

## THE PEER REVIEW ASSESSMENTS AND THEIR EFFECTS ON THE SUPREME AUDIT INSTITUTIONS' MANAGEMENT

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**Abstract.** *This paper aims to analyze the importance and the impact of the peer-review assessments on Supreme Audit Institutions' management. It is also conducted a comparative study on two peer-reviews conducted at the European Court of Auditors, in order to observe the degree of implementation of the recommendations issued and the effects of this type of assessment on the management of the European Court of Auditors. In order to see the evolution of this kind of assessment, we have presented the main conclusions shown in an analysis issued by the Court of Accounts from Slovakia regarding the peer review assessments conducted between 1999-2004 on some Supreme Audit Institutions members of INTOSAI.*

**Keywords:** management, assessment, recommendations, INTOSAI, Supreme Audit Institutions.

### 1. Introduction

The International Organisation of the Supreme Audit Institutions (INTOSAI), comprising the Supreme Audit Institutions (Courts of Audit) from 192 countries, European Court of Auditors and five associate members: A.I.S.C.C.U.F. (Association of Supreme Audit Institutions using French), UEMOA (Court of Auditors of the Economic and Monetary Union of West Africa), OISC/CPLP (Organisation of Supreme Audit Institutions that use the Portuguese language), IIA (Institute of Internal Auditors) and World Bank, at the INTOSAI Congress in 2004 (Budapest) adopted a strategic plan in which were expressed the strategic objectives and a new structure based on the establishment of three committees.

During the Congress, there were set 4 strategic objectives. Among these, the Strategic Objective no. 2 is related to capacity building, aimed at strengthening the professional skills of the supreme audit institutions through training courses, technical support services, partnerships with international organizations, peer review assessments and other development activities. Later on, it was established the Capacity Building Committee at INTOSAI level, which is made up of three subcommittees. One of them aims to promote best practices in quality assurance through voluntary peer-review assessments.

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The subcommittee's activity had as results, over the time, the development of documents, action plans and organized meetings with various supreme audit institutions. Among the documents issued by this subcommittee is also the *Peer review Guide*, which has attached a Checklist for inter-institutional assessments.

The guide includes the latest developments and progress in the field of INTOSAI peer review assessments, providing basic information necessary for the assessment, and also a questionnaire (253 questions) covering all aspects governing the activity of a supreme audit institution and required by the international auditing standards. Given the roaring success that this guide had within INTOSAI, it turned in audit standard, currently being called "ISSAI 5600 – Peer review Guideline". A peer-review assessment can be described as representing a review, an external evaluation of the supreme audit institution's work carried out by one or several supreme audit institutions partners from other countries (similar institutions) in order to obtain the assurance that the assessed institution operates in accordance with applicable professional standards and national laws and regulations governing the audit activity. The peer-review assessment is considered to be voluntary, no supreme audit institution being required to undergo to such an assessment.

## **2. Study on two peer-review assessments on the European Court of Auditors and their effects on the institution's management**

The European Court of Auditors is the European institution whose mission is to contribute to improving EU financial management, being the EU's independent external auditor. It to check that EU funds are correctly accounted for, are raised and spent in accordance with the relevant rules and regulations and have achieved value for money. The European Court of Auditors is composed of 28 Members, one from each Member State, and the Secretary General. Members are appointed by the Council after consultation with the European Parliament for a renewable term of six years. It is headed by a President, appointed for a renewable term of three years. As organization, it is divided into 5 chambers, to which Members and audit staff are assigned. In 2007, the European Court of Auditors asked four supreme audit institutions (from Austria, Canada, Norway and Portugal) to conduct a peer review in 2008, in order to assess the quality and effectiveness of the Court's audit practices and to identify areas that could benefit from further improvement.

The peer review assessed whether:

- The ECA's audit management framework provides reasonable assurance that its audits are carried out in accordance with established practices and are consistent with international auditing standards and good practices.
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- The ECA's audit work is conducted in accordance with its established practices and procedures.
- The ECA's established audit management framework provides adequate support for carrying out its primary objective of conducting and reporting the results of its audit work.

