

# PERFORMANCE AUDIT IN PUBLIC SECTOR ENTITIES – A NEW CHALLENGE FOR EASTERN EUROPEAN COUNTRIES

Adriana TIRON TUDOR

*ph D, Associate Professor, Department of  
Accounting, Faculty of Economics and  
Business Administration, Babes Bolyai  
University, Cluj-Napoca, Romania*

*Performance measurement provides an objective basis for evaluating how efficiently public resources are being used and how effectively public service outcomes are being achieved. It is a process used to support government self-analysis and provide a basis for more informed and publicly defensible decision-making.*

*In this context an important role is reserved to performance external audit performed by external audit institutions. The performance audit analyses the quality of financial administration from the point of view of the three elements of performance: economy, efficiency and effectiveness.*

*We intend to realize a comparative study for some Eastern European countries regarding the performance audit, knowing the fact that since countries differ at the level of individual reforms, there is no single model of reform. Nonetheless, reform strategies have many points in common emphasizing the international character of public management reform. By cross-national comparisons we intend to analyze the impact of implementing the new performance audit in certain Eastern European Countries, and in Romania, focused on the external audit institutions.*

*Transylvanian Review  
of Administrative Sciences,  
19 E/2007, pp. 126-141*

## Introduction

After the beginning of the transitional period to market based economy, the Central and Eastern Europe countries had to re-establish a proper auditing practice as befits a democratic institutional system. The model for the new institutional framework was based, in the majority of the countries concerned, on the legislation and experience of western democracies.

The adoption of performance auditing in the public sector is one of the more significant new additions to the traditional auditing role (financial audit).

In a financial (or regularity) audit, the auditor expresses an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In a performance audit, the auditor expresses an opinion whether, in all material respects, the administration of a particular program or entity has been carried out economically and/or efficiently and/or effectively.

Performance auditing is relatively a new type of audit. Performance audit represents according to the INTOSAI international audit standards<sup>1</sup> an independent, *assessment or examination of the extent*

<sup>1</sup> INTOSAI - International Organization of Supreme Audit Institutions, [www.intosai.org](http://www.intosai.org)

*to which an activity, program or public institution operates efficiently and effectively, with due regard to economy.*

This new type of audit has evolved to meet the need for greater information by the taxpayer and its representative, Parliament, mainly regarding the efficiency and economy in the use of resources by the public managers acting on behalf of the executive<sup>2</sup>.

These requirements prompted audit offices to develop their own institutional capabilities and to apply the highest standard auditing procedures and techniques to ensure that decision makers can be assured that the budgetary resources and assets are utilized in an economical and effective way.

The need for development originates from the status of 'EU candidate country'. In addition to the adoption of the *acquis communautaire* preparations had to be made to ensure that the legislation is applied in the same way as in the Member States.

The presidents of the audit offices of the Central and Eastern Europe countries concerned and the European Court of Auditors agreed in 1998 on the establishment of a working group in order to 'establish the key criteria of adjustment required by Central and Eastern European countries in the European environment'. The working group elaborated a package comprising 11 recommendations, the fulfillment of which could be expected of a successful audit office.

These recommendations defined the governing requirements that have to be met by an audit office capable of successfully operating in the European environment, in a wording as befits joint interpretation and at a depth of detail enabling an understanding of the requirements for practical implementation.

Experience shows that these recommendations and the comprehensive assistance vis-à-vis their implementation has proven to be an effective tool in ensuring the gradual further development of the audit offices in the area of the improvement of the quality of audits.

## **Methodology**

We realize a comparative study for some East European countries regarding the status of implementation, in the pre accession period, of the performance audit, knowing the fact that since countries differ at the level of individual reforms, there is no single model of reform. Nonetheless, reform strategies have many points in common emphasizing the international character of public management reform. By cross-national comparisons we intend to analyze the impact of implementing the new performance audit in certain Eastern European Countries, and in Romania, focused on the external audit institutions.

We select for our research 10 countries from Eastern Europe: EU members Slovenia, Slovakia, Hungary and Czech Republic, new EU members Bulgaria and Romania, candidate countries Croatia and Turkey and potential candidate countries Albania and Bosnia Herzegovina.

Our country profile is based on the data collected from progress reporting and status of performance audit monitories by Commission and international organizations, SAI websites and other electronic sources.

For each country in introduction is briefly presented the public sector audit institution and in the main part the following items are analyzed: the mandate, types of audit carried out, the institution's independency, reports issued, relation with the Parliament, the implementation of internationally and generally recognized auditing standards compatible with EU requirements. In the final part of the paper are presented the main conclusions of the comparisons for each item.

---

<sup>2</sup> For more explanations – Relations between supreme audit institutions and parliamentary committees, SIGMA PAPERS: No. 33, 2002, pag.11, <http://appl11.oecd.org/olis/2002doc.nsf/linkto/ccnm-gov-sigma> (2002) 1

## EU members Slovenia, Slovakia, Hungary and Czech Republic

### a. Slovenia

The Constitution of the Republic of Slovenia designates the Court of Audit of the Republic of Slovenia (*Racunsko sodisce, RS*) as the supreme body of control over government accounts, the state budget, and resources spent for public purpose. The Constitution provides the basis for the Court of Audit Act. The 2001 Audit Act brings the institution closer to the “office-type” of supreme audit institution.

The RS has a clear authority to audit: any legal entity under public law, any entity of private law that receives financial support from the budget, performs a public service or provides public goods on a concession basis, or in which the state or the local community has the majority of shares, any physical person who receives financial support from the budget, performs public service or provides public goods on a concession basis, any entity that receives financial support from the European Union budget, including the end users.

