

EUROPEAN COURT OF AUDITORS



INTERNATIONAL PEER REVIEW
OF THE EUROPEAN COURT
OF AUDITORS

European Court of Auditors

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Executive Summary

To: The President and Members of the European Court of Auditors

On behalf of the international peer review team, we are pleased to present the results of the peer review of the European Court of Auditors. The team consisted of experienced financial and performance auditors from the supreme audit institutions of Austria, Canada, Norway, and Portugal.

The objective of the peer review was to assess the design and operation of the Court's Audit Management Framework, which encompasses

- the audit planning and examination processes for financial and performance audits,
- the reporting on the results of audits, and
- the services that provide support and help the Court achieve its objectives.

The peer review team recognizes and appreciates the cooperation and support provided by the Members and staff of the European Court of Auditors. The team is also grateful to key external stakeholders of the Court for taking the time to respond to our surveys and to our many questions. Their responses were invaluable to the team as it completed its work.

The peer review team concluded that the audit framework established by the Court is suitably designed in accordance with international auditing standards and good practices of supreme audit institutions. The team also found that

- the Court conducts its work with independence and objectivity;
- the audit reports that were examined during the review were based on sufficient and appropriate audit evidence, as required by international auditing standards; and
- the stakeholders interviewed have a high level of confidence in the Court's reports and generally considered them to be fair, factual, and objective.

The peer review team also noted that the Court is an organization in transition. In 2006, the Court began an initiative to enhance its audit practices. A self-assessment was conducted; it formed the basis for the development and implementation of a strategic plan and action plans in key areas.

This peer review was the next step in the initiative. The peer review team identified opportunities and challenges for the Court to further strengthen itself as a supreme audit institution. Our detailed observations and suggestions are set out in the report. Among the challenges and opportunities are the need to

- develop a culture that emphasizes the Court as a single audit institution;
- enhance quality assurance and quality control activities, to ensure that the interpretation and application of its audit policies and practices are consistent; and
- develop risk-based audit strategies to optimize the use of resources to meet the diverse needs of stakeholders.

A key to success for the Court will be to engage the support and assistance of its Members and employees as they are an integral part of the success of the Court.

The peer review team noted that the Court has taken, and continues to take, actions to address areas for improvement. We have reviewed the action plans developed by the Court and are of the view that they will move the Court in the appropriate direction. The peer review team is confident that the Court will develop a strategy to respond to the observations, challenges, and recommendations set out in this peer review.

We would like to thank the Court for the opportunity to have conducted the peer review.

A handwritten signature in black ink that reads "Bruce C. Sloan". The signature is written in a cursive style with a large initial 'B' and 'S'.

Bruce C. Sloan, CA
Review Leader
Office of the Auditor General of Canada, on behalf of the peer review team

9 December 2008

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Introduction

History and mandate of the European Court of Auditors

- 1 The European Court of Auditors (the Court or ECA) was established by the Treaty of Brussels on 22 July 1975. Its mandate is to carry out the audit of European Union (EU) finances. As the EU’s external auditor, the Court contributes to improving EU financial management and acts as the independent guardian of the financial interests of the citizens of the EU.
- 2 The Court’s primary tasks are to examine the accounts of all revenue and expenditure of the European Community; to establish whether all revenue and all expenditure has been received or incurred in a lawful and regular manner; and to establish whether the financial management has been sound (Exhibit 1). The Court assists the European Parliament and the Council in exercising their powers of control over the implementation of the budget. The Court works independently of the other institutions, organizes its own work, plans its audits, decides how best to present its observations, and determines how much of its findings will be published.

Exhibit 1: The European Court of Auditors undertakes two different types of audit

| | |
|--------------------------|--|
| Financial Audit | Reliability —checking the reliability of the accounts of all the revenue and expenditure of the European Union and, unless otherwise specified, of all bodies established by the Union. Legality and regularity —checking the legality and regularity of the transactions underlying the EU accounts. |
| Performance Audit | Sound financial management —examining whether the financial management of the EU funds has been sound. |

Source: European Court of Auditors

Managerial context of the European Court of Auditors

- 3 According to the Treaty, the Court consists of 27 Members, with one Member being drawn from each state. The Members of the Court are appointed by the EU’s Council of Ministers, after consultation with the European Parliament, for a six-year renewable period. The Court is headed by a President, who is elected from among the Members. The Court operates as a collegiate body with Members collectively responsible for examining and approving all the Court’s formal statements.
- 4 The President, who is elected for a term of three years, is “first among equals” and plays a coordinating role. He makes proposals for distribution of portfolios to Members, sets the agenda for the Court’s planning sessions, and chairs the Court discussions. The President is the Court’s senior representative in its external relations.
- 5 The Court is divided into five audit groups. There are four vertical audit groups, each composed of five to six Members. The Court also has a Coordination, Communication Evaluation, Assurance, Development group (CEAD) consisting of three permanent Members plus one Member from each of the vertical audit groups. Members are assigned to audit groups by the Court following a proposal by the President. Each group elects a dean and its representatives to the CEAD group and the Administrative Committee. (Exhibit 2)
- 6 CEAD coordinates the Court’s Annual Report, including the Declaration of Assurance, is in charge of the communication mandate, advises on the Court’s reports and opinions, coordinates the Court’s work programme, oversees the Court’s working methods and is responsible for the development of its financial and performance audit manuals.

