system for the entire public sector in Slovenia, utilising a uniform chart of accounts. In practice, direct budget spending centres use a modified accruals accounting system.

The Supreme Audit Institution

Historical development

The history of audit in Slovenia can be traced back to Austro-Hungarian Empire in the eighteenth century.

- 1761** Empress Maria Theresa established the Royal Accounting Chamber, introducing overall control of state financial operations.
- 1782** Emperor Joseph II prescribed accounting and auditing procedures to be implemented across the Habsburg Empire and strengthened the authority of the Royal Accounting Chamber to review public funds.
- 1866** During the following years, the audit institution changed its name several times, finally adopting the title of Supreme Court of Audit and operating as such until the collapse of the Austro-Hungarian Empire.
- 1919** The newly established Kingdom of Serbs, Croats and Slovenes, later renamed the Kingdom of Yugoslavia, set up a state financial audit institution - the General Control - which was responsible for reviewing the state accounts and auditing the implementation of the state budget.
- 1945** The Federal People's Republic of Yugoslavia, the State Accounting Service was established with a very wide remit covering all payments and financial transactions in the country and the assessment of any irregularities or illegalities in business operations.
- 1994** The current Court of Audit of the Republic of Slovenia was founded by the Court of Audit Act and started operating on 1 January 1995.
- 2001** A new Court of Audit Act expanded the Court's powers to carry out different types of audit and introduced important structural and organisational changes to streamline its operations.

The structure and organisation of the Court of Audit

The Court of Audit of the Republic of Slovenia has three members: the President of the Court, who simultaneously holds the office of State Auditor General, and two Deputy Presidents. They are appointed for a term of nine years by majority vote of all deputies of the National Assembly, on a proposal from the President of the Republic. Members of the Court may be dismissed only in a limited number of extreme circumstances, following a vote by the National Assembly. Circumstances which could lead to dismissal include permanent incapacity to perform the duties of the office or conviction for a criminal offence.

The Members of the Court must be citizens of Slovenia and must not have been a member of the government in the four years preceding their appointment. They may stand as candidates for the same office several times without restriction. While in office, a member of the Court of Audit may not hold any other office or be involved in the work of state bodies or local authorities, political parties or trade unions, or exercise of public powers of any kind.

The President and the two Deputy Presidents form the Senate of the Court of Audit. The Senate adopts the Rules of Procedure of the Court of Audit, and the National Assembly gives its consent to them. The Senate decides on any disputed audit findings in the Court's proposed audit reports and may deal with a variety of other matters, such as ruling on objections to proposals for audit activities.

In his capacity as State Auditor General, the President directs the Court's programme of work and signs the audit reports, sets the procedures and methodologies for carrying out audit work and convenes and conducts meetings of the Senate. In his role as Head of the Court, the President determines the rules of the Court, defines the draft budget, deals with employment law issues and allocates assignments in the Court's work programme.

The Court is organised into a maximum of six audit departments, each headed by a Supreme State Auditor. The Supreme State Auditors are appointed by the President of the Court of Audit for a period of nine years and are accountable to the President for their work. The President

has the power to dismiss them from their post if their performance is not satisfactory. There is no restriction on the number of times they may stand for office. A Secretariat, headed by the Court's Secretary, who is also appointed by the President of the Court, provides administrative support for all the Court's operations.

Recruitment, remuneration and qualifications of staff and other resources

In 2003 the Court of Audit had around 100 employees, some 75 per cent of whom were university graduates, with 10 per cent having a master's degree or a doctorate. In general, the educational background of audit staff is in economics or the law, although some come from other academic disciplines. The Court may also invite recognised external experts, including foreign citizens to take part in the performance of its audit activities.

The Court has an extensive internal training programme for its staff leading to a qualification as a State Auditor or Certified State Auditor. All audit staff must be graduates and work to obtain one of the professional qualifications offered by the Court. In order to become qualified, staff must have sufficient and relevant audit work experience and pass an examination at each level. In recent years, the Court has further trained and developed its staff, by cooperating closely with experts from other audit organisations, through secondments, training courses and participation in professional seminars and conferences.

Salaries of the Court's staff are regulated by the law which applies to all state bodies and agencies. Resources for the work of the Court of Audit are determined by the National Assembly upon proposals made by the Court of Audit and form a constituent part of the state budget. The Court's annual budget for 2003 amounted to 1,254,581,469.49 SIT, which was equivalent to 5,300,519.15 EUR. The Court's total yearly expenditure thus presented 0,087 percent of the total State Budget expenditure for the quoted year (1,437,145 billion SIT, equivalent to 6.072 billion EUR).

Scope, role and rights of access of the Court of Audit

In accordance with the Slovenian Constitution, the Court of Audit is the supreme audit institution, responsible for auditing the state accounts, the state budget and all public spending in Slovenia. The Court of Audit's independent status is guaranteed by the Constitution and the law.

The Court of Audit Act carries out regularity/financial audits, with the objective of expressing an opinion as to whether the financial statements have been compiled in accordance with the regulations in force, with accounting standards and other professional requirements, and whether they present a "true and fair view" of the financial position and operating results of the audited body. The Court is also empowered to carry out performance audits, looking at the economy, efficiency and effectiveness with which audited bodies have managed the public resources for which they are responsible. As well as looking at any past operations, the Court of Audit may examine the planned operations of audited bodies.

The Court's audit remit includes central government departments, local authorities, and private sector bodies or individuals who have received public funds - either from the state budget, a local authority or the European Union. Such entities include companies, banks or insurance companies in which the state or local authority has a majority stake, grant recipients and contractors employed by the public sector to deliver services.

THE COURT HAS STATUTORY RESPONSIBILITIES TO UNDERTAKE CERTAIN AUDITS ON AN ANNUAL BASIS

The Court has statutory responsibilities to undertake certain audits on an annual basis, including the regularity audit of the implementation of the State Budget and regularity audits of the operations of the public health insurance institute and the public pension insurance institute. It must also audit, on a cyclical basis, the regularity of the operations of a certain number of local government authorities and a sample of commercial and non-commercial public service providers. The Court determines which particular local government and public service provider bodies it will audit in its yearly plans.

In order to carry out its audit work, Court staff have free access to the premises of audited bodies and the right to examine relevant documents and other materials. The officials and staff of audited bodies are obliged to provide the Court with the information it needs.

Relations with Parliament and Government

According to the Constitution and the Court of Audit Act, the Court exercises its powers entirely independently. No body, institution or other entity may order it to carry out tasks nor give it instructions as to how to perform tasks. However, deputies and working bodies of the National Assembly, the Government, ministries and local authority bodies may propose that an audit be carried out. The Court selects at least five proposals from the National Assembly, two of which must come from opposition deputies and two from working bodies of the National Assembly, in its annual work plan.

ACCORDING TO THE CONSTITUTION AND THE COURT OF AUDIT ACT, THE COURT OF AUDIT EXERCISES ITS POWERS ENTIRELY INDEPENDENTLY

The National Assembly's Commission for Budgetary and other Public Finance Control is entitled to discuss the individual reports and the Annual Report of the Court of Audit. The Annual Report is then submitted to the full National Assembly for approval by majority vote. The Court of Audit may also make comments on working drafts of laws and other regulations.

The auditing process

The Court of Audit carries out its audit work in accordance with INTOSAI and IFAC guidelines and standards. In addition to the audits which it has a statutory obligation to perform annually, the Court can choose other audit topics - either regularity or performance audit issues - to include in its annual work programme. Before deciding to include an audit proposal in its planning framework, the Court may carry out a pre-audit exercise to obtain more information about the audit subject, assess the risks involved and evaluate whether or not a full audit would be worthwhile.

An individual audit begins with the formulation of a detailed audit plan, which must be approved by the responsible Supreme State Auditor who will issue a decree to carry out the audit. Audit work is carried out at the audited body, a draft audit report is issued and disputed audit findings are resolved with the auditee in a clarification meeting. A draft audit report is compiled and the audited body has the opportunity to appeal against the findings of the audit. If the audit findings are contested, the Senate of the Court will rule on the disputed findings. The audit is concluded with the issuing of a report to the audited body and to the National Assembly. Audit reports are also published on the Court's web site.

Where significant irregularities or inefficiencies are found and the audited body has not acted to rectify them during the course of the audit, a follow up procedure is initiated. The audited body must submit a response report to the Court of Audit, setting out the steps and actions to be taken to eliminate the irregularities and inefficiencies. The Court of Audit assesses the credibility of the measures described in the response report and reviews supporting documents. If the auditor has concerns about the credibility of the response report, a new audit can be undertaken. If the Court assesses that remedial actions are still not satisfactory, a request for action to be taken is made to the body to which the audited body reports, for example, the Government or the supervisory board of a local community. This body must decide on the measures necessary and report its decision to the Court of Audit within 30 days.

Where the Court believes that a person responsible for the use of public funds has committed a severe violation of their responsibilities, the President of the Court notifies the National Assembly. The Commission for Budgetary and other Public Finance Control of the National Assembly examines the issue in the presence of the auditee and adopts a decree on measures to be taken. In cases of severe violations or if the auditee prevents or hinders the execution of the audit, the Court of Audit can issue a proposal for the dismissal of the person responsible and inform the media. If the Court of Audit suspects that a criminal offence has been committed, it will pass the matter over to the legal authorities of the state or the State Prosecutor for further investigation.

Methodology

The Court of Audit is continuously developing its audit manual setting out the process for financial audit. The objective of the audit process is to gather sufficient evidence in order to provide an opinion on the financial statements and the regularity of transactions. The Court seeks to obtain evidence through a structured approach based on a standard audit risk model. Most audits start with an assessment of the design and operation of the system of internal control used by the audited body, followed by the collection of direct substantive evidence. This usually takes the form of testing a sample of transactions making up the financial statements. Finally the auditor makes an evaluation of the results of the testing and proposes an opinion for the financial statements.

The Court of Audit makes significant use of information technology in its audit approach and has adapted audit methods and techniques which enable it to gather evidence systematically. It has invested in software licenses to improve the efficiency of its work and information technology supports most audits.

Reporting

Every report is signed by the President of the Court in his capacity as State General Auditor. Audit reports on individual audited bodies are generally available on the Court's website, (www.rs-rs.si) and the Court also organises news conferences on specific issues.

The Annual Report, submitted by the Court of Audit to the National Assembly, concentrates on the implementation of the audit programme, summarises the most important issues dealt with and highlights the Court's findings and audit results. It also contains information on developmental initiatives under way at the Court, with special emphasis on training programmes, employment policies and international cooperation projects. The Annual Report and all the procedures referring to it in the National Assembly are accessible to the media and the public.

THE COURT OF AUDIT IS CONTINUOUSLY
DEVELOPING ITS AUDIT MANUAL

Information about the Court's audits and follow up procedures may be provided by Members of the Court or by the Court's public relations staff. The Court's staff are encouraged to participate in relevant open conferences and seminars dealing with public finance issues.

The website of the Court of Audit also provides information about important visits of foreign representatives and experts, as well as visits by Members of the Court of Audit and its experts abroad.

SUMMARY

In accordance with the Slovenian Constitution, the Court of Audit is the supreme audit institution, responsible for auditing the state accounts, the state budget and all public spending in Slovenia. The Court of Audit's independent status is guaranteed by the Constitution and the law. The Court has wide powers to carry out regularity/financial audits and performance examinations. Key features are:

Appointment

- The President and two Deputy Presidents are appointed for a term of nine years by the National Assembly on a proposal by the President of the Republic.
- University graduates are recruited and trained to qualify as State Auditors or Certified State Auditors.

Audit Remit

- The Court of Audit Act carries out regularity/financial audits, with the objective of expressing an opinion as to whether the financial statements have been compiled in accordance with the regulations in force, with accounting standards and other professional requirements, and whether they present a "true and fair view" of the financial position and operating results of the audited body.
- The Court is also empowered to carry out performance audits, looking at the economy, efficiency and effectiveness with which audited bodies have managed the public resources for which they are responsible.
- The Court's audit remit includes central government departments, local authorities, and private sector bodies or individuals who have received public funds – either from the state budget, a local authority or the European Union.

Other Work

- The Court of Audit may also make comments on working drafts of laws and other regulations.

Access

- In order to carry out its audit work, Court staff have free access to the premises of audited bodies and the right to examine relevant documents and other materials. The officials and staff of audited bodies are obliged to provide the Court with the information it needs.

Reporting

- Reports on the completion of individual audits and an Annual report on the activities of the Court of Audit are made to the National Assembly.

Key Legislation

- The Court of Audit Act 2001.

TRIBUNAL DE CUENTAS SPAIN



Key Facts

Economic and general information

- The Constitution of 1978 defines Spain as a democratic and social State of Law under a Parliamentary Monarchy system.
- Spain became a member of the European Economic Community in 1986 and in 1998 was included in the so called "euro zone", starting the procedure, completed in 2003, to establish the Euro as its sole currency.
- A large country, Spain has a land area of 506,000 square kilometres and has a population of some 44 million.
- Spain has had a sudden economic development, accompanied by deep social and political changes. The Spanish economic structure corresponds to an industrialized country. Most of the economy is situated around the service sector and industry, representing almost 90 per cent of GDP. Agriculture has significantly declined as a result of the changes in the structure of the economy as well as an intense economic growth; it now represents less than four per cent of GDP.