The RS has the mandate to perform financial audit and performance audits. Audits of regularity and financial statements are carried out once a year, for the state budget, the Public pension and Disability Insurance Agency. It can also audit the Bank of Slovenia, as it is a public law entity. The majority of audit work covers regularity aspects. In their annual report for 2001, 2002, 2003, 2004 were presented a lot of aspects regarding the performance audits performed.

The ratio between financial and performance audit in period 2001-2004 is presented in the follow table:

Year	Total audits		Regularity audits		Performance audits	
2001	90	100	80	88%	10	12%
2002	47	100	32	66%	15	33%
2003	65	100	54	83%	11	17%
2004	72	100	67	79%	15	21%

Annual reports of Court of Audit of the Republic of Slovenia, [www.rs-rs.si](http://www.rs-rs.si)

A significant part of audits had two audit objectives, either expressing opinion on financial statements and on compliance with the regulations, or expressing opinion on compliance with the regulations and on the performance of operations.

Some performance elements were included in audits of public services providers and in audits of public funds and institutions that receive funds allocated for certain programs. Opinions expressed within performance audits were descriptive and consisted of assessments of economy, efficiency and effectiveness of operations.

The Court of Audit has an independent position both operationally and functionally versus the legislative, executive and judicial organs. RS reports are final and absolute, admitting no administrative or other dispute.

The use of audit findings for parliamentary scrutiny has been suboptimal. A large volume of audit information that could be harnessed to improve government efficiency and performance were not used by Parliament. This is a problem, as the office model of State audit is predicated upon sound and continuous interaction between the audit institution and the relevant parliamentary body.

The RS is obliged by law to conduct audits in accordance with INTOSAI Auditing Standards, EU Implementing Guidelines and IFAC Audit standards published in the Slovene language. RS developed its own guidelines for financial and performance auditing based on International Auditing standards.

In 2003 external audit substantially<sup>3</sup> met the requirements of the INTOSAI Auditing Standards and EU Implementing Guidelines for the effective external audit of public funds and resources. The Sigma considered: Now that the Audit Act, new organizational structure and procedure have for the most part been implemented, the RS should concentrate on improving relations with the Parliament, follow-up procedures, performance audit, and audit of EU funds.

After accession into EU, in order to improve its overview of appropriation implementation, the Court of Audit started to devote more attention to performance audits and to operation of the performance-oriented principle. In this way, direct and indirect users of state and municipal public funds are compelled to achieve their goals through more efficient and rational use of their funds. In 2004, the Court of Audit performed all of its mandatory obligations, pursuing, at the same time, a number of audit objectives, which had been set with the purpose to improve the performance of the entire Public Administration through better control of the operations of public funds users.

## **b. Slovak Republic**

The Supreme Audit Institution (SAI) of the Slovak Republic is the *Najvyšší Kontrolný Úrad*. The NKÚ finds its legal basis in articles 60-63 of the 1992 Constitution, as amended in 2001, and the NKU Act of 1993 and 2001.

Since 2001 NKU mandate covers all funds passed through the state budget, extra-budgetary funds, the management of all state property, the use of funds from abroad (including the EU) and audit companies where the state holds a share of more than 34%. Its mandate covers the audit of end users of funds, if those funds originate from the state budget or the EU. The NKÚ may audit taxes, fees that are the income of the state budget. The NKÚ can audit all state grants and subsidies. The mandate of the NKU extends only to the condition in which these funds are transferred to territorial bodies (regional and local governments) and does not cover the way in which these funds are spent. In accordance with the NKÚ Act, an appointee of the NKU audits the final accounts of the National Bank.

The NKÚ's mandate is not very specific. It is not explicitly stated that the NKU should audit the performance (economy, efficiency and effectiveness). However, there are no legal limitations to the scope of approaches and methods that the NKÚ can apply for financial audits or performance audits.

In the annual report to the National Council, audit results were presented in a summary opinion. A clear distinction was not made between a certification of the financial statement of the Slovakian State and the performance aspects of the government's operations (distinction between regularity/financial audit and performance audit). The focus is more on identifying errors and shortcomings in the state budget. The audit work carried out by the NKU can be characterized as mixed audits: aspects of regularity, financial management and economy, and efficiency are investigated and reported. An explicit opinion on the financial statement is not formulated. The audit work carried out was not in line with international standards for attestation audit and performance audit (cf. INTOSAI Auditing Standards & EU Implementing Guidelines).

The NKU has a good working relation with the Committee on Finance, Budget and Monetary Affairs (CFBMA) of the National Council, which is the primary recipient of NKU reports. The CFBMA values highly the performance audit reports, which the NKU has been preparing since 2001.

In 2003 Slovak SAI were still underway on incorporating INTOSAI Auditing Standards, and the EU Implementing Guidelines for these standards into current work of the NKU.

---

<sup>3</sup> SIGMA- Slovenia public sector external audit, assessment 2003, [www.oecd.org/sigma](http://www.oecd.org/sigma)

In June 2002 the NKÚ published a manual with its own rules for auditing activities, which are based on INTOSAI standards and practical experiences, and aim to establish a unified methodology for NKU auditing activities. Whether this manual complies with the above-mentioned new rules is not clear.

The NKU has adopted a Code of Ethics for its auditors, based on the code adopted by INTOSAI. The preparations made by the NKÚ to comply with EU requirements related to external audit have further intensified during 2002-2003 years.

The recommendations of the Sigma Peer Review report for period 2001-2002 have partly been taken into consideration. They started consultations for intensive co-operation with the National Audit Office of the United Kingdom.

