

Peer Review
June 2026

Peer review of the National Audit Office of Estonia



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About peer reviews

Peer reviews are external and independent assessments conducted by a team of expert colleagues from other supreme audit institutions. The international peers give an opinion on various aspects of the institution's activities, including its compliance with international standards and the environment (primarily the legal framework) in which it operates. A peer review is not an audit, but an assessment and advice provided voluntarily by peers. Peer reviews are guided by the INTOSAI Peer Review Guidelines (GUID 1900). The nature of a peer review is reflected in all contacts and exchanges between the SAI and the Peer Review Team during the exercise. The focus and scope of the peer review is agreed based on a Memorandum of Understanding between the reviewed SAI and the partner SAIs participating in the review.

1 Main messages

The peer review concludes that the National Audit Office of Estonia (NAOE) broadly plans both financial audits and performance/compliance audits in line with ISSAI principles and demonstrates a strong professional commitment to international good practice. Audit planning is generally well structured, and several examples of good practice were identified.

At the same time, the peer review identifies systemic improvement needs across all audit types. These mainly concern:

- clarity of standards compliance;
- stronger and more consistent documentation;
- more systematic risk and quality assurance practices;
- clearer methodological support and guidance.

The key message is that while the NAOE operates well in practice, to achieve full and demonstrable ISSAI compliance, it needs to strengthen frameworks, documentation, and quality assurance mechanisms rather than rely primarily on professional judgement and individual auditor competence. Given the NAOE's size and resources, the peer review team considers it important that the NAOE systematically prioritises development and improvement efforts, including our recommendations, to maximise their benefit and added value relative to the resources invested.

Specific findings for performance and financial audit are presented below.

Financial audit

- Financial audit planning at the NAOE is generally well executed and largely aligned with the ISSAIs.
- The peer review recognises highly motivated, knowledgeable staff and an organisational ambition to align with international standards.
- However, full compliance with ISSAIs is not always ensured or demonstrable, particularly regarding manuals, quality assurance arrangements, and risk assessment practices.

Performance audit

- The planning of performance and compliance audits is largely consistent with key ISSAI principles.
- The NAOE shows a strong focus on relevant, real-life problems and demonstrates flexibility and responsiveness.

- Nevertheless, planning practices fall short of full ISSAI compliance in areas such as documentation, transparency of criteria, consistency in risk assessment, and clarity of audit design and methodology.

1.1 Key recommendations

Cross-cutting recommendations for both financial and performance audit are:

- **Clarify and strengthen compliance with ISSAIs**
Clearly define the level of intended ISSAI compliance and ensure that internal manuals, templates, and practices fully and consistently reflect applicable standards.
- **Improve documentation and transparency**
Strengthen the systematic documentation of key planning elements (risks, criteria, assumptions, conclusions) to make compliance and professional judgements transparent and traceable.
- **Strengthen quality assurance arrangements**
Reinforce quality functions, inspections, and reviews to ensure consistent audit quality and identify areas for improvement across audits.
- **Develop methodological support and shared understanding**
Ensure a clear organisational view of methodological competence and provide sufficient guidance and support so that audit teams do not rely solely on individual experience.

2 Introduction

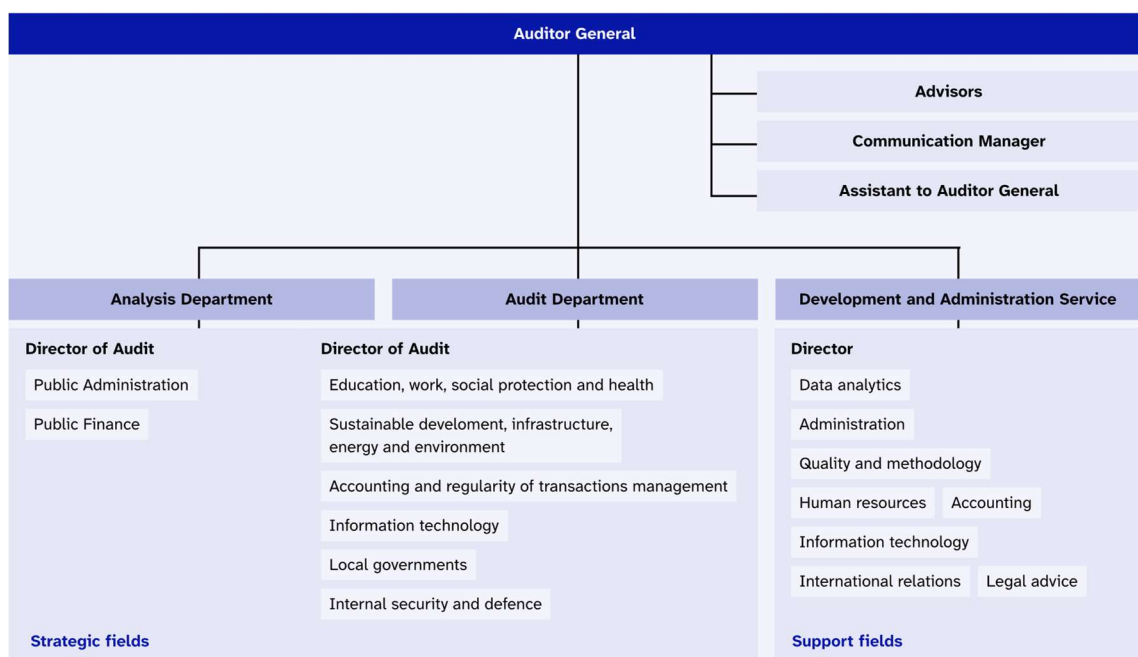
2.1 About the NAOE and the peer review project

