State Audit in the
European Union
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<td>National Audit Office, Sweden</td>
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<tr>
<td>European Court of Auditors</td>
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Accountability for the use of public funds is a cornerstone of democratic government. At a national level this usually involves the executive government accounting for its stewardship of taxpayers' money to the elected representatives in Parliament. The state audit office makes an important contribution to this process by providing independent information, assurance and advice to Parliament about the accounts presented by the Executive. All state audit offices have essentially the same basic purpose - described by one writer as 'making public accountability a reality' - but the way that each fulfils this purpose is influenced by its historical background and its place in the constitutional and governmental structure.

In 1996 the United Kingdom National Audit Office published a book which examined the role of each state audit office - often referred to as a Supreme Audit Institution (SAI) - in the European Union and the European Court of Auditors. The book examined the accountability relationships that then existed between the parliament, government and a variety of public sector bodies in each country, the way that state audit offices had responded to changes in the machinery of government, and the reasons for other developments in their roles.

In the five years since the original book was published, there have been developments in the organisation of government, the way that government programmes are delivered and the role of the SAI in a number of European Union countries, including the United Kingdom. The National Audit Office considered, therefore, that it would be timely to update the information contained in the original book.

The chapters that follow describe the audit and accountability arrangements in place in the year 2001 in each member state, as well as the European Union as a whole, without seeking to form a judgement about the effectiveness or relative merits of the systems. Each chapter is structured along similar lines. The first part deals with the political and administrative background to the work of the SAI, the second describes the audit institution and its remit, while the third part considers the audit process in more detail.
The updates of the chapters relating to individual countries and the European Court of Auditors have been based upon information supplied by the SAI concerned. The first chapter is a summary of the National Audit Office's own analysis of the key aspects of accountability through audit across the European Union. It highlights similarities and differences and illustrates them with examples drawn from the other chapters. The purpose is to bring out themes and it is not intended as a comprehensive summary of the situation in every country. Although the chapter focuses primarily on the national SAIs, aspects of the role and work of the European Court of Auditors have been included where relevant.

As with the original book, the project did not aim to define an ideal system of state audit, but rather to identify the differences between the systems and seek to understand the reasons for them. The chapters which follow should provide readers with a clear understanding of the role of each SAI and the environment in which it operates, and perhaps help to stimulate debate and discussion about how these roles might develop in the future.
Acknowledgements

This publication updates an earlier book on State Audit in the European Union, which was published by the National Audit Office in 1996. In updating the book the National Audit Office drew largely on the advice, knowledge and expertise of all 15 State Audit Institutions in the European Union and the European Court of Auditors. Each audit institution took the lead in updating the chapter that referred to them, and the National Audit Office are grateful to them and their staff for their co-operation and support.

The National Audit Office would also like to thank Peter Keemer (formerly of the National Audit Office and the European Court of Auditors) for his advice during the project.

In addition, the National Audit Office drew on a number of books and pamphlets and, in particular, would like to acknowledge reference to The Statesman’s Year-Book 2000 (Macmillan).
Summary

Introduction

The chapters on the 15 Supreme Audit Institutions (SAIs) and the European Court of Auditors describe their work and the environment in which they operate. They illustrate different approaches to the task of examining public funds and reporting the results of such examinations. Some approaches are common to a number of countries, but others are specific to perhaps one or two, reflecting particular historical developments or circumstances.

This chapter summarises the key aspects of accountability through audit across the European Union. It highlights similarities and differences and illustrates them with examples drawn from the previous chapters. The purpose is to draw out themes and it is not intended as a comprehensive summary of the situation in every country. Although the chapter focuses primarily on the national SAIs, aspects of the role and work of the European Court of Auditors have been included where relevant. While the content of the individual SAI chapters has been based on updates provided by the institutions themselves, this summary is the National Audit Office’s own analysis.

Background information

The member states of the European Union are not a homogeneous group in terms of population, size or structure. They vary enormously, from Luxembourg with a population of 420,000 to Germany with a population 200 times bigger. In terms of land area France and Spain are the largest, with Luxembourg the smallest, followed by Belgium. And the Union includes some of the most densely populated countries in the world - the Netherlands, for example - and others such as Finland and Sweden with vast, largely uninhabited areas. Table 1 shows the population and size of each country.
Table 1: Member states of the European Union

<table>
<thead>
<tr>
<th>Country</th>
<th>Type</th>
<th>Population (million)</th>
<th>Land size (sq km)</th>
<th>EC/EU m'ship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Republic</td>
<td>8.2</td>
<td>83,900</td>
<td>1995</td>
</tr>
<tr>
<td>Belgium</td>
<td>Monarchy</td>
<td>10.3</td>
<td>30,500</td>
<td>1957</td>
</tr>
<tr>
<td>Denmark</td>
<td>Monarchy</td>
<td>5.3</td>
<td>43,100</td>
<td>1973</td>
</tr>
<tr>
<td>Finland</td>
<td>Republic</td>
<td>5.2</td>
<td>304,600</td>
<td>1995</td>
</tr>
<tr>
<td>France</td>
<td>Republic</td>
<td>59.0</td>
<td>544,000</td>
<td>1957</td>
</tr>
<tr>
<td>Germany</td>
<td>Republic</td>
<td>82.7</td>
<td>357,000</td>
<td>1957</td>
</tr>
<tr>
<td>Greece</td>
<td>Republic</td>
<td>10.6</td>
<td>132,000</td>
<td>1981</td>
</tr>
<tr>
<td>Ireland</td>
<td>Republic</td>
<td>3.7</td>
<td>68,900</td>
<td>1973</td>
</tr>
<tr>
<td>Italy</td>
<td>Republic</td>
<td>57.5</td>
<td>301,300</td>
<td>1957</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Monarchy</td>
<td>0.4</td>
<td>2,600</td>
<td>1957</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Monarchy</td>
<td>15.9</td>
<td>41,500</td>
<td>1957</td>
</tr>
<tr>
<td>Portugal</td>
<td>Republic</td>
<td>9.8</td>
<td>91,800</td>
<td>1986</td>
</tr>
<tr>
<td>Spain</td>
<td>Monarchy</td>
<td>39.8</td>
<td>504,800</td>
<td>1986</td>
</tr>
<tr>
<td>Sweden</td>
<td>Monarchy</td>
<td>8.9</td>
<td>450,000</td>
<td>1995</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Monarchy</td>
<td>59.5</td>
<td>244,800</td>
<td>1973</td>
</tr>
</tbody>
</table>

Source: The Statesman's Year-Book 2000
The economies of the member states also vary considerably, although most could reasonably be described to a greater or lesser degree as mixed. A number - Belgium, Germany, France and the United Kingdom - are heavily industrialised, while others such as Greece and Portugal have large agricultural sectors. In recent years the services sector has grown in size and importance in a number of states, such as the United Kingdom, Portugal and the Netherlands.

The balance of power varies within member states. Some, such as the United Kingdom, Portugal, Ireland and Greece, are unitary states while others, such as Belgium and Germany are federal states. Others, notably Denmark, Finland and Sweden, have devolved considerable responsibility for delivery of public services to municipalities.

A requirement of membership of the European Union is that each member state must have a democratic parliamentary system. This takes a number of forms. Table 1 shows that seven member states are monarchies while the remainder are republics. The structure and size of the legislatures differ (Table 2), with six countries having a unicameral legislature and the remainder having two chambers. The electoral systems also vary, although a large majority are based on a system of proportional representation.

**Table 2: Legislatures - number of members**

Note: *Only the 400 or so non-hereditary peers have a right to speak and vote in the House of Lords.*

<table>
<thead>
<tr>
<th>Country</th>
<th>Lower Chamber</th>
<th>Upper Chamber</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>183</td>
<td>64</td>
</tr>
<tr>
<td>Belgium</td>
<td>150</td>
<td>71</td>
</tr>
<tr>
<td>Denmark</td>
<td>179</td>
<td>-</td>
</tr>
<tr>
<td>Finland</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>577</td>
<td>321</td>
</tr>
<tr>
<td>Germany</td>
<td>669</td>
<td>69</td>
</tr>
<tr>
<td>Greece</td>
<td>300</td>
<td>-</td>
</tr>
<tr>
<td>Ireland</td>
<td>166</td>
<td>60</td>
</tr>
<tr>
<td>Italy</td>
<td>630</td>
<td>315</td>
</tr>
</tbody>
</table>
The countries examined in this report do not form a complete geographical unit. The focus is solely on members of the European Union, thereby excluding Norway, which narrowly voted against membership in 1994, and Switzerland, which has traditionally avoided such commitments. The European Union has developed gradually over the past 40 years. Table 1 shows the date that each country joined the European Union (previously the European Community).

In conclusion, there is much dividing the countries under consideration including history, culture and language. However, the 15 are linked by common membership of the European Union and by their shared democracy, even though the democratic processes and systems vary in many ways. It is against this background of distinct parliamentary, constitutional and administrative systems that each Supreme Audit Institution operates.

**The Supreme Audit Institutions**

**History**

State audit has existed in some form in most European Union countries for several hundred years. Inevitably, most SAIs have undergone major changes in their structure, the extent of their remit and the scope of their powers at some time in their history. Many of these changes have come at times of political change, such as the reinstatement of the House of Orange in the Netherlands in 1814, the unification of Italy in 1861 and the establishment of the new Austrian Republic in 1918. In other cases - for example the establishment of the

<table>
<thead>
<tr>
<th>Country</th>
<th>Lower Chamber</th>
<th>Upper Chamber</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>60</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>150</td>
<td>75</td>
</tr>
<tr>
<td>Portugal</td>
<td>230</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>350</td>
<td>255</td>
</tr>
<tr>
<td>Sweden</td>
<td>349</td>
<td>-</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>659</td>
<td>1,200*</td>
</tr>
<tr>
<td>European Parliament</td>
<td>626</td>
<td>-</td>
</tr>
</tbody>
</table>
Exchequer and Audit Department (the forerunner of the National Audit Office) in the United Kingdom in 1866 - major changes in state audit have formed part of a wider reform of public administration.

In more recent times a number of countries have introduced significant changes in the remit and operation of their SAIs. In Ireland the Comptroller and Auditor General (Amendment) Act was passed in 1993, extending the post's remit and placing performance audit on a statutory footing. In Italy major new audit legislation was enacted in 1994 that enhanced the role of the Corte dei Conti and facilitated the development of performance audit, while in Belgium the Court of Audit has been able to conduct performance audits since 1998. Legislative changes have also taken place recently in Denmark (1991 and 1996) emphasising the independence of the Auditor General and improving rights of access; and in Spain (1982 and 1988) and Portugal (1989 and 1997) regulating the respective Tribunals' procedures. In Finland legislative changes in 1991, 1993 and 1995 updated earlier audit law and extended the SAI's remit, and a new constitution that came into force in 2000 increases the independence of the SAI. The most significant change is institutional in shifting the State Audit Office from under the Government to being connected with Parliament.

**Structures**

There are four main types of supreme audit institution within the European Union, namely the 'court' with a judicial function; the 'collegiate' body without a judicial function; the independent audit office headed by an Auditor General; and the audit office headed by an Auditor General within the structure of government. In addition, the Austrian Rechnungshof is a distinct model headed by a President and auditing at central, regional and local level.

Six SAIs (in France, Belgium, Portugal, Spain, Italy and Greece) can loosely be grouped together as 'courts' and in Greece and Portugal for example, the SAI is part of the judiciary and is constitutionally on a par with other courts. The second type is the 'collegiate' structure with no judicial function, as in the Netherlands, Germany and Luxembourg. The European Court of Auditors, despite its name, is also a collegiate body with no judicial role.

