

**Speech of Auditor General of Estonia Dr Alar Karis at the ceremony announcing the winner of the ECA Award for research into public sector auditing in Luxembourg on 31 May 2017: ‘Public Sector Auditing in Europe: Current Trends and Perspectives’**

Honourable President Lehne,  
My distinguished co-speaker Mr Caldeira,  
Members of the court,  
Award winner Mr (Dr) Andreas Glöckner,  
Dear guests,

A former member of the European Court of Auditors, the late Henrik Otbo, whom I knew only briefly, was a very honest and direct man as well as a valued professional.

He always got straight to the point and was often critical of his own work as well as the work of the ECA. But his critique was never cruel or bitter – instead it was always directed towards development.

This attitude is highly agreeable to me, and for that reason alone it has been my great pleasure to be a member of the award committee and also to give you this speech.

This year we celebrate the 40<sup>th</sup> anniversary of the establishment of the ECA and the signing of the Lima declaration.

Both of these historic events are significant in the development of independent external auditing around the world.

Most importantly, on the one hand it meant creating solid principles of independent auditing of public finances; while on the other, with the establishment of the ECA a truly supranational audit institution was created.

It was only a matter of time before the ECA came face to face with big, serious issues: cross-border problems, where the identification and resolving of problems could only be done in cooperation.

Today, 40 years later, we are still faced with threats to the autonomy of SAIs, and more than ever with issues that are bigger than just one country or one government.

We can also see that despite attempts to cut down government, ‘the government’ is literally everywhere, creating but also solving global financial and environmental problems.

At the same time, accountability is becoming so diffused that democratic elections are producing grotesque results that will shake the institutional foundations of states.

One can also see that the vulnerability of private and national information systems and the use of information obtained by exploiting those vulnerabilities are a danger to stability in societies. Unfortunately, this is becoming everyday news.

All this makes me ask where we are as Supreme Audit Institutions. Are we part of the problem, or the solution to the problems? In my view these questions are as relevant in Europe as they are all around the world.

It was last December in Abu Dhabi that the international community of Supreme Audit Institutions adopted a new strategy – one which continuously aims, via four strategic goals, to strengthen the independence of SAIs, good governance and transparent management of public resources.

In the same document, INTOSAI also expanded the scope of SAIs’ auditing to nearly every aspect of government activities, committing itself to helping to resolve the global issues expressed in the UN Sustainable Development Goals.

Similar notions can be found in the new strategy of the EUROSAI adopted just last week in Istanbul. This ever-greater involvement of SAIs in government activities indicates that SAIs do not want to be left on the sidelines. This certainly looks good on paper, but the reality

is somewhat different. And here we must ask ourselves: what can we really deliver?

If you read the questions asked in audits or the conclusions drawn in reports, it often leaves you wondering: so what?

So what if you worked through thousands of papers or conducted dozens of interviews and came up with elegant wording for your report if you still can't give any assurance about how things are, and even if you can, for example in the case of financial audits, the benefit of this information for improved decision-making is modest at best.

Here we face a lack of relevance (and possibly professional shortcomings) that will lead to the disregard of significant decision-makers and the public. There is also another common scenario where significant conclusions are drawn by SAIs but nobody pays attention.

Although different in cause, the result of these scenarios is the same: the impact of SAIs is reduced and we fail to perform our duty, which is to avoid wrongdoings and improve the future decisions of the government.

At a time when SAIs are struggling to remain relevant to their stakeholders and a significant part of the institutional set-up of governance systems, the whole system of governance is changing, too.

The President of the Portuguese Court of Auditors, Mr Caldeira, has very prudently described the trends in changes in governance from a managerial state to a more holistic and citizen-centred approach. My take on these changes is more fundamental and specific: it is about the changes caused by e-governance.

The targets of our audits, like public agencies providing public services, may completely disappear or change so that the simple question of who is responsible may be almost impossible to answer.

Take, for example, open data, which gives us the power to design new services for every person, including those aimed at controlling the

functioning of the government, or in other words the work we do today.

Taxing and redistribution of taxes will be changed so that it is simply impossible to follow the money, or otherwise it could be absolute in the case of e-money considering its potential to carry with itself the information about all of the transactions in which a particular e-coin was used.

The relevance and impact of our audit work will become ever more important, especially when the international external audit community is searching for new 'products' and will increasingly focus on ICT-related audits in their audit programmes because of the changes in the audit environment.

For example, the meetings of INTOSAI and EUROSAI IT Working Groups indicate an increase in attempts to audit as complex a matter as ICT. From the database of EUROSAI IT WG you can currently find dozens of references to IT audits.