The NAOE and its mandate

The NAOE is the supreme audit institution (SAI) of Estonia. Its role is to investigate how the state and local authorities have spent the taxpayer's money and what has been achieved with it. The NAOE audits all public sector entities and their activities. The NAOE also monitors and analyses public finances and public administration as well as other issues of significant economic impact.

The NAOE is an independent institution and decides, on its own, what, when and how to audit. The independence of the NAOE is secured by the Constitution and the National Audit Office Act. The NAOE has a total of 76 employees, 71% of whom are engaged in conducting audits. It is the third smallest SAI in the European Union.

Figure 1. Organisational structure of the NAOE



Financial audit

The NAOE audits the national accounts. The consolidated annual report of the state consists of the state's national accounts, including the state budget implementation report and notes, additional information about local governments, the public sector, the government sector, and the management report.

The NAOE does not:

- produce an opinion on the management report;
- carry out audit procedures to verify additional information about local governments, the public sector or the government sector.

The financial statements include financial outcomes from the following:

- ministries
- Chancellery of the Riigikogu
- Office of the President of the Republic
- Office of the Chancellor of Justice
- Supreme Court of Estonia
- Government Office
- National Audit Office (Riigikontroll) – not audited by the NAOE
- state holdings in subsidiaries and foundations.

The financial statements are presented in two ways:

- consolidated
- unconsolidated.

In the consolidated statements, the subsidiaries and foundations are included “item by item”, while in the unconsolidated financial statements they are included using the equity method (at deemed cost) for the foundations and subsidiaries where the reporting entity (e.g. a ministry) has dominant influence and associates. The NAOE does not audit subsidiaries and foundations as they are audited by external auditors. Although the NAOE has a statutory audit mandate, subsidiaries and foundations are audited by certified private sector auditors. The NAOE’s audit includes both versions of the financial statements. The NAOE presents two audit opinions:

- Whether the financial statements are free from material misstatement and presented according to the financial reporting framework.
- Whether the transactions audited meet the requirements of the State Budget Act and other budgetary amendment acts (legality). This opinion does not include subsidiaries and foundations as they are not state budget funded institutions.

Both opinions are given with reasonable assurance. The NAOE has implemented the international audit standards for financial audit (ISSAIs). The audit of the legality of the transactions is done as part of the financial audit. For the audit of the national

accounts, the NAOE applies a group audit approach based on the standard for group audits (ISSAI 2600).

Performance audit and compliance audit

In performance audit, the NAOE can audit the economy, efficiency and effectiveness of the management, organisation and activities of its auditees, on the basis of the functions assigned to them by legislation as well as the goals and objectives set in national programmes and development plans. In addition, it has the right to audit commercial and non-profit associations and institutions, and companies where the state has a majority shareholding or that have received loans or have other contractual obligations secured by the state, or which perform public functions pertaining to the use and preservation of state assets.

In the case of local authorities, the scope of auditing is limited. The NAOE can examine whether the accounting of local authorities is in order, the internal control systems are functioning, the activities are legitimate, and the computer systems are reliable. In auditing local governments, the NAOE uses compliance audit, which typically assesses whether legal requirements have been met. This limitation does not apply to state property transferred into local authorities' possession nor in cases in which the authorities receive allocations and subsidies from the state budget, or funds for the performance of state functions.

About the peer review and its approach

The peer review was conducted by an international team from the national audit offices of Finland and Sweden, with Sweden leading and coordinating the peer review as a whole. A Memorandum of Understanding was signed in August 2025. The Peer Review Team undertook its work from September 2025 to April 2026. The peers were divided into two teams, one for financial audit led by Sweden, and one for performance audit, led by Finland:

Peer review coordination: Anna Coyet (Sweden)

Financial audit: Alexandra Popovic (Sweden), Margit Nestra (Sweden) and Christa Laurila (Finland)

Performance audit: Sari Hanhinen (Finland), Toni Äikäs (Finland), Maaret Ukkonen (Finland), Suvi Kärki (Finland) and Keili Saluveer (Sweden).

Objective and scope of the peer review

The main objective of the peer review was to make an assessment of the NAOE's compliance with the INTOSAI international auditing standards for SAIs (ISSAIs) and recommend concrete improvements to the NAOE. The focus of the peer review was audit planning. More specifically, the peer review assessed whether the NAOE's approach to audit scope selection is adequate and whether appropriate methods are applied. The peer review covered both financial and performance audit. Regarding

financial audit, the peer review has focused on risk assessments and design of audit procedures. For performance audit, peers have assessed the whole planning process, including the NAOE audit scope selection and the audit methods applied.