The structure of the State

Constitution

The 1978 Constitution is the supreme rule of the State and reference for every disposition produced. After the Preliminary Title, establishing several general principles, the First Title deals with fundamental Rights and Obligations, which are exhaustively listed, and refers to the Universal Declaration of Human Rights, treaties and international rules, for the complete and proper interpretation of this section. A complex guarantee system is also contemplated, emphasising the possibility of access to the Constitutional Court (*Tribunal Constitucional*) in defence of the most important rights and liberties. This Title also includes the, so-called, conductive principles of social and economical policy, which are interpretative and guiding criteria for the drafting of Acts, the trial practice and the general procedure of public power.

The Constitution assigns the legislative function to the Parliament (Cortes Generales), executive power to the Government, and the judicial function to the Judges and Courts. The political control of the Government is under the authority of the Parliament.

The Head of State

Spain is a parliamentary Monarchy. The Head of State is the Monarch. His functions are regulated in the Constitution (Second Title). He has several important powers, although these have largely a representative and symbolic character. He is the symbol of the unity and permanency of the State. He moderates the regular functioning of the institutions. He is also the senior representative of Spain in international relations and gives and receives diplomatic credentials.

He is empowered to give assent to and promulgate Acts of Parliament and call general elections and national referenda. The Monarch also proposes and appoints the Prime Minister (the President of the Government) in accordance with the Constitution (i.e. after consulting the leaders of all the political parties with representatives in the Lower Chamber of the Parliament). The Monarch also appoints and removes the other members of the Council of Ministers on the recommendation of the Prime Minister.

The Monarch is the supreme commander in chief of the Army.

The legislature

There is strict separation between the Legislature, the Executive and the Judicial Powers. Legislative power is vested in the Parliament, based on a bicameral system: the Chamber of Deputies (Lower Chamber) and the Senate (Higher Chamber). It is regulated by the Third Title of the Constitution. The Legislature produces laws, paying special attention every year to the approval of the Annual Budget of the State and controls the activity of the Government through several procedures (such as commissions of investigation or questions formally posed to Ministers). The Lower Chamber endorses the candidate for Prime Minister and can also dismiss him through a process of impeachment. The relations between the Legislative and the Executive are described in the Fifth Title of the Constitution.

Members of the Lower Chamber are elected by direct and secret suffrage under a proportional representation system. Electors choose between party lists of candidates in multi-member constituencies. The electoral district is the province and the number of representatives for each province varies according to the number of voters. Each province has a minimum of two seats. The representatives for the Higher Chamber are mostly directly elected, each province having four seats. The Higher Chamber includes representation from the islands, the Autonomous Communities and the two Autonomous Cities.

The main rules concerning the internal organization of the Chambers and the procedure to draft Acts are also contained in the Constitution. Members of the Parliament are elected for a four year period.

The Executive

The Fourth Title of the Constitution refers to the Government and the Public Administration. Executive power is held by the Prime Minister, the Vice-Prime Ministers if appointed, and Ministers. Together they form the Council of Ministers, the highest decision making body within the Government; with political, and administrative and regulatory functions. They meet in Full Session and in Committees of Ministers. The Prime Minister's pre-eminence among the Ministers is emphasised by the fact that he retains power over their appointment and dismissal. He leads and manages the

Government and oversees and coordinates policies and administration. The Ministers have authority and are directly responsible for their actions.

Administration

The Public Administration has the mission to serve objectively the general interests, and functions in accordance with the principles of efficiency, hierarchy, decentralization, de-concentration, and coordination, fully in accordance with the Laws and Regulations. The creation and functions of the entities of the State Administration, the public servants' status (which defines the access, appointment, promotion and removal and guarantees their impartiality in the exercise of their functions), the citizens' access to administrative files and registers and the administrative procedures have to be regulated by law.

The Administration provides a wide range of services directly linked to the main citizens' interests, including education, health care, transport, communications, mail, policy, urbanism, social equipment, environmental protection, cultural and historical heritage.

The Government accounting system

The Seventh Title of the Constitution is devoted to Economy and Finances. It provides that the Government drafts the General Budget of the State and submits it for the approval of the Parliament.

Since 2001 the Budgetary Stability Acts (Act 18/2001 and Organic Act 5/2001) have introduced a balanced budget and budgetary stability as permanent features of public finances. Total public expenditure approved must not be exceeded and the public entities are encouraged to spend more efficiently. In accordance with the new scenario, the General Budgetary Act (Act 47/2003,) was approved. It regulates the budgetary, economic and financial system, the accounting system and the internal control and audit system. It defines the State Government Accounting System as an information system whose main purpose is to show, through financial statements and other documents, the fair economic, financial and budgetary situation and results of every entity that belongs to the system. This information has to be useful for the public managers, control systems, and analysis and information systems. Accountancy principles are also defined in this

Act. The body in charge of internal control for the State is the Intervención General de la Administración del Estado – IGAE, which is subordinate to the Ministry of Finance. It is the Directing and Managing Centre for public accountancy, and sets out the proposal for drafting the General Public Chart of Accounts, which has to be approved by the Ministry of Finance.

The IGAE works inside each body managing public funds under the principles of independence and transparency, and is in charge of internal control. It carries out its functions following different procedures:

- **Comptroller function:** verification prior to the approval of transactions, documents or other measures with financial consequences and their subsequent payments, confirming that the transactions are in accordance with regulations.
- **Permanent financial control:** continuous verification of the statements and financial operations of any entity belonging to the public sector, checking that practice is in accordance to regulations and the principles of a good governance, particularly those related to the stability objective.
- **Public audit:** a postiori control of economical and financial activity, developed under the internal audit rules and other instructions issued by the IGAE.

Regional and local Government

The processes for the creation and development of Autonomous Communities with self-governing powers began in 1977 and provisions for their establishment are set out in the Eighth Title of the Constitution. Provinces with the same historical, cultural or economic characteristics can form, with the approval of the Parliament, an Autonomous Community following a regional referendum. Seventeen Autonomous Communities and two Autonomous Cities have been created. They have their own regional parliaments and governments and financial autonomy. The Constitution sets out the powers that the Communities can assume (housing, education, health...). A Government Delegate manages the State Administration in the territory of each Autonomous Community and coordinates it with the Administration of each Community.

The local governmental level is also described in the Constitution. It involves provinces and municipalities. There are 50 provinces in Spain, that are formed by groups of municipalities each with their own Council; and numerous smaller local entities (around 15,000) of different kinds. Government's Sub-delegates oversee the municipal functions carried out across the province and coordinate the Administration of the State and the regional authorities in their area. The Provincial Councils are indirectly elected by the Municipal Councils. Municipal Councils are directly elected by the electors and carry out basic functions such as water supply, refuse collection and the building and maintenance of local roads. They have some revenue raising ability but they are heavily dependent on funding from the regional and central budgets.

The structure and organisation of the Tribunal de Cuentas

The Tribunal de Cuentas consists of 12 Members (Audit Counsellors). They are elected by Parliament (six members are elected by the Higher Chamber and six by the Lower Chamber), by a qualified majority of 60 per cent of the Chamber. To qualify for election as a Counsellor, an individual must have at least 15 years' professional experience and accredited expertise either as an Auditor or Attorney of the Tribunal de Cuentas or as a certified public accountant, magistrate, university teacher, public functionary belonging to bodies in which higher academic qualification is a requirement of entry, solicitor or economist. All Members are elected together for a nine-year period. They are eligible for reappointment.

The Audit Counsellors are independent and irremovable. They have the status of judges and have an equal standing within the Tribunal de Cuentas. The supreme decision-making body is the Full Session (Pleno) that is composed by all 12 Audit Counsellors and the Prosecutor. The Full Session has, among others, the power to approve the Annual Audit Program, to agree the start of the auditing procedures, to establish technical directives covering the different auditing procedures, to approve audit reports, to raise issues of conflict affecting the Tribunal de Cuentas's powers or attributions and to consider appeals from administrative decisions delivered by organs of the Tribunal de Cuentas.

The Supreme Audit Institution

Historical development

The Tribunal de Cuentas in its current model was established by the Constitution of 1978 although the origins of the external control of public funds in Spain can be found in the XV century. Some significant milestones in the recent history of its development are:

- 1924** Establishment of the *Tribunal Supremo de la Hacienda Pública* – carries out both the internal and external control of the management of public funds.
- 1931** The Constitution of the II Republic period linked the *Tribunal de Cuentas* to Parliament.
- 1953** The Act regulating the *Tribunal de Cuentas del Reino* placed it under the jurisdiction of the Head of State and the Cortes Orgánicas.
- 1978** The Tribunal de Cuentas is defined in the current Constitution as "*the supreme audit institution responsible for auditing the accounts and economic management of the State and the public sector*" (section 136). The Constitution sets out its functions, its independence, the governing principles and the status of its members. It also provides for further legislation to regulate its composition, organisation, procedures and duties.
- 1982** That provision was fulfilled by the Tribunal de Cuentas Organic Act (Ley Orgánica 2/1982), that set out the powers reserved for the SAI by the Constitution. It also ratifies the status of the Tribunal de Cuentas as completely independent in the performance of its functions and subject only to the Law, and recognizes its authority to approve its own budget, which is included automatically in the General State Budget for approval by Parliament.
- 1988** The above Act was developed by the Tribunal de Cuentas Functioning Act (Ley 7/1988) that regulates the procedures through which the Tribunal carries out its audit and jurisdictional functions.

The Monarch appoints the President of the Tribunal de Cuentas for three years. He or she is elected by the Full Session among the Audit Counsellors. The President represents the Tribunal de Cuentas and, among others, has the authority to convene and preside over the Full Session and the Ruling Committee (Comisión de Gobierno), to exercise supreme authority in respect of the personnel, to exercise top level inspection of the Tribunal de Cuentas's own services and secure their coordination and efficiency, and to order expenditure.

The Ruling Committee is comprised of the President of the Tribunal de Cuentas and the Presidents of the Audit and Jurisdictional Sections. The Presidents of both Sections are elected at the same time as the President and for the same period. The Ruling Committee has, among others, the following functions: to maintain a permanent relationship with the Parliament, to draw up the agenda and to prepare the meeting of the Full Session and to lay down the working regime for staff.

The Auditing Section (Sección de Fiscalización) is comprised of Audit Counsellors responsible for each of the seven Audit Departments. (General Statement of State Accounts and the Economic Ministries; Political Administrative Area; management of the Social Security and Social Action Plans; Public Enterprises of the State; Financial Public Entities and Foundations of the State; Autonomous Governments; and Local Entities). One of them is also the President of the Section. The functions of the Auditing Section include the monitoring of auditing procedures handled by the Departments and the consideration of the draft reports to be presented to the Full Session for approval.

The Trial or Jurisdictional Section (Sección de Enjuiciamiento) is made up of the Section President and three Audit Counsellors, each of them in charge of a jurisdictional Department. The jurisdictional function is exercised in first instance by an Audit Counsellor, and in appeal by a Bench that is made up of the President of the Section and the other two Audit Counsellors in charge of Jurisdictional Departments that have not judged the case in the first instance.

There is also a Secretary General (Secretario General), who is elected by the Full Session from the Senior Corps of Attorneys and Auditors of the Court of Audit or other Senior Corps appointed at the Institution. The Secretary General is responsible for facilitating the proper performance of the governing duties of the President, the Full Session and the Ruling Committee in all matters concerning the internal working of the Tribunal de Cuentas and takes part in the Full Session and Ruling Committee meetings as a non-voting member and draws up the minutes. The Secretary General also exercises, under authorisation of the President, those powers devolved to him for personnel matters and contracts, which do not require prior authorisation by, or cognisance of, the Full Session or the Ruling Committee. The Secretariat General is organized into those administrative Units covering the administrative management of general and governmental matters and those affecting personnel, economic and budget matters, the inspection and performance of its own services, purchases and acquisitions, computerization and data processing, the General Registry, the Archives and the Library.

Staff

The Tribunal de Cuentas has a staff of some 800 people, including approximately 450 professional staff (200 Senior auditors and 250 Junior auditors). The rest of the staff takes on administrative and support duties. The professional staff of the Tribunal de Cuentas are composed of members of the specific three bodies of the Tribunal de Cuentas (Senior and Junior Bodies of Attorneys and Auditors and Junior Auditors) and other personnel belonging to Senior Bodies of the Public Administrations. There are also IT experts. The staff are mainly civil servants and are subject to general civil service regulations except for the specifications contained in the Acts of the Tribunal de Cuentas.

The scope and role of the Tribunal de Cuentas

The two functions of the Tribunal de Cuentas are described as: the permanent and ex-post external auditing of the economic and financial activity of the public sector; and the trying for accounting liability where such arises in respect of persons entrusted with the handling of public monies or assets.

The Auditing Function

The legislation specifies that the audit work involves verifying that public sector economic and financial activity conforms to the principles of legality, efficiency and economy. It applies to all public revenue and spending programmes.

The Tribunal de Cuentas legislation defines the public sector subject to its audit as: the State Administration; the Autonomous Communities (regions); Local Entities; Social Security management bodies; autonomous public agencies, state corporations and other public enterprises. The Tribunal de Cuentas is also responsible for auditing subsidies, credits, endorsements or other items of public sector assistance to companies or individuals.