- 7 The Administrative Committee is responsible for administrative matters requiring a Court decision and for any matters of professional ethics involving employees of the Court.

Exhibit 2: How the European Court of Auditors is organized

| PRESIDENCY | |
|--|---|
| Supervision of the performance of the Court's work, relations with the Community and other audit institutions, internal audit, legal matters, information policy | |
| AUDIT GROUPS | |
| I | Preservation and management of natural resources (6 Members) |
| II | Structural policies, transport, research and energy (6 Members) |
| III | External actions (5 Members) |
| IV | Own resources, banking activities, administrative expenditure, Community institutions and bodies, and internal policies (6 Members) |
| CEAD | Coordination, Communication, Evaluation, Assurance, Development (3 Members, plus 1 Member per Audit Group) |
| ADMINISTRATIVE COMMITTEE | |
| (1 Member per Audit Group) Administrative matters requiring Court decision | |
| SECRETARIAT-GENERAL | |
| Human Resources, IT and Telecommunications, Finance and Administration, Translation Service, Court's Secretariat | |

Source: European Court of Auditors

- 8 In 2006, the Court began an initiative to strengthen its audit practices and management framework. Key elements of this initiative, which is still in progress, were
- self-assessment of the Court's practices; and
 - development of action plans.
- 9 The Court also undertook to develop a communication strategy that guides the Court's interactions with key stakeholders and strengthens communication with its employees.
- 10 The purpose of the self-assessment process was to identify the various strengths and weaknesses of the Court's audit practices and procedures and its infrastructure to support the Court's audit mandate. In response to the self-assessment, the Court developed detailed action plans to address areas where the Court would benefit from further development in its audit practices. These action plans are scheduled to be completed between 2008 and 2011. Based on the results of the peer review, it appears the Court has included in the action plan the most significant requirements to move forward as a leading audit institution. As of July 2008, the Court assessed that 9 of the 23 action items had been completed.

Purpose and approach of the peer review

- 11 Supreme audit institutions (SAIs) play an important role. Through their audits, they provide legislatures and stakeholders with independent, objective, and reliable information that enables them to examine a government's performance and hold it to account.
- 12 Peer reviews serve a number of purposes. Principally, they provide some assurance to legislatures and other stakeholders that the practices and procedures of the SAI are in accordance with international auditing standards and good practices.

- 13 In 2007, the ECA asked four SAIs—Austria, Canada, Norway, and Portugal—to conduct a peer review in order to assess the quality and effectiveness of the Court’s audit practices and to identify areas that could benefit from further improvement.
- 14 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.
 - 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.
- 15 To carry out our work, we first assessed the design of the Court’s audit management framework by conducting a comparison between international auditing standards and the ECA’s performance and financial audit standards and related audit manuals. To determine whether the Court adhered to its established practices, we reviewed working papers from a sample of performance and financial audit engagements. The peer review team conducted surveys, interviews, and focus groups with audit staff, functional area managers, senior executives, and Members of the Court. In addition, we conducted surveys and interviews with key external stakeholders. These included members of the Committee on Budgetary Control of the European Parliament, Commissioners, the Budget Committee of the Council, and Directors General of the European Commission.
- 16 Key elements of an audit management framework are described in Exhibit 3.

Exhibit 3: Elements of an audit management framework

| Elements | Description of Elements |
|--|--|
| Leadership and Planning | |
| Strategic direction, selecting the audit, operational planning, and methodology | Have a shared view of the future direction, conducting audits within the Court’s authority and with sufficient and appropriate resources, with the right methodology, tools, and techniques. |
| Audit Management | |
| Independence, objectivity, and integrity; conduct of the audit; project management; planned audit; accessible, sufficient, and appropriate evidence; reporting the audit; consultation; security, access, and file retention | Auditors are objective and unbiased, conducting audits in accordance with the legislative mandate, policies, and practices of the Court. Audits are adequately planned with sufficient appropriate audit evidence obtained to support the report, which is delivered on time. Reports are relevant, coherent, clear, and credible. |
| Client Focus | |
| Communicating audit messages; feedback from clients and stakeholders; and effective reporting | Clients and stakeholders perceive the work of the Court as useful and they understand the reports. |

Exhibit 3: Elements of an audit management framework (continued)

| Elements | Description of Elements |
|---|--|
| People Management | |
| Resourcing, leadership, and supervision, respectful workplace, performance management, and professional development | Audit teams have the necessary knowledge, adequate training, and an appropriate level of direction in a respectful environment. Employees receive timely feedback, and development and learning opportunities are available to them. |
| Continuous Improvement | |
| Practice review and lessons learned | Audits are conducted in accordance with the Court's quality management framework. Opportunities for improvement are identified and implemented. |

Source: Key elements agreed to by the peer review team and the Court

- 17 Details about the Memorandum of Understanding between the Court and the peer reviewers, the peer review objectives, scope, approach and criteria are in **About the Peer Review** at the end of this report.

