



## **SIGMA**

**Support for Improvement in Governance and Management**

A joint initiative of the OECD and the European Union, principally financed by the EU

# **Peer Assistance Review of the Riigikontroll of Estonia**

## **SIGMA SUMMARY REPORT**

**September 2005**

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## RIIGIKONTROLL PEER ASSISTANCE SUMMARY

### Introduction

1. In early 2005 the Auditor General, Head of the State Audit Office (the Riigikontroll) requested SIGMA to work again with them and carry out a second peer assistance review of the Supreme Audit Institution. The first peer review was carried out by SIGMA in 1999, with SIGMA peers from the Netherlands, Denmark, Germany and the UK. The results of this peer review were well received and led to a comprehensive development programme based on the preparation of a well defined Strategic Development Plan (SDP). The Netherlands Rekenkamer was then engaged as the main technical assistance partner during 2000-2003 through a Netherlands funded programme. This programme covered four main areas: audits, organisation and management, information, and communication. The outcome of this programme was appreciated by the two partners as it is readily apparent that the Riigikontroll is now a modern and well functioning SAI.

2. During the dialogue with SIGMA, when preparing for this peer review, it became quite clear that whilst the Riigikontroll has now reached a reasonable level of professional development and operates to EU benchmarks it required motivation and suggestions to move beyond this level and towards the very best practices and standards for its work. SIGMA specialist advice and recommendations were therefore needed to focus on further improvements to financial and performance audit quality and standards, and on the operational and functional effectiveness of the Riigikontroll and the public accountability system of Estonia. The importance of the role of the Riigikontroll in providing assurance advice to the public and parliament on whether the Government has provided good and honest stewardship and effective management of state resources; and value for money in the delivery of its programmes is very important indeed.

3. The Auditor General therefore asked that SIGMA should, together with Riigikontroll peers (see Annex attached), review and address issues for further developments in time for them to be considered and, if accepted, included in the next Strategic Plan of the Riigikontroll for the years 2006-2009. The Auditor General also asked for a short review of the legal framework to be undertaken so that any issues of financial and operational independence and the audit of local government could be discussed and considered.

4. Accordingly this SIGMA peer assistance review therefore began with a short review of progress in relation to the recommendations made in the 1999 review – this considered by the peers as good. Then they briefly reviewed the statutory arrangements for public sector external audit in Estonia. The peers then focused on the major challenges for the Riigikontroll the immediate years to come. The peers have discussed and presented recommendations for some of the challenges and opportunities the Riigikontroll will need to consider in order to find their own particular solutions to the situation in Estonia at the present.

5. SIGMA engaged very senior and experienced auditors from Germany, the Netherlands, Sweden and the UK<sup>1</sup>. They performed their assignment under the guidance of Nick Treen, Senior Advisor, SIGMA.

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1. Detlev Sparberg, Germany and NATO; Harry Kramer, the Netherlands; Bo Sandberg, Sweden; Richard O'Connor, European Court of Auditors and UK, together with Nick Treen, the SIGMA SAI expert and the Peer Assistance Review Team Leader, and Lalitha (Annes) McGoogan, the SIGMA Project Assistant.

Two one week field missions for the review were carried out in April 2005, and meetings held at OECD in Paris before and after the field missions for planning and reporting coordination. The outcomes of this review are presented in a Detailed Report of the Peers and Annexes, and this Summary. The Detailed report provides many comments and recommendations based on the peers' experiences, analysis and knowledge, and the detailed discussions held with the Estonian peers, for the Riigikontroll to consider.

### **Criteria and methods**

6. The criteria used by the team for assessing the Riigikontroll present state of performance derive from the INTOSAI Auditing Standards and, especially for the Financial Audit, the standards and guidance issued by the International Federation of Accountants (IFAC<sup>2</sup>). However, due to the present level of development in the Riigikontroll other forms of so called 'best and good practice' for the public sector have also been applied – especially those that relate to the EU. The review was based on a combination of document review and interviews with the audit staff at all levels as well as detailed and intensive dialogue with the Riigikontroll management. A sample of both Financial Audit and Performance Audit planning documents, internal approval processes and reports were analysed in order to obtain a better understanding of the quality of recent audit work. We also held discussions with representatives of the major stakeholders such as the Select Committee of the Parliament which deals with the Riigikontroll's reports, as well as senior officials at the Ministry of Finance and a number of Ministries to obtain an auditee and “customer” perspective. We also spoke to representatives of government Internal Audit units, and found particularly helpful and useful discussions held with the Ministry of Finance Financial Control Department. Auditing and accounting professional bodies in Estonia were also a good source of advice and information for the SIGMA peers.