THE TRIBUNAL DE CUENTAS IS DEFINED IN THE CURRENT CONSTITUTION AS "THE SUPREME AUDIT INSTITUTION RESPONSIBLE FOR AUDITING THE ACCOUNTS AND ECONOMIC MANAGEMENT OF THE STATE AND THE PUBLIC SECTOR"

In addition to its specific regulations, the Organic Act for funding the Political Parties (Ley Orgánica 3/1987), empowers the Tribunal de Cuentas to audit the accounts and financial statements of political parties that receive funds from the public budget for having obtained representation in the Lower Chamber. The Organic Act of the General Electoral Procedure (Ley Orgánica 5/1985) gives the Tribunal de Cuentas powers to verify the accounts and financial statements related to electoral campaigns of those political organizations that may receive electoral funds.

Regional Audit Institutions have been established in most of the 17 Autonomous Communities. They develop their powers independently without prejudice to the competences of the Tribunal de Cuentas. (that are to be exercised over the whole national territory and all public funds). The Regional Audit Institutions audit the accounts and statements of the regional administration according to their own regulations and present their reports to the regional parliament. They also audit public regional entities (agencies, corporations, enterprises, universities etc) and, if their regulations allow, may extend their powers to local entities and the financial

statements of the electoral activity of the political parties in regional elections. Where Autonomous Communities have not created Regional Audit Institutions the audit is carried out directly by the Tribunal de Cuentas. The Functioning Act provides for coordination between all the Spanish Audit Institutions, through the establishment of common criteria and techniques, to guarantee the maximum efficiency in the development of their tasks and to avoid duplication. Under the Act, reports from Regional Audit Institutions must be sent to the Tribunal de Cuentas, for examination and inclusion of its own conclusions in its reports.

Every year the Full Session approves the Annual Audit Programme, which includes ordinary audits, audits imposed by regulations, audits agreed by the Tribunal de Cuentas ex-officio and audits requested by those legally empowered to do so (the Parliament and the Legislative Assemblies of the Autonomous Communities).

Trying for accounting liabilities

The jurisdictional functions of the Tribunal de Cuentas are confined to the Jurisdictional Section over those accounts that the persons *"collecting, auditing, administering, keeping safe, managing or utilising public goods, monies or assets are obliged to render"*. The Tribunal de Cuentas does not decide criminal responsibilities (which remains with the criminal courts) but can judge accounting responsibilities coming according to the facts; so that both procedures (accounting and criminal) are compatible. The Jurisdictional Section examines cases at the request of the Prosecutor, the Public Administration affected by the damage or under public action. The Prosecutor is competent to start the procedures of accounting responsibility and to intervene in those in progress defending the public interest.

The liability for the loss or waste of public money is personal. Public officials or individual citizens managing public funds are liable to repay the full amount of any loss if their wilful actions result in loss or waste. Under the principle of "subsidiary liability" it may be possible to prosecute a person who could have prevented the act while carrying out supervisory duties and did not; only when the person directly liable can't be prosecuted. The Tribunal de Cuentas can also judge private persons if they have misused public

subsidies or other public funds, or if they cannot prove that money has been spent in accordance with regulations and objectives forecast.

The Jurisdictional Section deals with the initial handling of legal proceedings carried out under accounting law, the procedures preliminary to the initiation of those proceedings, and cases heard by the Tribunal de Cuentas as a matter of first instance or appeal. It also carries out the appeals against judgements presented on certain proceedings that are of an administrative nature and are handled by the affected public Administration in the field of accounting responsibilities. The procedures also include precautionary measures against the goods of those who may be responsible of the loss.

The Appeals for rehearing against the resolutions of the Tribunal de Cuentas can be presented to the Supreme Court of Justice (*Tribunal Supremo*).

Only the Tribunal de Cuentas is authorised to carry out the jurisdictional function in relation to the accounting responsibility. However, it can delegate some of its administrative activities related to the preparation of the procedures to Regional Audit Institutions.

Collaboration with the Tribunal de Cuentas

The Tribunal de Cuentas's access rights are clearly set out in legislation and all the bodies within its remit must provide all the information it needs to carry out both its audit and jurisdictional functions.

The duty of collaboration extends to any natural persons or legal entities responsible for public goods, funds, effects or property which they may have on deposit, in their custody or for administration purposes, or in whose management they may have participated or are participating, for any reason whatsoever, as well as those natural persons or legal entities in receipt of subsidies or other aid from the public sector.

Requests for collaboration are made by the President of the Tribunal de Cuentas at the request, when appropriate, of the corresponding Audit Counsellors, and are addressed to the heads of the different Ministerial Departments (in the case of the State public sector); to the Presidents of the Autonomous Communities (in the case of the dependent public sector); to

the Presidents of the respective Local Corporations; and in general, to the head of any required entity; and, if it were the case, to the corresponding individual.

EVERY ENTITY BELONGING TO THE PUBLIC SECTOR IS OBLIGED BY LAW AND REGULATIONS TO SUBMIT ITS ANNUAL ACCOUNTS TO THE TRIBUNAL DE CUENTAS.

Failure to comply with such a request can lead to sanctions imposed by the Tribunal de Cuentas, without prejudice to penal liability. The Tribunal may inform Parliament of the failure to collaborate and may propose that Government, Ministers or Authorities impose disciplinary sanctions.

The auditing process

a) Annual Accounts submission

Every entity belonging to the public sector is obliged by law and regulations to submit its annual accounts to the Tribunal de Cuentas. Similar obligations extend to recipients or beneficiaries of public aid - subsidies, loans or guarantees, as well as those private individuals who administer, collect or look after public funds or securities. The contracts signed by any public entity are also submitted to the Tribunal de Cuentas.

Political parties that receive funds annually, or that, receive public funds to finance political campaigns, according to the electoral regulations, or have the right to receive them, due to their electoral results, must also present their annual statements and accounts and statements of campaign activity.

Auditing procedures

The audit process is set out in the Acts of the Tribunal de Cuentas and whatever is not included in those Acts, the provisions of the Administrative Procedure Act (Ley 30/1992) apply.

The initiative in the audit procedures corresponds to the Tribunal de Cuentas "ex-officio", the Parliament and, within their spheres of competences, to the Regional Parliaments.

The Functioning Act of the Tribunal de Cuentas emphasises that the auditing function is carried out by means of the examination of the different general annual accounts and other statements of public entities; of any account statements of any entity or individual granted public funds; contracts made by public entities; public assets; modifications made to the initial budget loans; and any other measures which may prove to be suitable for the fulfilment of its function. The accounts are examined, using the sample-selection techniques, by the relevant Department of the Tribunal de Cuentas.

The Tribunal de Cuentas carries out different kinds of audit. Usually it undertakes them in combination, as it analyses the different aspects involved in the management of public funds. Each kind of audit pursues a different goal:

- Checking the management of public funds by any public entity accords with the laws, rules and regulations (legality audit).
- Verifying that the accounts fairly represent the financial operations and results of the entity (financial audit).
- Checking the existence and function of internal control, in order to determine if it is in accordance with legal directions and the principles of good management (audit of systems and procedures).
- Examining the degree of efficient management in the satisfaction of previously fixed objectives (performance audit).

"Technical Directives" guiding each audit are approved by the Full Session. Audit field work is carried out by audit teams, according to working programmes and the generally accepted audit rules and principles.

Reporting and Parliamentary remission

When the relevant Department of the Tribunal has prepared the first draft of the audit report, it is sent to the audited body for comments. Their suggestions may or may not be taken into account in the final report. However, whether the comments are accepted or not they and the Tribunal's reasons, are appended to the report.

The Tribunal de Cuentas produces the following audit documents:

- Annual Memorandum of Performance: a summary of the audit and jurisdictional activities progressed during the previous year, highlighting the most relevant audit results.
- Final Declaration of the General Statement of State Accounts: Specific provisions are set out for the General Statement of State Accounts. This document is produced by IGAE in accordance with the General Budgetary Act, and is submitted to the Court by the Government within 10 months after the end of the year. It includes the General Accounts of the State Administrative Entities, State Public Enterprises and State Foundations, as well as a memorandum that will complete, extend and comment on the information contained in the above documents. Under the Constitution, the Tribunal de Cuentas examines the General Statement as delegated by Parliament. The Full Session of the Tribunal de Cuentas approves the Final Declaration and then it is passed to Parliament and copied to the Government.

- Annual Report of the Activity of the Regional and Local Public Sectors: in order to provide the Parliament with information similar to that referred to the State Public Sector, this report is produced taking from the Annual Reports of the Annual General Statements of regions and local governments made by the Tribunal de Cuentas and the Regional Audit Institutions.
- Special Audit Reports.
- Motions or Notes: the Tribunal de Cuentas can submit to the State Parliament or, where appropriate, the Autonomous Parliaments, whatever recommendations it may consider appropriate, taking into account its audit experience and knowledge of the operations of the entities of the public sector. It proposes measures that, in its opinion, can create improvements.

The audit reports, motions and notes, approved by the Full Session of the Tribunal de Cuentas, are presented to the Parliament by the President of the SAI for parliamentary action. Where relevant, the audit reports are delivered to the Legislative Assemblies of the Autonomous Communities and the Full Sessions of the Local Entities. The Parliamentary Mixed Committee for the Relationship with the Tribunal de Cuentas (Comisión Mixta Congreso-Senado para las relaciones con el Tribunal de Cuentas) considers the Tribunal's reports. This Committee consists of members of both the Lower Chamber and the Higher Chamber. Reports about the Autonomous Communities or organisations dependent thereon, are presented to Regional Parliaments for action by Regional Governments.

All the reports of the Tribunal de Cuentas and the resolutions adopted by Parliament concerning their implementation are published in the Official Gazettes.

SUMMARY

The key features of the Tribunal de Cuentas are:

Independence

- The Tribunal de Cuentas is completely independent of any other institution. It is also independent in the performance of its functions and it is only subject to the Law.
- The Tribunal de Cuentas draws up its own budget, which is incorporated in an independent section of the General State Budget for the approval of the Parliament.
- The Members of the Tribunal de Cuentas and the staff are also independent.

Appointment and Status of the Members of the Tribunal de Cuentas

- The Tribunal de Cuentas is made up of 12 Members (Audit Counsellors), six appointed by each of the Lower and Higher Chambers of Parliament. Those twelve Members and the Prosecutor compose the Full Session. The Audit Counsellors serve for nine-year periods and can be re-elected.
- The President of the Tribunal de Cuentas is elected by the Audit Counsellors among them for a period of three years and can be re-elected. The Monarch appoints the President.
- The Audit Counsellors are elected from among members of the Senior Bodies of Attorneys and Auditors of the Tribunal de Cuentas, certified public accountants, magistrates and prosecutors, university teachers and public functionaries belonging to bodies in which higher academic qualification is a requisite of entry, solicitors, economists and commercial college teachers, all of accredited expertise and having over fifteen years' professional experience.
- The Audit Counsellors of the Tribunal de Cuentas are independent and irremovable and have the status of judges.

Staff

- The Tribunal de Cuentas has around 800 staff, of whom approximately 450 are professional staff and 350 are clerical staff. Professional staff are composed of members of the specific bodies of the Tribunal de Cuentas and other bodies of the Public Administrations.

Functions of the Tribunal de Cuentas

The Tribunal de Cuentas has a wide range of responsibilities, including both audit and jurisdictional functions:

- The Tribunal de Cuentas carries out a permanent and ex-post external audit function of the economic and financial activity of the public sector.
- It also carries out the trials of accounting liability where such arise in respect of persons entrusted with the handling of public monies or assets.

Audit remit

- The Tribunal de Cuentas is responsible for the audit of the entire public sector, including the state, regional and local administration; public enterprises; the social security management bodies; and autonomous public agencies. The Tribunal de Cuentas has also competence for auditing subsidies, credits and other public sector assistance to private companies or individuals.
- The mandate of the Tribunal de Cuentas also extends to the audit of the annual accounts of political parties that receive annual public funds for having obtained representation in the Lower Chamber. It is also empowered to audit the accounts of the electoral campaigns of the political parties that, according to their electoral results, receive public funds.
- The Tribunal de Cuentas examines the legality, efficiency, effectiveness and economy of the economic and financial management of all the public sector and the publicly funded activities.
- Regional Audit Institutions have been established in most of the 17 Autonomous Communities. They audit the accounts and the financial management of the Community sector and, if required, the accounts and financial management of local governments under their territory. They present their reports to the regional parliaments. Their powers are carried out independently without prejudice of the competencies of the Tribunal de Cuentas that extend over all Spanish territory and to all public funds.

Collaboration with the Tribunal de Cuentas

- The Tribunal de Cuentas, in order to carry out both its audit and jurisdictional functions, may require the cooperation of any natural person or legal entity with regard to public goods, funds, effects or property which they may have on deposit, in their custody, or for administration purposes, or in whose management they may have participated, or are participating for any reason whatsoever, as well as those individuals or legal entities in receipt of subsidies or other aid from the public sector. All of them are obliged to collaborate with the Tribunal de Cuentas when requested.

Reporting

The Tribunal de Cuentas produces the following audit reports:

- Annual Memorandum of Performance, which shows a summary of annual audit and jurisdictional activities carried out and the main audit results.
- Final Declaration on the General Statement of State Accounts, which includes a view of the financial management of the State and its public sector.
- Annual Audit Report on the Autonomous and Local Public Sector.
- Special Reports.
- Motions or Notes proposing those measures, which, in its opinion are conducive to the improvement of the financial management of the public sector.

All the reports, memoranda, motions and notes are approved by the Full Session; then they are presented by the President of the Tribunal de Cuentas to the Parliament through the Mixed Committee for the Relationship with the Tribunal de Cuentas and published in the Official Gazettes.