Observations and Recommendations

- 18 This report sets out the observations of the peer reviewer's assessment of the Court's audit management framework and the identification of opportunities for improvement in the Court's audit processes.

Strategic Leadership and Planning of the Court as an Institution

- 19 As a result of the self-assessment process, in July 2008, the ECA adopted an Outline Strategy for the period 2009 to 2012. Under this strategy, the priorities of the Court are to
- maximize the overall impact of the Court's audits, by improving the range, level, and usefulness of reporting, and by developing relations with key external stakeholders; and
 - increase efficiency by making best use of resources.
- 20 The focus of the strategy is on governance arrangements; strengthening audit processes; audit standards and practices; relations with auditees; human and financial resources; knowledge management and internal communication; and information technology.
- 21 The current strategy of the Court contains all the key activities one would expect to enable this organization to fulfill its mandate. Many of these priorities that were identified in the self-assessment are consistent with the opportunities for improvement and challenges noted in the peer review. Several of the activities identified in the strategy have been carried out, with some actions underway, and will provide the Court with a basis for measurement in the upcoming months and years. The strategy notes that an important next step is to translate these priorities into specific actions and integrate them into the Court's audit strategies.
- 22 The Court's current approach to audit planning is for each group to prepare an annual work programme that proposes the audit tasks and staffing resources for the upcoming period while considering the Court's audit strategy. A consolidated work plan is then prepared for the Court

as a whole. However, there is currently no Court-wide perspective on risk and how these risks affect audit priorities.

- 23 This approach to audit planning and the allocation of audit resources has been driven by the Court's "silo type" structure, making it difficult to respond to audit priorities and to match skills and needs to audit priorities. The lack of a unified vision, the multiple centers and layers of decision making and control, and the absence of a developed institutional performance measurement system have resulted in inconsistencies across the audit groups.
- 24 The Court's capability to ensure the availability and best use of auditors has been constrained by a resourcing system that is not based on assessing the concrete skills needed to fulfill a defined audit strategy. Groups determine audits and staffing needs by following a bottom-up approach.
- 25 The Court has many initiatives under way to strengthen its audit practices: adopt a corporate-wide strategy; and seize opportunities for improvements provided by the results of the self-assessment, the action plan, and the peer review. The Court is adopting an annual planning process which includes a top-down approach to ensure that its overall objectives and strategies are reflected in the individual work plans. The CEAD group has been tasked with ensuring that individual annual work plans are consistent with the Court's approved audit strategy.
- 26 **Recommendation.** The 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.

Statement of Assurance

- 27 In accordance with Article 248 of the EC treaty, the Court of Auditors provides the European Parliament and the Council with a Déclaration d'assurance or Statement of Assurance (DAS) concerning the reliability of the accounts and the legality and regularity of the underlying transactions. The Treaty also authorizes the Court to supplement this statement with specific assessments of each major area of community activity.
- 28 The Court uses many of its resources to complete the annual audit work for the DAS. It has developed a well-documented methodology in accordance with international auditing standards and in compliance with the Court's audit policies. The ongoing progress of the audit for the DAS is monitored closely by various Members of the Court to ensure the approach is accurately applied.
- 29 In our interviews with key stakeholders, a common theme raised was that they would like the Court to produce more special reports. During our review, we observed that the audit work for the DAS is very time consuming and that it uses a significant amount of the Court's resources. Often this was at the expense of completion of special reports (performance audits).
- 30 In the DAS audit, the activity that consumes the most time is the approach to accumulating audit evidence to support the legality and regularity of the underlying transactions. Since 1995, the Court has defined "underlying transactions" in such a way as to conduct its audit to the level of the final beneficiary of community funds, in order to obtain appropriate and sufficient audit evidence to support the Statement of Assurance. This interpretation of the mandate results in a significant impact on how audit resources are used, and the Court's overall productivity.
- 31 **Recommendation.** The Court should engage in consultation with key external stakeholders 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.

Audit Planning and Examination Processes

Suitably designed audit framework is in place

- 32 To carry out our assessment, we reviewed and analyzed documented practices and procedures of the Court, using key elements of the generic audit management framework. In particular, we focused on independence, objectivity, and the controls designed to ensure reliability or consistency in completing audits.