The model of an audit office headed by an Auditor General exists in the United Kingdom, Ireland and Denmark. The fourth model is a system developed in Sweden and Finland, which reflects their place as government bodies. Both states have two audit organisations, with the SAI responsible to government and carrying out detailed examinations, and a second body, headed by members of the Parliament and staffed by a small secretariat, responsible to the legislature. Constitutional change in Finland in 2000, however, will result in the SAI becoming independent of the Ministry of Finance and reporting to Parliament.
The similarities in structure are not coincidental. Some of the courts are modelled on the French system, reflecting the spread of French administrative practice across Europe in the nineteenth century. The Exchequer and Audit Department in the United Kingdom was responsible for audit in Ireland until 1921 when the two countries were divided. The similarities between the Swedish and Finnish systems also reflect their common history.

The status of the SAI

In all member states the constitution or statute provides for the SAI and gives it a place within the system of government. All member states apart from the United Kingdom have written constitutions. Most of these provide for an SAI. In Sweden the SAI is established under a special state ordinance. In the United Kingdom the SAI is established by statute, as are other government institutions.

The SAIs in Sweden and, until 2000, Finland come under the jurisdiction of their respective Ministries of Finance, although the independence of their work is guaranteed by the freedom to choose the subject of their audits and the methods to be applied. Until 1975 the Danish state audit function, consisting of four audit departments, was also subordinate to the Ministry of Finance. In the United Kingdom the influence of the Treasury on the work of the SAI was ended by the National Audit Act of 1983.

The independence of the SAI within a national administration is perhaps best illustrated in France, where the Cour des Comptes is one of the three 'grands corps de l'etat' (the senior state administrative bodies). It is one of the oldest and most prestigious institutions in France, playing a significant role in supervising the implementation of the state budget. At the European rather than national level, the standing of the European Court of Auditors was raised by according it full institution status under the Treaty on European Union (the Maastricht Treaty), which came into force in November 1993.

The nature and status of the governing body and head

The SAIs in Ireland, Sweden, Finland, the United Kingdom, Austria and Denmark have a sole head - either an Auditor General or a President - who ultimately takes decisions at the highest level. Elsewhere the decisions of SAIs are taken collectively. In Germany the SAI has 65 Members, including a President and Vice President, and decisions are made by a series of colleges. In the Netherlands the SAI is headed by a board of three including the President and decisions are made collectively. Where the SAI is headed by a court its size can vary significantly. There are for instance over 20 Members in Italy and 12 in both Belgium and Spain. The European Court of Auditors has 15 Members, one from each member state of the European Union.
Countries have different approaches to appointing insiders or outsiders to head the SAI. In Denmark, for instance, the Auditor General has been appointed from inside the office since 1975. The most senior appointments in the Greek SAI are also from within the office. In Finland, Austria, Sweden and the United Kingdom appointments have been from outside. In other countries senior figures may be from either inside or outside the office. In France, for example, several ex-ministers have been appointed as Premier President, although they may also have been members of the Cour at some time in their career.

In general candidates for the most senior posts within each SAI have either an administrative or a political background or both. Members at the SAI in Spain, for example, must have at least 15 years' experience as auditors, public accountants, magistrates, solicitors, economists or university teachers. Some SAIs have other requirements for appointments to the highest posts. In Finland the Auditor General must have a suitable master's degree, a wide knowledge of public finance and state administration and proven managerial skills. In Portugal Members of the Tribunal include jurists and economists.

The status of the heads of SAIs is emphasised in various ways. In the United Kingdom the Comptroller and Auditor General is designated as an Officer of the House of Commons which emphasises his independence. In Germany Members of the Bundesrechnungshof have the status of judges, as do Members of the Tribunal de Cuentas in Spain and Members of the Tribunal de Contas in Portugal. The same is the case for the Members of the European Court of Auditors, who have the same status as the judges of the European Court of Justice.

In Austria the President of the Rechnungshof has equality of status with a member of the Federal Government or a provincial government depending on the level of government the Rechnungshof is examining. In addition, the Constitution allows the President to participate as an adviser in the deliberations of the Nationalrat as well as its committees when they consider the reports of the Rechnungshof, the federal financial statements, requests for special audits and parts of the Federal Finance Bill. The President is always entitled to speak on any of these matters.

The political affiliation of heads and governing bodies

Within SAIs a distinction should be drawn between appointments that are political and appointments of individuals with political backgrounds. In Finland, for example, candidates for Auditor General may have political backgrounds, although the appointment itself is strictly non-political. Elsewhere - for example in Germany - the political allegiance of members of the governing body is a criterion for selection and the political allegiance of the SAI's President and Vice President tends to reflect the principal parties of government and opposition. In the Netherlands the three Members of the SAI's governing board have been associated with the three largest political parties.
Checks are usually applied to limit any political imbalance. In the case of Germany political parties are given equal representation. In Austria the President of the Rechnungshof is not allowed to have been a member of a federal or provincial government for at least four years preceding appointment. In the United Kingdom, the post of Comptroller and Auditor General is strictly non-political but the appointment is proposed by the Prime Minister, in consultation with the Chairman of the Committee of Public Accounts, who is a member of the opposition party in the House of Commons.

In countries with court systems the Members are generally not politically affiliated, and their status as judges necessitates their independence. The independence of the Members of the European Court of Auditors is addressed in the legislation governing their activities. Members are required to act independently of their national governments in the interests of the European Union as a whole.

**Methods of appointment**

The method of appointment of the head or governing body of the SAI varies. In Austria, Spain, Denmark, Finland and Belgium the appointments are made by the legislature alone. In Sweden, Italy, Greece, France and Portugal appointments rest with the executive.

In the case of the United Kingdom, Ireland, Luxembourg, Germany and the Netherlands both the legislature and the executive are involved. The significance of the role is emphasised by the involvement variously of the monarch (as in the United Kingdom), the State President (as in Ireland) and the European Council and Parliament in the case of Members of the European Court of Auditors.

**Tenure**

Length of tenure varies between audit institutions. Many heads or members of governing bodies of SAIs are appointed either for life or until a fixed retirement age. Exceptions include Spain, where the Members are elected for a renewable period of nine years and the President is appointed for a three year term, Portugal, where the President of the Tribunal is appointed for renewable period of four years, Sweden and Finland, where the Auditor General is appointed for a renewable six year term, Austria, where the President is appointed for 12 years, and Belgium, where Members are elected for a renewable period of six years.
Removal from office

Security of tenure for the head or governing body underpins the independence of the SAI and safeguards are usually in place to ensure that removal is a considered act. In Belgium Members of the Court can only be removed by the Chamber of Representatives, and in the United Kingdom removal of the Comptroller and Auditor General is by the monarch on a resolution of both houses of Parliament. A similar requirement for approval by the legislature exists in Ireland, Finland and in Austria, where a verdict of the Constitutional Court can also remove the President. Members of the European Court of Auditors can only be removed by a decision of the Court of Justice, acting on a request from the Court of Auditors, if a Member no longer meets the requirements of the office.

Elsewhere removal is even more difficult. In Germany and Spain Members of the SAI cannot be dismissed and are subject only to the law.

The allocation of resources to SAIs

The legislature plays some part in setting the level of the resources for the SAI in most countries. The executive is also involved in some form in Greece, Portugal, Italy, Ireland, Sweden, Germany, the Netherlands and Austria. In Spain and Denmark the budget is set by the legislature on recommendation from the SAI itself, while in the United Kingdom the SAI puts a budget proposal to a parliamentary committee, and it is the committee that recommends that the legislature accept it. In Belgium the Court of Audit makes a proposal to the relevant committee of the House of Representatives. After it has been approved by this Committee, the amount is added to the budget appropriations voted by the House of Representatives. In Finland the SAI's resources are determined by Parliament as part of its own budget.

In Germany the President of the Bundesrechnungshof can challenge any recommendations suggested by the Ministry of Finance to change the office's budget, and in Austria the Rechnungshof's President may address the Nationalrat to state the case for more resources. The Dutch Rekenkamer can raise issues on the budget with the State Expenditure Committee but must rely on members of the States General to propose amendments.

Some countries have seen changes over time to the means of allocating resources to SAIs. In the United Kingdom before 1983 the Treasury played a key role in setting the number and gradings of the staff of the Exchequer and Audit Department. Under the 1983 Act the budget became a matter for a new parliamentary committee and the Comptroller and Auditor General is empowered to appoint such staff as he considers necessary to discharge his
functions. In Denmark the passing of the Auditor General's Act in 1991 led to the legislature taking over responsibility for setting the budget of the Rigsrevisionen, thus reducing the Ministry of Finance's influence.

The number and skills of members and staff

The skills seen as necessary by SAIs vary depending on the role of state audit in each country. In the United Kingdom the audit staff of the SAI are mainly graduates who have trained to become qualified accountants. A similar approach is taken in Ireland, although new staff usually have a finance related university background. Many at the Finnish and Greek SAIs also have accounting or business degrees. Table 3 shows the number and skills of staff at SAIs.

Table 3: Number and predominating backgrounds of members and staff

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Lawyers</th>
<th>Accountants</th>
<th>Other backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>330</td>
<td>*</td>
<td>-</td>
<td>E</td>
</tr>
<tr>
<td>Belgium</td>
<td>620</td>
<td>*</td>
<td>-</td>
<td>P, S, E</td>
</tr>
<tr>
<td>Denmark</td>
<td>260</td>
<td>-</td>
<td>-</td>
<td>E, PA</td>
</tr>
<tr>
<td>Denmark</td>
<td>260</td>
<td>-</td>
<td>-</td>
<td>E, PA</td>
</tr>
<tr>
<td>France</td>
<td>500</td>
<td>*</td>
<td>-</td>
<td>F, E</td>
</tr>
<tr>
<td>Germany</td>
<td>965</td>
<td>*</td>
<td>-</td>
<td>PA, E, Su</td>
</tr>
<tr>
<td>Greece</td>
<td>760</td>
<td>*</td>
<td>*</td>
<td>E</td>
</tr>
<tr>
<td>Ireland</td>
<td>140</td>
<td>-</td>
<td>*</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>854</td>
<td>*</td>
<td>-</td>
<td>A, E, F</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>40</td>
<td>-</td>
<td>-</td>
<td>A</td>
</tr>
</tbody>
</table>
Those SAIs that place emphasis on examining the legality of transactions are headed by or employ qualified lawyers. In Greece many of the Court's judges have transferred to the Court of Audit from the penal, administrative or civil courts. After law the most common background at several SAIs is economics. whilst in France the SAI employs many of the leading graduates of the Ecole Nationale d'Administration.

SAIs that carry out the audit of performance require additional skills. The Rigsrevisionen in Denmark, for example, is one of a number of SAIs that has developed separate specialisms for financial audit and performance audit. The National Audit Office in the United Kingdom employs subject specialists in areas such as health and the police as part of value of money study teams, while in France the Cour des Comptes second staff from audited bodies to assist with well defined tasks.

In most countries staff of the SAIs are, or are considered to be, civil servants. Staff at the SAI in the United Kingdom were civil servants before the 1983 National Audit Act but are now employees of the Comptroller and Auditor General. In Denmark almost all staff transferred from the mainstream civil service to become directly employed by the Rigsrevisionen in 1991. At the European Court of Auditors many staff are full time officials, while others are on short term contracts, often seconded from national audit institutions. The status and conditions of service of all staff in the European Court of Auditors are exactly the same.

Because most SAI staff are civil servants or treated as civil servants they receive salaries broadly in line with those of the general civil service. This is specifically required by United Kingdom legislation. In Germany staff are part of the civil service and are subject to civil service pay and grading structures. In Finland

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Lawyers</th>
<th>Accountants business</th>
<th>Other backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
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<td>*</td>
<td>*</td>
<td>E,S,St</td>
</tr>
<tr>
<td>Portugal</td>
<td>590</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>800</td>
<td>*</td>
<td>*</td>
<td>-</td>
</tr>
<tr>
<td>Sweden</td>
<td>300</td>
<td>-</td>
<td>*</td>
<td>E,S,P</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>750</td>
<td>-</td>
<td>*</td>
<td>Su</td>
</tr>
</tbody>
</table>

Table 3: Number and predominating backgrounds of members and staff continued...
salaries are decided by the Auditor General, taking account of the civil service rates and reflect the length of time in the public sector as a whole rather than just at the SAI. Pay for staff in Austria recognises the additional training required to work at the Rechnungshof and in Portugal remuneration for Tribunal staff must not be inferior to that elsewhere in public service.

