



EURORAI working group

Guidelines for Independent Regional Public Sector Audit Institutions

Working group



- **mandate of EURORAI-Management Committee**
- **start of work: November 2014**
- **members:**
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- **2 meetings in Frankfurt**
- **end of work: February 2016**



Preamble

- **preceded declaration**
- **explains the subject of the guidelines**
- **contains objectives, motives and purposes of the Management Committee**
- **reflects the fundamental consensus**
- **central ideas behind the principles**
- **no direct binding**
- **interpretation aid for the principles**



Preamble (I)

Bearing in mind that

- the appropriate, economical, efficient and effective use of public funds is essential for the proper handling of public finances and the soundness of the decisions made by the responsible entities;
- to achieve this objective it is necessary that regions have public audit institutions which are protected against external influence and whose functional, financial and organizational independence, and the personal independence of their members is guaranteed by law;
- democracy and rule-of-law are prerequisites for independent regional audit institutions (RAIs), which are an indispensable part of the regulatory system;



Preamble (II)

- RAI's are public institutions which play a key role in preventing corruption and constitute one of the pillars of a region's and state's integrity system acting as a watchdog in the public interest in matters of financial integrity and the credibility of reported information;
- strong, effective and independent public sector financial controls lead to a sound financial management, the proper execution of administrative activities and the information of regional public authorities and the general public through the publication of objective reports, conclusions, recommendations and other relevant documents or information;
- RAI's promote good governance, transparency and sustainable public finances and are model institutions for the values and benefits they provide for society;

Preamble (III)



- the principles of subsidiarity and proportionality, and the advantages of having regional, public and independent institutions conducting a strong and effective public audit on the spot should be stressed and thereby RAI's positions overall strengthened and their importance emphasized;
- due to different laws and traditions, there are various types of RAI's in Europe, including an institution with a judicial function, a collegiate structure with no judicial function and an audit office, independent of government, headed by a president;
- RAI's aim to speak with a common voice, coordinate their activities and cooperate with each other and with the municipal, national and supranational audit institutions and other bodies, whilst respecting their particular independence;



Preamble (IV)

- RAI's strive for the observance of the principles set out below in a manner consistent with their national institutional structure.

The Management Committee of the European Organization of Regional External Public Finance Audit Institutions (EURORAI) resolves:

To approve and publish the following principles, considered to be ideal for RAI's, entitled "Guidelines for Independent Regional Public Sector Audit Institutions".

Principles



- **„The ideal is the qualitativ best orientation“**
- **starting points - especially:**
 - **documents from INTOSAI and World Bank**
 - **own specifically regional considerations**
- **various national and regional regulations**
- **principles for RAIs as:
orientation and support**
- **comments of members considered**
- **combination of ideal and reality**



I. Purpose and types of Public sector audit

Principle 1

Purpose of regional public sector audit



The purpose of regional public sector audit is to provide for the appropriate, economical, efficient and effective use of all public resources, the compliance with the principle of legality and the development of sound and sustainable financial management for the benefit of citizens. Thus regional public sector audit promotes the proper execution of administrative activities, helps to improve public service delivery and prevent violations of the principles of legality, economy, efficiency and effectiveness of financial management. It also promotes risk identification, reports structural deficits, enables corrective action and communicates relevant information to public authorities and the public. Thereby RAIs strengthen good governance, transparency, sustainable development of society and contribute to the prevention of corruption.

Principle 2

Subsidiarity and proportionality



RAIs have special expertise in auditing at regional and/or municipal level. In accordance with the overall accepted and applied principle of subsidiarity, these audits should therefore be carried out by RAIs, except in justifiable exceptional cases. They act locally and can operate in a fast and flexible way. The regional proximity of the organisations on which they exercise their auditing powers gives them rapid access to the information required, which enables the drafting of timely reports, conclusions, recommendations and other relevant documents that are available in time for the appropriate measures to be adopted or even redress situations, when required.

Audits carried out by RAIs, being closer to the audited bodies, contribute to an economic, efficient and effective use of audit resources to the greatest benefit of citizens.