Audit planning

- 33 When assessing the key elements of the audit management framework, the peer review has concluded that the Court has established standards suitably designed to ensure that its audits are carried out reliably. These include standards for planning an audit; supervising staff; obtaining sufficient, appropriate audit evidence; documenting the audit work completed; and reporting audit results.
- 34 We found that the Court's standards and manuals are designed in accordance with international auditing standards. Key controls set out in the manuals include such things as required review and approval points, and documentation standards.
- 35 The Court has established and documented a system of quality control designed to provide it with reasonable assurance that if followed would ensure professional standards are met, audits are conducted consistently, and reports are reliable.

Independence and objectivity

- 36 International auditing standards require that an audit organization be independent of the organizations that it audits. These standards consider independence from three perspectives:
- the organizational independence of the institution;
 - the practices and procedures that demonstrate independence of Members and staff; and
 - the practices and procedures in place to demonstrate the independence of Members and staff for the individual audits to which they were assigned.
- 37 Impairment in any of these areas could affect an auditor's ability to discharge his duties in a fair, balanced, and objective manner. Any such impairment could therefore have a negative impact on the reputation of the Court.
- 38 As a SAI, and according to the Treaty establishing it, the Court is independent of the various organizations of the European Union (EU). The Court has, by Treaty, right of access to all books, records, and information of the ministries of the EU. In planning its audits and determining how to present its observations and reports, the Court works independently of the other institutions. The Court has access to any document or information relating to the financial management of the departments or bodies subject to its examination, and can question any official responsible for revenue or expenditure.
- 39 The Court has established some policies and procedures to address issues surrounding the personal independence of its Members and employees. Upon appointment, Members of the Court are required to declare their financial interests, assets, and activities, and those of their spouse. Throughout their term with the Court, Members are required to self-declare any significant changes to their personal independence. When their employment begins, employees of the Court are required to sign an attestation that there are no impairments to their independence. These practices are consistent with the requirements of international auditing standards.
- 40 We noted that the Court does not have a process to consider independence for each audit engagement, a good practice used by many supreme audit institutions.

- 41 A clear priority of the Court is to conduct its work in a fair, open, and objective manner. In keeping with the requirements of international auditing standards, the Court has established a number of policies and procedures that are designed to ensure that it issues reports based on sufficient appropriate audit evidence and that the reports are presented in a fair and objective manner.
- 42 As part of the peer review, we conducted interviews and surveys of key stakeholders. These stakeholders noted that they consider the Court to conduct its work in an independent and objective manner. The peer review also concluded that such views are warranted.
- 43 **Recommendation.** 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.
- 44 The peer review noted that while the Court has recognized the necessity for mandatory rotation of staff occupying managerial and sensitive posts, they have not established a policy for the mandatory rotation of senior personnel who have been involved in an audit for a long period of time, to reduce the risk of familiarity. Good practice suggests that such a period should generally be between five and seven years. To facilitate meeting this professional requirement, the orderly transfer of knowledge will need to be an integral aspect of the Court’s practices.
- 45 **Recommendation.** The Court should establish a policy for the mandatory rotation of staff.

Established practices vary across the Court

- 46 As part of our review, we selected a sample of completed audit engagements—both financial and performance audits—to test whether key components of the Court’s audit management framework were working as designed. For each of the audit engagements that we reviewed, we noted that there was sufficient appropriate audit evidence to support the report issued by the Court.
- 47 The peer review also noted that individual groups within the Court have developed their own unique working protocols for planning, documenting, and reporting on the results of their work. These protocols are based on the Court’s audit methodology and procedures and have resulted in each group using its own mechanisms for conducting audits and for interpreting the Court’s audit policies. We noted that this introduces a degree of variability in applying the stipulated standard practices throughout the Court’s operations. Greater consistency in adhering to Court requirements is needed, and would likely result in greater efficiency and sharing of good practices throughout the Court.
- 48 Specific examples of inconsistencies and variations in practice included:
- Documentation was inconsistent for the various audit procedures, analysis of issues, evidence of sufficient appropriate audit evidence, evidence of supervision, and completion or updating of required planning and reporting documents.
 - Different management information systems have been developed by each of the groups to gather information about audit progress and allocation of resources. The Court’s information technology tool is not consistently applied.
 - Lessons-learned exercises are not consistently held after each audit or if held, the results are not always shared.
 - Feedback on job performance is not always given.
- 49 **Recommendation.** 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.

The quality assurance function needs enhancing

- 50 According to international auditing standards, an important element of continuous improvement for an audit organization is ongoing quality control and independent quality assurance.
- 51 The Court's audit policy and standards require that the Court establish a system of quality control designed to provide it with reasonable assurance that the Court and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the Court are appropriate in the circumstances.

Independent quality assurance

- 52 The peer review noted that while the Court has established an independent quality assurance function, it is not working as intended. The Court has conducted little independent quality assurance work over the past few years. In 2007, two practice reviews were planned, one of which was completed.
- 53 At the current time, it is difficult to determine whether the quality assurance function has an effect on the quality of the audits carried out by the Court, and on the timeliness of the projects.
- 54 **Recommendation.** The Court should ensure that
- its 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 and staff of the Court have adhered to the Court's established practices and procedures.