The role of the SAI

All SAIs have a common main purpose, namely to examine and report on the accounts relating to the use of public funds. In addition, some are empowered to examine the economy, efficiency and effectiveness with which public funds have been used. In certain countries additional tasks for the SAIs have developed which draw on their role as the body examining the use of public funds. This section examines these roles.

Definitions of the role of the SAI vary between countries. In France, for example, it is to assist Parliament and the Government in supervising the implementation of the state budget and the national health and pensions organisation financing laws, while in Greece the SAI's role is to audit expenditure and monitor the revenue of the state, as well as local administration agencies and other public corporate bodies. Some have a very broad remit, for instance the Netherlands SAI which, according to the Constitution, is responsible for auditing state revenue and expenditure, and Spain, where the SAI carries out the permanent and final external auditing of the economic activity of the public sector. The remit of others includes specific reference to the possibility of performance audit. The German SAI, for example, is required to audit the State Account and examine the performance and regularity of financial management. The 1983 National Audit Act in the United Kingdom and the 1993 Comptroller and Auditor General (Amendment) Act in Ireland both provide explicitly for value for money audit.

The role of the SAIs of the latest two Scandinavian countries to join the European Union is slightly different. The Swedish Riksrevisionsverket is the Government's administrative body for accounting and auditing, and another body - the Riksdagens Revisorer - is the parliamentary organisation responsible for examining government activities. In Finland the Parliamentary State Auditors are responsible for overseeing the finance of the state and supervising compliance with the budget on behalf of Parliament, although both the State Audit Office and the Parliamentary State Auditors are now part of the legislative branch. In both Finland and Sweden parliamentarians are appointed as the auditors and are assisted by officials. They conduct higher level and more general investigations of spending rather than examining the detail, which remains the province of the respective SAIs.
The number and range of bodies audited

Public functions and services are carried out by a wide range of bodies within the member states of the European Union. In addition to central, regional and local tiers of government, there are state enterprises (fully or partially owned by the state), and a variety of other types of public body. There are also bodies that receive grants of public funds, are funded by statutory levies or have their debts underwritten by the state. Finally there are private sector organisations that are owned partially by the state or are carrying out government functions under contract to the state. Table 4 shows the audit remit of each SAI, indicating where they audit all or some of the bodies within each category.

Table 4: Audit remit

Other recipients: 1 - Private bodies in receipt of public funds; 2 - Municipal authorities in receipt of state funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Central govt.</th>
<th>Regional govt.</th>
<th>Local govt.</th>
<th>State enterprises</th>
<th>Public bodies</th>
<th>Municipality</th>
<th>other recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*1</td>
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<tr>
<td>Belgium</td>
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<td>Denmark</td>
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<td>*</td>
<td>*2</td>
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<tr>
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<tr>
<td>France</td>
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<tr>
<td>Germany</td>
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<td>*1</td>
</tr>
</tbody>
</table>
Table 4: Audit remit continued...

Other recipients: 1 - Private bodies in receipt of public funds; 2 - Municipal authorities in receipt of state funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Central govt.</th>
<th>Regional govt.</th>
<th>Local govt.</th>
<th>State enterprises</th>
<th>Public bodies</th>
<th>Municipality</th>
<th>other recipients</th>
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</thead>
<tbody>
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<td>Portugal</td>
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<td>Spain</td>
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<tr>
<td>United Kingdom</td>
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<td>*</td>
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<td>-</td>
</tr>
<tr>
<td>European Court of Auditors</td>
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<td>*</td>
<td>1,2</td>
</tr>
</tbody>
</table>

The remits of European Union SAIs cover hundreds if not thousands of bodies. In the United Kingdom the Comptroller and Auditor General examines and reports on several hundred different bodies, but also has rights of inspection to a further 3,000, many of which are visited in any given year. In Portugal the Tribunal’s remit covers 11,000 bodies, although certain factors, in particular the size of their budget, exempt many from audit. In practice some 3,000 are examined on a regular basis. In Spain the Tribunal’s responsibility for auditing 8,000 local authorities is made more manageable by its ability to rely on the work of local authority internal auditors.

Central government

By definition all SAIs examine the accounts of central government bodies. In most countries this covers ministeries and departments. In Sweden, where agencies carry out most central government functions, the SAI audits these bodies but not the ministries (the Cabinet Offices). All ministries are small and deal mainly with policymaking. They have little or no involvement in administrative matters.

Regional and local government

In some countries the SAI also carries out the audit of regional and local government. In Austria the Rechnungshof is an organ of provincial government when auditing the accounts of provincial government. In Italy there are complex arrangements, with the Corte reporting to Parliament the results of the audits of regional and local authorities.
In other countries, such as the United Kingdom, France, Denmark and in the German Länder, there are separate audit organisations that cover regional and local government. In the United Kingdom, following devolution in Scotland, Wales and Northern Ireland, separate bodies are responsible for auditing matters in those countries that have not been reserved by the United Kingdom Parliament. Local government and health authority accounts in England and Wales are audited by auditors appointed by the Audit Commission, a body established by statute for that purpose and overseen by a government department. In Denmark most of local government is audited by the Local Government Auditing Department, although the Auditor General has access to local government accounts if expenditures are reimbursed by the state. In France since the early 1980s regional Chambres des Comptes have been established, although appeals against their decisions can be made to the Cour des Comptes. In Finland and Sweden county councils and municipalities have their own auditors.

State enterprises

The accounts of some or all state enterprises are audited by the SAIs in eleven countries. In France the SAI reviews the work of private sector auditors involved in this area. The privatisation of state enterprises has led to the loss of audits in countries such as Austria, Finland and the United Kingdom, although in Finland and the United Kingdom the SAI is able to examine the regulatory bodies established to oversee these industries. In Germany, where public enterprises have undergone the first stage of privatisation, the Bundesrechnungshof’s audit mandate changes from auditing the accounts of the bodies to auditing the Federal Government's management of its shareholding in them.

Public bodies

Public bodies carrying out the tasks of government are audited by almost all SAIs. In the United Kingdom the SAI audits a majority of executive non-departmental public bodies, and has inspection rights to the remainder in order to provide assurance to Parliament about how public funds have been spent. In Ireland the SAI’s remit was extended in 1993 to many more public bodies, including health boards and vocational education committees. In Belgium the Court audits the public service agencies subordinated to the federal, community and regional authorities.
Municipalities

A number of SAIs have a remit that includes the audit of municipal authorities to some extent. In Austria the Rechnungshof audits the activities of all local communities with a population of more than 20,000, as well as those with a smaller population on request by the competent provincial government. In Italy all town councils with more than 8,000 inhabitants are required to submit accounts to the Corte. The Portuguese SAI audits the accounts of city council associations and federations.

Private sector bodies

In several countries private sector bodies receive state funding and the SAI is required to audit the use of these funds. In Austria and Germany private bodies that receive funds from government for specific purposes are examined by the SAI. In the Netherlands corporate entities and partnerships that receive loans or guarantees from the state are subject to audit by the Rekenkamer, as are private companies whose share capital is at least partially held by the state. In Sweden and Finland the SAI can examine subsidy transfers to businesses and households and in Spain the Tribunal audits subsidies, credits and public sector assistance to companies and individuals. In Portugal the Tribunal can have access to private companies where the public sector holds the majority of share capital or has direct management control. Similarly in Ireland the Comptroller and Auditor General has statutory rights to inspect any body receiving more than 50 per cent of its income direct from public funds.

Types of audit

The SAIs in the European Union carry out a variety of work. The following section sets out the general categories of audit, namely a priori and a posteriori audit, the judicial function of certain SAIs and performance audit. A priori audit involves the SAI in authorising public expenditure, essentially as part of the financial control process. Typically the SAI receives all payment orders and supporting documentation, checks that the transaction has been authorised, that it is legal and regular, and that there is sufficient provision in the budget. It then either sanctions the payment or, where the transaction does not meet these criteria, returns it to the auditee for amendment.

A posteriori work is divided into three types. Those SAIs with a judicial function examine and pass judgement on the records of those individuals who have personal responsibility for the use of public funds. Financial audit, including the examination of documentation relating to a series of transactions, allows the SAI to report on the state account or accounts and provides the basis for the legislature
to give some form of discharge or opinion. Performance audit, focusing on particular aspects of public expenditure, addresses wider issues of economy, efficiency and effectiveness.

**A priori audit - audit in advance of expenditure**

A priori audit is found in four countries (Table 5) although the number of transactions subject to such scrutiny varies. In Italy until 1994 the SAI authorised almost all public expenditure - some 5 million transactions a year. Changes introduced in 1994 reduced the type and number (to a few thousand) of transactions subject to this control. In Greece almost all the expenditure of central government and public corporations is subject to a priori audit by the SAI - around one million transactions a year - and most transactions are authorised within a day or two of receipt. In Portugal a priori audit is a small and diminishing part of the SAI’s workload and computerisation of the authorisation process has eased the administrative burden on the SAI.

**Table 5: Types of audit carried out**

<table>
<thead>
<tr>
<th>Country</th>
<th>A priori</th>
<th>A posteriori Judicial</th>
<th>A posteriori Financial</th>
<th>A posteriori Performance</th>
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<tbody>
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<td>Belgium</td>
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<tr>
<td>Denmark</td>
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<tr>
<td>Finland</td>
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<td>*</td>
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<tr>
<td>France</td>
<td>-</td>
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<td>*</td>
<td>*</td>
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<tr>
<td>Germany</td>
<td>-</td>
<td>-</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Greece</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>-</td>
</tr>
<tr>
<td>Ireland</td>
<td>-</td>
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<td>*</td>
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<tr>
<td>Italy</td>
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<td>*</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>-</td>
<td>-</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-</td>
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</tr>
</tbody>
</table>
A form of high level a priori audit exists in Ireland and the United Kingdom, where the Auditor General has an additional 'Comptroller' function and is responsible for ensuring that funds are only issued to the executive for purposes approved by Parliament.

**Judicial powers**

Six SAIs have judicial powers (Table 5). In Belgium accounting officers are entrusted with collecting revenue and carrying out expenditure. They submit annual accounts to the SAI along with supporting documentation. The SAI audits these accounts and reaches a judgement on whether the accountant has carried out his duties properly. A similar system operates in France. In Greece the SAI is required to audit the accounts of every public accountant and the financial statements of public bodies and local administration agencies. If the accounts are satisfactory, discharge from any further responsibility is given. If errors are found the SAI judges the liability of the individual responsible, who must make up any deficit, although often account is taken of personal circumstances.

In Spain, Portugal and Italy the approach is different. The judicial work of the SAI is not connected directly with the personal responsibility of public accountants. Rather, the judicial section of the SAI investigates cases raised by the Prosecutor, the Public Administration affected or a public action. Those responsible for the handling of public money can be investigated and ordered to repay funds. Where recovery is not possible the concept of secondary liability exists and those who could have prevented the action can be charged.
Financial audit

All European Union SAIs undertake some form of a posteriori financial audit, and in the countries that do not carry out a priori audit control the SAIs rely on it for their examination of the accounts of the government. In the United Kingdom, for example, examination leads to an opinion on the accounts of each department, while in Denmark the accounts of the government as a whole are audited. The European Court of Auditors carries out a posteriori audit on the accounts of the implementation of the European Community budget, and is required to produce a Statement of Assurance on the accuracy of the accounts and the legality and regularity of the underlying transactions.