Principle 2 para 1

SUBSIDIARITY

- **principle of the public sector and the EU**
- **advantages or strengths of RAIs**
 - **act on-site**
 - **quick and flexible**
 - **regional proximity**
 - **internal knowledge**
 - **good relations**
 - **short lead times**
 - **contemporary results**

Principle 2 para 2



PROPORTIONALITY

- **principle of a constitutional state and the EU**
- **advantages or strengths of RAIs**
 - **proximity to the audited entity**
 - **efficient and effective use of resources**
- **model effect of RAIs**
- **cooperation between the audit institutions as a prerequisite**

Principle 3

External and internal audit



External audit services are not part of the institutions to be audited, whereas internal audit services are established within audited entities. RAIs are external audit services. As such they examine the performance of internal audit but also they can cooperate with internal audit departments and can take their findings into account.

Principle 4

Financial audit, compliance audit and performance audit



Depending on the case it is for each RAI to determine which audit type or combination of audit types is best suitable.

There are three main types of public sector audit:

Financial audit examines whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework.

Compliance audit looks into whether a particular subject matter is in compliance with the legal and regulatory provisions and other rules which govern the audited entity.

Performance audit focuses on whether the principles of economy, efficiency and effectiveness have been adhered to in programmes, functions, operations and in the organizational and administrative system of the audited body.



II. Independence

Principles 5 - 12

*“Independence is the basis
of the credibility of RAIs“*

- **essential prerequisite for the**
 - **functioning and**
 - **proper operation of public sector auditing**
- **example: Mexico Declaration (2007)**
- **aim: protection against external interference (incl. other audit institutions, e.g. SAIs)**

Independence



institutional/ organizational	personal	functional	financial
legal status of the institution (Principle 5)	legal status of the management (Principle 6)	mandate (Principle 7)	appropriate resources (Principle 11)
		access to information (Principle 8)	autonomous resource management (Principle 12)
		reporting (Principle 9)	
		follow-up mechanisms (Principle 10)	

Principle 5

Appropriate legal framework as to existence, mandate and independence of RAIs



The existence, mandate and independence of RAIs shall be established in the constitutional provisions or principles of constitutional value, details may be set out in other legislation.

This implies legal protection against external interference, namely of audited bodies, government authorities at regional or local level and other institutions at state level, in matters which concern the functional, financial and organizational independence of RAIs as well as the personal independence of their members, as described in the principles indicated hereinafter.

Independence is the basis of the credibility of RAIs.

Principle 5



- **legal protection of the institution**
 - **Constitution**: existence, mandate, independence
 - **other legislation**: details
- **objectives:**
 - **strong position for RAIs**
essential to enable RAIs to promote the efficient use of public resources and good governance
 - **protection against external interference!**

Principle 6

Independence of heads and members (of decision-making collegiate bodies) of RAIs, including security of tenure and legal protection



The conditions and procedures for appointments, re-appointments, employment, removal and retirement of the heads of RAIs and members (of decision-making collegiate bodies) are governed by law ensuring their independence from the Executive and other entities.

The heads and members of RAIs shall

- be appointed for sufficiently long and fixed terms; and
- enjoy protection against prosecution for any act, past or present, that results from the proper discharge of their duties as the case may be.

Audit Staff must not be influenced by, or be dependent on, the audited organisations or third parties..

Principle 6



- **objectives:**
 - enables heads of RAIs to perform their tasks in an objective manner (without fear of retaliation)
 - serves the credibility of the RAIs
- **para 1:**
 - personal independence of heads of RAIs
 - required: statutory legislation
- **para 2: necessary are**
 - sufficiently long term
 - protection against prosecution
- **provision for the audit staff (para 3)**

Principle 7 (I)

A sufficiently broad mandate and full discretion over the object, issues, concept, time and methods of audit in the discharge of RAI functions



All public funds and financial operations shall be subject to audit by RAIs.

