

Strategy of the Estonian State Audit Office for 2006–2010

Foreword

Based on the Constitution of the Republic, the State Audit Office is a constitutional body, which principles of activity are provided by the State Audit Office Act. Pursuant to law, the purpose of the State Audit Office is to carry out audits in order to provide assurance to the Parliament and the public that the funds of the public sector are used legally and effectively. For achieving the goal the State Audit Office is carrying out financial and performance audits. The law stipulates that the State Audit Office is an independent body. The independence means that the State Audit Office is free to decide which audits are carried out and at same time the obligation to carry out the audits impartially and in accordance with the legislation and internationally recognized audit standards.

The State Audit Office publishes the results of its work in audit reports. The Auditor General is presenting the most important of the reports – „The overview of the use and preservation of state assets” – every year to the Parliament. This report is deliberated in the Parliament concurrently with the consolidated annual report of the state. The annual overview of the use and preservation of state assets includes also the summary of the most important results of the audits carried out during the year.

The functioning principles and reporting practices of the public sector have been in a continuous rapid development and the State Audit Office has consequently had an important role in providing the Parliament and the public with independent feedback on the results and shortcomings of the choices made. The abilities to adapt and to learn are the keywords that help the State Audit Office to contribute to the positive changes in the public sector. While keeping up with and adapting to the changes, the State Audit Office is being directed by its mission statement and vision for the future, in which the general principles and goals have been formulated.

The State Audit Office is trying, guided by the principles of good governance, to be an example to other public sector organizations.

Tallinn, 10 November 2005

Definitions

Good governance standard – the principles, which have been worked out by the Independent Commission for Good Governance in Public Services (within the framework of the co-operation project by the Office for Public Management (UK OPM) and the Chartered Institute of Public Finance and Accountancy (CIPFA)) and which were published in January 2005.

The principles of good governance are the following:

- focusing on the organisation's purpose and on outcomes for citizens and service users
- promoting values for the whole organisation and demonstrating the values of good governance through personal behaviour
- taking informed, transparent decisions and managing risks
- developing the capacity and capability of the organisation's governing body to be effective
- performing effectively in clearly defined functions and roles
- engaging stakeholders and making accountability real

Impact objective – the objective is a positive change, which the State Audit Office is trying to create with the help of audit reports.

The impact objectives are in consistency with the principles of good governance standards and are supporting the implementation of the principles.

The State – in general, the state means the public sector as a whole. In the context of some objectives of impact, the extent of the meaning of the state is more limited, based on the competence of the State Audit Office.

The choices that have been made

The first major change as compared with the previous strategy is the definition of the vision. While the mission has determined what the State Audit Office should do and what is the goal of the State Audit Office, then the vision further determines what the State Audit Office should be like in order to achieve the goal. Since the State Audit Office has envisaged itself as an audit organisation, the auditors of the State Audit Office should follow the basic values of an auditor in accordance with the Auditor's Code of Ethics. On the other hand, it will set some limits to the fields of activity: the main activity of the State Audit Office is auditing while the scientific and specific expert knowledge of the respective areas will be bought in.

The second change, in developing the audit types, is in extending the scope of audits (for example - the assessment of impact in the course of performance audits), at the same time trying to improve the quality of the present types of audits and the entire auditing process.

The third change is brought about by setting strategic objectives for a longer period than three years in order to establish a solid ground for the development of the State Audit Office. The next review of the strategic plan after a longer period of time would ensure a more obvious answer whether the established impact objectives have been achieved or not.

Mission:

The State Audit Office wants **TO HELP THE STATE IN BEING A GOOD OWNER.**

To help means, that the results of the work of the State Audit Office provide assistance in making decisions. To help means providing objective advice and feedback on accomplishments.

A good owner means implementing good governance standard in governing the State.

The State Audit Office considers it important to promote implementation of good governance in the public sector based on the results of audits and on the international experience.

The objective of the State Audit Office is, by its impartial conclusions, evaluations and advice that bring along positive changes and by its behaviour and activities that set an example of good governance to the whole public sector, to reach the status, where:

- The Parliament will use the results of the State Audit Office work in assessing the activities of the Government; and
- Taxpayers will know that the State Audit Office is contributing to the better use of their money.