Key legislation

- The key legislation ruling the Tribunal de Cuentas is the 1978 Constitution (sections 136 and 153.d), the 2/1982 Tribunal de Cuentas Organic Act and the 7/1988 Tribunal de Cuentas Functioning Act.

RIKSREVISIONEN SWEDEN



Key Facts

Economic and general information

- Sweden is situated on the Scandinavian peninsular and has a land area of some 450,000 square kilometres. It has a population of nearly nine million people, most of whom live in the southern third of the country.
- Sweden has been a kingdom since the tenth century. In the seventeenth century Sweden became one of Europe's great powers, with a Baltic Sea empire, which included Finland, some of the present day Baltic States and areas of Germany, Poland and Russia. Sweden was forced to give up most of its possessions in the course of the following two centuries, ceding Finland to Russia in 1809 and losing its last German possession in 1815. Its ensuing union with Norway ended in 1905.
- Sweden has not been involved in any war since 1814 and has since the First World War followed a policy of non-alignment in times of peace and neutrality in war. Since the Second World War it has been actively involved in various international organisations, in particular the United Nations. Sweden became a member of the European Union in 1995.
- The Swedish economy has traditionally been based on the country's natural resources of timber, waterpower and mineral deposits (including iron ore, copper and zinc) and on an innovative and successful engineering industry. More recently, the country's heritage of industrial innovation has been demonstrated internationally in two particular sectors: the pharmaceutical industry and information technology.
- Some 25 per cent of the labour force works in mining, manufacturing and construction, 73 per cent in the service sector, and just two per cent in agriculture. The economy is highly dependent on exports, with 45 per cent of industrial output going abroad. The design and fashion industries are new fields in which Sweden is enjoying major export successes and, interestingly, Sweden is also the third-largest music-exporting nation after the USA and the UK.

The structure and organisation of the Swedish state

Constitution

Sweden is a constitutional monarchy with a hereditary monarch as Head of State. The written Constitution dates from 1975 and is made up of four fundamental laws: the Instrument of Government of 1974; the Act of Succession of 1810; the Freedom of the Press Act of 1949 and the Fundamental Law on Freedom of Expression Act of 1991. The four laws have all been amended since their first appearance. The Constitution is based on the principles of popular sovereignty, representative democracy and parliamentarianism.

Public access to almost all official records and papers, including most prime ministerial correspondence, is a key principle of government in Sweden. This principle is enshrined in the Constitution and means that the documents of state and municipal administrations are available on request. Those requiring access to official information are not obliged to give a reason or to reveal their identity. The only reasons for not making documents and information available are ones of security, commercial sensitivity and personal confidentiality. Such cases require a legal justification.

Head of State

Sweden has been a constitutional monarchy since 1866. As Head of State the monarch is the official representative of Sweden, and opens the annual session of the Parliament (Riksdag) without playing any further part in its activities. The monarch's role is now purely ceremonial. As a result of amendments to the Instrument of Government in 1974, the monarch does not sign any government decisions, and his/her previous role in selecting the Prime Minister has passed to the Speaker of the Riksdag.

The Executive

Executive power in Sweden rests with the Prime Minister and the Cabinet. Government in Sweden is conducted by the Cabinet. This comprises the Prime Minister and the ministers nominated by the Prime Minister. It is responsible to the Riksdag and ministerial decisions are usually made collectively and not by individual ministers. Although ministers are usually

Members of the Riksdag, during their period in office they lose their voting rights and parliamentary responsibilities, which are taken over by replacements. The Cabinet takes all important decisions at regular formal meetings. Informal policy discussions also take place in connection with these weekly meetings of the Cabinet.

The process of forming a government is initiated by the Speaker, who nominates a candidate as Prime Minister. Should more than 50 per cent of members of the Riksdag vote against this candidate, another must be put forward. If after four attempts no agreed candidate has been found another election must be held within three months. The Prime Minister can be dismissed by the Speaker following a vote of no confidence, and ministers can be removed by the Prime Minister or a vote of no confidence.

Legislature

The legislative power is the Riksdag, which since 1971 has been a unicameral assembly of 349 seats. The Cabinet is responsible to the Riksdag. The Riksdag enacts laws, sets the budget, approves the use of revenue and examines the actions of the Government. The work of the Riksdag is overseen by the Speaker, who plays a non-political role. Bills are introduced by the Government and private members' motions by members of the Riksdag. They are given thorough consideration by one of the 15 parliamentary standing committees prior to receiving scrutiny from the plenary session of the full chamber.

Members of the Riksdag exert control over the Government in a number of ways. A majority of members can require a vote of confidence, which may result in the resignation of ministers or possibly the Government. The standing committees mentioned earlier can ask ministers and senior officials to attend their meetings to answer questions and provide further information. However, committees cannot prevent a bill from reaching the plenary session of the Riksdag.

Members of the Riksdag and local government assemblies are directly elected for four years under a system of proportional representation. According to the Constitution, local and national elections must be held on the same day. There is universal suffrage for all over 18 years old and foreigners resident in Sweden for more than three years can vote in local elections.

There are 29 constituencies across the country and from these 310 of the Members of the Riksdag are elected. The remaining 39 'adjustment seats' are distributed across the country from a national pool to ensure exact proportionality of seats to votes for all parties gaining more than four per cent of the turnout. The seats are filled from candidates nominated in the constituencies. Only parties receiving more than four per cent can qualify for representation in the Riksdag.

Administration

Public administration in Sweden is highly decentralised. Government ministries are small, with many employing only a few hundred staff. In total around 4,400 work within the ministries. They are concerned primarily with supporting ministerial policy-making through the preparation of bills for the Riksdag and general government directives, as well as handling the budget and dealing with higher public appointments. Ministries have little or no involvement in administrative matters.

Associated with the ministries are over 300 agencies and state boards employing around 220,000 staff. Agencies have been a feature of Swedish government for over 300 years. Agencies execute government policy but have considerable independence of action according to the Constitution. Each is headed by a director general appointed by the Government on a six year contract. Although agencies are independent in that they propose their own work to meet ministerial policy objectives, the Government can influence them. The Government often uses agencies to carry out special assignments and investigations.

The Government governs agencies through a system of management by results. Each agency submits two documents to the Government. The first is an annual report, which analyses the agency's activities; and the second is a budget request. After discussions about how the agency can improve performance and agreement on objectives and targets, the Government approves a new appropriation, which is then decided by the Riksdag.

The Swedish public sector has experienced considerable change in recent years, stimulated by the need to control state expenditure. Management by results has been introduced for agencies, a privatisation programme has developed and there has been increased decentralisation of powers to county councils and municipalities. Expenditure cuts have been implemented following the economic crisis in the early 90s. The tax system was reformed and the old pension scheme has been changed, partially into a funded scheme. Government expenditure is subject to "ceilings" decided by the Riksdag.

Regional and Local Government

Sweden is divided into 290 municipal districts, 18 county councils, two regions and one municipality, which do not belong to a county council or region. Each of these has a popularly elected council. County councils are responsible for medical care (which accounts for the majority of their expenditure), public transport, and certain levels of education and vocational training. They are entitled to raise income tax within their area and locally derived sources account for over 60 per cent of their revenue. Municipalities are able to levy income tax and fees for services, although they also receive significant subsidies from central government. Their responsibilities include housing, education, child and social welfare, roads, cultural activities, water supply and sewerage.

Central government also plays a regional role via 21 county administrative boards under government appointed governors. The boards represent central government, in particular on issues such as regional planning. They also co-ordinate the different levels of administration within the county.

Public Accounting System

The budget year coincides with the calendar year. The Government submits its Spring Fiscal Policy Bill in April. The Bill contains assessment of the current economic situation with perspectives for the next few years and proposals for the orientation of budgetary policies and for expenditure ceilings. The Government submits its Budget Bill for the following budget year in September. The Budget Bill should cover all expenditure and revenue, since no further budget proposals may be submitted during the autumn.

The decision-making procedure which the Parliament uses when considering the Budget Bill is known as the framework model. The Parliament first takes a decision on the overall size of the budget. By means of this decision, expenditure is fixed and the level determined for each expenditure area thereafter functions as a limit which may not be exceeded in the later stage when the Parliament finalises the budget.

ACCRUALS ACCOUNTING WAS IMPLEMENTED IN THE SWEDISH CENTRAL GOVERNMENT IN 1993.

In the middle of December Parliament decides on the various appropriations for the coming calendar year. When this has been done, the Government issues budget letters with instructions for how the appropriations are to be used. If unanticipated needs that require new funding arise during the budget year it is possible to exceed an appropriation by borrowing from the following year's appropriation.

Government agencies are obliged to carefully monitor changes during an ongoing budget year and notify the Government in good time if a budget appropriation looks as though it may be exceeded. If necessary the Government can propose that the Parliament make changes to the budget during an ongoing budget year. Such supplementary budget proposals are normally submitted twice a year, in connection with the Spring Fiscal Policy Bill in April and the Budget Bill in September.

Accruals accounting was implemented in the Swedish central government in 1993. The main reason for this was to facilitate the implementation of performance management. At the same time a new accounting model was introduced which makes it possible to monitor performance, for example total costs of government programmes and activities. It also facilitates the analysis of more specific information such as cost per output.

The organisation and structure of the Riksrevisionen

The Riksrevisionen is the national public agency for independent audit of state activities. The Riksrevisionen is headed by three equal Auditors General who the Riksdag appoints for seven years each. The present and first Auditors General were appointed for three, five and seven years, respectively, and have a background as state civil servants.

The Riksrevisionen consists of six departments for performance audit and six departments for financial audit. The division for the audit of public companies and special audits scrutinises state-owned companies and take part in more in-depth audits of essential problem areas. The quality and methods division develops and manages the processes for quality assurance, as well as methods and support for these development areas within both financial and performance audit. The international division coordinates the different parts of the Riksrevisionen's international engagements, including international assignments in the areas of capacity building and external audit of international organisations. The Riksrevisionen's organisation also includes a number of support functions such as human resources, information, finance and administration, IT, legal matters, internal audit and the Auditors General's Secretariat.

The Riksdag appoints a Board for the Riksrevisionen (see below). A scientific advisory council is also attached to the Riksrevisionen. The Council advise on methods and quality issues.

The recruitment, remuneration and qualifications of staff and other resources

The Riksrevisionen has 300 employees, of whom more than 200 are based in Stockholm and the rest in three regional offices. Approximately 130 staff work in financial audit and 90 in performance audit. The remainder are either in the international division or supportive staff, e.g. administrative and clerical staff.

The Supreme Audit Institution

Historical development

State audit has existed in some form in Sweden since the sixteenth century.

- 1921** The National Accounts Board was set up as the body controlling the administration of government funds.
- 1943** The Government Audit Bureau was formed to examine whether government was organised in the most suitable way, doing this by examining certain state bodies.
- 1961** The National Accounts Board and the Government Audit Bureau were merged to form the Riksrevisionsverket or the Swedish National Audit Bureau (later Office).
- 1967** The work and organisation of the Riksrevisionsverket (RRV) were revised and restructured, with performance audit of agencies introduced and financial audit (as internal audit) delegated to a number of decentralised small audit bodies.
- 1970s** The scope of performance audit was extended to cover the role of the agencies and their operations, rather than just work planning.
- 1980s** A systems based approach was introduced in performance audit and the audits became more focussed on effectiveness rather than efficiency.
- 1987** Financial audit work was returned to the RRV, now as external audit.
- 1998** The responsibility for the state accounts – hitherto the responsibility of the Riksrevisionsverket - was moved to a new agency. The RRV was thus established as a pure audit institution.
- 2000** The question of state audit, independent of both Government and Parliament, had been debated in Sweden since the 1980s by a parliamentary commission of inquiry, which eventually proposed that the state audit function should be carried out under the auspices of Parliament. In 2000 the Riksdag unanimously decided to create a new state audit institution, thus transferring all responsibility for the state audit to an independent body under parliament – Riksrevisionen – the new Swedish National Audit Office.
- 2003** The Swedish Constitution was amended enabling the Riksrevisionen to commence its work. The operations of the RRV and of the Parliamentary Auditors were discontinued from the same date.

All audit staff are graduates, predominantly in economics and the social sciences. Candidates generally take a test before being accepted by the Riksrevisionen. Staff are largely trained on the job, but in addition regular training courses and seminars are held. Five years professional training, which ends with certification is arranged for financial auditors.

The budget of the Riksrevisionen for 2005 was 282 million Swedish krona. In addition the budget for 2005 for the Riksrevisionen's assignments and services in the international area was 48 million Swedish krona giving a total budget of approximately £25 million.

The scope, role and rights of access of the Riksrevisionen

The basis for the work of the Riksrevisionen is laid down in the Instrument of Government, one of Sweden's fundamental laws or part of the "constitution" (Art. 7, Ch. 12), in which the Riksrevisionen is an agency under the Riksdag whose function is to audit the activities carried out by the State. More detailed rules concerning the activities of Riksrevisionen are set out in The Riksdag Act and other legislation. Under provisions laid down in such legislation, the Riksrevisionen's audit may also extend to activities other than activities of the State.

Thus the Riksrevisionen is the central public audit institution. Its audit mandate covers all state activities, except the part of the Sovereign's property which is considered for his or her private use, and the National Pensions Funds. Consequently the Riksrevisionen audits the Parliamentary Administration and Parliament's associated bodies, the Government Offices, government agencies including their regional and local branches, state-owned companies and foundations, and national subsidy transfers to households, business and government bodies.