7. It is evident that the Riigikontroll has made significant progress in moving towards becoming a modern and effective Supreme Audit Institution in a relatively short time. The peers are aware that the Estonian Public Sector in general is still in a period of significant change, some of which will impact on the Riigikontroll. Therefore it is perhaps more opportune than ever to pursue those developments in the way audits are planned and carried out which will pay dividends for all interested parties in later years. Achieving this will undoubtedly require some fundamental re-thinking of priorities, audit approach, appropriate resource levels and allocations, and a period of stability as well as the commitment of Parliament to support and help in developing the Riigikontroll to the very best European and international standards and practice. The peers consider this to be a realistic aim.

8. Exit conferences as well as a 'contradictory' procedure with the Estonian peers (see Annex attached) have been applied to this Report. Where there may remain factual imperfections and unrealistic recommendations in the report this is the responsibility of the SIGMA peers.

### **Topics covered by the Peers**

In line with these underlying considerations the Detailed Report addressed:

- Riigikontroll development
- Audit legislation
- Implementation of the recommendations made following the SIGMA peer review 1999
- Corporate, Strategic and Operational Planning
- Financial Audits

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2. <http://www.ifac.org>

- Performance Audits
- Relations with Parliament
- Organisational Structure, Staffing and Management
- Quality Management

### **Summary of the Peer Assistance Findings**

9. In general terms the peers have made recommendations in the following key areas:

- The current State Audit Act is a modern supreme audit institution (SAI) law which provides a good role, scope and functional arrangements for the Riigikontroll. However, key to an effective, successful and trusted SAI are very high levels of institutional, reporting, operational and financial independence from the powerful influences and authorities of both Government and Parliament. Arrangements for the financial independence of the Riigikontroll still need improvement and the Auditor General needs more operational authority and freedom to recruit, retain and remunerate his audit staff. The period of office of the Auditor General could be usefully extended and made a single term – this would also help ensure more independence as well as help the appointment process itself remain apolitical and unbiased from short term factional thinking. The most significant public reports of the Riigikontroll need to be approved by the Auditor General himself.
- The audit and operational strategies of the Riigikontroll have been well developed. Very successful institution building arrangements have been put in place and EU Accession requirements for external financial control were easily and quickly achieved in the last 5 years. The challenge today for the Riigikontroll is to meet ever changing practical realities for meeting increasing demands for better and more professional delivery of financial audits to international standards; and for delivering performance audits, especially to a more and more demanding and interested Parliament, which add value and help make the Government deliver better value for money. The recent good and much needed developments of better Government consolidated financial reporting on an accrual basis will need careful audit and expert support from the Riigikontroll to ensure successful implementation of this major accountability process. Within the audit strategy the arrangements for the audit of local government and state revenues will need to be better developed; and an appropriate, visible and useful role in countering and fighting against fraud and corruption identified and given priority.
- The structure and organisation of the Riigikontroll has become rightly more auditee focused. Management skills at all levels will become more and more important, and particularly for those at senior levels. Chief Auditors will especially have to be at the front of better auditee contacts and relations. Maintaining the staff complement at the Riigikontroll has recently been difficult and in the near future the Riigikontroll will need to grow to cover new responsibilities and tasks in the local government area. Recruitment and retention issues will therefore remain very important and it is imperative for the Riigikontroll to be the right size and have all the professional and technical capacity and competencies it needs. It is very unsatisfactory if, as at present, salary levels are not sufficient to adequately recruit and retain staff.
- The Riigikogu has recently formed a special committee to deal with the work of the Riigikontroll. This is an excellent development and the peers have provided advice on practical working arrangements for the committee. It will be good for the Riigikontroll to support the institutionalising of the audit committee function and to support the committee members in

obtaining and sharing experiences with other parliamentary audit committees. It is particularly important for the committee to have good administrative and secretarial support and good procedures for: interviewing auditee witnesses; drawing conclusions and making their own recommendations; following up on the implementation by the government of their and the Riigikontroll's recommendations; and the role the Ministry of Finance should play during the taking of evidence from witnesses ie it should be requested to attend all such meetings.