In 2003 Sigma<sup>4</sup> opinion was: External audit partially meets the requirements of INTOSAI Auditing Standards and EU Implementing Guidelines for the effective external audit of public funds and resources. At that time the recommendations were that NKU should make an effort to implement the recommendations of the Sigma peer Review to bring audit into line with INTOSAI auditing standards and to develop audit methods and competencies for undertaking attestation audits and performance audits.

### **c. Hungary**

The Hungarian Supreme Audit Institution, the *Állami Számvevőszék* (the ÁSZ), re-established in 1989, is an organization subject only to the Hungarian Parliament and the law.

The ÁSZ's mandate covers the state budget, local governments, Social Security Funds and segregated state funds, state owned companies, EU resources, Hungarian National Bank and political parties. The scope of the audit covers legality, expediency and effectiveness.

ASZ certifies the accounts of the SAPARD Agency and has the responsibility to co-sign on the borrowings by the central budget, and it is also required to give an opinion on the well-founded nature of state budget proposal to Parliament.

The independence of the ÁSZ from the government is protected by appropriate constitutional and statutory references. The ÁSZ is reasonably free to decide which work it will carry out and how it will do it. However, its audit plan is discussed in the Audit Committee of the Parliament, which could theoretically be seen as a restriction on independence. In addition, the Parliament may order the ÁSZ to undertake specific reviews, and the government may also request audits to be conducted. The ÁSZ is free to turn down these requests from the government if it so wishes, but generally tries to accept such requests, as they are infrequent.

In 2003 the ÁSZ has performed pilot performance audits. The ÁSZ make the results of its work directly available to the public and to Parliament. It has an excellent Internet web site containing its reports and other material.

The ÁSZ has adhered to the Lima Declaration of INTOSAI and adopted the INTOSAI Auditing Standards. Some of the EU Implementing Guidelines for the INTOSAI Auditing Standards have been implemented, and consideration is being given to the development of detailed public sector external auditing standards, taking also into account IFAC requirements. A two-volume Financial Audit Manual and a Performance Audit Manual and an audit guide for its regularity audits have been issued since 2001.

In 2002 The Research and Development Institute within the ASZ was established to promote accountability and the diffusion of an audit culture in the public sector.

In general the ASZ has competent staff with good levels of higher education and professional experience. ASZ have prepared the distant learning material of the financial audit course, and the development of a similar material for performance audit is under way.

---

<sup>4</sup> SIGMA- Slovak Republic Public sector External Audit, Assessment 2003, [www.oecd.org/sigma](http://www.oecd.org/sigma)

The ÁSZ has declared itself ready to share its skills and the results of its own process of change with Supreme Audit Institutions from other countries, namely in central and Eastern Europe.

In 2003 external audit<sup>5</sup> substantially meets the requirements of INTOSAI Auditing Standards and EU Implementing Guidelines for the adequate audit of public funds and expenditure. Priority should be given to further developing financial attestation and performance audit. Procedures for an effective follow-up recommendations and government responses need to be continuously developed.

After 2003 a fully developed performance audit, covering economy, efficiency and effectiveness issues, is being improved.

In 2005 the audit capacity of ASZ was used on follow types of audits: 10% performance audits, 46% regularity audits and 44% comprehensive audits. The comprehensive audit is focused on certain areas simultaneously includes the main features the regularity and performance audits within the framework of a single audit. Based on the findings of performance audits conducted it can be generally concluded that the subsidy paying agencies were not linked to a standard monitoring system, no performance requirements, criteria or result categories were defined.

#### **d. Czech Republic**

The *Nejvyšší Kontrolní Úrad* (the NKÚ) established in its present form in 1993, is the central institution for external audit of state sector activities<sup>6</sup>, independent of the legislative, executive and judiciary.

The NKÚ's audit mandate is broad and covers state-financed activities and revenues. The non-state resources, including funds paid directly to this level of government, which are not co-financed by the state or by regional and local self-governments, are not covered by the NKÚ. There remains a need for an effective external audit of all the funds and resources managed at the locally elected government level, on an annual basis, covering financial, legal and performance audit, and to the same standard and quality that applies at the state level.

The NKÚ may audit the management of financial resources from abroad, including EU funds and resources and their end- users, but only if the funds are disbursed through the state budget. The state-owned private companies are not clearly covered by the NKÚ's mandate. Since May 2002, however, the NKÚ has been able to audit the management of the Czech National Bank in the area of assets acquisition and operations.

Most NKÚ audits are mainly of the regularity type, and focus on compliance with applicable statutes and regulations. No financial audit attestation/opinion has yet been given on the financial statements for the respective budget chapters or for the final state accounts. However, within the framework of a twinning project, financial and performance audit pilot audits were started in 2002 and NKU realized progresses in both of these areas.

The NKÚ gives its comments on current reports on the implementation of the state budget and on the annual final statement presented by the government to the Chamber of Deputies and, when requested by the Chamber of Deputies or the Senate, must give its opinion on draft acts and regulations concerning budgetary management, accounting, state statistics, and the performance of auditing, supervisory and inspection activities. These consultation and advisory activities are not considered by the NKÚ management to create any conflicts of interest. They are seen as adding value by disseminating the findings and expertise of the NKÚ and are mainly opinions on draft laws relating to budgeting, state property, financial control and reform of the public administration.

The rapport procedure seems to be long and complicate, losing its effectiveness.