In order to analyze the above aspects, the team that conducted the peer review used several procedures, including surveys, interviews and discussion groups with staff performing audits, managers in various areas of activity, executives and members of the top management of the European Court of Auditors. Besides these, there have been completed also interviews and studies with people outside the organization (stakeholders interesting of the European Court of Auditors' work, which uses its results) as well as members of the Committee on Budgetary Control of the European Parliament, European Commissioners, the Council's Commission for Budget and Directors-General of the European Commission.

The observations and recommendations issued from the peer review assessment were conducted on several areas (divided into 3 objectives) as follows:

*a) Strategic Leadership and Planning of the Court as an Institution*

**Recommendation no. 1:** for this area refer to the Court's audit priorities.

Thus, the European Court should ensure that its audit planning and risk assessment processes considers and establishes audit priorities for the Court as a whole. The Court should continue to monitor, track, and report on progress in achieving these strategies.

*b) Statement of Assurance*

**Recommendation no. 2:** The Court should engage in consultation with key external stakeholders (key actors, interested of the European Court of Auditors' reports) to ensure there is a clear understanding of their diverse needs and how the Court can best meet the expectations of its key external stakeholders while fulfilling the Court's Treaty mandate, including the stakeholders' desire for additional special reports.

*c) Audit Planning and Examination Processes*

In this area, there were made several recommendations, as follows:

**Recommendation no. 3:** The Court's audit management framework should be further strengthened, by requiring Members and staff to update their declaration of independence on an annual basis and to attest to any threat to their independence as soon as it arises.

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**Recommendation no. 4:** The Court should establish a policy for the mandatory rotation of staff (in order to reduce the risk of "familiarity" to entity).

**Recommendation no. 5:** Members and management of the Court need to ensure that established requirements of the Court's audit management framework are consistently adhered to and consistently applied.

**Recommendation no. 6:** The Court should ensure that: the quality assurance function is independent of audit operations; the quality assurance function reports directly to the Members of the Court to ensure its independence from the audit team; the quality assurance function provides the Court with annual results of independent quality assurance on a sample of completed audits; and the quality assurance function review process indicates the extent to which Members; staff of the Court have adhered to the Court's established practices and procedures.

**Recommendation no. 7:** In accordance with requirements of international standards, each audit assignment should have an independent quality reviewer. The Court can do this by strengthening the existing audit review processes to ensure compliance with international standards and the Court's audit standards.

**Recommendation no. 8 :** The Court should ensure that audit plans and the related audit coverage proposed for each audit match the resources available to conduct the audits in a timely and efficient manner. In addition, the Court should ensure there is a process implemented to monitor audit progress and ensure that audit plans are updated as necessary.

**Recommendation no. 9:** The Court should establish clear mechanisms for conducting and reporting on the results of previous recommendations.

*d) Reporting Practices*

The European Court of Auditors is reporting on its activity through reports. These reports are submitted to the stakeholders and are analyzed by media.

**Recommendation no. 10:** By conducting regular press reviews and analyses, the Court should monitor the accuracy of media coverage of its reports to ensure that its messages are being clearly communicated.

*e) Overall support for the audit*

Also in this field were issued several recommendations, as follows:

**Recommendation no. 11:** Management needs to provide clear direction and leadership that supports the importance of training as a means to achieve the Court's audit and staff development priorities. Management should visibly support training by participating in training programs and encouraging employees to share their expertise by serving as trainers.

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**Recommendation no. 12:** As a means of continuous improvement, the Court should establish formal practices for sharing accumulated knowledge and lessons learned from past audits. This information should be shared across the organization and among all levels in the audit practice.

**Recommendation no. 13:** The Court should establish formal mechanisms to monitor and assess the appropriateness of its performance indicators.