Vision:

The State Audit Office **is an innovative audit organisation giving a lead in implementing the best audit practice.**

Innovative means continuously striving for improvement. The State Audit Office is supporting creativity, openness to the new, giving opportunities to good thoughts. It means the opposite to the fear of disclosing your own thoughts or considering the form to be more important than the content. Innovative means a wish to develop continuously through thinking. This means that the organisation is constantly changing and demonstrating the ability to learn from and use of the experience of the Supreme Audit Institutions of other countries.

Audit organisation determines the basic activities and position of the State Audit Office. The basic work of the State Audit Office is to carry out audits. The values of the auditors of the State Audit Office have to be in conformity with the Auditor's Code of Ethics.

Giving a lead means that the State Audit Office is striving to be an example to Estonian commercial undertakings of auditors and also to Supreme Audit Institutions of other countries.

Best audit practice means first of all the quality of audits and compliance with the international audit standards.

Basic values:

The basic values of the State Audit Office are the following: objectivity and independence; competence and due care; co-operation and openness; honesty and integrity.

The basic values of the State Audit Office arise from the basic values of a good auditor, which are documented in the Auditor's Code of Ethics of the State Audit Office. The basic values are a set, where none of the components could be overestimated or underestimated. In addition to auditors, the main values are followed by all other employees of the State Audit Office.

Objectivity and independence

The principle of objectivity imposes on all auditors an obligation to be fair, honest and free of conflict of interest. An auditor is performing his or her duties in the public interest and is obliged to avoid interference in the issues, which are related to his or her interests outside the area of the respective audits.

Competence and due care

Maintenance of competence needs continuous individual development in respect of the specialty. The auditors should not leave an impression that they might have special knowledge or experience, which they actually do not possess. The auditors exercise due care in carrying out the audits, in conducting supervision, in performing the quality control and in compiling the audit reports as well. The information obtained during audits should remain strictly confidential.

Co-operation and openness

An auditor is valuing co-operation and straightforward and poised communication. An auditor has an open attitude towards disclosing the results of the State Audit Office work to the Parliament and other target groups. Disclosure of the information obtained in the course of audits shall be reasoned and carefully planned. An auditor has an open attitude towards internal discussions of his or her performance results in the State Audit Office and is ready to improve the quality of audits based on the shared experience.

Fairness and integrity

The behaviour of an auditor has to be impeccable everywhere and in all circumstances. An auditor must understand that the public trust and respect towards the activity of the State Audit Office is depending on the activity of each and every auditor.

IMPACT OBJECTIVES

The task of the State Audit Office is to contribute to achieving the following objectives through carrying out audits and formulating the recommendations for improvement in the audit reports:

1. The financial accounts of the state are in order and correct. The information on important transaction categories is correct. The principles for budget preparation and accounting are harmonized, where appropriate. The economic transactions of the state are in conformity with the legislation, documented and disclosed following the rules of procedure. The activity of the state is efficient in collecting revenue and economic in making expenditures.

The task is to guide the auditees in such a way that the reporting system and accounting principles would reach a good level. The State Audit Office carries out audits of the important financial accounting areas. With the objective of harmonising the implementation of basic concepts the State Audit Office is dealing with such areas of activity where differing concepts are still causing mistakes in financial accounting. In checking the legality of transactions the State Audit Office is first of all examining the implementation of the State Assets Act, the State Budget Act, and the Public Procurement Act.

2. The internal control system (covering organisational structure, methods, procedures and internal audit) of a public body ensures the legality and economy of its activities and is capable of avoiding material risks, mistakes and/or misuses.

The objective of consistent improvement of the internal control system is to achieve a level of development where a regular risk assessment system and an effective internal control system are present in important areas of activities.

3. The Government IT-systems ensure adequate information at the right time for making decisions and providing services to citizen.

The State Audit Office will start to carry out audits of IT systems at the beginning of 2007. Examining the reliability of the IT system is, on one hand, a part of a financial audit. On the other hand, the IT audits are carried out as part of performance audits for assessing the economy of IT investments, etc.

4. Planning of the state budget is based on the long-term objectives of the state (institution) and the budget preparation process has become stable.

The rules for budget preparation have become stable (by 2009). The information during budget preparations will move in both directions – from top to bottom and from bottom to top. The budget proposals will contain justified calculations. The budget preparation process is supported by integrated IT systems.

5. The policy and programmes of the state (in a broader sense) meet their intended objectives and have the expected impact. The Parliament receives reliable, timely and complete information for making decisions.