<sup>5</sup> SIGMA- Hungary Public sector External Audit, Assessment 2003, [www.oecd.org/sigma](http://www.oecd.org/sigma)

<sup>6</sup> Czech Constitution Chapter 5 and Act no. 166 of 20 May 1993

The government is not required to consider or respond to audit conclusions. However, it has become established practice for the government to discuss all audit conclusions in the presence of the NKÚ President.

Audit procedures are defined in the Audit Act and in the Internal Rules on Preparation and Carrying-out of Audit Activities. Audit manuals governing audit design and methodology do not yet supplement these formal rules, but in 2002 both financial and performance audit manuals were under development.

In December 2002 the NKÚ College discussed and adopted the first ten NKÚ audit standards, which are based on the INTOSAI Auditing Standards and on EU Implementing Guidelines, while taking into account the specific conditions and the legal background of the Czech Republic. The new standards were ready to be applied in the NKÚ audits in 2003; followed by other standards in 2003.

The NKÚ has actively sought information about the implications of the EU accession process via involvement in EUROSAI and contacts with the ECA and other SAIs, including participating in ECA/Sigma working groups and ECA joint audits.

In 2003 external audit<sup>7</sup> partially meets the requirements of the INTOSAI Standards and the related EU Implementing Guidelines for the audit of public resources. The Nejvyšší Kontrolní Úrad (the NKÚ) is independent and has taken important and relevant steps to further strengthen its organizational capacity and capability. The NKÚ will need to actively continue to develop and simplify its management system and expand its audit scope and methodology to include financial attestation and more modern performance audits. Sigma recommended that the policy and strategy for local government external audit should ensure that financial, legality and performance audits are carried out to an acceptable standard and quality, at least equivalent to the standards applied by the NKÚ at the state level.

In 2004, 2005 NKU performed audits with some performance elements. The main conclusion extracted from NKU reports of activities is that audited entities haven't a performance measurement system so performance audits are without subject<sup>8</sup>.

## **Bulgaria and Romania – new EU members**

### **e. Bulgaria**

The National Audit Office<sup>9</sup> (Smetna Palata, SP) is the Supreme Audit Institution in Bulgaria. The new National Audit Office Act (SP Act 2001) and its amendments (2002, 2004) extended the mandate of the SP and introduced supplementary regulations and forms on the implementation.

The amendments made to the SP Act contribute to further harmonization of the Bulgarian external audit legal framework with good EU practices. The SP is now in the position to improve its relationship with parliament, as it has been granted the right to submit to the National Assembly and to the Council of Ministers its opinions on amendments of laws and secondary legislation.

The audit mandate of the SP covers: the state budget, State Social Insurance Fund budget, National Health Insurance Fund budget, budgets of municipalities, EU funds and program, and end users, the budget expenditures of the Bulgarian National Bank; state- owned enterprises by decision of the National Assembly; formation and management of state debt, state- guaranteed debt; debts of municipalities; proceeds from privatization and concessions, as well as their allocation and spending;

<sup>7</sup> SIGMA- Czech Republic Public sector External Audit, Assessment 2003, [www.oecd.org/sigma](http://www.oecd.org/sigma)

<sup>8</sup> Auditing operation No. 03/20 State property and the State Budget funds earmarked for the functioning of the Prison Service of the Czech Republic, Auditing operation No. 04/01 Funds spent on the River Systems Revitalization Program, Auditing operation No. 04/31 The social program accompanying the restructuring of the Czech steel industry

<sup>9</sup> Constitution 1991 article 91

and execution of international treaties, contracts, covenants or other international acts envisaged in the respective act or assigned by an authorized body.

The Law on Political Parties, adopted in April 2005, gives to the SP the mandate to perform financial control on political party activities and on the management of their property.

Most of the secondary and tertiary rules and regulations have been adjusted in accordance with the April 2004 amendments to the SP Act. Rules and procedures for the introduction of performance budgeting and audit standards also need to be developed.

In 2004, of the 250 audits carried out, 215 were financial audits, 28 were performance audits (including six on EU funds), and seven were specific audits.

Although SP reports are factually correct and are published on time, the quality of the reports is still not in line with international standards. Compliance audits are presented as performance audits, and the reports are mainly descriptive and exhibit an obvious lack of thorough analysis, concise conclusions and recommendations.

External audit<sup>10</sup> substantially meets the requirements of the INTOSAI Auditing Standards and EU Implementing Guidelines for effective and efficient audit of public funds and resources.

Concerning external audit, as a result of the SP Act, the legal basis for adequate public financial control has now been established. This Act contains all the necessary provisions for organizing and operating external audit to international standards and EC requirements. In Sigma opinion, Bulgaria now needs to make further progress as regards upgrading external audit functions, especially in terms of systems-based and performance audits, developing an external audit manual and enhancing training efforts. These activities will need to be supported by substantial investment in developing administrative capacity and training staff in the PIFC Agency, the SP and line ministries.

The SP has been a member of the INTOSAI since July 2001 and became a member of EUROSAI in March 2002.

#### **f. Romania**

The Court of Accounts (*Curtea de Conturi*) is the institution that performs public sector external audit in Romania. Since the entry into force of the amended Constitution on 2003, its legal basis is now article 140 of the Constitution. Law 94/1992, with its subsequent modifications and supplements, the last one being Law 77/2002, more specifically governs the Court's activity. The Romanian Court of Accounts (RCOA) is regarded as the successor to the High Court of Control of Romania, operative from 1864 until the establishment of the communist regime in 1947. Now there is in discussion a new law for Court of Accounts. There seems to be a constant temptation in Romania – and in the Romanian Parliament in particular – to change the legal basis of the Court of Accounts' activity.

The main focus of audit is to assess the legality of spending, in particular that ceilings for expenditures set out in the budget laws were observed.