**Recommendation no. 14:** The Court should establish common management information systems to support the management of the Court as a single audit institution and provide the necessary information for assessing the Court's performance.

*f) Key challenges going forward*

**Recommendation no. 15:** The Court should develop a strategy to respond to the observations and recommendations in the peer review and communicate it to all staff and key stakeholders.

The main conclusion drawn from the peer review assessment performed in 2008 is that the management framework of the Court is suitably designed in accordance with international auditing standards. There were also noticed a number of opportunities that the Court should implement to further strengthen its practices. After this peer review assessment, in 2013 the European Court of Auditors asked the supreme audit institutions from Germany, France and Sweden to perform another peer review assessment based on ISSAI 5600 Standard. This second assessment from 2013 had two main objectives: Assessment of the European Court of Auditors' performance auditing practice; Follow-up on the recommendations of the last peer review assessment (the one from 2008 that we have presented above).

Regarding the recommendations issued within the peer review assessment from 2008, the peer review team noted that there were made significant improvements. Thus, the European Court of Auditors took up these aspects in making the its overall strategy for the years 2009-2012, which was primarily aimed at maximising the overall impact of the audits and increasing efficiency (**Recommendation no.1, Recommendation no. 2, Recommendation no. 6 and Recommendation no. 8**). To view the extent to which the strategic and operational objectives have been met, the European Court of Auditors has implemented a set of 10 key performance indicators, thus implementing one of the recommendations issued in 2008 (**Recommendation no.13**). A new set of indicators has been devised for the 2013-2017 strategic period.

Regarding the **Recommendation no. 10**, the the peer reviewers noted that some improvements were made regarding quantitative press reviews. Also, the

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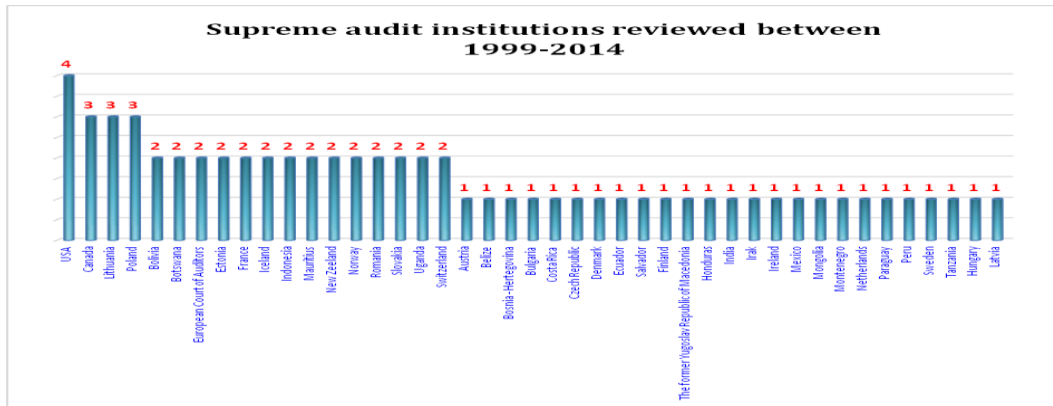
European Court of Auditors carried out an intensive work aiming at improving its communication from September 2012 to June 2013. The peer reviewer team believe that stronger relationships with national supreme audit institutions (courts of audit) may encourage the European Court of Auditors to adopt fruitful practices. As concerns the **Recommendation no. 3** (independence), it was noticed that there were implemented procedures for annual declarations of independence, was developed a training course and was adopted “Ethical Guidelines” which replaced the old code of ethics. Following these actions, however, the peer review team recommended assessing the impact of these. Staff rotation was another area on which there were issued recommendations (**Recommendation no. 4**). In 2013, the peer review team noticed that in 2010 the European Court of Auditors has implemented a policy for the mandatory rotation of staff, which lays down the intended minimum and maximum terms of office for each category of staff. So, the recommendation no. 4 has been implemented. With respect to the training (**Recommendation no. 11**), the peer review team noticed that the European Court of Auditors has taken action to improve the situation, such as a medium-term training plan that comprises an analysis of the current state and defines training objectives in accordance with the overall strategy as well as measures, resources and people in charge of their implementation. Also, the peer review team recommends that these actions regarding the professional training should be continued further and to have even additional ones which have to comprise both the professional and educational components, available for auditors and for the top management of the European Court of Auditors. These actions may also comprise a closer collaboration with the supreme audit institutions from EU member states.