The peer review assessed to what extent the NAOE audit practices comply with the ISSAIs for **financial audit**, more specifically:

- Application of the concept of materiality, including the determination of the overall level of materiality for the financial statements as a whole, as well as the materiality levels to be applied to particular classes of transactions – account balances.
- Evaluation of the internal control environment and the understanding of the internal control relevant to financial reporting.
- Assessment of the risk of material misstatement in the financial statements as a whole, as well as at the assertion level, including assessment of material misstatement due to fraud and due to noncompliance with laws and regulations.
- Design of overall responses to address the risks of material misstatement at the financial statement level, and design of further audit procedures whose nature, timing and extent take account of the risks of material misstatement at the assertion level.
- Design of audit procedures in order to obtain sufficient and appropriate audit evidence (in terms of quantity and quality) on which to base the audit conclusions and opinion.
- Obtaining sufficient and appropriate audit evidence on the reliability of financial information of the components and the consolidation process.

The peer review addressed the following questions for **performance audit**:

- Has the problem to be addressed by the audit been clearly defined and do the audit objective and audit questions address that problem sufficiently?
- Is the proposed methodology of the audit adequate and sufficient, and not excessive?
- Is the data necessary to conduct the audit merely described, or has a more substantial analysis been performed to map relevant data? Has the application of data analysis in the audit been considered?
- Have the limitations regarding the scope of the audit been sufficiently acknowledged and explained?

Scope of the peer review

The scope of the peer review for financial audit comprises:

- a financial audit of the financial statements, therefore excluding the audit of legality;
- the planning process of the audit, that is, an understanding of the entity and its internal control, risk assessment, deciding materiality and choosing audit procedures.

For performance audit, the scope of the peer review comprises:

- a sample of three performance audits and one compliance audit and their planning process and planning documentation.

Methodology

The peer review was performed through interviews and by reviewing work materials, on site and on a remote work basis. The peer review team visited the NAOE on three occasions. In September 2025 there was a kick-off in Tallinn which included a first information gathering, followed by a field week in November 2025 with a series of interviews and meetings with management and the audit teams concerned. The analysis is based on planning documents and final audit reports for each audit sampled, as well as interviews with the audit teams responsible for the selected audits, Audit Managers, the Auditor General, the Director of Audit, the Director of Development and Administration Service, the Quality Manager, and the Senior Advisor. In February 2026 the team visited the NAOE for a final meeting to present their observations and preliminary conclusions.

The peer review team focused on the analysis of the planning documentation based on a sample of three performance audits and one compliance audit from 2024–2025 and the annual financial audit of the consolidated state accounts of 2024.

The peer review team conducted its review in accordance with the peer review guidelines (GUID 1900). Standards used in the peer review were based on ISSAI standards and guidelines for financial, compliance and performance audits.

2.2 Structure of the peer review report

This peer review has two main chapters that address the two focus areas of the peer review – financial audit and performance audit. Each chapter includes findings, conclusions and recommendations. The final chapter contains the response of the NAOE.

3 Financial audit – Findings and recommendations

The planning phase at the NAOE covers:

- understanding the entity and internal control
- assessing risks
- choosing audit procedures
- calculating materiality.

The peer review team has examined whether the NAOE's planning phase is in compliance with the requirements contained in the International Standards for Supreme Audit Institutions (ISSAIs). It should be noted that the ISSAIs include approximately 34 financial audit standards. These 34 standards comprise a high volume of detailed requirements. Therefore, full compliance with the ISSAIs is a challenging task, often leaving room for improvement.

The peer review team concludes that the planning phase at the NAOE is well executed and largely aligned with the ISSAIs.

During the time period of the peer review, the NAOE employed a total of 15 financial auditors. The peer review team recognises that the staff at the NAOE are dedicated and knowledgeable – an essential factor for ensuring audit quality. The staff have high ambitions to develop and align their procedures to international standards and best practices, including adopting automated tools for performing audits.

Nevertheless, the results of the peer review indicate some areas for improvement, presented below. In this report we highlight our major findings and recommendations.

Standards and measurement criteria

The measurement criteria for the peer review consisted mainly of the following ISSAIs on financial audit:

- ISSAI 2315 Identifying and assessing the risks of material misstatement
- ISSAI 2320 Materiality in planning and performing an audit
- ISSAI 2330 The auditor's responses to assessed risks
- ISSAI 2600 Special considerations – Audits of group financial statements (including the work of component auditors).

3.1 Compliance with ISSAIs, methodology and support for financial auditing

The peer review team assessed whether the NAOE's audits are conducted in compliance with the ISSAIs.

Findings

It is unclear whether the NAOE intends to implement the ISSAIs in full. Its financial audit manual states that the NAOE complies with the *main requirements* in the standards, without further detailing which requirements are excluded. However, in its audit report¹, the NAOE states that its audits are performed in accordance with INTOSAI standards for financial and compliance auditing. The statement in the audit report indirectly refers to the ISSAIs for financial auditing (the 2000 series). It should be noted that if the NAOE's intention is to be fully aligned with the ISSAIs, then all relevant requirements must be complied with.