The RCOA exercises control over the formation, administration and use of the financial resources of the state and of the public sector as well as the management of the public and private assets of the state and of local entities. It also includes special funds, treasury funds, the National Bank of Romania, autonomous public companies, and firms in which public institutions have shares representing more than 50% of the registered capital. The county chambers of accounts perform the audit of local entities and of state bodies and companies at the territorial level. The Court can also perform control over legal persons who benefit from government-guaranteed loans, public subsidies and political parties.

---

<sup>10</sup> SIGMA- Bulgaria Public Sector External Audit, Assessment 2005, [www.oecd.org/sigma](http://www.oecd.org/sigma)



The performance auditing is a relative recent activity of the Court of Accounts. The translation into legal expressions the various notions that are extremely difficult to convey from a legal point of view (such as “performance audit” or “economy, efficiency, and effectiveness”) paves the way for undesirable legal disputes.

In 2002 the law specifically laid down the mandate of the Court to carry out performance audit so the RCOA is empowered to perform the full range of audit set down by international standards.

In practice, its audit work is still mainly of the legality type, in particular when it comes to the “financial control” activity carried out in view of the “discharge” of “credit ordinarators”. More “modern” approaches to audit are still practiced at the moment on a small scale, but the general trend is to increase the amount of such work.

In the year 2004, the Court of Accounts<sup>11</sup> realized 8 performance audits for 354 entities (109 economic agents and 254 public institutions) finalized by auditing reports whose findings, conclusions and auditing recommendations, after they had been discussed and clarified with the audited entities, were transmitted to the Parliament, Government, other central and local public authorities involved. Also, they were debated in mass media on occasion of the newspapers conference.

The Court is improving its financial audit process to consistently comply with international standards and recently started to build capacity for performance audit.

To perform the mandate to conduct performance audits for utilization of public resources, the Court has created a special division on performance audit with a staff of about 25 that has developed an activity plan. So far the unit has mainly carried out preparatory work and some pilot activities. The Court has benefited from technical assistance to develop performance audit capacity and study visits have also been undertaken.

It is unclear how the Court is planning to engage with the annual performance reports that the public finance law requires ministries to submit with their yearly financial reports.

Parliament’s interest might increase over time as the performance aspect of auditing is strengthened and it would appear important for the Court to engage with parliament on the usefulness and presentation of its performance audits.

The external audit process is undergoing noteworthy improvements. The Court is building its capacity for performance audit.

In Sigma report<sup>12</sup> is mentioned that public external audit substantially meets the requirements of INTOSAI Auditing Standards and their EU Implementing Guidelines.

The Court has long been aware of existing international standards. The Court is also a quite active partner in the many multilateral (European and worldwide) co-operation and networking now offered to Supreme Audit Institutions. A series of pilot financial and performance audits, using international standards, was carried out in 2003 and 2004 with the assistance of the Court’s foreign partners. The adaptation of the standards already used by the Court in its normal work to international standards is a component of the current twinning project, and an analysis of RCOA standards has been carried out. This adjustment work is currently taking.

A performance audit manual has also been produced, in co-operation with the former twinning partners. This manual has been used on fewer occasions, as the cases of performance audit have been rare, which is to be expected in this build-up phase. The Court has nevertheless decided to review and improve this manual; this work is under development. It seems that the performance

---

<sup>11</sup> Romania Court of Accounts website [www.rcc.ro](http://www.rcc.ro)

<sup>12</sup> SIGMA- Romania Public Sector External Audit, Assessment 2005, [www.oecd.org/sigma](http://www.oecd.org/sigma)

audit reports have already had an important impact on parliament and other stakeholders, as the Court has benefited from relevant feedback on the report and on the applied methodologies.

## **Croatia and Turkey –candidate countries**

### **g. Croatia**

In Croatia, the State Audit Office (SAO) was established by the State Audit Law in 1993. The SAO is an independent body, accountable to parliament.

The remit of the SAO is substantially in line with the requirements of the INTOSAI Lima Declaration. It is responsible for conducting audits of all bodies, including municipalities, which are financed either totally or partially by the state budget, different state funds (employment, retirement and health) whose budget is adopted by parliament, the National Bank of Croatia; and entities partially or totally owned by the State.

The SAO has the legal competence to carry out non-statutory audits, i.e. in addition to obligatory attestation audits. Although, the State Audit Law does not explicitly provide the power to audit either EU funds and programs or the final beneficiaries of such funds, the SAO can perform such audits.

Performance audit is still not well developed, although some of its elements have been used occasionally. At the request of parliament, the SAO has, since 2001, been conducting audits of the transformation and privatization processes implemented during the Tudman era.

The SAO is a member of INTOSAI (1994) and EUROSAI (1996); it also participates in the co-operation network of the Presidents of the CEEC SAIs and the ECA.

The SAO started in 2001 a process aimed at reaching good European standards in its overall activities. The process began with a self-assessment, which was followed by a Peer Review carried out by Sigma in 2002. On this base a five-year Strategic Development Plan (SDP) was developed, adopted in May 2003. The implementation of the SDP has begun, and twinning cooperation programs assists the SAO. SDP addresses a number of relevant issues for the development of the institution. The implementation of the SDP will take some time, as a large proportion of the SAO's capacity is engaged in investigations related to the privatizations carried out during the Tudman era.

The SAO has a reasonably good reputation as an efficient institution and should be regarded as the strongest link in the chain of accountability within the public administration.

It is simply not possible for the SAO<sup>13</sup>, with its present staff, to meet, at internationally acceptable quality levels, all of the responsibilities that have been assigned to it by law.