In carrying out this work, some SAIs rely to a significant extent on an assessment of internal controls or on the work of internal auditors. In Denmark financial audit is largely based on an assessment of the adequacy of financial systems. The SAI helped design the central accounting system which covers all government bodies, and must approve changes to it. It also has a formal relationship with internal audit, as the Rekenkamer does in the Netherlands. In order to rely on this work the Danish SAI examines the audit programmes and findings of internal audit and carries out additional work of its own. In the United Kingdom the level of substantive audit testing of transactions is partly determined by an assessment of accounting systems and the work of internal audit.

Access arrangements

The need for SAIs to have rights of access to documentation and explanations necessary to carry out their duties is recognised in all countries in the European Union. Those SAIs that carry out a priori audit receive all the papers relating to transactions at their office. Most SAIs usually carry out on-the-spot verification to find further evidence where necessary, although in Greece this is only done if the SAI suspects irregular management.

In most cases the rights of access are set out in statute. For example, the Danish Auditor General has extensive powers of access to obtain information needed to carry out his functions, and can demand to see papers and visit the location where the records are kept. In Ireland the 1993 Comptroller and Auditor General (Amendment) Act provided a new statutory right of access to documents and other records. The position in Sweden, where virtually all government documents are open to the public, is unique. The SAI has access to all information required for its work, and in turn, its own audit files can be examined after work has been completed. The European Court of Auditors has strong powers of access to any documents or information relating to the financial management of departments and bodies subject to its examination. It
can question any official responsible for revenue or expenditure. The Court also has access to both private and public sector bodies in receipt of Community funds, down to the final recipients.

Several SAIs have reserve powers that can be used in exceptional circumstances. In Austria, for example, the Rechnungshof can seek to enforce access via the Constitutional Court, although this is necessary only occasionally. In Finland the State Audit Office has powers to fine anyone failing to comply with requests for information within set times, although they have not been used. In Greece failure to cooperate with the Court of Audit is a disciplinary matter for staff of ministries, and in Spain the Tribunal can impose sanctions on bodies failing to comply with requests for information.

**Performance audit**

With the exception of the Greek SAI, all European Union audit institutions have some powers to audit the performance of government departments and other public bodies. The Greek SAI comments briefly on value for money issues in its Annual Report. Certain SAIs, in particular those of Italy, Luxembourg, Portugal and Spain, acquired performance audit powers relatively recently and in Ireland and the United Kingdom express powers to carry out such work date from 1993 and 1983 respectively. In both countries, however, similar work had developed since the 19th century as an adjunct to the certification of accounts. Elsewhere value for money considerations have been a longstanding feature of the SAI's remit. The German SAI's remit has included consideration of efficiency issues since the nineteenth century, while the state audit bodies in Finland have also regarded such matters as an important aspect of their audit role.

Although there is general agreement that performance audit involves the examination of economy, efficiency and effectiveness, different interpretations are followed in different countries. Several types of work are carried out under this general heading ranging from the audit of economy through to programme evaluation. In Portugal performance audits tend to focus on progress against past performance rather than against standard benchmarks. The French SAI - which refers to the audit of 'bon emploi des fonds', or the achievement of desired objectives by means of public expenditure - has developed programme evaluation as a means to carrying out its task. In such work it analyses the direct or indirect effects of government programmes on the environment in which they function.

There are also differences as to what SAIs can examine in the course of performance audit and at what stage they can start their work. In Germany the SAI has specific powers to advise Parliament on the operational efficiency of public administration. This work is usually carried out along with the
accounting work and relates to continuing expenditure. The Dutch SAI interprets its audit remit as permitting examination of a subject as soon as a decision to start a project is taken. In the United Kingdom performance audit takes place during and after implementation of a particular programme.

**Completing the cycle of accountability**

A common feature of the audit remits of European Union SAIs is that all are required to report on the finances of government. This task is set out in the Constitution or in statute, and, although the wording may vary, the essence of the task remains the same. It flows from the cycle of accountability by which the legislature approves the state budget, the executive implements it and the SAI examines whether resources have been used for the purposes intended. In some countries this involves a formal 'discharge' of the accounts and those responsible for them, while in others the SAI passes a judgement or 'opinion' on the accuracy of the accounts and highlights errors and problems.

In most countries a strict timetable for examining and reporting on the accounts is followed. In the United Kingdom the examination and presentation of reports on departmental accounts for one year usually take place within nine months of the year end, and for some agency accounts the target is three months. In the Netherlands ministers must submit interim accounts three months after the financial year end and the SAI is required to present an audit report on a fixed date in May. In Spain the Tribunal must 'verify' the State Account within six months.

The process of the discharge of the accounts is clearly exemplified under the French system, where it takes place at two levels. At the level of individual public accountants - the comptables - personal discharge from responsibility for the public money in their care is given once their financial management has been judged and found to have been satisfactory by the Cour des Comptes. If comptables come to the end of their period in office satisfactorily, the bond on their property is released. At the national level discharge is given to the State Account by the legislature, which takes account of the report by the Cour des Comptes which includes a general declaration of the adequacy of and conformity with regulations and gives details of significant breaches of budgetary rules. A similar system operates in Belgium.

The European Court of Auditors plays a key role in the granting of the discharge of the budget of the European Community. The Council and the European Parliament deciding whether to recommend and grant the discharge examine the accounts along with the Court's Annual Report and any special reports. For the discharge of the budget for each financial year since 1994 the Statement of Assurance prepared by the Court has also been available.
Elsewhere the SAI’s role is to provide an ‘opinion’ on the accounts. In the United Kingdom the purpose of the financial audit is to form an independent opinion on the financial statements. The SAI’s task is to collect sufficient, relevant and reliable evidence to support this opinion. There is no formal discharge as such, although by providing a ‘clear’ or unqualified opinion the Comptroller and Auditor General indicates that the accounts are satisfactory.

In most countries accounts examined relate to the latest single year. In others the accounts in question may relate to earlier years. For example the German SAI reports almost two years in arrears, and while the French Cour des Comptes reports annually on the State Account, it may audit up to five years at one time when discharging the accounts of individual comptables. In Spain the wide audit remit of the Tribunal de Cuentas does not allow for in-depth audit of each public body annually and as a result the audits of some will cover more than one year.

**Reporting**

The most public manifestation of the role of the SAI and its relationship with the legislature comes with the preparation and publication of audit reports. All SAIs report annually in one way or another. All produce a report or reports on the accounts of the Government, and most produce additional reports on specific subjects. Other types of reports have developed in particular countries. Table 6 shows the types of report produced by each SAI.

**Table 6: Reports of SAIs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial audit report(s)</th>
<th>Performance audit report(s)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>*</td>
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<td>Belgium</td>
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<td>Denmark</td>
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<td>France</td>
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<td>Germany</td>
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<tr>
<td>Greece</td>
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</table>
The scale of reporting varies from a single report on the accounts of the state, as Luxembourg, to more wide ranging reporting. A common combination is to produce a report or reports on accounts along with a number of special or performance reports. In Germany and Spain for example, the SAIs produce an Annual Report plus around 30 special reports each year.

The reports on accounts vary between countries. In the United Kingdom and Ireland reports are submitted on the accounts of individual departments or audited bodies rather than on a single account covering all public expenditure. Elsewhere findings are consolidated into a single document with separate sections on individual departments. Several reports include a comprehensive view of the state of the nation's finances. In Italy and Greece, for example, the SAIs' reports include recommendations for improvements to the laws and regulations governing public administration. In Spain the SAI uses the Annual Report to raise matters of importance in public finance, on observance of the Constitution and relevant legislation and on compliance with the budget. In Germany, although the accounts are almost two years old when reported on, nearly all comments on financial management address topical matters or matters still open for remedial action.

Table 6: Reports of SAIs continued...

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial audit report(s)</th>
<th>Performance audit report(s)</th>
<th>Other</th>
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</thead>
<tbody>
<tr>
<td>Ireland</td>
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<td>United Kingdom</td>
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<td>European Court of Auditors</td>
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The scale of reporting varies from a single report on the accounts of the state, as Luxembourg, to more wide ranging reporting. A common combination is to produce a report or reports on accounts along with a number of special or performance reports. In Germany and Spain for example, the SAIs produce an Annual Report plus around 30 special reports each year.

The reports on accounts vary between countries. In the United Kingdom and Ireland reports are submitted on the accounts of individual departments or audited bodies rather than on a single account covering all public expenditure. Elsewhere findings are consolidated into a single document with separate sections on individual departments. Several reports include a comprehensive view of the state of the nation's finances. In Italy and Greece, for example, the SAIs' reports include recommendations for improvements to the laws and regulations governing public administration. In Spain the SAI uses the Annual Report to raise matters of importance in public finance, on observance of the Constitution and relevant legislation and on compliance with the budget. In Germany, although the accounts are almost two years old when reported on, nearly all comments on financial management address topical matters or matters still open for remedial action.
Reporting of matters arising from performance audit is either by individual report or in compendium form. Free-standing reports are produced in the United Kingdom, Denmark, Sweden, Ireland, Finland and the Netherlands. In Germany and Austria most matters arising from performance audits appear in the Annual Report on the accounts, particularly where the SAI is unhappy with the response of the audited body.

Agreement of report details

All SAIs liaise with audited bodies when compiling their reports but they have different procedures for formal agreement and varying requirements on reaching agreement on material in the reports. In most cases the reports of the SAI are sent to the audited body, whose comments are either incorporated into the main body of an agreed report (as in the United Kingdom) or attached to the audit report as a separate text section. The Annual Report of the European Court of Auditors is a good example of the latter in that nearly half of the volume is made up of the replies of the European Commission and other institutions to the Court's findings.

Obtaining the views of the audited body can be time consuming. To speed up responses in some countries there are strict timetables for providing comments. In Ireland departments have just a week to confirm the factual accuracy of the SAI's value for money reports, following agreement of the facts at working level, and in the Netherlands ministers are usually given two months to respond to audit findings. In Sweden, however, this procedure only takes two or three weeks.

In the United Kingdom the parliamentary committee that examines the work of the SAI expects the factual accuracy of each SAI report to be agreed with the audited body before it is submitted to Parliament. This enables the committee to rely on the facts and concentrate instead on the reasons for the standard of performance reported. By comparison, in Ireland where the audit system is very similar, major differences of opinion are set out in the report, reducing the length of time for its clearance. In Germany, Denmark, the Netherlands and Portugal, the views of the auditee are recorded in the text or in an annex. Where appropriate the SAI includes its own comments on the minister's views in the report.

The legislature's consideration of SAI reports

Table 7 shows that in three countries reports of the SAI are taken by the legislature as a whole, while in a further two there is some consideration at that level in addition to examination by a committee. In the Netherlands, for example, debates on audit reports occasionally take place on the floor of the lower house as well as within the State Expenditure Committee.
### Table 7: Consideration of the reports of the SAI

Notes: Reports of the Swedish SAI are considered by the Government and the audited bodies. In Finland the SAI is currently considering new methods for reporting to Parliament.

** In addition some consideration of audit reports is carried out in the full legislature.

<table>
<thead>
<tr>
<th>Country</th>
<th>Committee(s)</th>
<th>Whole house</th>
<th>Other</th>
<th>Regional/local level</th>
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<tbody>
<tr>
<td>Austria</td>
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<tr>
<td>Belgium</td>
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<td>Germany</td>
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<td>Greece</td>
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<td>* (From January 2001)</td>
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<td>Luxembourg</td>
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<tr>
<td>Netherlands</td>
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Ten of the 15 legislatures have specific committees that consider reports emanating from the SAI although they have differing remits and responsibilities. In general these are committees of the central legislature but in Austria committees at federal, provincial and municipal levels consider reports of the Rechnungshof, depending on the area of government concerned. Similarly in Belgium the Court reports its findings to the most appropriate national, community or regional assembly. The Annual Report of the European Court of Auditors is considered by the Budgetary Control Committee of the European Parliament and the Budget Committee of the Council of Ministers, which prepares a discharge recommendation that the Council sends to the European Parliament.

