

## **STRATEGY 2010–2013 OF THE NATIONAL AUDIT OFFICE OF ESTONIA**

### **Foreword**

According to the Constitution, the National Audit Office is a constitutional institution the basis of whose activities are established in the National Audit Office Act. According to the act, the activities of the National Audit Office are designed, through financial audits, to reassure the Riigikogu (the Estonian parliament) and the general public that public sector resources are being used both legally and effectively. In order to achieve this objective, the National Audit Office carries out financial and performance audits. It is established in law that the National Audit Office is independent in its activities. Independence in this instance means the freedom to decide what audits to carry out, but equally an obligation to carry out those audits impartially in accordance with the law and internationally recognised auditing standards.

The principles of how the public sector operates and how these operations should be reported on have constantly undergone, and continue to undergo, rapid development. The National Audit Office has an important role to play in providing the Riigikogu and the general public with independent, objective feedback regarding the effectiveness of decisions that have been taken and any shortcomings that are identified.

The National Audit Office publishes the results of its audits in reports. The weightiest of these is the overview of the use and preservation of public property which the Auditor General presents to the Riigikogu every year. This overview is discussed and debated by the members of parliament alongside the consolidated annual report of the state. The overview also summarises the key results of other audits carried out during the year.

An ability to learn and adapt is what enables the National Audit Office to support positive change in the public sector. For example, realising that in order to improve the auditing of public sector reports the National Audit Office would have to become much more competent in the field of financial audits, it set itself appropriate short-term objectives. To this end, it has been operating with a structure based on audit type since 2009. However, its core values and operating aims and principles remain unchanged. Guided by the principles of good governance, the National Audit Office strives to set an example for other public sector organisations.

## Definitions

*Good governance standard* – the principles developed and published in January 2005 by the Independent Commission on Good Governance in Public Services (a partnership project between the Office for Public Management (OPM) and the Chartered Institute of Public Finance and Accountancy (CIPFA) in the United Kingdom).

The principles of good governance are as follows:

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

*Influence objective* is a positive change the National Audit Office aims to achieve through its activities.

Influence objectives are in line with the good governance standard and support the implementation of its principles.

*State* generally means the public sector as a whole. The National Audit Office only has limited rights in auditing local governments, foundations established by local governments or in which they are stakeholders and companies under the governing influence of local governments.

*Mission:*

The National Audit Office seeks to **support the state in prudent management**.

**Support** means that the results of the work of the National Audit Office are of help to the state in making decisions. Supporting means providing objective assessments, advice and feedback on what has been done.

**Prudent management** means implementing the good governance standard at the level of state governance.

The National Audit Office considers it important to promote the implementation of a good governance standard based on audit results and international experience in the public sector.

The National Audit Office's objective is to arrive at a situation, through the provision of impartial advice, assessments and conclusions which generate positive change and through activities and behaviour which set an example to the public sector, where:

- the Riigikogu makes use of the results of the work of the National Audit Office in assessing the activities of the government; and
- taxpayers know that the National Audit Office is contributing to the better use of their money.

The National Audit Office views drawing the attention of the Riigikogu and the government to ways of making more rational use of public sector money as its primary task between 2010 and 2013. This includes ensuring that the volume of service provided is maintained and boosting their quality, as well as improving the position of the environment. The decisions that are made should guarantee the long-term sustainable development of the national economy and growth in the well-being of the population.

*Vision:*

The National Audit Office is an **innovative auditing organisation setting an example in its implementation of best practice in auditing**.

**Innovative** means constantly striving to be better. The National Audit Office supports creativity, openness to new things and giving good ideas a chance. This is in contrast to the fear of expressing your ideas, and to the idea that style is more important than substance. Innovative means a desire to continually develop through ideas. This means that the organisation is always evolving and has the skill to learn and make use of the experience of high-level auditing institutions in other countries.

**Auditing organisation** establishes the main activities and position of the National Audit Office. The primary work of the National Audit Office is to carry out audits. The assessments provided by the auditors of the National Audit Office must be

based on the auditor's code of ethics.

**Setting an example** is what the National Audit Office must strive to do for the auditing companies operating in Estonia and for high-level auditing institutions in other countries.

**Best practice in auditing** first and foremost means the quality of audits and their compliance with international auditing standards.

*Core values:*

The **core values of the National Audit Office** are objectivity and independence, competence and diligence, cooperation and openness, and honesty and integrity.

The National Audit Office's core values directly stem from the fundamental values of auditors, which are established in the auditor's code of ethics of the National Audit Office. Core values are a collection of values of which none may be overstated or underestimated. The core values of the National Audit Office are also observed by its auditors and all other employees.

**Objectivity and independence:** The principle of objectivity imposes an obligation on every auditor to be fair, honest and free of conflicts of interest. Auditors carry out their duties in the public interest and undertake to avoid interfering in matters related to their interests beyond the sphere of auditing.