RAIs should be empowered by law to audit at regional and/or local level the

- use of public monies, resources, goods or assets, by a recipient or beneficiary regardless of its legal nature;
- collection of revenues owed to the government or public entities;

Principle 7 (II)



- legality and regularity of government or public entities' accounts;
- quality of financial management and reporting;
- economy, efficiency, and effectiveness of government or public entities' operations;
- use of funds expended by public authorities on public contracts and public works;
- use of public monies, resources, goods or assets, by bodies governed by private law if the public authority has a substantial participation in them – particularly a direct or indirect majority – or if it exercises a controlling influence;

Principle 7 (III)



- use of subsidies granted from public means, by a recipient or beneficiary regardless of its legal nature (in individual cases – when the subsidy is particularly high, either by itself or in relation to the revenues and capital of the subsidised institution – the audit can, if required, be extended to include the entire financial management of the subsidised organisation).

Except when specifically required to do so by legislation, RAIs do not audit or evaluate the policies of government or public entities but restrict themselves to the audit of policy implementation. This shall not prevent consultation between RAIs and audited entities on the results of the audit and the best ways to implement corrective actions.

Principle 7 (IV)



While respecting the laws enacted by the legislative authorities that apply to them, RAI^s are free from interference from the Legislature – even when they act as an agent of parliament – and the government or other entities in the :

- selection of audit objects and issues; however RAIs may accommodate, at their discretion, specific requests for investigations or audits made by the parliament or the government;
- planning, programming, timing, conduct, reporting, and follow-up of their audits;
- organization and management of their staff and office;
- enforcement of their decisions where the application of sanctions is part of their mandate.

Principle 7 (V)



RAIs can provide – of their own accord or when required by legislation – their professional knowledge to parliament, government and the administration in the form of expert opinions, including comments on draft laws, financial regulations and major projects.

Such expert opinions, agreements or consultations shall not be assumed to indicate approval or disapproval by RAIs of the adoption of public policy decisions and shall not cause, or be deemed in future to cause, a conflict of interest in the course of the audit of the policy implementation.

Regulations for public sector accounting procedures should be adopted only after agreement or consultation with the RAIs, according to the respective national law.

Principle 7

- **“No area free of audit!”**
 - **„all public funds“** (para 1)
 - **„shall be“**; however, no obligation to audit 100 %
- **No evaluation of policy decisions**
 - only limits the evaluation not the auditing power
- **RAIs determine what shall be audited, when and how**
 - no instructions by third parties! (para 4)
- **Abs. 5 – 7: Advisory function**
 - becomes more important besides the auditing!
 - avoids uneconomic actions early on

Principle 8

Unrestricted access to documents, records, electronic data and information alike



RAIs should have adequate legal powers to obtain timely, unlimited, direct, and free access to all documents, records and other information they consider necessary for carrying out their functions. This includes written and oral inquiries, electronic data and access to the premises of the entity to be audited.

Principle 8



Unrestricted access to information

- **essential tool. Enables RAIs to do their work!**
- **necessary for an objective and complete audit**
- **broad discretion as to which information is needed**

Principle 9 (I)

Reporting



RAIs have the right to decide on the content of audit reports. In particular, they are free to make observations and recommendations in their audit reports, giving due consideration to the views of the audited entity. Legislation specifies minimum audit reporting requirements and, where appropriate, specific matters that should be subject to a formal audit opinion or certificate.

RAIs shall not be restricted from reporting the results of their audit work. They are free to decide on the timing of their reports except where specific reporting requirements are prescribed by law. They should report at least once a year on the results of their work and make these reports available to the public.

Principle 9 (II)



Depending on the applicable legislation, RAIs are free to publish and disseminate their reports, once these have been formally presented or delivered to the appropriate entity.

When publishing and disseminating reports RAIs shall take due account of trade or business secrets or other legally restricted information contained in their reports, if need be.

Reports shall present the facts and their assessment in an objective, clear manner and be limited to the essentials. The wording shall be precise and easy to understand.

Principle 9

- **right to decide on the content and the timing of their reports**
 - essential supplement to principle 7 para 4
- **right and obligation to report on the results of their work: at least once a year**
 - transparency and accountability of RAIs
- **publishing of reports depending on the applicable legislation**
 - protection of trade and business secrets

Principle 10

Existence of effective follow-up mechanisms on RAI recommendations



RAIs submit their reports to the legislative or any other appropriate authority, to the auditee's governing body and other addressees, as set out in law, for review and follow-up on specific recommendations for corrective action. The audited body shall comment on the findings and recommendations within an adequate period of time and shall report to the RAI, as appropriate, the measures taken.