The audit requirements that have been imposed on the SAO in addition to its core responsibilities have forced the Office to skimp severely on its audit responsibilities and, consequently, to produce audits – including those in its core responsibility area – that do not conform to appropriate standards. This burden also makes it more complicated for the SAO to undertake activities that are required, by developing both the institution and its staff, in order to meet its present and future potential. In effect, the SAO is partly blocked by the obligation to undertake this non-core, but legally mandated, activities.

In the future SAI must concentrate his work to develop and implement a modern financial audit process (the core process), in accordance with internationally accepted auditing standards.

### **h. Turkey**

Turkish Court of Accounts (TCA) was established in 1862. It operates under the Constitution of 1982 and under the provisions of a law specific to TCA. The Constitution and the TCA Law state that TCA role is to audit on behalf of the Turkish Grand National Assembly (TGNA), revenues,

---

<sup>13</sup> SIGMA- Croatia Public Sector External Audit, Assessment 2004, [www.oecd.org/sigma](http://www.oecd.org/sigma)

expenditures and properties of the government departments and agencies. While TCA carries out its work on behalf of the legislature, it remains independent of both legislative and executive branches of government.

TCA audits covers central Government organizations financed within the General Budget, autonomous or semi-autonomous Government organizations financed by “Annexed Budgets”<sup>14</sup>, organizations financed by revolving funds and certain extra budgetary funds, and special budget organizations including chiefly municipalities and provincial administrations. Certain government institutions and activities are outside its jurisdiction, namely state -owned enterprises, some extra budgetary funds and privatization process. Until the recent amendment to its Law, TCA had to stay within the confines of financial and compliance audit.

The auditing function contains: financial and compliance audit reports and reports on financial system and on the implementation of the state, department or agency budgets.

The auditors themselves who actually carry out the required audit work sign both two types of reports. However they have to be examined by one of the collegiate bodies of the Court and a decision should be taken on them, on the first type by the chambers and on the latter type usually by the General Assembly.

The TCA management considers the performance audit as an important instrument in realizing TCA’s aim to promote improved public sector accountability, control and good governance.

The Performance Audit<sup>15</sup> is not a new idea for TCA. The first signals about it were in 1970s. In that period there were many rejected proposals, aborted initiatives and unsuccessful attempts. After a cooperation period with two United Kingdom National Audit Office (NAO) and Office of the Auditor General of Pakistan, the idea of performance audit came into force.

For this reason TCA decided in 1995 to make necessary preparations to launch a performance audit. The pioneering work on performance auditing was realized with the support of the NAO. First performance audit was in 1996.

The public confidence in the work of the TCA and high competence of its staff are the main assets for achieving the result expected from performance auditing. The great enthusiasm created by the adoption of the long-awaited amendment to the TCA Law, may be regarded as another favorable factor for success.

Another drawback relates to the process of decision making in reporting to Parliament. According to the TCA practice before the recent amendment, all the parliamentary reports were to be discussed and adopted by the General Assembly.

## **Bosnia & Herzegovina and Albania potential candidate**

### **i. Bosnia and Herzegovina**

External audit in BiH is based on three distinct laws passed between 1998 and 2000: the *Law on Audit of Financial Operations of BiH Institutions*, the *Law on Budget Audit* (FBiH) and the *Law on Public Sector Audit* (RS). All three laws were drafted with World Bank assistance and the drafts had identical provisions. However, some changes occurred during parliamentary deliberations so that the adopted laws differ to a certain degree regarding structure and content.

By mid 2000, the three Supreme Audit Institutions (BiH, FBiH and RS), each headed by an Auditor General, had been established with assistance from the Swedish National Audit Office (SNAO). The first audits of accounts were carried out in 2000 and the number of audits has gradually increased.

<sup>14</sup> e.g. State Universities, General Directorate of State Highways, General Directorate of State Hydraulic Works, etc

<sup>15</sup> Turkish Court of Accounts [www.sayistay.gov.tr](http://www.sayistay.gov.tr)

In accordance with the three Audit laws, a Co-ordination Board of the Supreme Audit Institutions was formed, consisting of a Committee and a Secretariat. The Co-ordination Board has adopted a series of common practical documents and guidelines, in particular, in April 2001, the INTOSAI Code of Ethics for Public Sector Auditors and, in 2003, a Joint Audit Manual.

The SAIs became members of EUROSAI in 2002, represented by the SAI/BiH. All three SAIs are engaged in INTOSAI's technical assistance activities.

The SAI/BiH uses a logical system of audit filing; the auditing process is regulated with management instructions and templates; findings and conclusions are discussed with the audit team and the management group before the audit report is drafted.

Not all budget spenders could be audited because of lack of capacity of the SAI/BiH and the weak internal control within the auditees. According to the SAI/BiH, audit planning is done in line with a risk assessment scale. Accounts, which are considered to have a high audit risk, will be audited early in the year. The audit scope includes financial and systems based audits, i.e. audits of the internal control systems are included. The SAI identifies the main problems within the actual public administration as being related to the weak internal control systems and non-compliance of the administration with the rules in place.

The auditors are trained to perform systems audits and performance audits as well as regularity audits. However, the pressure put upon the SAI/FBiH to carry out regularity audits, means that few, if any, special audits are carried out. Since the law obliges the SAI/FBiH to audit all auditees every year, starting in 2005, it will become even more difficult to carry out special audits or joint audits with the other SAIs as the focus on annual financial (regularity) audits will consume a significant amount of time and human resources.