**Competence and diligence:** Maintaining competence demands constant learning. Auditors should not give people the impression that they have specialist knowledge or experience that they do not actually have. Auditors are diligent in both carrying out audits and exercising supervision and quality control over them, as well as in preparing audit reports. All information obtained in the course of audits must remain confidential.

**Cooperation and openness:** Auditors value cooperation and straightforward, balanced communication. Auditors are open in sharing the results of the work of the National Audit Office with the Riigikogu and other target groups. The sharing of information obtained in the course of audits with third parties must be justified and considered. Auditors are open to internal discussions of the results of their work in order to improve the quality of audits based on shared experience.

**Honesty and integrity:** The behaviour of auditors must be impeccable at all times and in every situation. Auditors must realise that the trust of the general public and their respect for the activities of the National Audit Office depend on the work of each and every auditor.

## **INFLUENCE OBJECTIVES**

The task of the National Audit Office is to contribute, through the organisation of audits and the provision of assessments and recommendations in audit reports, to the achievement of the following objectives:

**1. The financial accounting of the state is proper and correct. The annual reports of the state and the annual accounting reports of its accounting entities are correct. Budgeting and accounting principles are harmonised wherever possible. The state's economic transactions comply with legal acts and are documented and disclosed in accordance with requirements. The state's activities in the collection of revenue are efficient and its agencies are economic in incurring costs.**

To direct those being audited in such a way that their reporting systems and accounting principles reach an acceptable level. The National Audit Office audits key areas of financial accounting. It harmonises principles in areas where different principles are used, as a result of which errors appear in financial reports. In auditing legality, the National Audit Office primarily deals with issues that arise in the implementation of legal acts related to public assets, the national budget and public procurements. In auditing legality within local governments, the National Audit Office pays greater attention to assessing the legality of main activities than the correctness of individual transactions.

**2. The internal auditing system of a public sector unit (taking in its organisational structure, methods, operations and internal auditing) ensures that the activities of the unit are legal and economical and that the unit is able to avoid major risks, errors and/or misuse.**

The aim of constant updating of the internal audit system is to achieve a situation in which there is a permanent risk assessment system and effective internal auditing system in key areas.

**3. The state's information systems ensure the availability of the right information at the right time as required for making decisions or serving individuals.**

The state's information systems are developed and administered in the best possible manner, making smart use of IT possibilities and considering the interests of those whom the state serves as being of primary importance.

**4. State budget planning stems from the long-term objectives of the activities of the state (agency) and the process of drafting the budget achieves stability.**

The framework of regulations surrounding national budgeting is stable. Information in budgeting moves in both directions: from above and from below. The budget is submitted on the basis of justified calculations. The budgeting process is administered using a single IT system.

**5. The state's policy and programmes (in the broader sense) fulfil the objectives set of them and wield the desired influence. Decisions are based on reliable, timely and complete information.**

Assessment is carried out as to whether the objectives are sufficiently quantifiable and specific. One of the objectives in assessing efficiency is to provide concrete (financially expressed) feedback regarding profit and/or loss arising from expenses that have been incurred. Assessment is carried out as to whether the information presented in management reports regarding the fulfilment of

objectives is appropriate and truthful.

**6. The stakes that the state holds in foundations, companies and non-profit organisations are transparent and effective and serve their intended purpose.**

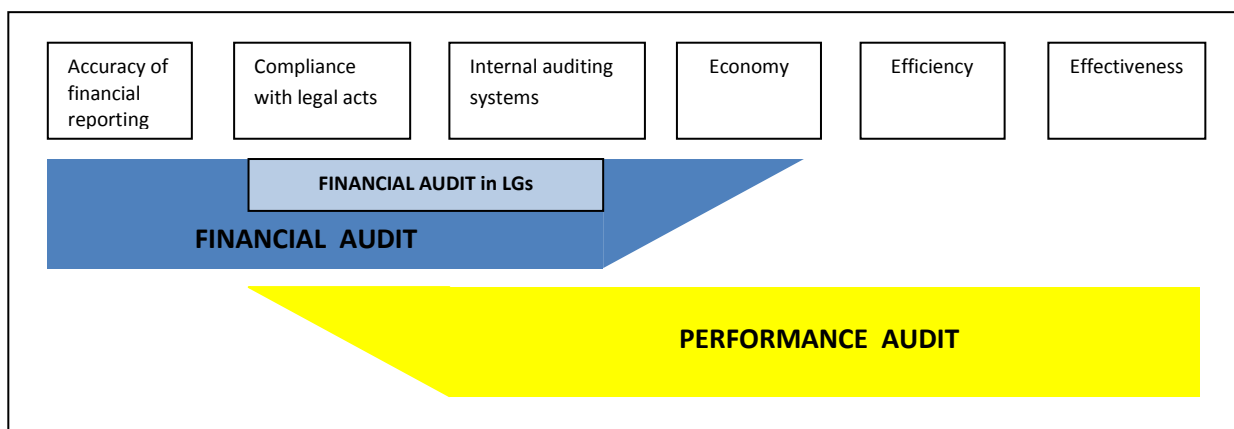
The state has a clear understanding of why it has a stake in a given private institution, doing so economically and efficiently, and following best practice guidelines in management.