- Financial Audit has developed rapidly and well since the 1999 peer review. In 2005 it has become very important because of the new requirement of the State Budget Act for the SAO to give a formal audit opinion on the Consolidated Annual Report of the State. The peers have made several detailed suggestions to help make this new audit requirement develop well by, for example, making use of a single audit concept for the consolidated account and the flexible use of materiality for audit planning and reporting; developing a regularity audit assertion that will be subject to materiality considerations; make efficient decisions on account areas for audit planning, for example, for pay and non pay expenditures etc; make more use of statistical samples and IT based audit interrogation tools; urgently develop a robust approach to the reliance on internal audit work based on ISA 610: considering the work of internal audit; be active in supporting these better methods of financial reporting by suggesting improvements to the accounts and reports; improve the audit approach to state revenues; and making appropriate use of “management letters” for reporting more minor findings.
- Performance auditing is one of the strengths of the Riigikontroll. The peers have made some general and detailed suggestions for improving methods, outputs and practices in this area. Delivering performance audits reports, in accordance with a timetable for the meetings of the Riigikogu select committee, which are bigger, more interesting and relevant will be the target for this work.
- Improving and the further development of audit quality for the Riigikontroll is a priority. The peers have recommended having a plan of action to implement the “EU Audit Quality Guidelines” and to institute a Quality Assurance process within the Methodology, Planning and Reporting Unit. Professional training and certification under the Estonian Board of Auditors is essential for financial audit quality.

## **Background**

10. The Riigikontroll was established in 1990 and is headed by an Auditor General. In 2000 the core audit work was vertically organised in three functional Audit Departments covering Financial Audit, Operational Risk Audit and Performance Audit respectively. Each of them was headed by a Chief Auditor. The three Departments were responsible for their specific audit function across all Government Ministries. In December 2004 this structure was replaced by a horizontal client oriented structure. Four Audit Departments were created with each responsible for covering all types of audit activity in a group of Central Government ministries. Each headed by a Chief Auditor.

11. The current Riigikontroll Act was approved in 2002 with more precise audit objectives and content as well as the scope of the audits. Another new requirement of the law is that the Riigikontroll should include in their reports the responses of the auditees. In 2005 the audit law was also amended to include a requirement to perform financial audits of the Local Government, but not performance audits.

12. As a result of the Estonian accession to the EU in May 2004 the Riigikontroll contacts with other Member States Supreme Audit Institutions, the European Court of Auditors (ECA) and other EU institutions have become more frequent and normal. It has a highly developed and well functioning

international co-ordination and relations unit. Membership of the EU has brought with it the receipts of various funds and 'own resources' and the need to provide assurance to the EU concerning disbursement of funds etc. Recent years have also involved collaboration and networking with other former candidate countries to mutually improve their basic audit structures and procedures. The Riigikontroll is today an outward looking and well motivated organisation.

13. During the period up to 2005 the state financial system has also developed rapidly and Estonia has most recently introduced a modern public financial accounting and management process including e.g. accruals accounting, performance reporting, and a reinforced and empowered internal audit covering all major state bodies. Hand in hand with the new developments in the state financial management goes increased expectation that the Riigikontroll should add value with its audit and also be capable giving qualified advice to all stakeholders in the state accountability system. A major step in enhancing the accountability structure for the public sector audit was taken in 2004 when a Committee on the Control of State Budget - a select committee of the Parliament was established to deal with the activities and reports of the Riigikontroll.