The reports of some SAIs may be examined by a number of committees. For example, in Germany the Bundesrechnungshof’s advisory reports may be taken by the Bundestag’s Appropriation Committee, the Public Accounts Committee or occasionally specific select committees. In Italy sections of the Corte’s reports are considered by different committees depending on the subject matter, and in the Netherlands reports can be taken by any committee, although they are usually examined by the State Expenditure Committee.

There are a number of interesting features of the various committees. In Austria, for example, the Public Accounts Committee of the Nationalrat must commence preliminary deliberations of reports of the Rechnungshof within six weeks of receiving them. In Denmark not all members of the Folketing Public Accounts Committee are members of the legislature and the committee’s tenure is for four years, unaffected by any election. In Ireland the Office of the Comptroller and Auditor General has a liaison officer on secondment to the Committee of Public Accounts who helps agree the contents of the committee’s reports with the SAI.

The approach to consideration of the SAI’s work differs in Sweden where the SAI is the Government's audit body. Reports of the SAI are not directly addressed to the legislature. In Sweden the Riksrevisionsverket's consolidated Annual Report on the agency accounts is submitted to the Government and to a Standing Committee of the Riksdag. In Finland the State Audit Office sends its reports to the Parliamentary State Auditors and the Ministry of Finance for information.

Questioning those accountable for the use of public funds on the basis of the reports of the SAI can assist in clarification and can allow the legislature to make formal requirements for changes or improvements. The legislatures of the United Kingdom and Ireland are unusual in that senior civil servants are always called as witnesses before the special committee. In Austria officials of bodies under examination may be called to the Public Accounts Committee of the Nationalrat and in Germany representatives of ministries give their views when
the Observations of the SAI are considered by the Bundestag’s Public Accounts Committee. More usually it is ministers rather than civil servants who are accountable to Parliament, in particular in the court systems, where there is strong emphasis on personal responsibility. In Denmark as well it is the minister who must respond within four months to the concerns of the Folketing Public Accounts Committee about findings in the reports of the Rigsrevisionen.

Those countries that have set up committees can consider in detail the output from the SAI. In the United Kingdom the committee usually meets twice a week when the legislature is sitting and most of its time is taken up with examining reports from the SAI. In other countries committees meet less frequently than this.

Work carried out at the request of others

A n important factor protecting the independence of an SAI is its ability to identify, plan and execute its own work. In most countries, however, mechanisms also exist by which the legislature, and to a lesser extent the executive, can ask the SAI to carry out particular examinations and report on the findings. Several SAIs - including those of the Netherlands, Austria, Spain, Portugal and Italy - carry out examinations at the request of their legislatures. In the Netherlands both houses of the legislature can request work to be carried out, though in practice most requests come from ministers and State Secretaries. The Rekenkamer determines its final work plan. In Austria the Nationalrat or a provincial assembly can ask the Rechnungshof to examine an aspect of federal government, while in Belgium the legislative assemblies can require the Court to undertake specific examinations, including performance audits. In Denmark, the Parliamentary Public Accounts Committee is the only body that may request an examination to be carried out.

The United Kingdom and Irish SAIs also work closely with their parliamentary committees to determine ideas for examination within the programme of performance audits. In the United Kingdom each year the Comptroller and Auditor General provides the committee with a two year forward programme of work detailing possible areas for examination. This is a basis for discussions on future work although ultimately the Comptroller and Auditor General makes the final decision on his work programme. In the Netherlands the Rekenkamer and the State Expenditure Committee meet three or four times a year to discuss matters of mutual interest and in Germany the Bundesrechnungshof has carried out work on behalf of parliamentary committees, especially the Appropriations Committee.
SAIs in several countries also receive requests from members of the legislature for specific studies to be carried out. In Austria the request for an examination must come from 20 or more members. However, a close relationship between the legislature and the SAI can be productive and, as the National Audit Office in the United Kingdom has found, ideas emanating from Members of Parliament can lead to reports with considerable impact.

In Austria, Portugal and Sweden the Government can also ask the SAI to carry out particular studies. In Sweden the Government does this but must reimburse the costs of the work. In addition, in Sweden the Government draws on the knowledge and experience of the Riksrevisionverket by requesting its opinion on reports of the Government and parliamentary commissions of enquiry.

**Other work**

So far consideration has been given to elements of the work of SAIs that are common to most if not all. However, for historical reasons and as a result of the position of the SAIs within the administrative structure, many have additional roles usually linked to their audit role.

Some SAIs assist the legislature in its consideration of the budget. In Germany the SAI is formally represented at each stage of the consideration of budget proposals for each ministry and can be asked to comment on the feasibility of proposals. It draws on previous audit experience in advising the Appropriations Committee. In Belgium the SAI submits comments on all budget proposals before they are approved by the legislative assemblies. The Italian Corte dei Conti has to verify the effective covering of the expenses laws.

The Rechnungshof in Austria has several additional roles. It is responsible, along with the Ministry of Finance, for ensuring that efficient and simple accounting methods are employed in government and it carries out a biannual survey of average incomes paid by all bodies subject to its audit. The SAI's President also countersigns all instruments involving debts of the Federal Government.

The European Court of Auditors must be consulted and give its opinion before the Council makes financial regulations relating to the general budget, adopts documents relating to 'own resources' or takes measures in the fight against fraud.

**The Government's response and follow-up**

Some countries have formal follow-up procedures in which the Government or ministers reply to SAI reports and set out a plan of action. This can also be subject to audit by the SAI. A good example is Denmark, where the SAI works closely with the Folketing Public Accounts Committee. The committee
considers the SAI's report and submits it with any comments to the Folketing and the minister responsible, who must respond within four months with details of measures proposed to address the weaknesses. The SAI has a month to consider the reply and report its view to the committee. The Minister’s statement and the Auditor General's comments are included in the final report of the Committee to the Parliament.

In both the United Kingdom and Ireland after the SAI's report has been considered by the parliamentary committee, the committee issues its own report with recommendations for improvements. By convention the Government responds in detail and the reports of the SAI and the committee and the Government's reply are all published separately. The Government's response forms the basis of subsequent follow-up by the SAI. In Italy in contrast there is no formal requirement for the Government to reply, and the information provided by the SAI on different departments is examined by the various parliamentary committees with separate departmental overviews. Recommendations made by the Corte provide a basis for the legislature to raise matters of concern with the Government.

In France the Government examines at three-monthly intervals the cases where action is necessary following the reports of the SAI. This enables the legislature to question ministers about what action has been taken. In Austria provincial governments and mayors of towns subject to examination have three months in which to report back on any action taken following recommendations from the Rechnungshof.

In some countries the involvement of the legislature is often limited to cases where the SAI has been unable to secure improvements on its own. This is particularly true in Germany where cases are raised with the legislature as a last resort. Often the work of an SAI can have impact without involving the legislature. Most SAIs report directly to audited bodies on more routine matters and so secure improvements in performance at a working level. In the United Kingdom reports that mainly comprise recommendations already accepted or implemented by the audited body are not normally examined by the Committee of Public Accounts.

A number of SAIs publicise progress against their recommendations. In Austria the Rechnungshof's Annual Report includes a list of recommendations from previous years with an indication of whether they have been heeded or not. In Sweden the National Audit Office publishes a report of progress against recommendations over a three year period. In the Netherlands the Rekenkamer carries out follow-up audits on a regular basis between one and three years after the initial reports. The results appear in its Annual Report. Wider dissemination
of findings and rulings also helps to spread good practice. In Greece decisions and acts of the Court are circulated to all departments so that lessons can be learned across government.

**Public availability of reports**

The reports of the work of all European Union SAIs are publicly available, although the level of access to them and the amount of media interest vary. In most countries the reports of the SAI are published as part of the proceedings of the legislature although they are printed in separate volumes. The executive usually has no formal authority to veto the publication of reports of the SAI.

In many countries there is significant media interest in SAI reports. Several SAIs issue press releases to publicise their work and the Austrian SAI holds a press conference and issues a summary version when its Annual Report is published. In recent years the European Court of Auditors has sought to raise the profile of its reports and since 1994 well attended press conferences have been held on publication of the Annual Report. The United Kingdom SAI employs press officers to answer questions on its reports. In contrast the status of the Greek SAI as part of the judiciary means that it is not appropriate for it to publicise its work in such a way.

**Conclusions**

The preceding chapters have demonstrated that SAIs play an increasingly important role in the system of government in each member state. They work against a background of concern about the management of public expenditure and a desire to obtain value for money, as well as increased interest among politicians and the electorate about regularity and propriety in the use of public funds. Generalising about the work of SAIs is not easy given the very different and complex arrangements that exist, but overall it is possible to conclude that:

- even well established systems of audit and accountability have adapted or are adapting to the developments within government in their respective countries;

- although arrangements for audit and accountability differ across the member states, all SAIs share a common purpose, aiming to help safeguard public funds and provide an independent view of government spending;

- despite their different positions within the constitutional and administrative arrangements, all SAIs have means by which their independence, their ability to decide their own work programme and their freedom to report are safeguarded;
while arrangements have evolved in the specific circumstances of each country and perhaps could not be readily translated to countries with very different administrative structures, there is clearly much that each SAI can learn from others and much ground for comparison and co-operation.
Background information

Economic and general information

Austria is situated in central Europe and is landlocked between eight countries - Switzerland, Liechtenstein, Germany, the Czech Republic, Slovakia, Hungary, Slovenia and Italy. It has an area of 84,000 square kilometres and in 1998 the population was some 8.1 million. Twenty per cent live in Vienna, the capital. The German language is spoken by over 90 per cent of the population, but the rights of Slovene and Croat speaking minorities are protected.

The Republic of Austria was proclaimed in 1918 after the break-up of the Austro-Hungarian Empire. In March 1938 Austria was forcibly occupied by the German Reich, but was liberated in 1945 when the Republic was reconstituted within the 1937 frontiers. In May 1955 Austria's unlimited freedom to act under international law was restored under the Vienna State Treaty and in October of that year the Republic declared its permanent neutrality of its own free will. Austria applied for European Community membership in 1989 and became a member of the European Union in 1995.

Manufacturing, corporate and public sector services, trade, banking, insurance and construction generate the largest share of Austrian GDP. Tourism is also very important. The country is self-sufficient in agricultural produce. Austria suffered relatively lightly during the recession in the early 1990s, partly because of increased demand from former Communist states in eastern and central Europe. In addition, the predominance of small and medium sized companies was of benefit as they proved to be flexible and thus able to switch markets and adapt production as required. Austria met the Maastricht convergence criteria required for participation in the third stage of European Economic and Monetary Union by consolidating its public-sector budgets in the years 1995-1997.
The structure of the Austrian state

Austria is a democratic federal republic, divided into nine provinces (or Länder). The Constitution of 1 October 1920, as amended in 1929, was restored in April 1945. It provides for a bicameral legislative assembly (consisting of the Nationalrat or National Council and the Bundesrat or Federal Council), referenda on important issues, and the election of the Federal President by universal suffrage. Under Article 24 of the Federal Constitutional Act, federal legislative power is exercised by the Nationalrat together with the Bundesrat. The Constitution lists those matters in which legislation is left to the federal level. Those areas not mentioned are the responsibility of the provinces. The federation enacts constitutional or simple-majority legislation in some specific matters, while the enactment of implementing laws and their execution are left to the provinces.

The Head of State is the Federal President who is directly elected by popular vote and holds office for six years. Immediate re-election is permitted only once. Candidates are usually nominated by political parties, but to date Presidents have adhered to a non-partisan approach to the post. Although vested with emergency powers, the President usually acts on the advice of the Federal Government, having been sworn in by the legislature. The President's main duties include representing the republic abroad, signing international agreements, nominating certain federal officials and appointing the Federal Government.

Legislative and executive powers are distributed between the Federal Government and provincial governments. In particular the Federal Government is responsible for defence, law and order, secondary and higher education, research, regional policy, postal services, agriculture, railways and main roads. The Länder are, inter alia, responsible for primary education, housing, health and welfare. In addition, in most cases the execution of, but not the legislation for, federal tasks is delegated to the Länder under a system of 'indirect federal administration'. The division of responsibilities is matched by the sharing of revenue, with each level of government having powers to raise taxes in order to bear the costs of its own activities.