The NAOE's financial audit manual was last updated in 2022. Since then, the underlying ISSAI standards have been revised, which is not reflected in the manual. There is no adequate process for updating the manual on a regular basis. In addition, the manual contains information that, to some extent, does not align with the ISSAI standards.

At the time of the peer review, the quality assurance function at the NAOE did not have expertise in financial auditing. Therefore, methodological and practical support provided to the financial auditors may have been limited. Procedures for inspection of financial audit files and quality assurance reviews are absent.

Recommendations

The peer review recommends the NAOE to clarify whether its financial audit practices are intended to fully align with the ISSAIs. If so, the manual needs to be regularly updated and should enumerate all applicable requirements. The NAOE is also recommended to:

- bolster its quality assurance function with financial audit expertise. Appropriate support to the financial auditors ensures that the audit is of high quality and is performed in accordance with all relevant requirements in the ISSAIs;
- introduce inspections and quality assurance reviews to identify potential weaknesses. The weaknesses can be addressed through measures such as training and by improving practical guidance in manuals.

¹ Report of the National Audit Office to the Riigikogu (Tallinn, 28 August 2025): Accuracy of the State's 2024 Annual Accounts and Legality of Transactions.

3.2 An understanding of the environment and internal control

The ISSAIs require the auditor to understand the audited entity and its environment, including the entity's internal control. This understanding provides a basis for a proper risk assessment. For group audits², the auditor must have an understanding on both a group audit level and an entity level.

Findings

The NAOE obtains an understanding of the environment and internal control of each entity that it is auditing. However, the NAOE does not:

- include an understanding of the environment and internal control of subsidiaries and foundations that are audited by external auditors;
- gather any relevant information on entities that have the largest impact on the financial statements, such as³:
 - how the management prevents fraud;
 - how the management assesses and addresses risks;
 - issues related to going concern and related parties.

Conclusions made on the basis of the understanding of the entities are general and not focused on whether the information obtained can lead to a potential risk of material misstatement.

The NAOE has not adequately documented obtaining an understanding of the environment and internal control at the group audit level⁴.

Recommendations

The peer review recommends the NAOE to ensure that the understanding of the environment and entity is performed in accordance with the requirements in ISSAI 2315 and ISSAI 2600.

The NAOE is also recommended to:

- gain a better understanding of the most relevant entities;
- clarify its conclusions on how the information obtained may affect the risk assessment.

² A group audit is an audit of financial statements that consists of a consolidation of financial information from underlying entities.

³ ISSAI 2315 Identifying and assessing the risk of material misstatement, paragraphs 19–24, and ISSAI 2240.

⁴ ISSAI 2600 Special considerations – audits of group consolidated financial statements, paragraph 30, including application material and Annex 2.

3.3 Risk assessment

The NAOE produces an audit plan that is prepared based on the understanding of the environment and internal control. This audit plan is presented to the management for discussion. In addition to producing the audit plan, the NAOE assesses the risks for each material item (risks at the assertion level) separately.

Findings

Risks presented in the audit plan are not assessed or graded. This means that the plan does not include information on the significance of the potential risks presented – whether they are low, medium, high or significant.

The audit plan does not include any information about whether the presumed risks are at the financial statement level⁵ (pervasive) or the item level⁶. This distinction is important, as it affects the design of the response to the risks.

The NAOE's definition of significant risk⁷ and risk of fraud⁸ in the manual does not appear to be aligned with the definition in the standards. Defining and assessing significant risks is important as they are given specific audit attention. Furthermore, the NAOE does not appear to include an assessment of the risk of fraud⁹ at the group audit level. The standards¹⁰ also require an assessment of whether there may be any fraud risk related to revenue.

The NAOE does not assess the accounting estimate models used by the management¹¹ as required by the standards.

The NAOE assesses control risk¹² even if the controls have not been tested. Under the standards, control risk can only be assessed if the controls are tested.

The risk assessment does not take into account risks related to subsidiaries and foundations audited by external auditors. The NAOE issues instructions and questionnaires to the auditors for the most material subsidiaries and foundations. The external auditors are asked to report back on any specific issues that they find. However, the NAOE does not ask the component auditors to report back on matters

⁵ Risks at the financial statement level affect the financial statements as a whole (pervasive). The definition can be found in ISSAI 2315 Identifying and assessing the risk of material misstatement.

⁶ In this report, 'item level' refers to risk at the assertion level. 'Assertion level' is the correct term according to the ISSAIs.

⁷ ISSAI 2315 Identifying and assessing the risk of material misstatement, paragraph 12, defines significant risk and there is further guidance throughout the standard.

⁸ ISSAI 2240 Auditor's responsibilities relating to fraud in an audit of financial statements.

⁹ ISSAI 2600 Special considerations – audits of group consolidated financial statements, with guidance in A113 application material.