The SAI/RS activity covers the Government, Ministries, Central Agencies, State Owned Enterprises, Local Authorities, Schools and Health Institutions. In addition, the SAI/RS has an audit mandate for four funds: pension, health, unemployment, and child protection. The number of auditees is transparent as the creation of new institutions as well as the abolition of existing institutions is published in the Official Gazette. In addition, the budget indicates new budget users. The large number of auditees coupled with the limited capacity of the SAI/RS forces the SAI to use some risk analysis when drawing up its audit plan, in particular with regard to SOEs, where, in line with a request from the Assembly, the SAI focuses on auditing the larger companies, e.g. postal services, forest protection, housing and banks, etc.

The work of the Co-ordination Board of Audit Institutions has had a positive impact on the strengthening of the three SAIs and the development and implementation of common approaches in accordance with international audit standards and practice. The three SAIs have issued a joint audit manual, which will ensure harmonized audit approaches, and lead to improved audit methods and procedures.

#### **j. Albania**

The Supreme Audit Institution (SAI) of the Republic of Albania – the High State Control – was established in 1992 as a parliamentary institution independent from the government. Concerning external audit, the Albanian Constitution establishes; the authority and functioning of the SAI, the election of the Chairman of the SAI, the reporting requirements and relations with the Assembly, the relations with the government and the legal protection of the Chairman.

The SAI audit report is essentially<sup>16</sup> in line with the requirements of the INTOSAI Lima Declaration and INTOSAI standards, although, according to the most important stakeholders, the basic functioning

<sup>16</sup> SIGMA- Albania Public Sector External Audit, Assessment 2004, [www.oecd.org/sigma](http://www.oecd.org/sigma)

of the institution can hardly be described as being in compliance with the principles set out in the INTOSAI Preamble.

The SAI audits all entities financed totally or partially by the state budget, different state funds (employment, retirement and health) adopted by the National Assembly, including the National Bank, and entities partially or totally owned by the state, municipalities, but only for those funds provided by the state (which represents nevertheless the main part of their budget). It is foreseen that internal audit will cover the remaining part of the budget. With regard to state-owned companies, the amended Act restricts the competence of the SAI to audit companies in which the state has a majority of shares or whose debts are guaranteed by the state. Many countries have adopted this solution.

The SAI has the right to audit state funds provided to private organizations and funds from foreign donors provided via the state budget. This provision is appropriate. It should be clarified, however, that the SAI has the right to audit the end-users of EU resources.

The SAI has the authority, under the present Act, to carry out the full scope of audit. This includes financial audit, performance audit and other specific audits (“legality; regularity; financial management; and performance aspects”).

Performance audit is still not well developed, although some of its elements have been used occasionally.

The SAI is an independent institution, although in practice further safeguards of its financial independence would be desirable.

The SAI is a member of INTOSAI (1994) and EUROSAI (1996). It also participates in the co-operation network organized by the Presidents of SAI's in CEE countries and the European Court of Auditors.

Further major improvements, however, must include clarifications of the SAI's role in the accountability process and a notable shift of audit approach in line with EU SAI's, including the use of audit standards, manuals, guidelines and IT support.

The SAI has been subject to limited bilateral assistance. The institution participates in technical activities organized by the network of Presidents of CEE SAI's in co-operation with the European Court of Auditors and SIGMA.

### **Conclusion**

The Eastern European Countries have to discover and develop democracy by: re-creating the laws and institutions, preparing the professionals which will apply the new rules, changing the old mentalities and behaviors, working style and ‘way of thinking’ of the new institutions and people.

Each country's members of EU or candidate must meet the EU requirements in each field.

Trying to answer the question about how audit offices from these 10 countries meet the requirements of EU in field of performance audit we can present some conclusions.

Majority of SAI from analyzed countries are independent and are authorized to submit their budget to their parliaments. In some countries there are some problems in this field generated by a lack of clear guidelines concerning cooperation between the audit office and the Parliament. Problems may arise; for instance, from the Parliament express requirements for audit, in some cases not occasionally which overcharge the audit office in comparison to the available resources. We exemplified with Czech Republic where the budget committee deals with the reports of the audit office only to a very limited extent and there is a strong influence of political parties on the activities and objectives of the audit office. An other case, in Croatia, for instance, there is no parliamentary committee that would be devoted exclusively to issues of the audit office. The International organizations and EU has proposed that financial autonomy needs to be strengthened further.

Eight of the total of 10 audit offices are expressly in charge of the auditing of all state funds and resources, bodies and organizations. Some audit offices, however, are not authorized to audit the central bank and the local governments.

Audit types in accordance with the INTOSAI Audit Standards are regularity and performance audits. Almost each of the audit offices are performing both types of audits, however, the relative proportions of these activities vary notably from institute to institute. A lot of countries perform a “comprehensive audit” including regularity and performance audit elements in the same action.

All audit office participated at training course and cooperation actions in field of performance audit: new auditing approaches and techniques, the types of audits to be applied in different areas to be audited. These activities contributed to the acquiring of the skills and expertise collectively referred to as the best practices within the European Union. As teamwork is one of the essential requirements in performance auditing, auditors should experience a process of unlearning to get used to the new culture of teamwork and to collective nature of modern audit approaches.

At earlier stages the majority of the audit offices worked without strategic plans that would be the starting point for the elaboration of their audit manuals. Development, however, has accelerated in this area as well, partly with the aid of the workshops organized under the framework of cooperation.

More than half of the audit offices have regulated the auditing procedures.

In several countries, Parliament and/or Government are not optimally set up to handle reports from the SAI and may not be required to respond. The procedures by which Parliament and the Government consider and respond to SAI reports and recommendations need in most countries, to be improved. Most countries make efforts to communicate findings directly to the public. LIKE Hungary and Romania.