The Austrian federal government structure consists of ministries organised into departments, along with subordinated agencies and institutions. In 2000 there were approximately 213,000 federal employees. This figure includes police and law enforcement officers, teachers, university staff and others employed by federal ministries. There are two categories of public employee - civil servants and contractual employees. In recent years there has been an increase in the number of contracted staff, including in high level positions.
There are also a variety of other public bodies, characterised by differing degrees of state involvement. Some nationalised enterprises are owned entirely by the Federal Government and are considered as part of the national administration. These include the Federal Railways and the Federal Forests Administration. In other public enterprises such as the electricity generation and distribution bodies and the road and railway construction companies the state holds between 50 and 100 per cent of equity shares. The Federal Government also has a majority shareholding in a number of financial institutions.

Since the 1980s the Federal Government has undertaken a major restructuring of the state sector, although in 1991 some 50 per cent of total production still derived from state owned or state protected organisations. Changes have included selling shares in a number of nationalised companies to private or overseas investors and in 1988 an Administrative Management Project was initiated to tighten the administration's management structure and reduce the costs of state activities. The Government has sought to reduce the number of state employees by two per cent a year for five years, and this has largely been achieved. In addition the Government plans to reduce the number of state employees by 11,000 until 2003.

**The electoral system**

The Federal President is elected by universal suffrage and must receive more than 50 per cent of the votes. Where this does not occur a second round of voting takes place between the two leading candidates. In some Länder voting is compulsory. Proportional representation is used for elections for both national and provincial assemblies. Voting is open to all persons over 18. Candidates for election to the Nationalrat must be over 19 years old and those for the presidency over 35. The Nationalrat is made up of 183 representatives elected for four years by universal suffrage. The Bundesrat has 64 deputies elected for varying terms by the provincial assemblies or Landtage. The number of deputies per province is in proportion to the size of the provincial population.

**Regional and local government**

The Austrian federal state is composed of nine autonomous provinces. Each has a Land government consisting of a governor and councillors who are elected by and are responsible to the provincial assembly. The Land government exercises executive power in specific areas of responsibility and on behalf of the national government where no national authorities exist at Land level.
Provincial government activities are mainly financed by Land taxes, along with an assigned proportion of joint taxes collected with the Federal Government. Much of Austria’s state revenue comes from federal income tax and value added tax collected by the Federal Government and is then allocated to lower tiers of government. The proportions are specified in the Finance Equalisation Law.

Within the Länder there are local community authorities with rights to self-administration. These are headed by a directly elected local council and a mayor elected by the local council. They enjoy a considerable amount of independence in local matters with responsibility for local roads, water supply, primary schools, and building and planning issues. The larger communities run hospitals and social activities. Around half of their activities are financed by local taxes raised on land, property and alcohol, as well as fees for services, while the remaining revenue comes from transfers from the Federal Government and, to a lesser extent, the Land.

The political environment

The Federal Government is headed by the Chancellor, who is appointed by the Federal President. The Constitution does not specify the Chancellor’s role but his status as ‘first among equals’ stems in part from the right to propose the appointment and dismissal of ministers to the Federal President, and his coordinating role across all fields of government policy. The Chancellor is supported by a Vice Chancellor, who can act as deputy in all areas of the Chancellor’s responsibilities.

The Federal President usually selects the Chancellor from the party with the strongest representation in the Nationalrat, while other ministers are selected on the advice of the Chancellor. The Government or individual ministers can remain in office for the duration of a legislative term (four years) unless there is a successful motion of no confidence. Individual members of the Federal Government may be dismissed by the Federal President on the proposal of the Chancellor.

The Chancellor chairs the Council of Ministers (or Cabinet), which coordinates the work of all ministries. Federal ministers are accountable to the Nationalrat for the activities of their ministries and other bodies under their authority. Ministers present bills to the Council of Ministers for discussion and unanimous approval before submitting them to the Nationalrat for the first of three readings there. All bills must be read and submitted to a vote of the Nationalrat and then in most cases they are conveyed instantly to the Bundesrat. An enactment can be authenticated and published if the Bundesrat does not raise a reasoned objection. In certain cases the Bundesrat is not involved in federal legislation.
The Supreme Audit Institution

Historical development

Some form of state audit in Austria dates back to the eighteenth century with the founding in 1761 of the Hofrechenkammer (the Court Accounting Chamber). In 1866 the Austro-Hungarian Rechnungshof was established, directly accountable to the Emperor. In 1919 it was taken over by the newly established Austrian Republic, and reorganised under a new Government Audit Act. The Court was then accountable to the National Assembly and its mandate and authority were enlarged to include all government economic operations and government debts.

The Constitution Law of 1 October 1920 gave the Rechnungshof its basic constitutional foundations and subordinated it to the Nationalrat. It also gave it responsibility for the work of the National Debt Control Commission. The Rechnungshof was also allowed to audit provincial assemblies and in 1925 these optional audits became mandatory. Extending the mandate of the Rechnungshof to include federal and provincial government was a precondition, along with reducing the cost of government, of receiving grants from the League of Nations. In 1929 its remit was also extended to include the financial operations of local authorities in communities with at least 20,000 inhabitants.

Following German occupation of Austria in 1938, state audit responsibilities were transferred to the Rechnungshof des Deutschen Reiches, which established an office in Vienna. After World War Two the provisional Constitution of 1945 provided for a Rechnungshof and in 1948 Chapter Five of the Constitution was amended and a new Federal Law on the Rechnungshof was passed. In 1975 the right of the President and Vice President of the Rechnungshof to participate in debates in the legislative assembly and committees on matters concerning audit and the Rechnungshof was established. In the same year an obligation to carry out 'special' audits in specified circumstances was established and in 1978 the competence of the Rechnungshof to examine types of state enterprise was formalised.

The organisation and structure of the Rechnungshof

The Rechnungshof is headed by a President and is divided into five sections. One central section is responsible for areas such as the office of the President, internal administration, the budget and external relations. Four audit sections deal with: the Federal Government and social administration; the financial and economic administration of the Federal Government; public
enterprises and statutory professional representations (chambers); and the audit of the Länder and local communities. The sections are currently divided into 41 departments.

Under the Constitution the President is elected by the Nationalrat following nomination by the Standing Committee of the Nationalrat. Provincial governments have no say in the President's appointment or dismissal. The term of office is currently 12 years and re-election is not possible. The President can be removed from office without explanation by a simple majority vote of the Nationalrat or by a verdict of the Constitutional Court, although this has never happened.

According to the Constitution the President is of equal standing to a member of the Federal Government or a provincial government. The President is not allowed to belong to any general representative body (such as a legislative assembly) and cannot have been a member of the Federal Government or a provincial government in the four years preceding appointment to the Rechnungshof. The post of Vice President of the Rechnungshof was abolished by the legislature through an amendment to the Federal Constitution that took effect on 1 January 1995.

**The recruitment, remuneration and qualifications of staff and other resources**

As at November 2000 the Rechnungshof had 314 staff, of whom 241 were auditors and the remainder administrators and clerical staff. Of the audit posts, around 175 were for graduates of universities, colleges and similar institutions. The rest were for people with good secondary education qualifications. Some 49 per cent of graduates had law degrees, 33 per cent were economists and around 18 per cent had other degrees.

Under the Federal Constitutional Act the Federal President appoints all federal civil servants. However, this power is in practice vested in members of the Federal Government or, in the case of the Rechnungshof, in the President of the Rechnungshof. Thus with very few exceptions the initial appointment of civil servants to the Rechnungshof is performed by the Rechnungshof’s President. At the proposal of the President of the Rechnungshof, the Federal President appoints civil servants to higher service grades or functions.

All auditors undertake training and examination in government accounting and finance before becoming permanent, tenured employees. They receive in-house training on recruitment and are expected to follow 5-10 days’ training per annum. Although provincial and federal audits are carried out by different staff, job rotation is possible and specialists in particular fields may be brought in from different departments within the office where necessary.
Staff are paid in line with the general pay structure for the Austrian civil service, but with special allowances to reflect their training, as well as more generous overtime payments. Auditors are appointed to established posts for an unlimited term but from 1 January 1996 higher level functions were assigned for a limited term in accordance with the current statutory provisions governing federal civil servants. The Rechnungshof does contract in outside experts for audit work but this makes up only a negligible proportion of the office's total workload.

Audit staff may acquire share capital or stakes in companies but are not allowed to participate in the management and administration of companies subject to the audit of the Rechnungshof or of other profit making companies. They can hold political posts but may be sent on leave for the duration of their office. If leave is not granted the Rechnungshof takes appropriate measures to avoid any bias among these staff in exercising their audit activities.

The Rechnungshof makes annual proposals to the Federal Government for its own budget and the number of established staff posts. The Federal Government submits a draft Federal Finance Bill, which includes the plan of established posts, to the Nationalrat for adoption. As a rule the Rechnungshof and the Federal Ministry of Finance seek to compromise but the plan regularly provides for cuts in the Rechnungshof’s proposals. Where the Rechnungshof does not fully accept the cuts in view of its workload, the President of the Rechnungshof will argue a case in the parliamentary debate in the Nationalrat's Budget Committee, requesting that it alter the budget. In 1995 the Rechnungshof was granted additional posts to carry out work associated with Austria's membership of the European Union. In 2000 the budget of the Rechnungshof was 315 million schillings (payments). This compares with a Federal budget of nearly 781 billion schillings (payments) in the same year.

**The scope, role and rights of access of the Rechnungshof**

Article 122 of the 1929 Constitution states that the Rechnungshof is directly subordinate to the Nationalrat. Its audit work is carried out at federal and provincial level. In matters relating to federal financial operations it is considered to be an organ of the Nationalrat; for the audit of provincial operations or local government it is an organ of provincial government. The Rechnungshof reports to the legislative bodies at both levels.

The Rechnungshof has a wide audit remit. It audits all economic operations of the Federal Government and the provinces, as well as local communities with at least 20,000 inhabitants. Local communities of under 20,000 inhabitants can only be audited at the request of the competent provincial government. The Rechnungshof’s remit at each level covers all directly administered bodies, as well as foundations, funds and institutions administered by government agencies. It also audits the activities of enterprises in which government bodies
have at least a 50 per cent share in the capital stock or property capital, along
with subsidiary enterprises. At both federal and provincial levels the
Rechnungshof also examines the activities of public corporate bodies and their
use of funds from the Government.

The Rechnungshof also examines bodies that do not fall into the above
categories. It has access:

- where by-laws or other regulations state that the head of an organisation is
  appointed by a state body such as the provincial government and so has a
  ‘controlling interest’ (for example, savings banks in local communities);

- where funds are provided by one of the three tiers of government to private
  bodies for a specific purpose (for instance, to organisations involved in
  combating AIDS) to check the money has been used as intended;

- to institutions created by law where there is specific reference to the
  Rechnungshof conducting an audit (for example, the Association of
  University Students, the Austrian Broadcasting Association, and the Federal
  Railways); and

- from 1 January 1997, to statutory professional representative bodies
  (chambers).

The Rechnungshof’s access to audited bodies includes a right to the accounts,
books, vouchers and other records and staff at any time. Audit staff can examine
all relevant documentation on-site and can also carry out spot checks on assets.
Where a body does not cooperate fully, access can be enforced via the
Constitutional Court, although this is very rarely necessary.

Access is rarely a problem with government bodies, but the Rechnungshof
considers that the less clear-cut provision for audit access to the bodies
mentioned in the bullet points above present more scope for disputes. The
Constitutional Court considered a case where a savings bank denied the right
of the Rechnungshof to audit it, with the dispute resting on the interpretation of
whether the state had a controlling interest. The case was concluded in favour
of the Rechnungshof.