¹⁰ ISSAI 2240 Auditor's responsibilities relating to fraud in an audit of financial statements

¹¹ ISSAI 2315 Identifying and assessing the risk of material misstatement, A221 as the risk may be significant if the model is complex.

¹² ISSAI 2315 Identifying and assessing the risk of material misstatement, paragraph 34. Control risk is the risk that the internal control system may not detect, prevent or correct a misstatement that may be material.

related to going concern, which is a requirement in the standards. Subsidiaries and foundations are consolidated item by item in one version of the financial statements. Their impact is material.

Recommendations

The NAOE is recommended to align its practices with all relevant ISSAIs, and to specifically:

- include risks related to subsidiaries and foundations in the risk assessment and invite the external auditors to report on matters related to going concern;
- align its definition of fraud and significant risk with the standards;
- further develop the presentation of risks in the audit plan by assessing the risks and indicating whether they are at item level or financial statement level;
- assess the accounting estimate models to determine whether there are any related risks that lead to additional audit procedures and possible misstatements in the annual report;
- assess the control risk based on a performed test of controls.

3.4 Choosing audit procedures for assessed risks at the assertion and financial statement level

The peer review assessed the design of overall responses for financial statement risks. However, as the NAOE has not identified any risks at the financial statement level, the peer review team cannot make an assessment on whether the overall response for those risks is appropriate.

The peer review assessed the design of audit procedures at the item level. While the peer review team has not made any major findings, we encourage the NAOE to further strengthen the connection between identified risks and the chosen audit procedure in its documentation.

3.5 Applying the concept of materiality

The NAOE calculates overall materiality by calculating 1% of the benchmark value.

Findings

The NAOE uses two types of benchmarks for calculating materiality. Budget values are used in the planning phase, whereas at the year-end, the materiality recalculation is based on expenses plus investment costs for the audited components. It is rather unusual to mix benchmarks. In general, financial auditors use an item on the balance or income sheet as a reference value¹³. Usually, expenses – but also other items – may

¹³ ISSAI 2320 Materiality in Planning and Performing an Audit, application material A3-A7.

be relevant, depending on the operations of the entity¹⁴. The decision to use two benchmarks is linked to the NAOE approach to combine financial and compliance audit.

Recommendations

The NAOE is recommended to consider choosing one benchmark for the calculation of overall materiality, as indicated in ISSAI 2320, which addresses materiality. It is up to the professional judgement of the auditor (SAI) to choose a relevant benchmark, depending on the context.

¹⁴ ISSAI 2320 Materiality in Planning and Performing an Audit, application material for the public sector.

4 Performance audit – Findings and recommendations

The peer review focused specifically on the audit planning process. Its main question was “Does the NAOE plan performance and compliance audits in accordance with INTOSAI international auditing standards for SAIs (ISSAIs)?” The NAOE expressed an interest in insights and recommendations on how its performance and compliance audits could be made more streamlined and focused.

The peer review included 14 specific questions. This report addresses the themes for which the review yielded findings that are significant for the overall assessment.

The peer review draws upon a sample of audits that included the following three performance audits and one compliance audit:

- Organising emergency medical services
- Development of life and business event services
- Activities of the state in supporting people with special needs (central government). Activities of the state in supporting people with special needs (the activities of local authorities). One audit, two reports compiled.
- Development of internal control in local authorities on the example of Kohtla-Järve (a compliance audit).

The peer review began with an assessment of relevant international standards and guidance, specifically ISSAI 100, ISSAI 300, ISSAI 3000, ISSAI 400, ISSAI 4000, GUID 4900, and GUID 3920. The peer review team then evaluated whether these standards have been appropriately integrated into the NAOE’s internal guidelines and manuals.

4.1 Conclusion

The peer review concludes that the NAOE’s planning of performance and compliance audits is largely consistent with the key principles of the ISSAI standards. The NAOE demonstrates a strong commitment to aligning its audit planning with international good practice, particularly in its responsiveness and focus on relevant problems, and the peer review team found several examples of good practice in the NAOE’s work.

However, the review shows that while the NAOE’s internal guidelines and manuals largely incorporate the relevant international standards for audit planning, there are some areas where the NAOE’s practices diverge from or fall short of full compliance with ISSAI requirements. For example, there are inconsistencies in the systematic documentation and transparency of audit criteria. Another area requiring improvement to fully meet ISSAI standards is the flexibility of the NAOE’s topic selection. While it is responsive, it may overlook broader risk areas due to its strong

focus on ‘real-life problems’. The peer review found that the NAOE’s problem-oriented audit approach, which focuses on addressing real-life problems, differs somewhat from the interpretation in the ISSAI standards.

According to the NAOE, it also conducts risk-based audits, including in areas where problems have not yet occurred, for example most IT and security-related performance audits. The performance audit manual states that audit planning should always start with identification of either an existing problem or a risk, and the audit team needs to understand how the issue examined affects results or impacts in a real-life setting. All in all, the NAOE states that its performance audits are not solely problem-oriented but also encompass result-oriented approaches.

Findings and subsequent recommendations are presented in more detail below.