**7. The state makes effective use of money allocated from European Union funds, in accordance with European Union requirements. The institutions connected to the distribution, auditing and collection of European Union money fulfil their tasks properly.**

The National Audit Office boosts the level of attention paid to the use of money obtained from European Union funds, turning greatest attention to whether applications clearly indicate what the state hopes to achieve (in a specific area or generally) with the help of this funding. The use of money is primarily assessed from the perspective of the achievement of objectives set.

**DEVELOPMENT OF AUDIT TYPES**

The National Audit Office places equal importance on financial and performance audits. Although these two types of audits are clearly distinguished from each other, in the case of certain audits they may overlap somewhat in scope:



As previously, the National Audit Office views improving the efficiency of the auditing process and the quality of audit reports as the most effective way of boosting its own performance.

The primary aim of financial audits is to provide an assessment of the correctness of financial reports. The National Audit Office has set itself the objective of boosting its competence in the field of financial auditing in such a way that as of 2011 it will be capable of fulfilling the tasks of a group auditor in assessing the consolidated annual reports of the state in accordance with the INTOSAI auditing standard and the requirements of the National Audit Office Act, the State Budget Act and the Authorised Public Accountants Act.

The National Audit Office does not audit the financial statements of local governments, foundations and non-profit organisations established by local governments or in which they are stakeholders and companies under the governing influence of local governments. In these agencies the National Audit Office primarily audits their operations to ensure that they are in accordance with legal acts and norms and that their internal auditing systems are functioning as required.

The primary objective of performance audits is to provide an assessment of economy, efficiency and effectiveness. Such audits are planned with the aim of contributing to structural changes within the state that will ensure the high-quality provision of state services in accordance with the financial capabilities of the state and create conditions for long-term, environmentally friendly economic development.

### **ACHIEVING INFLUENCE OBJECTIVES THROUGH A WORK SCHEDULE**

Audits included in the work schedule must be based on the need to:

- draft an overview of the use and preservation of public assets;
- present an assessment of the consolidated annual report of the state; and
- fulfil the long-term action plans of the department.

In summary, activities are designed for the achievement of influence objectives, and audits which are more likely to contribute to the achievement of influence objectives are favoured when selecting audit topics.

In addition to conformity with influence objectives, the National Audit Office has established additional selection criteria on the basis of which the Auditor General assesses the audit proposals submitted for the work schedule. They are:

- the topic must be related to the obligations of the National Audit Office;
- the emergence or probability of emergence of problems;
- the volume of national money and assets associated with the topic and/or the number of citizens whom the topic significantly influences;
- the likelihood of the National Audit Office creating value with the audit;
- the degree of interest of the Riigikogu, the general public and those being audited in the topic; and
- the ability for the audit to be carried out utilising the resources and skills and knowledge available to the National Audit Office.

The National Audit Office has also established the conditions under which an audit is not included in the work schedule. They are:

- no significant problems are known in relation to the topic;
- there is nobody to whom the assessment made/information obtained in the course of the audit would be of interest;
- the required skills and knowledge are not available;
- a reliable audit/study similar in nature and scope to the one proposed has recently been carried out;
- it is not possible to include individuals in the auditing group who would be capable of implementing the necessary auditing methods;
- the process is developing too quickly, as a result of which the results of the audit may become outdated even before they are disclosed; and

- the topic is too complex.

### **Criteria of a good audit**

- The topic of the audit complies with the mission and influence objectives of the National Audit Office.
- The audit is carried out in accordance with international standards and the auditor's code of ethics.
- An assessment is provided as a result of the audit (a response to the aim of the audit).
- The conclusions drawn in the audit report are appropriate and the recommendations made are specific and able to be implemented.

### **DEVELOPMENT OF THE ORGANISATION**

The activities required to achieve the objectives established in the National Audit Office's strategy are reflected in the long-term action plans of its departments and the annual plans of the National Audit Office.

The National Audit Office guarantees the training required for the harmonisation of the organisation and methodology of audits. However, each individual employee is responsible for the development of the skills required for their work. The National Audit Office supports the efforts of its employees in this area at the organisational and, where possible, financial levels.

The National Audit Office considers cooperation between departments to be very important. It implements measures so that people working within different structural units consider themselves to be – and assess their activities as – members of the National Audit Office as a whole.

Professionals and interest groups from outside of the National Audit Office are involved in the planning of audits and the assessment of reports; assessment within the organisation of the organisation and results of audits is improved.

The National Audit Office develops partnerships with high-level auditing institutions in other countries and professional non-government organisations so as to boost the quality of its work and share its experience. Of the activities directed at other countries, the top priority is management of the INTOSAI environmental audit working group.