The Rechnungshof has lost a number of audits in recent years as the
privatisation process has developed. It also has no right to audit bodies outside
the categories listed above, and no private body can subject itself to audit by
the Rechnungshof. The Rechnungshof is not able to contract out audits and does
not charge fees for its work.
Other work

As well as examining the financial statements of government bodies, the Rechnungshof also has a number of other roles. Inter alia these are to:

- prepare the annual federal financial statements and submit them to the Nationalrat not later than 30 September of the following financial year.

- carry out a biannual survey on average incomes paid by all bodies that are subject to its audit and report in detail to the Nationalrat (the purpose of this being to inform the Nationalrat of the development of the incomes of individuals serving on supervisory and company boards, and employees of different companies and institutions controlled by the state);

- countersign all instruments involving financial debts of the Federal Government. The President of the Rechnungshof countersigns to guarantee the legality of the debt incurred and its proper entry into the National Debt Ledger.

Relations with Parliament and Government

The Rechnungshof’s principal link with the parliamentary process is through regular reporting of its findings. It is required to submit an Annual Report to the Nationalrat, the provincial assemblies and individual municipalities by 31 December of each year.

At a federal level the Rechnungshof works closely with the Public Accounts Committee (Rechnungshofausschuß) of the Nationalrat. This is made up of 25 members of the Nationalrat (with 25 substitutes who take their place when necessary), belonging to both the government and opposition parties. Traditionally the chairmanship is reserved for opposition parties. Subcommittees can be set up where a report of the Rechnungshof requires more detailed deliberation. Although the Public Accounts Committee deals with audit reports the federal financial statements are debated in the Budget Committee.

On receiving reports from the Rechnungshof the President of the Nationalrat submits them to the Public Accounts Committee for deliberation. Under the Standing Orders of the Nationalrat the Public Accounts Committee must commence preliminary deliberations of the reports within six weeks. The President of the Rechnungshof is present at the Public Accounts Committee when the reports are considered, along with representatives of the audited body, who may be called as witnesses. Some provincial assemblies have similar committees.
In addition, the Constitution and 1948 Federal Law allow the President of the Rechnungshof to communicate directly with the Nationalrat and its committees and participate as an adviser in the deliberations of the Federal Government on audit and accounting matters, the drawing up of the financial statements, the involvement of the Rechnungshof in the management of the national debt, and personnel matters relating to the Rechnungshof. The Rechnungshof may also suggest subjects for inclusion in the deliberations.

The auditing process

Preparation of financial statements

The Rechnungshof’s financial audit role includes preparation of the federal accounts, submission of the accounts to the Nationalrat for consideration, audit of the statements and submission of reports on the examinations. The federal ministries are responsible for posting the figures in the centralised accounting system and performing corrective entries as and when they are known to the ministry. However, after a certain deadline corrective entries can only be authorised by the Rechnungshof.

A department of the Rechnungshof prepares the annual federal financial statements, drawing on the information from the computer systems of the Ministry of Finance. It checks the accuracy of the figures of each body’s annual accounts and assesses whether the correct accounting provisions have been used. From these it draws up the federal financial statements and submits them to the Ministry which has a period of three weeks for comments. It then submits them to the Nationalrat, along with comments where the Rechnungshof is unable to incorporate suggested changes. The Rechnungshof also submits a statement on the federal debt. Although there is no certification of the statements as such, the act of submission is considered to signify approval of the accounts.

The Rechnungshof also has a joint responsibility with the Ministry of Finance for ensuring that efficient and simple accounting methods are used. Federal ministries issue accounting rules and regulations only after consultation with the Rechnungshof and the Ministry of Finance. Where there are differences of opinion about the implementation or interpretation of accounting rules, the Ministry of Finance must consult and agree the matter with the Rechnungshof before a decision is made. They issue guidance jointly.
Financial audit

Audit of the financial statements by the Rechnungshof includes examination of whether operations have been carried out in compliance with existing laws and any regulations stemming from the laws, whether operations were conducted economically, efficiently and effectively, and whether they were conducted as intended.

Each department within the Rechnungshof submits three work plans with different priorities to the President for approval. Plans specify in detail the department’s work for the coming year and preview the following year. Departmental selections are made in the light of the strategic audit objectives formulated by the President, including consideration of comprehensive environmental protection, national economics, government reform and reduced bureaucracy in all areas. Proposals for audit work encompass traditional audit of the financial statements, proposals for audits that focus on one particular aspect of the accounts, and cross-sectional examination of the issues across several ministries.

All auditees are notified two to three weeks before an audit and are advised about the information required. Audits are conducted on-site, where interviews and examination of original vouchers and supporting documentation take place. Transactions are selected at random. Where errors are found, alterations are made to the financial statements and corrections are made to the Ministry of Finance’s central computer. Where auditors are content with the way financial operations are being handled they advise the auditees.

Auditors hold a concluding interview with the audited body’s senior management, by which stage there should be no disagreement over facts, although there may be differences of opinion over the efficiency and economy with which the operations have taken place.

The Rechnungshof produces a draft report of findings, which is submitted to the auditee and any superior agency for comments. These bodies must comment within three months, making known any improvements that have been made. Staff produce a report on each audit, including the audit findings and comments of the auditee. These reports are submitted either to the Nationalrat or the relevant provincial council. Summary findings are included in the Rechnungshof’s Annual Report, along with the comments of auditees and rejoinders from the Rechnungshof where necessary.

The Rechnungshof also submits reports to the provincial assemblies, outlining the work carried out in the Länder during the year, and to the mayors of local communities on work in their municipality. Again this must be done by 31 December of the year after the year under examination. The Rechnungshof can also report
at any time to a provincial assembly. Reports to the provinces and municipalities are simultaneously submitted to the provincial governments and the Federal Government and are published after presentation to the provincial assembly or the municipal council. Provincial governments and town mayors can comment on the reports from the Rechnungshof and have three months to report back on any action taken.

**Performance audit**

The 1948 Federal Law on the Rechnungshof enables it to examine the economy, efficiency and effectiveness of the operations of corporate public bodies, local authorities and provincial governments, and the economy and efficiency of state economic enterprises. This work is carried out as part of the examination of financial audits rather than as separate work, and findings are included in the Rechnungshof’s Annual Report. Much of the work concentrates on whether the aims and objectives of the operations could be achieved at all or achieved economically given the often extensive regulations that exist. The Rechnungshof cannot criticise legislation directly.

**Special audits**

Although the Rechnungshof ordinarily decides its own work programme, ‘special’ audits can also be requested by the Nationalrat, the Federal Government or a federal minister. Twenty members of the Nationalrat may also independently request an examination of a specific aspect of federal government. Similar provisions exist at provincial level where the assembly, a given number of deputies (different in each province), or the provincial government can request specific examinations.

The results of the special audits are communicated to those requesting them and are not included in the Annual Report. The number of special audits is limited to three at any one time if such audits are requested by members of the Nationalrat, but there is no limit if they are requested by a majority vote of the Nationalrat, by a federal minister or the Federal Government. The number of special reports has increased in recent years. Subjects covered from 1997 to 2000 included the tendering, contract award, construction and billing of a section of the Ostautobahn motorway, the financial management of the statutory health insurance providers including the Umbrella Association of Austrian Social Insurers, with regard to the provision of medication and medical aids according to the principles of economy, efficiency and effectiveness of the organisational structure, and a railway tunnel project through the Semmering and the financing of the political parties and parliamentary groups.
**Reporting**

Under the Constitution the Rechnungshof must submit an Annual Report of its activities in the previous year to the Nationalrat no later than 31 December of every year. The report includes summarised findings, observations and recommendations from audits. The report is submitted simultaneously to the Federal Chancellor and is published once it has been presented to the Nationalrat. The Rechnungshof can also report to the Nationalrat at any time on the discharge of individual duties.

The Annual Report is in two parts with an introduction discussing general problems across the whole of government, followed by the results of audits conducted during the year. Recommendations from previous years are also listed, with an indication of whether or not they have been heeded. A press conference is held when the Annual Report is presented by the Rechnungshof and a short version is prepared for the press. There is generally considerable media interest in the report, particularly where it outlines examples of waste and irregularity.

**Summary**

The Rechnungshof is an independent body subject only to the law, with a status enshrined in the Constitution of the Republic of Austria. It is directly subordinate to the Nationalrat. When auditing federal bodies the Rechnungshof acts as a federal organ; when examining provincial bodies it is a provincial organ. Key features of the Rechnungshof are:

**Appointment and removal of the President**

The President is elected by the Nationalrat following nomination by the Standing Committee of the Nationalrat for one term of 12 years. He may be removed by a simple majority of the Nationalrat.

The President has the same status as members of the Federal Government or a provincial government depending on whether the Rechnungshof is acting as a federal or provincial organ.

The President is not allowed to belong to any general representative body and shall not have been a member of the Federal Government or a provincial government in the four years preceding appointment.
Skills of staff

As at November 2000 the Rechnungshof had a total of 314 established posts, 241 of which were designated for auditors. Around 175 are graduates of universities, colleges and other institutions. Some 49 per cent of these are lawyers and a further 38 per cent are economists.

Budget

The Rechnungshof’s budget and the number of staff are discussed with the Ministry of Finance and included in the draft Federal Finance Bill, which is presented to the Nationalrat. The President of the Rechnungshof can address the Nationalrat to request additional resources where he does not fully accept cuts suggested by the Ministry.

Audit remit

The Rechnungshof audits operations of the Federal Government and provincial government, as well as local communities with a population of at least 20,000 people. It can be asked to audit local communities with smaller populations. Its remit covers all directly administered bodies, as well as funds, foundations and institutions, and enterprises in which government bodies hold more than a 50 per cent share in the capital stock or property capital.

The Rechnungshof also audits public corporate bodies and a range of bodies where the state has a ‘controlling interest’ such as the right to appoint the head, where public money is provided for specific purposes, where members pay mandatory fees, and where the law specifies that the Rechnungshof should conduct the audit.

Access

The Rechnungshof has access to all accounts, books, vouchers and other records, as well as to staff at any time. Examination can take place on-site. Disputes over access are resolved by the Constitutional Court.

Other work

The Rechnungshof is - inter alia - responsible for preparing the federal financial statements and submitting them to the Nationalrat, producing a biannual survey of public sector incomes, and countersigning all instruments involving financial debts of the Federal Government.
Relations with Parliament and the Government

The Rechnungshof works closely with the Public Accounts Committee of the Nationalrat, which deliberates on its reports and then reports itself to a plenary session of the Nationalrat.

The President of the Rechnungshof can participate in the debates of the Nationalrat and its committees concerning audit and accounting matters and the work of the Rechnungshof.

Discretion over work

The Rechnungshof decides on its own work, with departments putting forward plans for the approval of the President. In addition, ‘special’ audits can be requested by the federal or provincial assemblies, the Federal Government and ministers, provincial governments, groups of 20 or more members of the Nationalrat, and members of provincial assemblies.

Ability to report

The Rechnungshof submits an Annual Report of its activities to the Nationalrat and to the individual provincial assemblies and municipalities. This report includes summarised findings, observations and recommendations.

Reports following ‘special’ audits requested by the legislative assemblies at federal or provincial level, or by federal ministers or the Federal Government or provincial governments, are submitted to the competent general representative body.
Background information

Economic and general information

The Kingdom of Belgium occupies a land area of some 30,500 square kilometres. The country is one of the most densely populated in Europe, with around 10 million inhabitants, and is divided into four linguistic areas: one Dutch, one French, one bilingual (Brussels-Capital) and one German. Nearly sixty per cent of the population speak Dutch, nearly 40 per cent speak French and a small number speak German. Belgium was part of the Netherlands between 1815 and the revolution of 1830. Constitutional reforms over recent decades have made Belgium a federal state. Since World War II Belgium has become recognised as a leader of international co-operation in Europe and was a founding member of many international organisations, including the North Atlantic Treaty Organisation, the Council of Europe, the European Union and the Benelux Economic Union.