In each analyzed countries progress has been made in external audit. The Supreme Audit Institutions (SAI) seems to be motivated and understand for the most part their technical and operational development and institution-building needs. Their collaboration through the network of candidate SAIs supported by the ECA has been beneficial.

There are also some progress in the development of a more modern financial and performance audit capability and capacity.

Fundamental concepts such as “performance management” “performance accountability”, “performance measures, indicators and standards” are still alien to most of the public sector managers.

It is important to be understand that in now days, sufficient condition does not mean that the public money are spent according to law provision, but they must be utilized under the economy, efficient, effective conditions too.

In each country the projects started by the Ministry of Finance for ameliorating budgetary and accounting procedures and streamlining financial implementations has stimulated the discussions on and aroused interest in performance measurement and performance auditing. Particularly implementation of new budgetary codes and accounting system, and improvements in budget preparation process may cause a deeper understanding of performance issues.

A general problem is that in the absence of effective and workable performance management systems, this is, in practice, only loosely linked to actual performance. Existing or planned performance management systems are not supported by adequate management capacities, robust objective setting and performance appraisal systems, which are essential prerequisites for a workable performance management system. Moreover, it is questionable if the prevailing management culture is amenable to taking on and operating an effective system. Governments appear to have been ill advised, generally by foreign donors and consultants, to establish performance-related pay schemes while the necessary managerial capacity and culture to do so is not in place.

We must mention in this sense, that in Bulgaria and Romania most of the government departments and agencies are operating without a modern management information system. Usually agencies do not provide measurable outputs in their budget requests. The broad objectives stated in the legislation and other relevant documents remain not translated into clear policies and measurable annual targets. It seems almost impossible to establish an input - output relationship between agency objectives and appropriations they receive. In this condition is hard to perform performance audit.

Bulgaria has made significant advances in formal systems, laws and structures, but them public institutions look weak and Romania after several years of missed opportunities now is showing determination to reform. The difficulty of managing reform has been worsened by distortions introduced into the public service management architecture.

It is a real challenge to introduce changes and innovations, especially in an environment where tradition is important. And also the adaptation is a long process. To overcome the difficulty there two countries have chosen an evolutionary approach to ensure a gradual transformation.

### **Final conclusion**

All countries analyzed continue to make progress towards better aligning their systems of performance audit and public administration with EU Member States norms and practices, but there is much yet that remains to be done. Comparing the state of performance audit in analyzed EU members before acceding with the acceding countries and candidate or possible candidate countries, there are a lot of common points. A good example is Turkey where auditors, public managers and media consider performance audits a “perfect normal” activity. Of course, for candidate countries are needed supplementary efforts to continue the reform, to be able fully comply with the heavy demands of EU membership. Membership will place a considerable extra burden on each country and will undoubtedly require a very substantial effort from, and a major commitment of resources by, practically every sector of public administration.

Cooperation with the European Audit Institute and the audit offices of a variety of EU Member States as well as with SIGMA has efficiently promoted this process. Furthermore, the audit offices of a number of countries outside the European Union (e.g. GAO) have also provided enormous help for the region in the enhancement of technical/professional skills and know-how.

The rapid development of the majority<sup>17</sup> of the audit offices within the region in the wake of the joint efforts aimed to promote the accomplishment of the coordinated objectives is unparalleled in the history of audit offices. This current comprehensive outlook shows that the audit offices of the region are ‘on the way forward’, heading in the proper direction and steadily improving in their preparedness to comply with EU accession requirements in terms of the audit field, the procedures of reporting and in numerous other respects as well.

European Court of Audit plays no direct roles in the accession negotiations; nevertheless, it has provided great assistance through its existing connections of cooperation with the audit offices of the Member States. It was fairly clear for the European Commission that the 11 recommendations referred to above should be used as an optimum benchmark for the assessment of the quality of external auditing performed in the acceding countries. This then provided guidance for the audit offices of the candidate countries in the process of their preparations for EU membership.

---

<sup>17</sup> [www.asz.hu](http://www.asz.hu)- opening speech at Building Good Governance: Experiences of the SAIs in Central and Eastern Europe

## **References**

[www.oecd.org](http://www.oecd.org) - Organization for Economic Co-operation and Development  
[www.intosai.org](http://www.intosai.org) - International Organization of Supreme Audit Institutions  
[www.eurosai.org](http://www.eurosai.org) - European Organization of Supreme Audit Institutions  
[www.sigmaxweb.org](http://www.sigmaxweb.org) - Support for Improvement in Governance and Management  
[www.klsh.org.al](http://www.klsh.org.al) - State Supreme Audit Control, Albania  
[www.revizija.gov.ba](http://www.revizija.gov.ba) - Supreme Audit Office of the Institutions of BiH, Bosnia and Herzegovina  
[www.bulnao.government.bg](http://www.bulnao.government.bg) National Audit Office, Bulgaria  
[www.revizija.hr](http://www.revizija.hr) State Audit Office, Croatia  
[www.rcc.ro](http://www.rcc.ro) Court of Accounts, Romania  
[www.sayistay.gov.tr](http://www.sayistay.gov.tr) Turkish Court of Accounts  
[www.nku.cz](http://www.nku.cz) Supreme Audit Office Czech Republic  
[www.asz.hu](http://www.asz.hu) State Audit Office, Hungary  
[www.nku.gov.sk](http://www.nku.gov.sk) State Audit Office, Slovakia  
[www.rs-rs.si](http://www.rs-rs.si) Court of Audit, Slovenia