The Riksrevisionen has access to all information it requires for its audit work, such as documents and data in all forms, including those classified as secret. In addition audit staff have access to staff on all levels of state public service. Under the principle and legal act of public access to information, the Riksrevisionen's own audit files can be examined after audit work has been completed.

Relations with Parliament and Government

The Riksrevisionen is managed by three equal Auditors General, who are elected by the Swedish Parliament (the Riksdag), for a mandate of seven years each. The Riksdag argued that three Auditors General, instead of only one, would lower the vulnerability of the organisation and add a broader competence to the management. An Auditor General can only be discharged from the office by the Riksdag if she or he 'no longer fulfils the requirements for the office or has been guilty of gross neglect'. The Auditors General decide independently on what is to be audited, how the audit is to be carried out, and what conclusions are to be drawn from each audit.

The Riksrevisionen has a Board, which is appointed by the Riksdag. The current and first members of the board are all, or have been, Members of Parliament. The role of the Board is stipulated in the constitution. The Board is to consider if audit reports are to be tabled in Parliament. It is free to consider if and what political decisions need to be made in view of the Riksrevisionen's conclusions and recommendations in the audit reports. However, the board does not have the right to object to the conclusions and recommendations in the reports of the Riksrevisionen. The board also decides on the budget proposal for the Riksrevisionen and determines the financial statement and reports from the Auditors General on results of the Riksrevisionen.

Before the Auditors General make their final decision, the Board is also to comment on the Auditors General's suggestion for a yearly audit plan. The Auditors General in their turn are to report to the board on how the audit plan is followed throughout the year. The audit plan is the basic tool for steering and planning purposes on a strategic level. The audit plan is complemented by a more detailed action plan, specifying all audit activities.

One of the purposes of the 2003 reform to gather the state auditing resources under the Riksdag was to bring about a comprehensive government audit of the entire decision-making chain in executive government. One effect of this is that, as part of its performance audit, the Riksrevisionen is empowered to examine the activities of the Government and the Government Offices, such as the way the Government implements decisions taken in the Riksdag. On the other hand, the Riksrevisionen may not audit the way the Government performs its duties. This continues to be a task for the Parliamentary Standing Committee on the Constitution. Thus, different conditions apply to the Riksrevisionen and the Standing Committee on the Constitution's respective audits of the Government, with the Standing Committee on the Constitution having a legal and administrative focus and Riksrevisionen focusing more on financial and accounting aspects.

The auditing process

Financial audit

The financial audit departments scrutinise annual financial reports of the state; the Government Offices and all government agencies (except for the National Pensions Funds); the courts; the Parliamentary Administration and all three agencies under Parliament; the administration of some royal organisations; the Social Insurance Fund and operations that the municipalities and the county councils run in cooperation with the Social Insurance Fund and the county labour boards and operations that are financed by them as well as asset management for certain funds in the area of social insurance.

The Riksrevisionen appoints employees with specific qualifications to audit public utilities, some government owned limited companies, public foundations and other organisations. In addition, it undertakes thematic audits of economic issues within government. The audit of agency performance reports is often carried out in conjunction with the relevant performance audit department.

The annual financial audit is carried out in accordance with generally accepted auditing standards. Its aim is to assess whether the accounting is reliable and the accounting records are true and fair, and to assess whether the management of the agencies audited adhere to existing regulations and have fulfilled their administrative responsibility to important parts of operations. In the case of the Government Offices, the annual audit does not assess the administration of the management.

The task of auditing includes drawing up audit statements and producing the most important findings in a consolidated annual report, which is submitted to the Riksdag and the Government.

Performance audit

Performance audit and evaluation of government activities and programmes has been carried out in Sweden since 1967. Performance audit on a smaller scale was introduced as early as 1921. The aim is to promote and improve government economy, efficiency and effectiveness through examinations of government programmes or operations.

The performance audit departments of the Riksrevisionen scrutinise the same objects as the financial audit. In addition to that the performance audit also audits government-owned joint stock companies if their activities are regulated by statutory provisions or if the Government has a controlling influence in them; government-owned companies and foundations; the use of government grants provided the recipient is required to maintain accounting records for the funds and submit them to the Government, or if notification has been given of special conditions concerning the way the funds may be used. The findings of the audits are set out in detailed audit reports. The most important findings are included in the consolidated annual audit report together with similar observations from the financial audit.

Performance audits concentrate primarily on examining circumstances that affect the national budget, the implementation and results of government activities and government undertakings. However, the audit may also cover government activities and investments in general. The audit aims to promote progress towards an economic, efficient and effective return on government expenditure, seen in the perspective of the general public interest.

Reporting

The financial auditor submits an audit report or auditor's certificate regarding each agency's annual report. These documents are submitted to the Government, with a copy to the agency in question. Audit reports and auditor's certificates on the three agencies under the Riksdag are however not submitted to the Government. The responsible Auditor General submits the audit report on the state's consolidated accounts to the Government and the Riksdag. The same Auditor General also informs the Board of the Riksrevisionen about the content of the audit report. The Advisory Board may submit proposals or statements to the Riksdag with regard to the audit report.

The Auditors General inform the Board of the content of their performance audit reports, who then decide if the reports are to be tabled in Parliament. Except in the case of agencies under the Riksdag, these reports are also to be submitted to the Government.

The Riksrevisionen prepares a consolidated annual audit report, which brings together relevant observations on all accounts examined, and submits it to the Government. The report is designed to highlight issues and problems of general interest, and contains remarks and recommendations for action to improve central government controls.

The Riksrevisionen's reports receive considerable attention from the media as a result of concern about public expenditure. Audit reports, results of government investigations and official comments are all available in electronic and paper versions and are free of charge.

SUMMARY

The Riksrevisionen is the national institution under Parliament for independent audit of state activities in Sweden. Its main features are:

Organisation

- The Riksrevisionen is headed by three equal Auditors General who are responsible for the two main professional activities financial audit and performance audit. The Riksrevisionen's organisation also includes an international division as well as a number of support functions.

Staff

- The Riksrevisionen has 300 employees. All audit staff are graduates, predominantly in economics and social sciences. The total budget of the Riksrevisionen for 2004 was approximately £24 million.

Audit Remit

- The Riksrevisionen audits all state activities, e.g. the Parliamentary Administration and Parliament's associated bodies, the Government Offices, government agencies, state-owned companies and foundations, and national subsidy transfers to households, business and government bodies.

Rights of Access

- The Riksrevisionen has access to all information it requires for its audits. Most state information in Sweden is easily available to the public, under the principle of the citizens' right to access of information.

Independence

- The independence of Riksrevisionen is guaranteed in constitutional law and other legal acts. The three equal heads of the Riksrevisionen – the Auditors General – are appointed by Parliament for a period of seven years each, and can only be discharged from their office because of gross neglect.
- The Auditors General decide independently on what is to be audited, how the audit is to be carried out, and which conclusions are to be drawn from each audit.
- A budget proposal for the Riksrevisionen is decided by the Board, which submits its proposal to Parliament.

Reporting

- The Riksrevisionen reports to the Government on each set of agency accounts and prepares a consolidated annual Audit Report bringing together observations on accounts and problems of general interest. It can also report to the Government at any time on accounts matters.
- The Riksrevisionen also produces around more than 25 performance audit reports a year, as well as follow-up reports on progress against its performance audit recommendations.
- The Auditors General are obliged to inform the Board of all reports.

NATIONAL AUDIT OFFICE UNITED KINGDOM



Key Facts

Economic and general information

- The United Kingdom comprises Great Britain (England, Scotland and Wales) and Northern Ireland. It developed from a union of England and Wales in 1536, and unions with Scotland in 1707 and with Ireland in 1801. Ireland, apart from six northern counties, became a separate country in 1921.
- Situated in north-west Europe, its land area is 241,000 square kilometres and its population is about 60 million.
- The United Kingdom is a permanent member of the United Nations Security Council (UNSC), one of the Group of eight (G8) leading industrial countries and a member of the North Atlantic Treaty Organisation (NATO). Most of the former British Empire now forms the Commonwealth of Nations, which aims to foster cooperation and trade.
- Whilst the United Kingdom was one of the first countries to industrialise, manufacturing industry is now under 20 per cent of the economy in terms of Gross Domestic Product. Services, including business services, account for over 70 per cent of GDP. Primary energy production accounts for most of the remainder.

The structure of the United Kingdom Government

Constitution

The constitution is set out in laws, common law and generally accepted practices. There is no single document. The most important constitutional principles are that everyone is equal before the law, and that Parliament is the supreme law making body. Although as an EU member EU law takes precedence over United Kingdom law, Parliament retains the power to repeal the 1972 European Communities Act. The United Kingdom has been a constitutional monarchy since the 18th Century.

Head of State

Her Majesty Queen Elizabeth II is the hereditary monarch. The Queen is head of 15 other independent states, mainly in the Pacific region, Central and North America. She also heads the Commonwealth of Nations. As Head of State the Queen has the power to: appoint the Prime Minister; summon, prorogue and dissolve Parliament; declare war; appoint judges, Members of the House of Lords and other senior public office holders; and give final approval (Royal Assent) to all legislation. In practice, however, these powers are exercised only on the advice of ministers. The Queen's role in government is now largely ceremonial, though she gives audiences to her ministers in Britain and overseas, receives accounts of Cabinet decisions and signs state papers.

Legislature

The United Kingdom Parliament has two legislative chambers. Following the 2005 election, the House of Commons has 646 members, each representing a geographic area known as a constituency. Of these, 529 members are from England, 59 from Scotland, 40 from Wales and 18 from Northern Ireland. With a few exceptions, all British, Irish and Commonwealth citizens resident in the United Kingdom and over 18 years of age can vote in national elections. Whilst elections to the House of Commons must occur at least every five years, the timing of elections is at the Prime Minister's discretion, and recent elections have occurred at roughly four year intervals.

Until 1999 the House of Lords consisted of some 1,200 unelected members, mainly hereditary peers and peeresses. Under the House of Lords Act 1999 all but 92 of the 900 or so hereditary peers lost their right to speak and vote in the House of Lords. The largest group in the chamber is now life peers – around 700. The power to appoint life peers belongs formally to the Crown.

Legislation is normally introduced by the Government in the House of Commons and requires the consent of both Houses of Parliament and the monarch. The Lords can amend legislation and delay it for a year, but (apart from a veto on legislation seeking to prolong the life of a Parliament beyond five years) cannot reject it outright. The Lords' powers are curbed further for financial legislation. Parliament's role is not only to make law; it also has an important role in ensuring that the Executive is accountable for its actions.

The Executive

The central executive authority is the Cabinet, presided over by the Prime Minister as head of Her Majesty's Government. The Cabinet consist of the 20 or so of the most important ministers from among members of the governing party in the House of Commons or the House of Lords. Most come from the House of Commons. Cabinet members are appointed by the Queen on the recommendation of the Prime Minister and they have a collective responsibility to Parliament for the policies of the Government. Most ministers have responsibility for the affairs of a single department covering one area of government activity. Ministers must also individually answer to Parliament for the operation of their departments.

Administration

Government departments develop and promote government policy. Some departments cover the United Kingdom, such as Her Majesty's Treasury (the Finance Ministry) and the Ministry of Defence. Others are responsible only for England, such as the Department of Health. Responsibility for these functions in Scotland, Wales and Northern Ireland has been devolved to their own legislature and administration. Central government has around 470,000 permanent employees. The administrations of Scotland, Wales and Northern Ireland have a further 44,000.

Other public bodies also deliver public services. Health care in the United Kingdom is largely the responsibility of a range of local health authorities and health boards, which contract with hospital trusts and general practitioner practices to provide services within their geographical area. Many other executive functions of government, for example the funding of higher education, housing and legal aid, have been devolved to executive bodies, called non-departmental public bodies, established at arm's length from government. Other functions are carried out by bodies outside the day to day control of politicians. These include the regulators of the privatised utilities, and the central bank.

In the late 1990s the Government launched its Modernising Government Agenda, which aims to improve the quality of public services by ensuring that policy making is more joined up and strategic, that public service users, not providers, are the focus of policy and administration, and that public service providers work together, cutting across traditional departmental boundaries.

The non-political heads of departments – known as Accounting Officers – are responsible for internal controls and value for money within their departments, and may have to answer to Parliament. Internal Audit Units are functionally independent of operations and, as a service to a ministry's executive management, they review and report on the efficiency and effectiveness of internal controls.

Regional and Local government

Scotland has a population of some five million. The Scottish Parliament was established in 1999; it has full legislative powers in all areas of government not reserved by the United Kingdom Parliament (the main reserved areas are foreign affairs, defence and social security, and a number of discrete areas such as gambling). The 129 member Scottish Parliament nominates the First Minister, who in turn appoints the Executive of ten other Ministers. Scotland is further divided into 32 districts. Districts are responsible for, amongst other things, some state education, aspects of social services, fire services, local roads and refuse collection.

Wales has a population of some three million. The National Assembly for Wales was established in 1999, and consists of 60 members. It is headed by the First Secretary and the Executive Committee. The National Assembly has

administrative responsibility for many aspects of Welsh affairs and can pass secondary legislation. Primary legislation affecting Wales is determined by the United Kingdom Parliament. Local government in Wales consists of eight county boroughs and 14 counties. These have similar responsibilities to Scottish districts.