4.2 Findings and recommendations

Selecting topics and audit approach

NAOE’s topic selection process generally aligns with the ISSAI principles. Nonetheless, the peer review identified some distinctive features.

The continuously updated work plan provides flexibility and enables timely topic selection. However, it also creates pressure, as auditors must propose new topics alongside their ongoing audit work. Additionally, the combination of a bottom-up approach and time constraints may result in broader or less developed topics being overlooked. The NAOE aims to mitigate this risk through its recently introduced strategy process and thematic discussions.

Even though the NAOE also performs risk-based audits, a majority of its performance audits are based on real-life problems. While this emphasis is not inconsistent with the ISSAIs, the NAOE applies this approach to a greater extent than, for example, the SAIs in Sweden and Finland. In practice, defining a problem may be challenging and may also limit the identification of potentially impactful topics that have not yet materialised as concrete issues.

The ISSAIs¹⁵ specify that audits may be result-, problem- or system-oriented. The chosen approach is expected to link audit objectives, questions, criteria, and evidence collection. The NAOE defines its performance audits as combining all three approaches, always using an identified or suspected problem as a starting point. This differs somewhat from the ISSAI definition, in which the problem-oriented approach focuses on analysing causes of known issues. Other approaches are not used systematically, even though elements of them appear in the audit design.

¹⁵ ISSAI 300 Performance Audit Principles and ISSAI 3000 Performance Audit Standard.

Furthermore, the peer review team noted that, at the NAOE, while the 3Es of the ISSAIs¹⁶ (economy, efficiency, and effectiveness) are mentioned in the internal guidance, they are not applied systematically in topic selection or audit design, and the design matrix does not explicitly address them. The peer review also noted that the starting point of the planning phase may not always be fully clear for the audit teams, and planning timelines vary between cases.

Recommendation

The peer review recommends the NAOE to:

- enhance the shared understanding of what constitutes a real-life problem and how different audit approaches can be applied in planning performance audits.

Overviews in NAOE's audit practice

The peer review found that while the NAOE uses overviews alongside audits, their purpose and added value are unclear¹⁷. Although overviews are intended for less complex issues and situations where predefined criteria cannot be established, current practices do not consistently reflect this. In the examined case, the overview took nearly as long as a standard audit, addressed a complex topic, and could have included criteria. The product also combined elements of an overview and a compliance audit, which may be confusing to users, especially as it was published as an audit. The peer review team therefore suggests that the NAOE could consider the need for and the benefits that overviews provide in relation to traditional audits and clarify their intended purpose.

Furthermore, the interviews indicate that auditors do not clearly distinguish between audits and overviews. Although the NAOE's audit conducting procedures include some general principles for conducting overviews and describe its distinct features, the NAOE has no dedicated methodology or guidance for overviews; in practice, the same procedures are applied as for audits. If overviews are to be used, a shared understanding and consistent interpretation of their principles should be developed among auditors.

Audit objectives, audit questions and scope

The NAOE's process identifies preliminary key questions already at the audit idea stage, and internal guidelines describe the structure of main, key, and sub-questions. However, unlike clear instructions for criteria or problem formulation, the guidelines

¹⁶ ISSAI 300 Performance Audit Principles.

¹⁷ ISSAI 100 defines three types of public-sector audits: financial, performance and compliance audits. INTOSAI guidance allows SAIs to publish other products if they remain within the mandate and are clearly distinguished from audits.

do not provide sufficient examples of well-defined questions. The peer review noted differences in clarity and consistency of formulated questions across case examples.

In the analysed audits, the coherence of objectives and questions varied. Main questions were not always directly linked to the audit objective or key questions, and some questions overlapped, were quite lengthy, or combined several questions. Sub-questions did not consistently relate to the higher-level questions. Although the NAOE drafts initial questions at an early stage, some cases showed that the questions changed very little during planning, even when new information became available. This raises concerns about whether the final questions were the most appropriate ones.

All reviewed audits included a design matrix, which the peer review team considered useful and comparable to practices in Finland and Sweden. However, the underlying logic of the formulated questions was not always clear. For example, when a problem served as the starting point of the audit, one would expect questions to focus on causes. However, this was not always the case. In some audits, emphasis on known problems resulted in questions whose answers were already known, thus reducing their added value.

In half of the cases reviewed, defining the scope had been somewhat challenging and was not very clear. Based on interviews, the scope and focus are the most challenging parts of the planning phase; sometimes the scope is perceived as being either too narrow or too broad. This is why it may change during the planning process. The scope limitations have been fairly well acknowledged and explained in the selected audits. However, in the reviewed compliance audit, one part of the scope changed between the audit plan and the audit report. Interviews and reviewed documents suggest that certain scope limitations and methodological choices are sometimes made in order to reduce the risk of exceeding the audits' target completion time.

Although reporting lay outside the scope of the peer review, the team observed that reports varied in how thoroughly they described the scope of the audit, the audit questions, criteria, data sources, and methods. Sometimes the reports failed to clearly answer the questions set out in the plan. This may reflect a flexible approach that prioritises significant findings, but it also raises uncertainty about the purpose and weight of audit questions in planning. The NAOE emphasised that all questions are expected to be addressed and that this is checked in internal oppositions.