### **Acknowledgements**

14. SIGMA and the peers want to express our gratitude to the peers of the Riigikontroll who so actively and professionally contributed to the Review - Auditor General Mihkel Oviir, his Chief Auditors, other senior auditors and staff. This is especially relevant to our main speaking partners and the organisers of the review Riigikontroll Director Tonis Saar and Head of International Relations Rein Söörd who have the admiration of the SIGMA peers for their knowledge and understanding of the Riigikontroll and their commitment and effort to making the peer assistance review a useful and helpful process. All the staff at the Riigikontroll gave the SIGMA peers much time and provided much interesting and stimulating discussions during the peer review. Without their knowledge and open attitude to discussing possibilities as well as problems this peer review would not have been possible to carry out so well. The Estonian peers are set out in the attached Annex. Many thanks also go to our very expert team of interpreters and translators led by Vaike Seppel.

## **ANNEX: LIST OF ESTONIAN PEERS**

### **State Audit Office**

Mr Mihkel Oviir, Auditor General  
Mr Jüri Kõrge, Chief Auditor, Head of III Audit Department  
Mr Olav Lüüs, Chief Auditor, Head of IV Audit Department  
Ms Ines Metsalu, Chief Auditor, Head of I Audit Department  
Mr Tõnis Saar, Acting Chief Auditor, Acting Head of II Audit Department; Director  
Ms Krista Uuna, Audit Manager of I Audit Department  
Mr Jüri Kurss, Audit Manager of II Audit Department  
Ms Õie Soovik, Audit Manager of II Audit Department  
Ms Külli Nõmm, Audit Manager of III Audit Department  
Ms Liisi Uder, Audit Manager of III Audit Department  
Ms Sale Ajalik, Audit Manager of III Audit Department  
Ms Tuuli Rasso, Senior Auditor of IV Audit Department  
Ms Inga Häkkinen, Senior Auditor of IV Audit Department  
Ms Laura Maran, Auditor of III Audit Department  
Ms Siiri Suits, Auditor of III Audit Department  
Ms Terje Keerberg, Auditor of IV Audit Department  
Mr Valdo Vaarik, Auditor of IV Audit Department  
Ms Kairi Kübarsepp, Head of Personnel Service  
Mr Toomas Mattson, Head of Public Relations Service  
Mr Kaido Vetevoog, Head of Methodology, Planning and Reporting Service  
Mr Rein Soord, Head of International Relations

### **Riigikogu (Parliament of Estonia)**

Mr Juhan Parts, Member of Riigikogu, Former Auditor General  
Mr Harri Õunapuu, Chairman of the Select Committee on the Control of State Budget  
Ms Tiina Licht, Head of Secretariat of the Finance Committee  
Ms Helda Puura, Consultant of the Finance Committee

### **Ministry of Finance**

Mr Kalle Kukk, Deputy Secretary General  
Ms Kaie Karniol, Head of Public Governance Policy Department  
Ms Juta Maar, Deputy Head of State Treasury Department, Chief accountant of the state  
Mr Andres Karotamm, Acting Head of Financial Control Department



Ms Tiina Vask, Head of Internal Audit Department

### **Ministry of Defence**

Mr Lauri Almann, Secretary General

Mr Agu Tammearu, Head of Internal Audit Department

### **Ministry of Education and Research**

Ms Eve Sild, Acting Head of Planning Department

Ms Anu Angerjas, Head of Budget Division

Ms Katrin Jakobson, Chief accountant

Mr Tarmo Leheste, Head of Internal Audit Department

Ms Külli Aren, Head of Audit

Mr Alar Ilbis, Internal Auditor

Ms Maie Kitsing, Head of General Education Department

### **Ministry of Internal Affairs**

Mr Märt Kraft, Secretary General

Ms Anne Schmidt, Head of Internal Audit Department

### **Agricultural Registers and Information Board**

Mr Ahti Bleive, Deputy Director General

Ms Ly Lobjakas, Head of Financial Department

Ms Sigrid Saluri, Head of Internal Audit Department

### **Tartu University**

Mr Taavi Annus, Docent, Chair of Constitutional and Administrative Law, Institute of Public Law, Faculty of Law

### **Board of Auditors**

Ms Urve Kipper, Executive Director of the Board

Mr Toomas Vapper, Executive Director of the Board

### **Estonian Accounting Board**

Ms Marju Pöldniit, Deputy Chairman of the Board

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