Independent quality review

- 55 International standards on quality control suggest, as does good practice, that an independent quality review be in place for each audit. The quality reviewer should have appropriate experience and technical qualifications, and be independent of the team or group conducting the audit. The role of the quality reviewer is to provide an objective evaluation, before the auditor's report is issued, of the significant judgments the audit team has made and of the conclusions reached in formulating the audit report. In addition, the quality reviewer is to provide additional assurance that the audit is conducted in accordance with the Court's audit standards.
- 56 The independent quality review is an effective mechanism for ensuring that quality controls are operating effectively and consistently for all audits and that the audit approach is challenged at key stages during the audit. Currently, the Court has a similar role performed by senior management who are members of the audit team and related audit groups. A key attribute of quality reviewers is that they are independent, which means they are not part of the audit team or group.
- 57 **Recommendation.** 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.

The timeliness of the special reports needs improving

- 58 In our interviews and surveys of key external stakeholders, many noted that they would like the Court to place greater emphasis on performance audits, producing them on a timelier basis.
- 59 These key external stakeholders consider that topics selected for audit could sometimes focus on areas of greater relevance, significance, or risk. Some expressed the view that delays in completing and reporting on the results of performance audits makes it difficult to consider audit results when updating policies or regulations.
- 60 Timely reporting and efficient use of resources are essential elements for enhancing the quality of the audit process and the usefulness of audit reports to key external stakeholders. The timely issuance of a report provides support for relevant decisions and it is therefore important that conclusions and recommendations are relevant.
- 61 The Court's audit policies indicate a standard maximum time frame of 18 months from approval of the planning memorandum to the official publication. We noted in the review of 9 special reports that the time for completion ranged from 18 months to 39 months, with an average of 29 months. This trend appears consistent over the past few years.
- 62 There are factors both internal and external to the Court which contributes to delays in completing special reports. Internal factors include reallocation of resources to support completion of the DAS, extension of audit scope and lengthy time frames for drafting reports. External factors include lengthy time frames for validating the factual accuracy of draft reports and delays in receiving responses from stakeholders.
- 63 **Recommendation.** 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.

The follow-up process needs expanding

- 64 Assessing and measuring the impact of the Court's performance audit reports is a necessary element in the cycle of accountability. The recommendations made in special reports, as well as those set out in the Statement of Assurance, should be followed up and reported on in order to inform external stakeholders on the measures taken in response to the Court's audit work.
- 65 Following up on past report recommendations serves two key purposes. First, proper follow-up increases the effectiveness of audit reports as it increases the probability that recommendations will be implemented. Second, reporting on the results of follow-up also assists Parliamentarians to hold EU institutions and EU decentralised bodies to account.
- 66 The Court's performance audit methodology requires that a follow-up audit should take place two to three years after the publication of a special report. Our review noted that over the last two years only 4 of 20 special reports had been followed up.
- 67 The peer review noted that the Court has not yet established some of the tools needed for monitoring the auditee's progress in implementing recommendations made by the Court. The Court has recently determined it will use the European Commission's system of tracking recommendations while safeguarding its integrity and the Court's independence. Most SAIs establish their own databases to archive recommendations and track the auditee's progress in implementing recommendations.
- 68 **Recommendation.** The Court should establish clear mechanisms for conducting and reporting on the results of previous recommendations.

Reporting Practices

Reports are supported by appropriate audit evidence

- 69 A clear priority of the Court is to conduct its work in a fair, open, and objective manner. In keeping with the requirements of international auditing standards, the Court has established a number of policies and procedures that are designed to ensure that it issues reports based on sufficient appropriate audit evidence and expressed in a fair and objective manner.
- 70 To ensure that reports are factually correct, the Court has established formal mechanisms for fact validation and report clearance. The Court issues a statement of preliminary findings after a specific audit examination visit or after completion of an audit. The Court and the EU Commission have agreed that clearance of the Court's financial audit and performance audit reports will be complete at one month and 45 days, respectively.
- 71 In our discussions with key external stakeholders and our review of various reports, we found that the Court's reports were seen to be presented in a neutral tone, and that audit evidence was sufficient, relevant, and reliable to support the audit findings included in the report. Observations were seen to be reported in a fair and objective manner. Additionally, in keeping with good practices, the Court's reports also include the auditees' responses.