Recommendation

The peer review recommends the NAOE to:

- apply a more systematic approach to defining well-formulated audit questions and ensure that in problem-oriented audits, these questions help clarify the causes of the problem underlying the audit.

Audit criteria and communication with the audited entity

The peer review team found that the NAOE's work on the criteria of performance audits during the planning phase is not fully aligned with the ISSAIs.

The reviewed audit plans demonstrate significant variability in how systematically and comprehensively audit criteria and their sources are presented. Some audit teams found it difficult to identify suitable criteria, and although the suitability of criteria is discussed in planning meetings, the results of these discussions are not always clearly documented in audit plans. The criteria for key questions and sub-questions are outlined in the design matrix, but the chosen criteria do not always meet the requirements of a good criterion. The criteria could be made more understandable and relevant if high-level criteria, such as efficiency and effectiveness, were broken down into concrete indicators or benchmarks that guide the data collection and analysis.

The peer review also shows that the sources of the criteria used in the audits are, in many cases, not clearly identified and presented in the audit plans; in some cases, they are entirely absent. It should be transparent and clear which sources are used. The legitimacy of the selected and alternative sources of criteria varies, both for the auditees and for other stakeholders. Therefore, it is also very important to discuss the criteria and their sources with the audited entity.

The peer review found that communication with audited entities could be, in some cases, more systematic, especially concerning audit questions and criteria. The NAOE has clear internal guidance on communication with audited entities. It is, in general, adhered to and discussions with auditees take place and audit questions are addressed. However, the peer review found that it is often unclear whether the audit criteria have been discussed with the auditees. Occasionally, questions and criteria are presented at opening meetings, but are not actively discussed during the planning phase. In some audits, criteria are introduced at the first audit meeting, rather than during planning.

The international standard for performance auditing¹⁸ states that auditors shall discuss audit criteria with the audited entity during planning and/or conducting the

¹⁸ ISSAI 3000 Performance Audit Standard.

audit, to ensure a shared understanding of the criteria used for evaluating the subject matter. For example, in Finland the audited entity always has the possibility to provide comments on the audit plan and criteria before the plan is approved.

Overall, the NAOE's communication practices with audited entities during the planning phase vary. Typically, a meeting with the auditee is offered. Occasionally, auditees decline this meeting, particularly if there has been prior contact or if they consider themselves sufficiently informed about the planned audit.

Recommendations

The peer review recommends the NAOE to:

- systematically analyse the suitability and adequacy of audit criteria and comprehensively document both the criteria and their sources in audit plans;
- ensure that audit questions and criteria are consistently communicated and discussed with the audited entity to confirm their relevance and appropriateness for the subject matter.

Methods

The reviewed audit plans showed that data collection and analytical methods were, on the whole, well planned and documented. One plan applied an unusually broad mix of qualitative and quantitative approaches, while the rest of the sample relied mainly on qualitative methods. Interviews indicated that the NAOE aims to increase the use of quantitative analysis but that the SAI lacks sufficient expertise. Auditors and management also expressed differing views on current methodological competence and available support. A shared understanding of needs – for example through a personnel survey – could help identify areas for improvement.

Experience from the Swedish NAO shows that involving internal methodological advisors can strengthen audit quality. At the NAOE, the methodological team provides support where possible, but interviews indicate that its capacity is limited, leaving audit teams responsible for most methodological decisions. This creates a risk of auditors relying on methods they are already familiar with. Strengthened methodological support and training are therefore important. Although the NAOE emphasises a problem-oriented approach, the peer review found no evidence of systematic use of problem-solving methods such as root cause analysis.

At the Swedish NAO, a group of 8–9 auditors with specialised expertise in areas such as quantitative analysis, survey methods, or audit methodology devote limited time to serving as methodological advisors to other auditors. They provide guidance, second opinions, networking, and identify training and development needs. When financial audit expertise is needed, a financial auditor can be added to the project on an hourly basis.

Recommendation

The peer review recommends the NAOE to:

- ensure a shared understanding of the current level of methodological expertise and define a clear vision for future objectives to identify areas for improvement.

Audit plan

The peer review team's overall conclusion is that the audit plan template developed by the NAOE includes clear and relevant information about what should be included in the audit plan. However, it could be expanded with additional elements highlighted in the standards and identified as important information and supporting material for carrying out the audit. The peer review further reveals that the audit plan template does not yet clearly reflect the slightly differing ISSAI standards for performance and compliance audits by specifying the content requirements of each audit type.

As in the selected compliance audit, the level of assurance (limited or reasonable) has not been stated in the audit plan¹⁹. Additionally, the audit strategy or plan may contain, for example, the materiality assessment and an assessment of risks and of internal controls relevant to the audit/subject matter²⁰. The viewed audit plan template did not include specific sections or requirements addressing these matters for compliance audits.