Northern Ireland has a population of approximately two million. It had a devolved Parliament between 1921 and 1972, when direct rule from London was introduced following several years of violence. Until 1999, Northern Ireland was administered by a Secretary of State, supported by the Northern Ireland Office, a central government department, mainly responsible for law and order matters. Following agreement between the Northern Ireland political parties, an Assembly with legislative powers assumed the responsibility for the Northern Ireland administration in 1999. The Assembly's Executive has powers similar to those of the Scottish Parliament and is responsible for issues such as education, employment and social security. Six cross-border executive bodies administer joint policies with the Republic of Ireland in areas such as tourism and European Union programmes. The Northern Ireland Executive is established on a power-sharing basis, with Ministerial posts allocated according to political party strengths. The Northern Ireland Assembly and Executive were suspended in 2002 and, pending further negotiations between the parties, the Secretary of State for Northern Ireland has assumed responsibility for local authorities in Northern Ireland, which are responsible for environmental and some other services.

England has a population of around 50 million, subdivided into nine regions. One of these, Greater London, has an elected Assembly and Mayor, but the others have a relatively minor role, with unelected regional assemblies and agencies having an advisory role in areas such as economic development and transport. Outside London, England has two patterns of local government. In some areas there is a county council responsible for some services within a county, with several district councils responsible for other services. In other areas there is just one level of local government, called unitary authorities. These have responsibilities similar to local authorities in the rest of the United Kingdom. Local government is funded by local taxes and central government grants.

Public Accounting System

From 1999-2000, central government departments have produced commercial style (accruals or resource) accounts, using generally accepted accounting principles adapted as necessary. The accounts have previously been prepared on a cash basis. The government is expected to publish a consolidated central government account for the financial year 2004-05, and a whole of government account, consolidating financial statements from local authorities and other public bodies, for 2006-07.

The structure and organisation of the National Audit Office

The Comptroller and Auditor General is formally appointed by the monarch on an address from the House of Commons moved by the Prime Minister with the agreement of the Chairman of the Committee of Public Accounts who is, by tradition, a senior opposition member of parliament. The appointment has no fixed term or age limit. He can be removed from office only by the Queen on an address from both Houses of Parliament.

A Senior Management Board sets the Office's overall direction and considers performance against objectives. The Board is chaired by the Comptroller and Auditor General and comprises the Deputy Comptroller and Auditor General, and other senior staff and includes the Chairman of the Office's Audit Committee (appointed from outside the National Audit Office).

The National Audit Office consists of seven business units, each headed by an Assistant Auditor General. Six of the seven units comprise teams, led by a director, that conduct financial audit or value for money audits for individual departments, groups of smaller departments or important themes such as public-private partnerships. Each of these units also has responsibility for certain support functions, such as information technology, finance or human resources. The seventh unit contains the teams responsible for other support functions such as corporate affairs and communications.

The recruitment, remuneration and qualifications of staff and other resources

The Comptroller and Auditor General's salary is paid directly from the Consolidated Fund without requiring the annual approval of the Executive or of Parliament. The Comptroller and Auditor General appoints his own staff and determines their numbers, grades, salaries and conditions of service.

The National Audit Office employs over 800 staff. Of these, around 620 are professional audit staff, with some 180 support staff. National Audit Office employees have a wide range of skills and knowledge. Audit staff are recruited mainly as university graduates and trained to acquire professional accountancy qualifications. The Office also draws on a wider pool of skills, particularly for value for money work, and employs economists, operational researchers, social scientists and other specialists. External expertise is drawn in from the private sector and universities. The National Audit Office subcontracts around a quarter of its financial audit work to private sector audit firms. A small number of value for money studies, and parts of studies, have also been contracted out. The use of specialists and contractors allows the National Audit Office to draw on new approaches and methods from outside.

The National Audit Office's operating costs are approximately £71 million (€101million) each year. The Comptroller and Auditor General presents the National Audit Office budget to the Public Accounts Commission, a committee of Members of Parliament which considers the National Audit Office's plans and budget. The Commission then makes a recommendation to the House of Commons whether to accept the budget.

In recent years, two new Auditor General posts have been established to audit the expenditures of the new Scottish Parliament and National Assembly for Wales. In Scotland, the Auditor General is supported by a new body, Audit Scotland. A new Wales Audit Office, established in 2005, supports the Auditor General for Wales. There has been a Comptroller and Auditor General for Northern Ireland since the foundation of the state in 1921. He heads the Northern Ireland Audit Office and reports to the Northern Ireland Assembly to the United Kingdom Parliament if the Assembly is not operating.

The Supreme Audit Institution

Historical development

- 1314** The earliest surviving mention of the audit of government expenditure is a reference to the Auditor of the Exchequer.
- 1866** During the second half of the 19th Century a new framework for accountability and audit was established. The House of Commons authorised expenditure, and accounts were produced by departments and audited by the Comptroller and Auditor General, supported by the Exchequer & Audit Department. The results of the Comptroller and Auditor General's investigations were considered by a House of Commons committee, the Committee of Public Accounts. The Committee took evidence from senior officials, normally Heads of Departments, who were designated as Accounting Officers by the Treasury.
- 1983** The National Audit Act gave the Comptroller and Auditor General a specific power to report to Parliament at his discretion on economy, efficiency and effectiveness, complemented by powerful rights of access to the papers he needs to carry out this work. The 1983 legislation also reinforced the independence of government audit and made the Comptroller and Auditor General an officer of the House of Commons. It also established the National Audit Office to replace the Exchequer & Audit Department, and gave the Comptroller and Auditor General discretion over the number of staff, salaries and conditions of service.
- 2000** The Government Resources and Accounts Act brought further important developments, particularly the change from a cash-based to a resource accounting system for government departments and increased the statutory audit and access rights of the Comptroller and Auditor General.

The scope, role and rights of access of the National Audit Office

The Comptroller function of the Comptroller and Auditor General makes him responsible for the overall account of Government (the Consolidated Fund) and the National Loans Fund, which covers government borrowing and lending. He is required to give authority for Treasury requisitions from these funds, after having assured himself that the credits requested are for the purposes and within the amounts authorised by Parliament.

The Comptroller and Auditor General has a statutory remit to examine and certify the accounts of government departments and agencies and report the results to Parliament. He audits some 520 accounts in total, consisting of departmental resource accounts (under the Government Resources and Accounts Act 2000); accounts of executive agencies (under either the terms of the Government Trading Funds Act 1973 or the Government Resources and Accounts Act 2000); and the accounts of other public bodies (under the specific statute establishing the body or by agreement). This represents the largest part of the Office's workload, employing around 400 staff. The Comptroller and Auditor General also has inspection rights to some 3,000 other bodies that receive public funds to provide public services such as housing, education and training. This enables him to provide assurance to Parliament that public money has been properly spent and for the purposes intended by Parliament.

The Comptroller and Auditor General also has statutory, but discretionary, powers to carry out examinations into the economy, efficiency and effectiveness with which government and other public bodies have used their resources and report the results to Parliament. He publishes around 60 of these value for money or performance reports each year. Around 220 staff are engaged in this work. The Comptroller and Auditor General's rights to carry out examinations of economy, efficiency and effectiveness extend to the bodies that fall within his audit and inspection remit and he can have such access at all reasonable times to the books of account and other documents, and explanations as he may reasonably require to carry out his statutory functions. He is not entitled to question the merits of the Government's policy objectives.

The auditing process

Financial audit

The National Audit Office's financial audit aims to give an independent opinion on the annual financial statements of public entities. All financial audits are conducted according to national auditing standards issued by the Auditing Practices Board, which accord with EU requirements and with the auditing standards of the International Federation of Accountants. In carrying out its financial audit, the National Audit Office suggests improvements in internal control and financial management. In addition, the National Audit Office's financial audit procedures also examine whether transactions have appropriate parliamentary authority, and have regard to propriety in the handling of public funds and the proper conduct of public business.

The National Audit Office's financial audit work seeks to obtain sufficient, appropriate evidence to support the opinion on the financial statements. This involves obtaining assurance that:

- financial statements are complete and accurate, and are disclosed in line with the relevant financial reporting framework;
 - assets and liabilities exist, are owned by the body and are valued according to appropriate, consistently applied accounting policies; and
- [The above are in line with a company audit in the United Kingdom private sector]
- transactions that audited bodies have recorded in their accounting records occurred and are legal and regular.

The National Audit Office's financial audit process, in line with the international standards, stresses careful planning based on a thorough understanding of the audited entity's activities, particularly the risks the entity faces. National Audit Office financial auditors draw on several types of evidence to support the audit opinion, but always examine some individual transactions. In support of an opinion, financial auditors usually identify and evaluate internal controls, and test whether they work as intended and have

operated throughout the financial year. Examining systems of internal control is also favoured, because it also enables the auditor to suggest improvements.

Audit always involves a high degree of professional judgement and the National Audit Office audit process requires auditors to document their reasons for important judgements so that senior colleagues can review them. In addition, before the opinion is given, sensitive judgements are usually subject to peer review by a financial audit director not directly involved in the audit before the opinion is given. This occurs, for instance, where evidence suggests the Comptroller and Auditor General's opinion may be qualified.

The National Audit Office has supported reforms to government accounting and governance by offering advice and assistance to departments, in particular with the introduction of commercial style accounts in the government sector. Commercial style accounts represented real progress in improving the quality of financial information. The National Audit Office helped bring this change about, by offering advice and assistance to departments.

Value for money (performance) audit

The main steps in the National Audit Office value for money audit process are an annual study selection exercise, preliminary work to design the study, fieldwork and reporting and quality assurance. The National Audit Office's approach to value for money is grounded on careful selection of study topics. Criteria for selecting topics include risk to value for money, the resources at stake, the impact of the programme on the citizen, the scope for drawing convincing conclusions, the amount of Parliamentary and public interest, and whether a National Audit Office examination would help to make a useful difference. The main focus of the National Audit Office's work is to help secure beneficial change. This has led the National Audit Office to examine successful programmes, and identifying factors contributing to success as well as investigating those programmes that have not been so successful. Learning from and emulating success can be as helpful as learning from mistakes, and National Audit Office value for money reports often give prominence to good practices identified which could be applied more widely.

Work on a value for money study begins with the design of the study. This includes gathering further information to define in more detail the scope, objectives and likely impact of the study, and selecting appropriate methods to obtain and analyse evidence. Recent years have seen increasing use of specialist expertise to enhance the credibility of reports. This includes directly employing specialists, and consulting independent experts. Experts may be consulted to help the National Audit Office understand the issues, and can be asked to comment on the study design and the draft report. There has also been an increasing emphasis on the use of qualitative as well as quantitative research, such as the results of focus groups.

Reporting

The Comptroller and Auditor General's opinion on financial statements is included in the audit certificate published with financial statements. If he has any further observations he presents them in a separate report, also published with the financial statements. Otherwise he will add a paragraph to the audit certificate stating that he has no observations. Value for money reports are also laid before Parliament and published by order of the House of Commons. Each year, the Comptroller and Auditor General also presents a report covering the National Audit Office's financial audit work and an annual report of the Office's activities.

The Committee of Public Accounts makes its own reports to the House of Commons following its hearings. These reports draw conclusions and make recommendations for action by the departments concerned. The Government publishes a response to the Committee's report in which it sets out the action taken or planned to meet each of the Committee's recommendations. If the Government does not accept the Committee's recommendations, the response gives the reasons. Ninety-three per cent of the Committee's recommendations were accepted in 2004-05. The Committee may raise the matter again with officials in a follow-up session.

In addition to the Committee sessions there is a further annual opportunity for the House of Commons to discuss the work of the Committee of Public Accounts in full session. This debate is normally focused on a selection of the Committee's reports and the Government's replies and concludes by passing a motion noting the contents of the reports of the Committee during the year.

The National Audit Office measures the impact of its work each year by estimating the savings or economies resulting from its recommendations and those of the Committee of Public Accounts. In 2004, the National Audit Office estimates that its work led to identifiable savings or economies of £515 million, contributing to a total of £1.4 billion over the last three years. These amounts were agreed by the government departments concerned and validated by the NAO's own external auditors.

Relations with Parliament and Government

The National Audit Office works closely with the House of Commons Committee of Public Accounts, which examines witnesses based on the Comptroller and Auditor General's reports and then issues its own report, including recommendations, to which by convention the Government must respond. At Parliament's request, the Comptroller and Auditor General recently increased the number of major reports to Parliament to 60 each year. While the majority of work is for the Committee of Public Accounts, the Office has also developed working relationships with a number of other Committees of the House of Commons, particularly the Environmental Audit Committee, a cross party committee for which the Comptroller and Auditor General has provided a number of briefings on specific issues.

Members of Parliament also write to the Comptroller and Auditor General raising specific matters of concern about the propriety and value for money of public spending – often based on letters they have received from members of the public. The Comptroller and Auditor General responds to correspondence from MPs and members of the public every year. In 2004, some 1,800 items of correspondence were received.

The Comptroller and Auditor General determines how to respond to requests from Parliament, the public or the Government, which may lead to examinations and reports to Parliament. In recent years, the Comptroller and Auditor General has responded to a number of Government requests to undertake examinations. These include invitations for the National Audit Office to review each year some of the assumptions underlying the state budget, and to review the reliability of data systems that support departments' reporting of progress against performance targets.