RAIs have internal follow-up processes to ensure audited entities properly, and in a timely manner, address both the RAI's observations and recommendations, as well as those made by the auditee's governing body or parliament.

RAIs may submit follow-up reports to the auditee's governing body and to parliament, as appropriate, for consideration and action.

Principle 10



Effective follow-up mechanisms

- **part of the RAIs own quality management**
- **secures the effectiveness of public sector auditing**
- **scope of the follow-up to be determined by the RAIs**

Principle 11

Availability of appropriate human, material, and monetary resources



The legislative authority is responsible for ensuring that RAIs have available necessary and reasonable human, material, and monetary resources to fulfil their mandate. This includes, in particular, the option to recruit above-average qualified staff, to offer them regular learning and training and to appropriately remunerate them according to their functions and responsibilities. The executive authority shall not control or direct the access to these resources.

RAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to enable them to accomplish their tasks.

If special skills are not available among the audit staff, RAIs may call on external experts as necessary..

Principle 11 para 1



- **reasonable resources are indispensable**
- **insurance is important as otherwise *de facto* danger of undermining independence**
- **aspect of *HR* becomes more and more relevant**
 - **competition for the best brains ...**
 - **learning and training**
 - * **objective of EURORAI**
 - * **element of „*Audit Quality*“**

Principle 12

Financial and administrative autonomy



RAIs manage their own budget autonomously and allocate it appropriately. They are free as to manage their human resources and as to organize internal structures and procedures.

Except when specifically required otherwise, any audit of RAIs accounts shall be conducted by parliament.

Principle 12

para 1

autonomy,

hence complementary to > Principle 11

para 2

- **corresponding to that autonomy,
hence link to > independence**
- **however, first and foremost: credibility!**



III. General Principles

Principles 13 - 15



- **cross-thematic**
 - **modern approaches**
 - **target extern = target intern!**
 - **core values**
- > self-conception of RAIs as
„mirror and conscience of society“!**

Principle 13

Standards and quality control



RAIs should comply with appropriate professional, audit and reporting standards. In this regard, RAIs should establish appropriate quality control procedures.

At the same time they are setting standards with their adaptability and innovation capacity.

This should also extend to a code of ethics, requiring moral integrity, credibility, confidentiality, impartiality, neutrality of all members and staff of the RAIs.

RAIs and their personnel should act as an example for trust, honesty and integrity. This includes the sound handling of RAIs' own funds.

RAIs should engage in voluntary self-assessments or peer-reviews.

Principle 13 para 1 and 2



- **Quality = key**
 - **directly for RAIs**
 - **indirectly as to the handling of public means**
- **extends to all issues**
 - **management**
 - **culture > ethical standards > para 3 and 4**
 - **methods and procedures**
 - **HR -> Principle 11 para 1**
 - **monitoring**

Principle 13 para 3 - 5

Ethical standards = essential

- part of > quality management
- but in particular: aspect of > credibility
- para 3 and 4: code of ethics, act as an example
- para 4 sentence 3: material manifestation:
 - > imperative of efficiency applies also to RAIs
- para 5: self-assessment / peer review
 - > recommendation to institutionalize such reflexion / consultation!



Principle 14

Prevention of conflict of interests

RAIs should not be involved or be seen to be involved, in any manner, in the management of the organisations they audit.

RAIs shall ensure that their personnel do not develop too close a relationship with the entities they audit, so they remain and appear objective. This includes not having any financial or other interest, directly or indirectly, in the audited organisation.

Principle 14



mirror / complementary to the task of RAIs, to contribute to the prevention of corruption as to „the others“ (> Preamble, Principle 1)

Once again:

> lead by example!



Principle 15

Sharing of knowledge and experience

RAIs shall engage in the sharing of knowledge, experiences and ideas at national, international and supranational level as a useful means of widening skills, raising quality and harmonising standards in order to optimize the fulfilling of their tasks.

Principle 15



the exchange:

objective and *raison d'être* of EURORAI ...

- **guarantee independence**
- **strengthen capacity building**
- **improve quality standards**
- **benefits and value to the society**
- **encourage communication**



With this in mind:

Thank you for your attention

We are looking forward to your questions!