These are still diverse in their scope and methodology and may seem to our audience to not yet be of particular relevant, but this is probably unavoidable given the current state of the development of e-governance.

That is why the really big challenge for all of us is to combine this auditing experience and consolidate it into meaningful and efficient auditing practice.

This must be done so that we can also provide added value for future citizens as well to those developing new systems to minimise such risks as breaches of data security, lack of transparency, sophisticated corruption and new fraud schemes.

We are witnessing the rapid development of e-services directly provided to people and a growing reliance on ICT systems.

For example, declaring taxes in Estonia and in Chile is based on data collected by the tax authority from different government databases, and in the case of Estonia the process is nearly human-free. E-health services are expanding rapidly around the globe and the correct processing of data is becoming a real matter of life and death.

Depending on the institutional system of the country, the number of e-governance developments and developers can be large.

Audits from various audit offices show that the range of service quality varies to a large degree and that governments are failing to control this development.

Back in Estonia, our audit office developed an E-state Charter as early as 2008 so as for every person to be aware of and demand their rights regarding quality services in the real and virtual environments.

This means that people's involvement in the design, development and control of future government services is becoming more important. The need for external control or audits in this situation must take the direct input of citizens into greater consideration than before.

Also, we see everywhere that more and more accounting is being done electronically. We also see that data processing and IT systems are allowing us to do real-time audits and, in the future, that they will allow us to perform audits where one computer or information system audits another.

This means that instead of checking the technical parameters of transactions in accounts, the auditor is needed to understand the settings of IT systems and in some cases even the internal operating of those automated transactions, because the risks of fraud and/or mistakes now lie there.

In this changing audit environment, are we going to need financial, performance or IT auditors or rather hybrid auditors to perform relevant and high-impact audits in the future?

What will happen to classic supreme audit institutions themselves, let's say in 2050? Will we still be needed? Will auditors still be doing audits then, or will information systems be performing online controls of other systems and processes in our place?

Perhaps these control systems have to be developed and maintained by a highly competent IT development team to secure the independence of supervision.

It could very well be the case that the Supreme Audit Office of 2050 is more like an IT development organisation than a classic audit organisation. Who knows!

Whatever the future brings, one big question remains: who is accountable? As long as we live in a world of human beings there will always be somebody who holds responsibility.

Even if this responsibility is to design algorithms for IT systems, which then provide services to people.

Dealing with people and making decisions for the sake of other people will very probably be the task of human auditors in the future.

On the other hand, I am convinced that most technical tasks in the auditing process will be taken over by technology. It will not be wise to ignore this; nor should we be afraid of it.

In this respect the work receiving this year's ECA Award helps us further along the path towards more meaningful and hopefully useful auditing.

I especially liked the points made in the study that the value created or expected in doing financial audit must determine the set-up of the accounting and auditing system and not the other way round, as well as emphasising the cross-generational aspect as the leading principle in the accounting system.

This makes me hopeful that we will not be stuck in a yester-world of old auditing habits or routines that have been serving us for years.

The rules for automated processes will be created by us, so we need to look at them and standardise them where necessary according to our – which is to say human beings’ – needs.

Effective future auditing is of course dependent on our human capital. It goes without saying that the ability of people to adopt (i.e. to learn and change) behavioural patterns is key to the success of embracing new auditing challenges.

Human resource development is first and foremost the internal task of each audit institution, but aspects of cooperation – and more than ever international cooperation in particular – need to be considered.

I will give just two modest examples that the National Audit Office of Estonia can offer in this respect. Firstly, in cooperation with the University of Tartu we developed two Massive Open Online Courses for environmental auditing in English.

The courses were very successful among our own people as well as among an international audience. Nearly 200 registered to take part in the first run, with over 100 graduating participants per course.

Secondly, the third young auditors’ conference YES in Tallinn this autumn will tackle the exact issues and challenges that I mentioned above.

Young auditors are probably the best target group for inducing changes as well as implementing them. With these examples, I call on everybody in this room to think about what they can do to make the next generation of auditors fit to face the challenges I have outlined to you.

Dear friends, this future outlook I just described will not eventuate tomorrow, maybe not even the day after tomorrow either, but we are

on our way to a time when auditing will certainly be very different to the practice we know today.

With the intellectual efforts of the practitioners and scientists working in the field of auditing, we will be better equipped to handle this unknown.

For that reason, I hope the ECA awards will continue to motivate such work and that both the nominees and the winners will continue to contribute to the advancement of public auditing.

To conclude, let me once more congratulate this year's winner and thank my fellow members on the award committee for our thought-provoking discussions during the nomination process.

Thank you!