Other public sector audit institutions

The Public Finance and Accountability Act (Scotland) 2000 established Audit Scotland, bringing together the staffs of NAO Scotland and the Accounts Commission, the body responsible for the audit of local government in Scotland. Audit Scotland now employs around 240 staff and is headed by a board consisting of the Auditor General for Scotland, the Chairman of the Accounts Commission and three other members appointed jointly by the Auditor General and the Chairman. Audit Scotland carries out work, either directly or by outsourcing, on behalf of both the Auditor General and the Accounts Commission.

The Auditor General for Scotland is appointed by the Queen following a recommendation from the Scottish Parliament. He reports to the Audit Committee of the Scottish Parliament. He has a very wide remit, responsible for the financial and value for money audit of the Scottish Executive and most other public bodies including non-departmental public bodies, Health Trusts and Boards and the Further Education sector. The Accounts Commission is responsible for the audit and inspection of local government bodies and reports to the client and to the public.

The Public Audit (Wales) Act 2005 established the Wales Audit Office, bringing together the staffs of the National Audit Office and the Audit Commission in Wales into a single audit body headed by the Auditor General for Wales. He is appointed by the Queen on the advice of the Secretary of State for Wales and the Welsh Assembly. He is responsible for the financial and value for money audit of a wide range of public bodies including the Assembly and its sponsored bodies, NHS trusts and educational bodies. He also appoints and oversees the auditors for local government.

A separate post of Comptroller and Auditor General for Northern Ireland was established in 1921. He is responsible for auditing all expenditure on devolved functions by Northern Ireland departments and agencies, local government and a number of other bodies. He also has the power to conduct value for money investigations.

Between 1921 and 1972, the Comptroller and Auditor General for Northern Ireland reported to the Northern Ireland Parliament. Following the suspension of the Parliament, he reported to the United Kingdom Parliament and his reports were considered by the Committee of Public Accounts. With the creation of the Northern Ireland Assembly (now suspended) he now reports to the Assembly, which has established a committee to consider his audit reports. A separate committee performs the funding and supervisory functions previously undertaken by the Westminster Public Accounts Commission.

The Northern Ireland Comptroller and Auditor General is supported by some 150 staff in the Northern Ireland Audit Office which is independent from the United Kingdom National Audit Office. But the two institutions enjoy a close working relationship, and each year the Northern Ireland Audit Office carries out about 25 audits on behalf of the United Kingdom Comptroller and Auditor General in areas such as security and Social Security for which he remains responsible.

The audit of local government and health authority accounts in England is the responsibility of the Audit Commission, a public body established in 1982 and now operating under the 1998 Audit Commission Act. The Audit Commission appoints the independent auditors of local government, health and criminal justice organisations. Most of these auditors come from the Audit Commission's own operations directorate, but some are from the private sector. In addition, the Audit Commission examines aspects of value for money across local government and some health bodies and publishes the results. It also carries out a Comprehensive Performance Assessment of local authorities, rating the performance of each against different factors. It is funded mostly by fees charged to local and health authorities for audit services, supplemented by a grant from the Office of the Deputy Prime Minister.

The heads of the United Kingdom public audit institutions have established the Public Audit Forum to provide a focus for thinking about public audit and for developing common standards. The Forum is chaired by the Comptroller and Auditor General. The other members are the Comptroller and Auditor General for Northern Ireland, the Auditor General for Scotland, the Auditor General for Wales and the Chief

Executive of the Audit Commission. The Comptroller and Auditor General of the Republic of Ireland also attends. A Consultative Forum has also been established which consists of key stakeholders in the public audit process, such as government departments, local government representatives, private sector accountancy firms and consumers representatives. The full Consultative Forum meets around three times a year.

SUMMARY

Key features of the National Audit Office are:

Appointment and status

- The Comptroller and Auditor General is appointed by the monarch on an address presented by the House of Commons. The motion for this address is made by the Prime Minister acting in agreement with the Chairman of the Committee of Public Accounts. There is no fixed term or age limit and the Comptroller and Auditor General can be dismissed only by the monarch on a resolution of both of the Houses of Parliament.
- The Comptroller and Auditor General's independence is underlined by his status as an Officer of the House of Commons. All statutory powers and rights governing the audit of central government finances are vested in the Comptroller and Auditor General.
- The Comptroller and Auditor General is supported in his work by the National Audit Office, which employs professionally qualified audit staff.

Budget

- The Comptroller and Auditor General presents the National Audit Office budget to the Public Accounts Commission of the House of Commons. The Commission makes a recommendation to the House of Commons on whether to accept it.

The Public Audit Forum has published papers on the principles of public audit, the implications for audit of the United Kingdom government's modernising agenda, the service public sector bodies can expect from their auditors, and propriety and audit in the public sector. The Public Audit Forum is currently developing a framework for the audit of performance information.

Audit remit

- The Comptroller and Auditor General audits the accounts of central government departments and a wide range of other public bodies. He has specific powers to carry out examinations of economy, efficiency and effectiveness.

Access

- The Comptroller and Auditor General has comprehensive rights of access to the bodies that fall within his remit.

Reporting

- The Comptroller and Auditor General reports the results of his statutory audit of accounts to Parliament.
- He also presents his reports of the examination of the economy, efficiency and effectiveness to the House of Commons and they are also made available to the public. The National Audit Office agrees the facts in the reports with the audited body, but the recommendations and conclusions are his own.

Key legislation

- The audit arrangements for central Government in the United Kingdom are governed by the Exchequer and Audit Departments Acts 1866 and 1921, the National Audit Act 1983 and the Government Resources and Accounts Act 2000. Further legislation provides for the audit of certain other public bodies.

EUROPEAN COURT OF AUDITORS



Key Facts

Background information

- The European Union is a grouping of 25 states covering a large part of the continent of Europe. It was established in 1993 but the pooling of sovereignty among European states began more than 40 years earlier. In 1951 the European Coal and Steel Community was formed by France, the Federal Republic of Germany, Italy, Belgium, Luxembourg and the Netherlands. In 1957 the Treaty of Rome established the European Atomic Energy Community (Euratom) and the European Economic Community (EEC).
- The European Union has a land area of some 3.9 million square kilometres and a population of 454 million.
- Originally the three Communities had separate Councils and executive commissions, but in 1965 the Member States agreed to merge them. In the late 1960s the Community established the Common Agricultural Policy, designed to protect and develop European food supply and rural development. In 1971 the Community gained its 'own resources' instead of being financed by contributions from the Member States.
- The 1980s were marked by the 'southern enlargement' of the Union, in which Greece, Spain and Portugal joined, and by the Single European Act (EAS), a revision of the Treaty which provided for the establishment of the Single Market and considerably widened the use of majority voting in the Council.
- Further attempts were then made to move towards European integration. By the end of 1993 the Treaty on European Union (the Maastricht Treaty) had been ratified by all Member States. The new Treaty maintained the European Community as one 'pillar' of the Union and added to it two further inter-governmental 'pillars' - one dealing with the creation of a common foreign and security policy and the other with cooperation in the fields of justice and home affairs. The three pillars taken together are known as the European Union. The Maastricht Treaty also gave the European Parliament the power to co-decide certain legislation jointly with the Council, and the right of approval, prior to appointment, of the Commission. It also set the goal of economic and monetary union by 1999. In 1995 Austria, Sweden and Finland became members of the European Union.

- The next step in the development of the European Union was the Treaty of Amsterdam in May 1999, which maintained the three pillar structure. A series of matters (asylum, immigration and visas) which had been part of the inter-governmental third pillar were transferred to the first (Community) pillar while the name (and the content) of the third pillar changed to "Police and Judicial Cooperation in Criminal Matters". Under the new Treaty, action can be taken at the Union's level in the event of serious and persistent breaches of fundamental rights occurring in any member state, and the European Community now has an explicit remit in the area of the fight against fraud, which is no longer the jurisdiction of Member States.
- The primary purpose of the Treaty of Nice was to reform the institutional structure to withstand the enlargement of the European Union. It covered the weight of votes in Council, the apportionment of seats in the European Parliament, and the size of the European Commission.
- Finally, in May 2004, 10 new countries – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia – representing more than 100 million citizens, joined the European Union in its largest ever expansion.

The structure of the European Union

There are five institutions of the European Union, each with specific roles and powers. These are a directly elected Parliament; a Commission which acts as 'guardian' of the Treaties and has the power to initiate legislation; a Council representing Member States and composed of government ministers; a Court of Justice which pronounces Community law; and a Court of Auditors, the EU external auditor.

The European Parliament in 2004 was made up of 732 Members (MEPs) from all the European Union countries, elected since 1979, by direct universal suffrage. MEPs form transnational rather than national political groupings. Plenary sessions of the European Parliament are normally held in Strasbourg, with committee meetings and some part-sessions held in Brussels.

Before the Single European Act the European Parliament's main powers were in the budgetary areas, with an advisory role in respect of legislation. Since the Single European Act successive Treaty revisions have increased the role of Parliament, notably through co-decision (see-above); it now has the power to dismiss the Commission by a two-thirds majority.

The Commission of the European Communities is the central administration of the European Union. Currently, twenty-five Commissioners nominated by the Governments of the Member States make up a Commission, which has a five year term. Commissioners are required to be independent in performing their duties. They have portfolios of responsibility for areas of Community interest such as agriculture and transport. The President of the Commission is nominated by the Member States and, after a vote of approval by the European Parliament, he and the other members of the Commission are appointed by common accord of all the Governments. The President allocates portfolios to the other Commissioners.

The Commission has four main areas of responsibility. It initiates legislative proposals, which go to the Council (or to the Council and the Parliament) for approval. It issues regulations and decisions to implement Community policies established by Council regulations and decisions. It ensures that Member States comply with Community law and can issue a 'reasoned opinion' where it considers that a Treaty has been infringed. It can also initiate legal action against offending Member States in the European Court of Justice. The Commission is also responsible for administering the European Agricultural Guidance and Guarantee Fund, the European Regional Development Fund and the European Social Fund. Finally, it conducts external trade relations on behalf of Member States and is the first point of contact for other countries with the European Union.

The Council of the European Union is the principal law making institution of the Community, although it can only act on proposals submitted to it by the Commission and, to a large extent, in co-decision with the Parliament. It has powers to adopt legislation, ratify certain treaties after consultation with the European Parliament, ask the Commission to carry out certain studies and submit legislation, and delegate executive and legislative powers to the Commission. In most cases the Council takes decision through Qualified Majority Voting (in which votes are weighted essentially on the basis of relative population).

The Council is made up of representatives of the governments of the Member States, usually ministers. Membership of the Council varies with the subject under discussion. Each Member State holds the presidency of the Council for six months in rotation.

The European Court of Justice is the Community's supreme legal authority. It comprises one judge from each Member State, with the President selected by the Members for a renewable term of three years. The Court is empowered to settle disputes within the Community, between Member States and institutions and between Member States, and also to pass judgement, at the request of national courts, on the interpretation or validity of points of Community law.

The fifth institution is the European Court of Auditors, the Community's external auditor, which became a full institution in 1993.

The political environment

Political impetus and strategic guidance within the European Union is given by the European Council (distinct from the Council of the European Union), which comprises Heads of State or Government of Member States and the President of the Commission, assisted by the ministers for foreign affairs. They meet at least twice a year and combine discussion of Community matters with talks on European political cooperation with the settlement of the most contentious political disputes.

Recent years have seen continuing development of the European Union through the implementation of plans in the Maastricht Treaty for closer economic and monetary union, including the introduction of the Euro as a single currency for 12 of the Member States along with a European Central Bank. Progress has also been made towards a Common Foreign and Security Policy (CFSP) by the creation in 1999 of a High Representative, under the Treaty of Amsterdam, who assists the Presidency in the external representation of the EU and assists the Council in the implementation of policy decisions in CFSP matters.

Representatives of the Member States met in February 2000 to explore the issue and formulated a draft treaty, signed in Rome in October 2004, establishing a Constitution for Europe.

The financial environment

Originally the Community was financed from contributions from the Member States. In 1971 these were replaced by the Community's 'own resources', which now comprise agricultural and sugar levies charged on imports to the Community of products from non-member states; customs duties on trade with non-member countries; contributions based on a notional rate of VAT applied to an identical range of goods and services in each Member State; and a GNI based contribution, which provides the balance of the budget.

The European Court of Auditors

Historical development

- Until 1977 examination of the accounts of the European Communities was divided between two sets of auditors. There was an Auditor for the European Coal and Steel Community, while financial audit of the other Communities was the responsibility of the Audit Board.
- Two major Community reforms in the 1970s emphasised the inadequacy of these arrangements. These were the development of the Community's 'own resources' in the early 1970s and the extension of the powers of the European Parliament in budgetary control under the 1975 Treaty of Brussels. This Treaty also provided for the establishment of the European Court of Auditors. In 1993 the Maastricht Treaty enhanced the authority and independence of the Court by making it a full Community institution.
- In 1999 the Treaty of Amsterdam further strengthened the role of the Court of Auditors. The Court was recognised not only as an institution of the European Communities but also as an institution of the European Union, and the Court was allowed to bring actions before the Court of Justice. The Court's role in fighting fraud was emphasised and its access to information held by managing bodies and final recipients was confirmed in the Treaty.

The structure and organisation of the European Court of Auditors

The Court consists of 25 Members, one Member drawn from each state, headed by a President, who is elected from among the Members. The Court operates as a collegiate body with Members collectively responsible for examining and approving all the Court's formal statements. The President is elected for a term of three years and may be re-elected. He is 'first among equals' and plays a coordinating role. He distributes portfolios to Members, sets the agenda for Court plenary sessions and chairs the discussions on the annual work programme. The President also has regular contact with the heads of other European Union institutions and is the Court's senior representative in its external relations.