Stakeholders find the reports to be clear, fair, and factual

- 72 As part of our peer review, we were asked to determine whether key external stakeholders find the Court's reports to be relevant and useful in their decision-making processes. To do so, we conducted surveys and interviews with representatives from each of the key external stakeholder groups. Our surveys and interviews focused on whether these stakeholders considered the work and reports of the European Court of Auditors to be useful and relevant to their needs, and whether the reports supported decision making.
- 73 The stakeholders whom we surveyed and interviewed indicated that they place a high level of confidence in the Court's reports and in the professionalism of its audit staff. They generally considered the reports to be fair, factual, and objective.
- 74 The stakeholders and peer reviewers found that the Court's reports were usually clear, unambiguous, understandable, concise, and well organized. They also found that the reports lead logically to meaningful conclusions and recommendations. Especially in the case of the annual report, the stakeholders have noted improvements to the report over the last couple of years.
- 75 The stakeholders whom we surveyed and interviewed noted that the Court's reports were a relevant source of information for their work, and that the reports usually serve as a catalyst for change and for identifying opportunities for improvement. Parliamentarians were of the view that the Court's work assists them in holding the European Commission to account. These key external stakeholders also noted that the clarity of reports had improved in recent years, and they would like the Court to produce more performance audit reports.
- 76 The Court has been working on improving its relations with key external stakeholders. This has included presentations and meetings held with the European Parliament, the European Council's Budget Committee and the European Commission, to present and discuss the Court's work, approaches, and methodologies. Development of these initiatives may further strengthen the value provided by the Court's audits.

Media analysis on previous reports needs scrutiny

- 77 The Court has a unit that is responsible for managing external communication activities, including such functions as monthly and bi-monthly preparation of press reviews (a compilation of press articles organized by theme). When media analysis on issued reports is

undertaken, it is done in isolation, often by a single group. Regularly monitoring media reports would provide the Court with information on how its reports are being interpreted and perceived by the European Commission and the general public, and to confirm if the messages have been clearly communicated.

- 78 **Recommendation.** 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.

Overall support for the audit

- 79 As part of the peer review, we assessed key elements of the infrastructure established by the Court to support its audit work. The key elements that we considered included:
- human resource management,
 - information technology, and
 - knowledge sharing.

Human resources and training are aligned with good practices

- 80 As part of the peer review, we assessed whether the Court has designed and implemented human resource (HR) management processes of sufficient quality. We focused on the following key areas:
- whether audit teams have collective knowledge of their subject matter and the auditing proficiency necessary to fulfill the requirements of the audit;
 - whether the employees have adequate technical training and proficiency; and
 - whether those working on an audit receive appropriate direction and supervision, with appropriate leadership.
- 81 Our review found that the design of several of the Court's human resource processes is consistent with professional auditing standards and good practices of SAs. Specifically we noted that the Court has a documented human resource and training policy which includes clear job descriptions, and which sets out the needed competencies for auditors. We noted that this includes a requirement for individual performance management and annual appraisal systems. The Court has developed structured training in the core areas of audit performance and professional development opportunities exist.
- 82 The Court faces some constraints to its policies and processes for HR management. Staff are recruited and managed according to European statutory regulations, which means that ECA is not able to define rules and procedures for its own recruitment, promotions, salaries, compensation, rewards, and terminations of employment. Because audit institutions require staff with specialized skill sets, the HR limitations imposed by preset policies that are not tailored to an audit institution present a significant constraint to the Court. The European Union recruitment process limits the ability of the Court to hire experienced auditors. Since the recruitment rules and procedures results in the Court hiring non-experienced staff, the system to develop their knowledge and skills is of critical importance.
- 83 The Court's capability to ensure that sufficient, appropriate audit staff are available to achieve the best audit performance is constrained by a resourcing system which does not consider the Court as a unique institution with specialized HR needs. In addition, HR management has also been constrained by the rigid structure of the Court's audit groups, which do not readily share their resources.

- 84 Performance management and professional development practices should be designed and implemented to ensure that staff perform and develop to their potential. Such an approach allows staff to maintain and enhance their skill sets.
- 85 As with any other SAI, the Court is a knowledge-intensive organization in which products are prepared by teams. These teams work under approved guidance but have to use their professional judgment to solve many unexpected situations. These circumstances mean that leadership, teamwork, cooperation, communication, and learning are critical factors to successful performance. Weaknesses in any of these factors are not easily overcome by individual effort.
- 86 Significant progress has been achieved in recent years in the area of training. Our analysis indicates that budget and staff resources devoted to training have substantially increased, the courses offered and the number of staff hours dedicated to training activities have increased, and that the training investments have a growing strategic focus and an increasing technical and practical approach.
- 87 The defined training priorities match with the objectives set out in the Outline Strategy for 2009 to 2012 and with the identified weaknesses in competencies of staff. The courses are focused in the main priority and problematic areas (initial training, performance audit techniques, IT audit and management training) and targets are defined in each of these fields.
- 88 We also noted that important structural improvements are being developed by the Court:
- A training path has been designed for audit staff, as a framework for the needed training activities, to develop the competencies of staff at all levels, from the time of recruitment up to and including audit management positions, covering the key areas of audit work.
 - The courses included in the training path are being progressively designed and implemented.
 - Personal development plans are being developed, as a means of assessing and tracking individual development needs in competencies and skills.
 - A professional diploma course in public-sector auditing, finance and accounting is being prepared and will be introduced in 2012, as a qualifying tool.
 - Targets and incentives are now being given to professional certification of auditors.
- 89 The peer review noted opportunities for the Court to further strengthen their professional development program:
- Information on an individual's capability in each of the defined critical competencies should be collected, assessed, maintained, developed, and tracked.
 - Language training accounts for one third of ECA's training budget and for half of the training activities. However, this training should also address an identified gap in the writing and reporting skills of auditors.
- 90 The peer review noted that management is often seen as not supporting and encouraging training. This situation has several consequences, including difficulty in having trainers available, a high cancellation rate in courses, or that professional development is not valued.
- 91 Through our surveys and focus groups with Court employees, we noted they have the perception that there are few professional development and training opportunities. However, the peer review noted that the range of training opportunities offered is greater than the perceptions described to us by employees.
- 92 **Recommendation.** 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.