The set objectives will be assessed whether they are adequately concrete and measurable. In respect of efficiency the objective is, among other things, to provide concrete feedback (measurable in monetary terms) on benefits received or/and not received as a result of expenditures. The submitted materials concerning the implementation of objectives described in activity reports will be assessed.

6. Participation of the state in foundations, commercial undertakings and non-profit organisations is purposeful, transparent and effective.

The state has a clear vision why it is participating in some private sector body and is doing that economically and efficiently following the good governance guidelines.

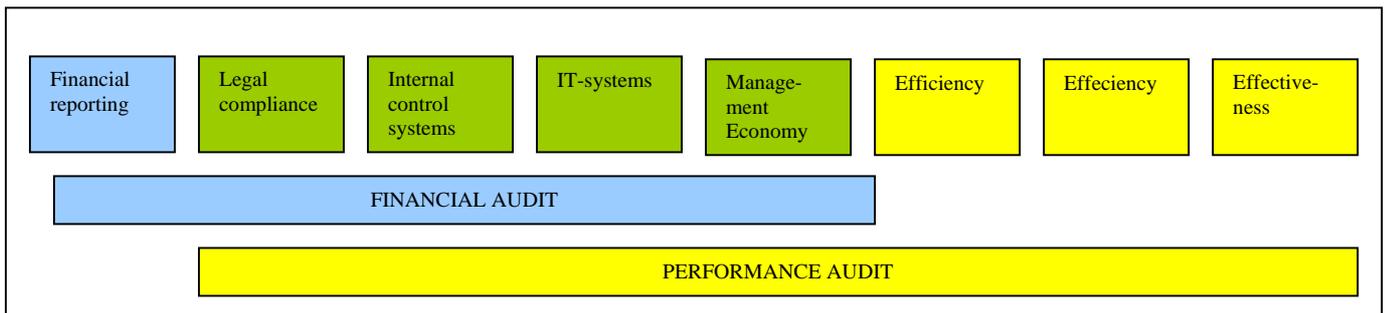
7. The state is using correctly (in compliance with regulations and effectively) the total possibly obtainable assistance funds from the European Union, pursuant to the requirements of the EU. The institutions responsible for distributing and collecting the EU money perform their functions correctly.

The State Audit Office will examine the efficiency and legality of use of the money and the compliance of the use of money with objectives. (A new area from the beginning of 2006)

DEVELOPMENT OF THE TYPES OF AUDIT

The State Audit Office considers both financial and performance audits and their development of equal importance.

In 2006–2010 the main emphasis will be laid on the improvement of the efficiency of the auditing process and the quality of audit reports. The possible aspects of the audits to be carried out by the State Audit Office are presented on the drawing below. The main objective of financial audit is to give an assessment on the correctness of financial accounts, the main objective of performance audit is to give an assessment on economy, efficiency and effectiveness. It also means that, depending on the audit objective of an audit, one audit may simultaneously cover both the aspects of financial and performance audits.



Widening of the scope of financial audits

The widening of the scope of financial audit is based on the wish to carry out audits with the scope required by the State Audit Office Act. Assessment of the internal control systems is first and foremost a comprehensive analysis and documentation of the internal control systems and assessment of risks (starting from 2007). Assessment of financial management is related to improvement and review of the budget preparation process (starting from 2008). Reliability of the IT systems is related to auditing the important information systems, which have an impact on financial accounting, following the internationally accepted standards and instructions for auditing (starting from 2008).

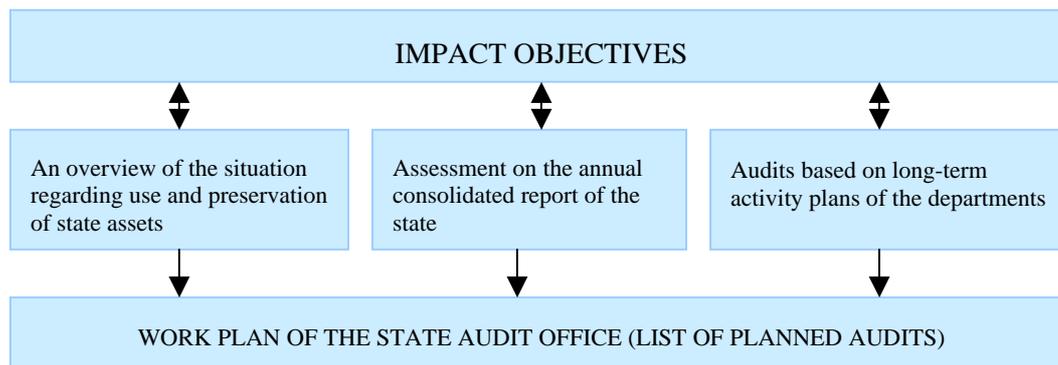
Widening of the scope of performance audits

The topics for performance audits are chosen in a way that will allow handling the entire area as a whole. In the chosen area several smaller audits will be carried out thereof with an objective to assess performance of single processes and, as well, to provide a consolidated assessment of the entire area as a whole later on.