THE COURT ASSISTS THE EUROPEAN PARLIAMENT AND THE COUNCIL IN EXERCISING THEIR POWERS OF CONTROL OVER THE IMPLEMENTATION OF THE BUDGET

The Members of the Court are appointed by decision of the Council after consultation with the European Parliament for a six-year, renewable, period. They should be chosen from among those who belong or have belonged to external audit bodies or who are especially qualified for the office. Members can be removed only by a decision of the European Court of Justice, acting on a request from the European Court of Auditors, where the Member no longer meets the requirements of the office. Members are required to act independently in the general interest of the Community and not follow instructions from their national Governments or anyone else. During their term in office, Members may not engage in any other occupation, paid or unpaid, and must follow strict codes of behaviour regarding acceptance of benefits.

The Court is divided into four Audit Groups, plus a Co-ordination, Evaluation, Assurance, Development Group (CEAD). Each Member is allocated to one Audit Group (on a proposal of the President). The Group elects a Dean (who chairs the meetings of the Group), and a Member of the CEAD Group. Each Group is composed of between five and seven Members of the Court. They share out the audit tasks

amongst them. Audit Group I audits the common agricultural policy, Audit Group II the structural measures and internal policies, Audit Group III external aid and Audit Group IV covers own resources, administrative expenditure and financial instruments as well as banking activities. The CEAD group co-ordinates the Court's Annual Report, advises on the Court's reports and opinions, coordinates the Court's work programme, oversees the Court's working methods and its Audit Manual and deals with the requirement under the Treaty on European Union to provide the European Parliament with an annual Statement of Assurance.

The recruitment, remuneration and qualifications of staff and other resources

The Court has approximately 750 staff (including the Members and the staff of the private offices). Around 140 are involved in translation and 150 in administration, and the remainder on the Court's audit tasks. Each Member has a cabinet of five staff. Staff from different member states are mixed within the audit groups and divisions for linguistic reasons and also to guarantee the impartiality of their work. Most auditors are officials of the Court and the rest are on short-term contracts. Among them are some auditors seconded from the national audit institutions of the Member States. Staff at the Court are paid on the same basis as those at other European institutions.

The Court is funded from the general budget of the European Community. It presents a preliminary draft budget through the Commission by 1 May each year to the Council, which, along with the European Parliament, gives final approval. The 2005 budget of the European Court of Auditors was 110 million euros of which 96 million euros was for staff costs, and 14 million euros for buildings, equipment and miscellaneous operating expenditure.

To provide an independent examination, the Court appoints private accountants to audit its accounts and certify its annual financial statements. The report of the accountants is published in the Official Journal of the European Communities and the results reported to the European Parliament.

The scope, role and rights of access of the European Court of Auditors

Under the 1993 Treaty on European Union, the European Court of Auditors became the fifth European institution. Its primary tasks are to examine the accounts of all revenue and expenditure of the Community; to establish whether all revenue and all expenditure has been received or incurred in a lawful and regular manner; and whether the financial management has been sound. After the close of each financial year, the Court draws up an annual report, which is forwarded to the other institutions and published in the Official Journal of the European Communities. In addition, the Court must be consulted by the Council on any proposals for financial regulations or for measures in the fight against fraud. The Court can also comment on any draft legislation that is likely to have a significant financial effect. It can at any time submit observations on its own initiative (special reports) and deliver opinions at the request of other institutions. The Court assists the European Parliament and the Council in exercising their powers of control over the implementation of the budget. The Court works independently of the other institutions, organises its own work, plans its audits, decides how best to present its observations and the extent to which it publicises its findings.

The scope of the Court's audit covers the general budget of the Community, loans and borrowings by the Commission, and the accounts of all bodies set up by the Communities where Court examination is not specifically excluded by relevant instruments. It audits the European Development Funds; the European Schools and a range of other EU bodies. The Court can also audit the operational efficiency of the European Central Bank.

The Court's audits are based on the examination of records and where necessary are performed in Member States, including at the premises of final recipients of Community funds. The Court has access to any document or information relating to the financial management of the departments or bodies subject to its examination, and can question any official responsible for revenue or expenditure. The other four European institutions are expected to provide any information the Court considers it requires.

Relations with Parliament and other institutions

The Court is required to assist the European Parliament and the Council in exercising their powers of control over the implementation of the budget. The Court's Annual Report is formally presented to the Parliament by the President of the Court. The Parliament's Budgetary Control Committee examines the work of the Court, together with comments from institutions on Court observations. The President of the Court also makes a statement at the request of the Council of Finance Ministers on the state of Community finances.

THE HEADS OF NATIONAL AUDIT INSTITUTIONS AND THE PRESIDENT OF THE COURT MEET ANNUALLY IN THE CONTACT COMMITTEE TO DISCUSS TOPICAL ISSUES

The Court has regular contact with the European Parliament at a number of levels. There are frequent discussions between the President, Members and staff of the Court and Members and officials of the Budgetary Control Committee on individual chapters of the Court's Annual Report and special reports, as well as informal discussion with other MEPs. Under the Financial Regulation applicable to the general budget of the European Communities (the key secondary legislation) all institutions are required to transmit to the Court any rules of procedure that they adopt in respect of financial matters, and they must notify the Court of all appointments to financial and accounting posts.

Relations with other auditors

The Court is required by the 1975 Treaty to carry out its work in Member States in liaison with the national audit institutions. All Court audit visits to Member States are notified to the national audit authorities, which make arrangements with the relevant government departments and may assist the Court with on-the-spot inspections. Each national audit authority is required to inform the Court whether it intends to take part in the audits, so ensuring effective audit of Community funds, while avoiding unnecessary duplication of effort and visits to the audited body.

THE COURT ALSO SEEKS TO ESTABLISH THAT AUDITED BODIES ARE ADEQUATELY SAFEGUARDING ASSETS AND HAVE SUITABLE MEASURES FOR DETECTING AND PREVENTING FRAUD

Liaison takes place at a number of levels. The heads of national audit institutions and the President of the Court meet annually in the Contact Committee to discuss topical issues. Audit arrangements between the Court and national audit bodies are coordinated by liaison officers nominated by the audit bodies and by the Court. They hold regular meetings to exchange views and information on technical audit matters and areas of concern. National audit institutions provide details of their work plans in areas of mutual interest. A number of joint audits and other audit cooperation activities between the Court and national audit bodies take place.

The auditing process

Financial audit

The purpose of the Court's audit is to ensure that all revenue has been received and all expenditure incurred in a lawful and regular manner, conforming to the Treaties, secondary legislation and other regulations. The Court also examines whether accounting systems are adequate and are capable of recording all transactions correctly. Traditionally the Court has used a cyclical approach, over four or five years, to auditing Community expenditure. It has focused on risk

areas, while trying to cover all fields over the period. Tasks have been selected according to the materiality of the topic, the amount of money involved, the perceived risks, the political interest and the results of previous audits. It has also sought to cover all Member States. Programmes of audit work are approved in each field by Court Members following proposals from audit divisions. The work is usually carried out by small teams of auditors. Before each audit mission staff gather background information. They then analyse management and internal control systems within institutions and carry out compliance tests to identify their strengths and weaknesses. This enables them to concentrate on those operations that present the most risks.

After its analytical review of data to identify risk and significant trends, the Court carries out substantive tests of transactions, selected using statistical sampling methods, to check whether they are correctly recorded. It follows transactions through to the final recipients of funds in the Member States and overseas. Audit teams draw up a report (for internal use only) and two letters of preliminary findings, one of which is sent to the Commission and the other to the Member State. The Member State is required to reply to the observations within two months. In most cases findings are discussed at the end of each audit with the audited body.

Statement of Assurance

The Court's financial audit underwent considerable change in the wake of the Maastricht Treaty. This requires the Court to provide the European Parliament and the Council with an annual Statement of Assurance as to the reliability of the accounts of the Community and the legality and regularity of the underlying transactions. Work on the Statement of Assurance has become a major focus for the Court's financial audit.

To discharge its responsibility the Court selects for examination a sample of commitments, payments and receipts from across the whole of the Community General budget. The Court uses its own staff for Statement of Assurance work, but has discussed with national audit bodies how it might rely on the work of these organisations in order to reduce the amount of work the Court has to carry out.

Performance audit

As well as examining the legality and regularity of transactions, the Court is also required to examine whether financial management has been sound. The latter is interpreted as meaning whether funds have been used with due regard for economy, efficiency and effectiveness. The Court assesses the adequacy of internal systems and considers a wide range of internal and external data to inform its views. The Court is also able to assess the ways in which staff discharge their management responsibilities. In doing this it does not pass judgement on the objectives of Community policies but evaluates the results in the light of the initial objectives.

The Court also seeks to establish that audited bodies are adequately safeguarding assets and have suitable measures for detecting and preventing fraud. Points arising from examination of value for money are included in the Annual Report. Special reports normally concentrate on value for money considerations in specific areas of activity, such as aspects of the management of the structural funds.

Irregularities

Under the Treaty of Amsterdam the Court is required to report on irregularities, which include the concept of fraud. It cooperates fully with the anti-fraud office (OLAF) in the Commission and the national authorities.

Reporting

The Court reports its findings in a number of ways. These are the Court's Annual Report, special reports and opinions. The Court's Annual Report is published each November in the Official Journal of the European Communities. It includes observations on the management of Community finances during the previous financial year arising from both financial and value for money work, together with the institutions' replies to the observations. After adopting the report, the Court presents it to the European Parliament and the Council, which examine it together with the accounts for the purpose of granting the discharge of the Community budget. The President of the Court normally makes oral presentations to the Plenary Session and to the Budgetary Control Committee of the Parliament, explaining the main issues arising from the year's examination.

The Court also reports at its own discretion via special reports, which also usually appear in the Official Journal and can be found on the Court's internet site <http://www.eca.eu.int>. Special reports arise from audits on specific aspects of management which are normally carried out on the initiative of the Court, but may also be at the request of an institution. Court special reports are examined by parliamentary committees, whose own reports may lead to a resolution by the Parliament, listing the problems for which it expects a solution to be found. The Commission must then take follow-up action.

In addition the Court must be consulted and give its opinion before the Council makes financial regulations relating to the general budget, adopts documents relating to 'own resources' or takes measures in the fight against fraud. These opinions are published in the Official Journal. Other European institutions can ask the Court to give an opinion on specific matters. These opinions are given to the relevant institution and are only published with their consent.

The Court discusses the findings from its audits with the relevant bodies and the Commission in the course of what is known as the 'contradictory procedure'. Both the Annual Report and the special reports include the replies of the European Commission and other institutions to the Court's observations. These bodies also receive draft chapters and the Court takes into account their opinions and corrections before finalising its reports.

All the Court's reports are produced in the 20 official European Union languages. In recent years the Court has sought to raise the profile of its mission and since 1994 press conferences have been held at the publication of the Annual Report, which generates considerable media interest.

SUMMARY

- The European Court of Auditors was established in October 1977. In 1993 the Maastricht Treaty enhanced its authority and independence by making it a full European institution. Since 1999 the Treaty of Amsterdam has reinforced the powers of the Court. The key features of the Court are:

Independence

- Members of the Court are nominated by their Member States but are required to act independently in the general interest of the Community and not follow instructions from their home Governments. They are appointed by unanimous decisions of the EU Council of Ministers, after consulting the European Parliament, and can only be removed by a decision of the European Court of Justice.
- The Court works independently of the other institutions, organises its own work, plan its audits, decides how best to present its observations and the extent to which it publicises its findings.
- The Court is organised into four Audit Groups, dealing with different fields of Community revenue and expenditure, plus the CEAD Group, which coordinates the preparation of the Court's reports, oversees the Court's working methods and the Statement of Assurance Group.

Staff

- There are approximately 750 staff at the Court of Auditors. The work of more than 400 of these is directly related to audit. Staff are employed from all Member States.

Budget

- The Court is funded from the general budget of the European Union. In 2005 its budget was 110 million euros.

Audit remit

- The Court is responsible for examining the accounts of all the revenue and expenditure of the Community, and establishing whether it has been received or incurred in a lawful and regular manner, and whether financial management has been sound.

- It audits the general budget of the Community, loans and borrowings by the Commission and the accounts of all bodies set up by the Communities where Court examination is not specifically excluded. It audits the European Development Funds, the European Schools and a range of other EU bodies.
- The Court must be consulted and give its opinion before the Council makes financial regulations, adopts documents relating to 'own resources' or takes measures in the fight against fraud. These opinions are published. In addition, other institutions can ask the Court to give an opinion on specific matters; these opinions are not published.

Access

- The Court has access to any document or information relating to the financial management of the departments and bodies subject to its inspection and can question any official. Grants to beneficiaries outside the institutions are also subject to the agreement in writing by the recipients to an audit by the Court.

Reporting

- The Court's findings are reported in its Annual Report, special reports and opinions on documents relating to financial regulations and other legislation.
- The Court's reports are used by the European Parliament and the Council in their consideration of the implementation of the budget of the European Union, and in deciding whether to recommend and grant discharge to the Commission. Court special reports are examined by parliamentary committees whose own reports generally lead to a resolution by the Parliament listing the problems to which it expects the Commission to find a solution.