Knowledge sharing and learning approaches need enhancing

- 93 As part of the peer review, we assessed the practices established by the ECA to capture and share its collective knowledge and experience with respect to audit practices and knowledge of the auditee.
- 94 We noted that the Court has established policies and practices for documenting knowledge of audited organizations. We also noted that the Court has maintained appropriate documentation and permanent files for ensuring transfer of knowledge on the auditees. Additionally, the Court has ensured that its policies, practices, and manuals are available to employees through its intranet.
- 95 We noted an opportunity for the Court to strengthen its practices with respect to knowledge management as audit teams do not routinely conduct lessons learned after each audit. Consequently, valuable experience that would help audit teams better plan for future audit assignments is not always captured.
- 96 **Recommendation.** 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.

Performance indicators need continual monitoring

- 97 The peer review assessed whether the Court has developed relevant, understandable, and reliable performance indicators to measure the efficiency and effectiveness of the Court's activities. Performance indicators are a means to demonstrate whether the Court's strategic and operational objectives have been met and whether resources have been used in an efficient, effective, and economic manner. Performance indicators can also support the decision-making process.
- 98 As part of the Court's self-assessment exercise, it identified a lack of performance measurement information. In response to this, the Court has recently developed a set of key performance indicators that are linked to the Court's strategic objectives and address the key areas for measuring the success of the organization. These key performance indicators will be introduced as the Court develops the information to support their use. This approach is consistent with the practices of many SAIs.
- 99 **Recommendation.** The Court should establish formal mechanisms to monitor and assess the appropriateness of its performance indicators.

Management information systems need improving and harmonizing

- 100 As part of the peer review, we assessed the information available for managing and directing the audit work of the Court across the organization. We noted that individual audit groups maintain their own management information systems. Information gathered from interviews and surveys revealed that there is a considerable amount of information available regarding audit progress, the amount of time used on a project, and statistics on some human resource information.
- 101 We noted that management information systems are maintained by each of the groups to gather information about audit progress and allocation of resources. The peer review team noted that while the key management data was available, it was necessary to consult a variety of electronic and paper sources, none of which was complete or easily accessible. Although some key data is available to support such areas as financial management and performance indicators, there is no single audit management system in place to ensure easy retrieval of reliable, complete, and comparable data across the Court. This reduces the value of the information and its usefulness as a management tool for the Court.

102 **Recommendation.** 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.

Key challenges going forward

- 103 The Court has established a number of policies, practices, and procedures that are suitably designed in accordance with international auditing standards. At the same time, there remain challenges that the Court needs to address.
- 104 The peer review noted a range of variability in conducting audits and management of the various groups within the Court. A significant challenge will be to eliminate the variability and to function as a single audit institution with a focus on one organization as opposed to individual groups. This is recognized in the Outline Strategy for 2009 to 2012 that was proposed by the President and approved by the Court in July 2008. It will take considerable effort and a sustained momentum over time to achieve this goal. The commitment and investment of its Members and senior management is necessary for the Court to move forward as a leading SAI.
- 105 As is common with most organizations, the Court will face a number of challenges in attracting and retaining qualified staff. Inherent in the changing demographics will be the need to train and develop staff, coupled with effective means for transferring knowledge as an integral part of succession planning.
- 106 The results of the Court's self-assessment, the peer review survey, and focus groups revealed a disconnect and difference in perspectives between management and staff on a range of issues. A key success factor for the Court will be to engage the support and assistance of its staff as they are an integral part of the success of the Court, all within a multicultural environment.
- 107 As the Court moves forward, it needs to work closely and in cooperation with other audit offices in the European Union and determine how it can improve the overall efficiency of its audits. It will be important for the Court to continue its communication efforts with all stakeholders—both internal and external.
- 108 **Recommendation.** 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.