### **Conclusions**

The reform and adjustment of the external public audit concept as a mechanism for verification were challenges attached to the supreme audit institutions' management, which in some cases required a rearrangement of priorities of their agenda. To achieve the compliance of the internal processes of a supreme audit institution with the requirements of the specific domain system (audit), a vision configuration is required or of the institutional development perspective, in full harmonization with the international practice in the field. The analysis of a questionnaire conducted by the Court of Accounts from Slovakia, which holds the presidency of the INTOSAI Subcommittee 3 (in charge of promoting the best practice quality assurance through peer review assessments), which was submitted to the supreme audit institutions members of INTOSAI were found the following: As of April 1st, 2014, the situation of the peer review assessments made and/or planned showed that in total were conducted 66 of this kind of assessments in the period 1999 – 2014; The most reviewed supreme audit institution was the one

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from USA that has to be reviewed every 3 years according to the US law , by present being reviewed for 4 times; Other supreme audit institutions reviewed were the ones from Canada, Lithuania and Poland. These were reviewed 3 times each; 14 supreme audit institutions were reviewed 2 times each (this is also the case of the Romanian Court of Accounts) and 25 supreme audit institutions were reviewed once.

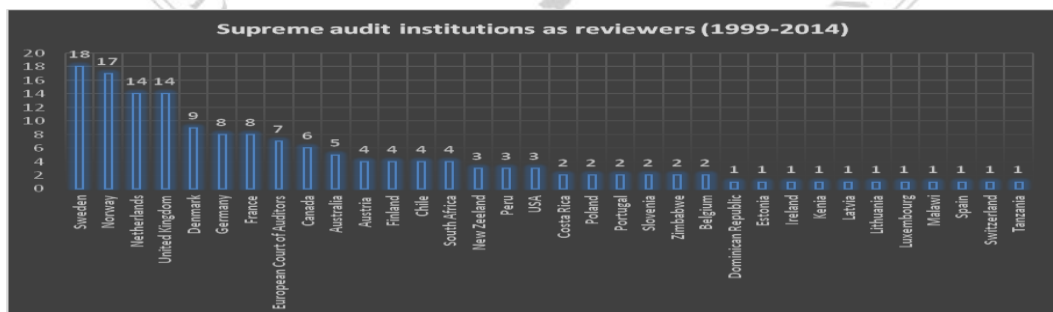


Source: Peer review survey 2014 – results and assessment – Court of Accounts from Slovakia



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From the analysis carried out by the Court of Accounts of Slovakia (shown in the chart above), we see that most peer review assessments were conducted in 2012, opposite to years 2003 and 2004, when no action of this type was undertaken.



Source: Peer review survey 2014 – results and assessment – Court of Accounts from Slovakia

According to the chart above, the Court of Accounts of Sweden has been involved 18 times in peer review assessments, followed by the Court of Accounts of Norway (17 times) and the UK Court of Accounts equally with that of Netherlands (14 times). These countries have played the role of assessors and they have sent peer review teams to other court of accounts who have requested them. Peer review assessments are important in the sense that through them there can be identified weaknesses in a supreme audit institution and may be issued recommendations regarding the weaknesses' removal or improving other levels of the organization. Also, this type of assessment may be an opportunity to further support granted to the management (policy makers), focusing on opportunities that could be valued, so that the recommendations' implementation of peer review team to help ensure an exemplary level of professionalism at all levels of a supreme audit institution's activity, as a condition, and also a prerequisite for its modern, effective and efficient development.

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