The audit plans appear to be generally quite functional and comprehensive. However, it might be possible to add a couple of individual items to the audit plan template. Firstly, the audit plan template does not include a section on cost estimates, nor does it provide full information on human resource allocation. The interviews revealed that there are no procedures at the NAOE for planning, monitoring, or following up how much time auditors spend on different audits. Secondly, although criteria for the assessment of each sub-question are presented in the audit design matrix, the template does not contain a separate section for audit criteria and their sources. Since the peer review team has observed that audit criteria is an area that does not always comply with the standards, one option for addressing them more systematically would be to include a dedicated section on audit criteria including the sources in the audit plan. In Finland and in Sweden, the audit plan template looks quite similar to the one at the NAOE but with greater emphasis on audit criteria.

¹⁹ ISSAI 4000 Compliance Audit Standard, paragraph 188 and the NAOE's audit plan template.

²⁰ ISSAI 4000 Compliance Audit Standard, paragraphs 139-140.

Recommendations

The peer review recommends the NAOE to:

- include clear cost estimates, including each auditor's workdays and any external costs in all audit plans to enhance transparency and facilitate effective resource management;
- state the content requirements for compliance audits in the audit plan template to ensure high quality, in line with the ISSAI standards.

Audit risks

The audit plans of the selected cases highlight certain key risks that may affect the implementation of the audit. However, risk assessment, management and presentation practices vary between the reviewed audits. Based on the audits reviewed, there is currently no consistent way of presenting audit risks, their assessment and planned mitigation measures in the audit plans. In half of the audit plans, the main identified audit risks have been assessed, and mitigation measures are presented adequately, whereas in the remaining audit plans, risk assessment and/or mitigation measures would have needed more attention. Furthermore, the identified risks are not always tailored to the audit. In two of the audits only general risks were identified.

Even if the NAOE has ethics guidelines that address the topics of independence and objectivity, the interviews with auditors show that the NAOE has no formal procedures for assessing the risk of conflict of interest within the team during the audit process. Instead, it is the responsibility of each auditor to identify and report any conflicts of interest or other possible problems related to independence and objectivity. Furthermore, the interviews indicate that the Audit Manager considers the auditors' work history when forming audit teams but does not take into account any other issues related to independence and objectivity.

Recommendations

NAOE is recommended to:

- perform a standardised risk assessment with pre-defined questions and establish cohesive requirements for presenting audit risks in audit plans;
- develop internal regulations to manage conflicts of interest or other threats to independence at the NAOE, in line with INTOSAI's emphasis on independence 'in appearance'.

Measures to ensure quality

The NAOE has several procedures in place to support quality during the planning phase. Audit plans are reviewed by multiple actors, including the Audit Manager, Director of Audit, Quality Manager, internal opponents, and ultimately the Auditor General, and are discussed in several internal meetings. The template for the audit plan itself and the structured questions for internal opponents further support quality assurance.

The review revealed that audit teams vary significantly in size, which may limit audit managers' ability to participate and ensure quality. Interviews also revealed that there have been cases in which an audit was carried out by only one auditor. If such cases occur, it would be important to consider additional measures for quality assurance.

The NAOE's guidance recommends involving external reviewers for particularly complex audits, but in practice, external experts are seldom used. Interviews indicated that finding external experts can be difficult. The responsibility for procuring external expertise rests entirely with audit teams, which may not have enough time to organise their use. The NAOE has also noted that involving external experts can be difficult and costly.

In Sweden, each performance audit includes one or two external experts (not employed at the Swedish NAO) who review both the audit plan and the draft final report. In addition, each performance audit also has two internal opponents (different persons for audit plan and final report), and occasionally additional colleagues are asked to read and assess the audit plan.

Recommendation

The peer review recommends the NAOE to:

- strengthen audit quality by increasing the use of external expertise.

5 Response of the NAOE

The National Audit Office of Estonia (NAOE) extends its sincere appreciation to the Peer Review team composed of experts from the Swedish National Audit Office and the National Audit Office of Finland for their valuable work in conducting the external assessment. This international peer review project provided an excellent opportunity to review and discuss the implementation of international standards at the NAOE and to compare it to relevant practices and approaches of the peering SAIs in a professional and objective setting.

Based on the observations and recommendations of the Peer Review team, the NAOE has initiated the preparation of an action plan, with concrete measures in the areas of financial, compliance, and performance audit planning. The NAOE audit manual, as well as other internal guidelines and templates, will be reviewed and updated to strengthen ISSAI compliance, improve audit documentation, and further develop quality assurance processes and methodological support. In addition, activities will be organised to raise staff awareness of the audit planning process and documentation requirements, as well as of considerations related to the design and methodologies of performance audits. The NAOE has already undertaken organisational development measures to strengthen methodological support and professional capacity across audit functions, including through the enhancement of expertise in the field of financial audit.

We would once again like to thank our colleagues from the SAIs of Sweden and Finland for their constructive cooperation, their straightforward expression of views, and for highlighting important issues during the external assessment. Their contribution has stimulated discussions both within the NAOE management and across audit and support functions, supporting the concrete review and update processes currently underway.