Conclusion

- 109 The Court is an organization that has been in transition since it undertook a number of actions to develop and strengthen its audit practices. Among these are a self-assessment, action plans, and the request for a peer review.
- 110 The peer review has concluded that the management framework of the Court is suitably designed in accordance with international auditing standards. We also noted a number of opportunities that the Court should implement to further strengthen its practices.
- 111 Recent strategic documents and decisions identified opportunities that should be developed and implemented to allow the Court to move forward as a unified audit institution.

Response of the European Court of Auditors



Vitor Caldeira
PRESIDENT
EUROPEAN COURT OF AUDITORS

Luxembourg, 17 NOV. 2008
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Mrs Sheila Fraser
Auditor General
Office of the Auditor General
240 Sparks Street
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Ontario CANADA

Subject: Peer Review Report

Dear Colleague,

The Court has read the peer review report and notes that it concludes that the Court's audit framework is suitably designed in accordance with International Auditing Standards and good practices of Supreme Audit Institutions.

It has also noted that the peers found that the Court conducts its work with independence and objectivity; that the audit reports reviewed were based on sufficient, appropriate audit evidence; and, that the stakeholders interviewed have a high level of confidence in the Court's reports and generally considered them to be fair, factual and objective.

The Court appreciates the peers' constructive comments and recommendations which identify opportunities and challenges for it to further strengthen itself as a supreme audit institution. Among them is the need to develop a culture which emphasizes the Court as a single audit institution; to enhance quality assurance and quality control activities to ensure consistency in the interpretation and application of the Court's audit policies and practices; and, to further develop risk based audit strategies to optimize the use of resources to meet the diverse needs of stakeholders.

As the peer report recognises, most of the recommendations have been anticipated in the framework of the action plan decided as a response to the self-assessment made prior to the review and in the Court's outline strategy approved for the period 2009-2012. The Court intends to integrate the others into its audit strategy for the same period after a dialogue with its staff and stakeholders.

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We will endeavour to implement the recommendations in the period covered by our audit strategy.

On behalf of the Court, I would like to thank the international peer review team led by the Office of the Auditor General of Canada for its competence, professionalism and constructive approach.

With my best wishes,

Vitor

Vitor CALDEIRA

About the Peer Review

Approach

The peer review of the European Court of Auditors was carried out in accordance with international auditing standards and in a manner consistent with the code of ethics and auditing standards issued by the International Organization of Supreme Audit Institutions.

The primary tasks of the examination phase of the peer review involved

- a design assessment;
- an implementation assessment; and
- an assessment of key elements of the Court's infrastructure that support the completion of its audits in a consistent, economical, and efficient manner.

The purpose of the design-assessment part of the peer review was to determine whether, if operated as designed, the Court's management framework would provide reasonable assurance that it conforms to international auditing standards. To assess the design of the Court's management framework, the peer review team examined the documented practices, procedures, policies, and standards, including the policy manual and the automated quality management system, to determine whether the guidance available to ECA auditors adequately reflected the requirements for audits as set out in international auditing standards.

Objectives

Specific objectives of the peer review of the European Court of Auditors were established in a Memorandum of Understanding between the Court and the members of the peer review team. The objectives were:

1. Audit planning and examination process—financial and performance audit
 - Are the audit planning and methodology, quality control, and quality assurance processes in place to ensure that all audits are performed in accordance with established ECA policies and procedures, as well as international standards and good professional practice?
 - Are these processes adequately designed and operating as intended?
2. Reporting—special reports and the ECA's annual report
 - Do the reports present a fair and factual reporting of the results of the audit, in a clear and concise manner?
 - Do the stakeholders and public find the reports relevant and useful in their decision-making processes? (Stakeholder groups: European Commission, European Parliament, ECOFIN, media, general public)
3. Overall support for audit
 - Are the Court's resources, including the use of IT resources and tools, in the audit processes used in an efficient and effective manner to maximize productivity and support the selection of relevant topics and the timely issuance of reports?
 - Do the Court's HR management and training systems develop and maintain the professional skill set necessary, including IT skills, to deliver audit reports that meet professional standards?
 - Are there adequate policies and procedures in place to ensure appropriate knowledge management to facilitate knowledge transfer amongst professional staff?

Peer review team members

The peer review of the European Court of Auditors was carried out by an international team consisting of senior representatives from four SAIs.

- Austrian Court of Audit—Helmut Berger, Caroline Puerrer-Zeisler
- Office of the Auditor General of Canada—Rick Smith, Bruce Sloan, Tammy Squires, Sophie Miller
- Office of the Auditor General of Norway—Therese Johnsen, Stig Kilvik
- Portuguese Court of Auditors—Helena Abreu Lopes, Ana Bento

Many other individuals from these audit institutions assisted in the conduct of the peer review. Their assistance was most appreciated.

European Court of Auditors

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Supreme Audit Institutions involved in the Peer Review

Austria - Der Rechnungshof

Canada - Office of the Auditor General of Canada

Norway - Riksrevisjonen

Portugal - Tribunal de Contas



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