The criteria of a good audit

- The topic of the audit is in conformity with the mission of the State Audit Office.
- The audit is carried out in conformity with the internationally accepted standards and the Auditor's Code of Ethics
- As a result of the audit an assessment is provided (response to audit objective).
- The conclusions of the audit report are made with expert knowledge and the recommendations are concrete and feasible.

ACHIEVEMENT OF IMPACT OBJECTIVES THROUGH WORK PLAN



The audits included in the work plan should, in short term, result from the need for

- Drawing up an overview of use and preservation of the state assets,
- Providing an assessment on the annual consolidated report of the state,
- Implementing long-term work schedules of a department.

In summary, activities will be directed towards the achievement of impact objectives and, when choosing a topic preference is given to the audits that contribute to the achievement of impact objectives.

In additions to corresponding to impact objectives, the State Audit Office has determined supplementary selection criteria on the basis of which the Auditor General assesses audit proposals for the work plan. The selection criteria are the following:

- Compatibility of a topic with the commitments and impact objectives of the State Audit Office;
- Existence or likeliness of important problems;
- Amount of money and value of assets of the state connected with the topic and/or number of citizens significantly influenced by the topic;
- Opportunities of the State Audit Office to create value;
- Interest of the Parliament, the public sector and the auditee in the topic;
- Feasibility of an audit with the resources and existing know-how of the State Audit Office.

Likewise, the State Audit Office has determined the conditions when audits are not included in the work plan. The conditions are the following:

- Substantial problems regarding the topic are unknown;
- Persons who could be interested in the assessment/information resulting from the audit are unknown;
- Necessary know-how is not available;
- An analogous audit/survey comparable in scope and reliability, has been performed recently;

- Failure to involve persons in the audit team who could be able to apply appropriate auditing methods;
- The process is developing too fast due to which the expected audit results may lose significance already before publication;
- The topic is too complicated.

DEVELOPMENT OF THE ORGANISATION

The State Audit Office is supporting co-operation between the departments and integration of audited areas (a matrix structure). That is why the additional audit areas or aspects will be distributed between the existing audit departments and new area-oriented departments will not be created.

The State Audit Office will provide the amount of training necessary for the improvement of competence and for the common understanding of principles and methodology. The principle is that the development of the skills of an auditor is the responsibility of each auditor himself/herself.

The State Audit Office will develop co-operation will become more open. The internal information exchange will be improved and feedback will be collected from the auditees and the Parliament. The State Audit Office will actively co-operate and exchange experience with other Supreme Audit Institutions. Co-operation with the committees of the Parliament will be enhanced.

In order to improve the audit process the State Audit Office has planned to implement an electronic management system of the audit documentation by 2008.

The role of the departments and services of the State Audit Office in implementing the strategy:

- The management – interprets the processes taking place in the environment, both plans the resources and makes decisions about their use as well as carries the basic values of the State Audit Office.
- The audit departments – participate in the development of the methodology and implementation thereof. Every department formulates its strategic audit areas and takes care of generating the expert knowledge in these areas. The audit departments are responsible for performance of audits with high quality.
- The personnel service – helps to direct the development of the employees and helps to organise their training as well as contributes to necessary staffing in order to achieve the targets of the State Audit Office.
- The methodology, planning and reporting service – is responsible for the methodology and quality control and contributes to the unification of audit methodology and dissemination of the best practice between the departments.
- The public relations service – coordinates the relations with the public, issues publications and helps to ensure as great an impact of the audit reports as possible.
- The IT service – contributes to efficient auditing processes through harnessing contemporary technological solutions.
- The international relations service – is organising international relations and exchange of experience with other Supreme Audit Institutions.

The activities for achieving the strategic objectives will be agreed upon in the annual work plans of the State Audit Office.