Belgium is a manufacturing country with few natural resources. Industry contributes some 28 per cent of GDP, with the main industries being car assembly and chemicals. Agriculture contributes less than two per cent of GDP, the principal products being sugar beet and cereals. The Belgian economy benefits from the presence of many international businesses and organisations.

The structure of the Belgian state

The Belgian State structure has been substantially modified over recent decades. The country has evolved, via four sets of institutional reforms (1970, 1980,1988-89 and 1993) from a classic unitary state in which the legislative power was vested in the King, the Chamber of Representatives and the Senate into a federal structure in which various levels of competence act together.
The process of devolving power in Belgium began in the early 1970's, as recognition of the increased polarisation of the Dutch speaking north and the French speaking south. The decision making power in Belgium is no longer exclusively in the hands of the federal government and Parliament. It falls to several partners (Federal State, Communities, Regions) which are not subordinated to one another and exercise their competence in different fields independently.

The federal authority is the guarantor of the country's unity. The Constitution, institutional and general legislation, defence, justice, social, welfare, monetary policy, external relations and public security are federal responsibilities. The federal legislative authority is exercised collectively by the King, the Chamber of Representatives (150 members) and the Senate (71 members: 40 directly elected, 21 appointed by the Community Councils, 10 co-opted. The federal executive authority is exercised by the federal government, the members of which are appointed and dismissed by the King.

There are three communities (Flemish, French and German), each with powers in cultural matters, language, education and tourism. There are also three regions (the Flemish, the Walloon and the Brussels-Capital Region) with powers in areas such as the environment, housing, energy, transport, trade and agriculture. The Communities and Regions have their own legislative bodies and governments. In addition, there are 10 provinces and 589 communes.

**The Supreme Audit Institution**

**Historical development**

Public audit in the territory that now comprises the Kingdom of Belgium dates back to the fourteenth century. A Court of Audit was set up in 1807 during the period of French annexation, but in the period between 1814 and 1830, when the Belgian provinces were united with the Kingdom of the Netherlands, its powers were limited. The current Court was established following independence from the Netherlands in 1830 and its existence was enshrined in the Constitution of 1831.

Article 180 of the Constitution defines the framework of its competence and sets out the way its members are appointed. This article of the Constitution has been modified only once, in 1993. On this occasion, the Court of Auditors competencies were extended to a general audit of operations relating to the establishing and recovering the entitlements to be paid to the State, including tax revenue.
The Court of Audit's competencies were enshrined in the law of 29 October 1846 - the so called institutionalisation law - which has been repeatedly modified since. Its competencies were further defined by some other laws (especially the legislation on State accountancy, the law relating to provinces, and the special laws on institutional reform of 1980, 1988 and 1989 that extended the Court's powers to the Communities and the Regions).

**The structure of the Court of Audit**

The Court of Audit consists of 12 Members who are elected by the Chamber of Representatives for a term of six years. Their term of office is renewable. Only the Chamber of Representatives can dismiss them. Candidates for President and counsellor must be at least 30 years of age, and for registrar, at least 25.

The independence of the Court is guaranteed in a number of ways. Its members may not be related to a minister before their first appointment; salaries and pension provision for Members are guaranteed by law; and the Court's budget is made available directly without the interference of the executive.

The Court is divided into two Chambers - one Dutch speaking and one French speaking - each headed by a President and consisting of four counsellors and a Registrar. The senior of the two Presidents is designated Senior President and the senior of the two Registrars is the Head Registrar. The Senior President and President set the agendas for the meetings of their Chambers and the Senior President for meetings of the General Assembly, which is the Court's main decision making body. Registrars attend meetings of their Chamber and of the General Assembly and draw up the minutes of the proceedings, but do not have voting rights. The Registrars also have administrative tasks such as the signing of all letters (together with the presidents) and personnel management.

The Court of Audit works as a college, and the decisions over the cases presented by the staff are always taken collegially. All reports are examined within a section that is made up of two counsellors designated by the President of the relevant chamber. Whenever the file is particularly important or difficult, the section reports to the relevant chamber. The chamber rules on the file or forwards it to the General Assembly whenever it is particularly important, especially for the consistency of jurisprudence or whenever it falls within the General Assembly's remit. However, matters pertaining to the French Community, the French Community Commission of the Brussels Region Council, the Walloon Region, the Provinces that are part of this region and the public service institutions that depend on those entities fall exclusively under the French Chamber's remit. Matters pertaining to the Flemish Community, the Flemish Region, the Provinces that are part of this region and the public service institutions that depend on those entities fall
exclusively under the Flemish Chamber's remit and that of its sections. The
powers and the way the general assembly, the chambers, the Presidents and the
Registrars operate are laid down in detail in the Court's rules of procedure.

The Court of Audit meets as a general assembly every week. Each chamber also
meets every week. However, in case of emergency or at the request of two
members, the Senior President may call an extraordinary General Assembly. The
same is true of each chamber. The General Assembly and the Chambers can
only deliberate and take decisions when a majority of their members having a
deliberative voice are present. Decisions are made by absolute majority; in case
of equal votes, that of the presiding member is decisive.

The recruitment, remuneration and qualifications of staff
and other resources

The Court of Audit appoints and dismisses its staff. It also fixes the salary and
other staff benefits under the supervision of the board of the Chamber of
Representatives. The Court employs 608 staff, evenly divided between French
and Dutch speakers, serving on four levels. About half of the staff belong to
Level 1 which carries out the audit work with the help of the staff members of
Level 2+. Levels 2 and 3 provide logistic services. Audit staff are normally
graduates in law or the economic, political, administrative and social sciences
and are recruited in open competition. Senior posts within the Court are filled
by internal promotion. Junior staff are trained by working with more
experienced staff, complemented by specialist training provided by the Court
where appropriate. Approximately one third of the audit staff work in the
headquarters of the Court while the remainder are based at the bodies they
audit.

The Court of Audit's services are divided into 14 audit directorates, and two
departments responsible for information technology and organisation, training
and development. Each directorate is headed by a managing auditor, and is
subdivided into services headed by a supervising auditor. The 1st and 2nd
directorates consist mainly of support services and are made up of staff of both
languages. The other directorates are monolingual: those with an odd number
(3 to 13) are French speaking; those with an even number (4 to 14) are Dutch
speaking. Taking the institutional structure of Belgium into account, these
directorates deal exclusively with either federal affairs or with the affairs of the
Communities and the Regions.

Directorates are grouped into sectors, and sector committees, the meetings of
which are attended by several Members of the Court, co-ordinate audit matters
and divide the tasks between the French and Dutch speaking directors. The
division of responsibilities between the directorates is as follows:
Directorate | Function
---|---
1 | General services (studies and publications, European affairs, documentation and library, jurisdictional task, performance audit support)
2 | A - General services (administration, etc.)
   | B - Audit services for the expenditure of the civil service, salaries and pensions
3-4 | Federal public institutions
5-6 | Federal budget and finance (treasury, debt, receipts, etc.)
7-8 | Federal departments (economy, agriculture, justice, defence, transport and infrastructure, etc.)
9-14 | Regional and community matters and Provinces
CCI | Computer centre and support
- | Organisation, training and development department

The Court draws up its own budget and submits it to the Chairman of the Chamber of Representatives. The Court has complete discretion over the appointment and remuneration of staff but in practice salaries are kept in line with those of the wider civil service. The Court's budget for 2000 was 38.4 million euros.

**The scope, role and rights of access of the Court of Audit**

The Court of Audit works alongside the Chamber of Representatives on the audit of public accounts. It has close links with the Chamber of Representatives, which elects the Members of the Court and approves its budget. The Court's rules of procedure may be amended only with the approval of the Chamber. However, the Court of Audit carries out its audit work on behalf of all legislative assemblies. It examines all the activities of the Federal State, the Communities, the Regions, the public service agencies subordinated to them, the public corporations and the provinces.

A 1971 law consolidated the Court's powers of access to all the information and documents it needs to carry out its work. It also permits on-the-spot checks and requires audited bodies to reply to the Court's comments within one month. The
right of access extends to all public bodies subject to audit by the Court, but not to private sector bodies that are granted public funds. Communes are not audited by the Court.

**Relations with Parliament and Government**

The Court of Audit maintains contact with the various standing committees of Parliament. Its audit reports are discussed by the committees, mostly in the presence of a delegate of the Court of Audit, and the Finance committees of the various legislative assemblies have set up sub committees in order to ensure that the Court's observations are followed up more systematically. The main task entrusted to these sub committees is to examine the items mentioned in the Court's annual report in the presence of the minister concerned and the delegates of the Court.

All members of the legislative assemblies have the right to information and to inspect documents. This means that they have the right to consult Court staff and get copies of any of the following documents: the minutes of meetings of the General Assemblies and the Chambers; letters between the Court and ministers; budgetary and financial data; and the accountancy documents.

**The auditing process**

The Court of Audit performs a financial audit and a legality audit and monitors the sound use of public funds. Its checks concern the expenditures and receipts of the federal community, regional and provincial governments. The results of these three kinds of audit lead to information statements that are regularly submitted to the legislative assemblies. The Court is also charged with a jurisdictional task.

**Financial audit**

The Federal State, the Communities, the Regions, the public service institutions that depend on those entities and the provinces report annually on the use of the public funds they were entrusted with. The accounts are transmitted to the Court, which verifies the accuracy, the reliability and the completeness of the entries in the financial statements and checks the conformity of the recorded transactions with the accounting legislation. In addition, the Court checks and closes the accounts of the public accounting officers, i.e. the representatives of the Executive who are in charge of the collection and/or payment of public funds. The Court considers whether the accounting officers' accounts are in balance, are in their favour or are in the State's favour. If the accounts balance or are in the State's favour, the Court
draws up a discharge judgement. If the accounts are in the accounting officer's favour this leads to an administrative deficit judgement that might result in the Court carrying out a jurisdictional role.

The legality audit

The Court performs a legality audit on public expenditures and receipts. It checks their conformity with the budgetary law (whether there are enough credits on the budget, whether the operations are correctly charged against the budget, etc.) and it ensures that the laws and rules applicable to the audited operation (especially the standards that apply in public procurement contracts, in granting and use of the subsidies, the recruitment of the staff, etc.) are correctly implemented.

The legality audit is carried out through the prior approval or 'visa' of the payment orders relating to the expenditures. No payment can be made without the approval of the Court, which ensures that the regulation has been respected before granting its 'visa'. If the Court finds it should withhold its approval, the Government can still authorise the payment to take place. The Court then approves the payment with reservation and immediately informs the appropriate legislative assembly and explains its reasons. A large amount of fixed expenditures such as staff expenses, however, are exempt by law from the obligation of prior approval in order to speed the payment process. In that case the legality and the regularity are audited after payment.

The legality audit also includes the examination of the liabilities incurred by the Executive that are chargeable to the commitment appropriations. In the case of public sector retirement pensions, the Court of Audit has to rule on their legality and rates before approving the order authorising the award.

Audit of the sound use of public funds

The Court of Audit is also charged with monitoring the sound use of public funds in order to inform Parliament about the way the public services are managed. The nature of this audit is defined on the basis of three principles: economy, efficiency and effectiveness.

This audit is performed ex post facto, i.e. after the execution of the operations. Like its other tasks the Court carries out this one on its own initiative. The principle of general independence is a guarantee of objectivity and impartiality. However, in order to improve the information available to the legislative assemblies, the legislator has empowered these assemblies to charge the Court with specific tasks of management analysis.
**Informational task**

The Court of Audit informs the legislative assemblies and the provincial councils of the results of its audit assignments. Assemblies and councils must be provided with adequate and impartial budgetary information to ensure that they have a full knowledge of the facts when they grant the appropriations requested by the Executive power and assess their use. This information takes several forms. The Court submits its audit reports to the assemblies and councils, either in the form of syntheses integrated into annual reports or as special publications, depending on the urgency of the information. The Court also informs the relevant legislative assemblies of every commitment of expenditure, authorisation or payment that exceeds the budget appropriations. Finally, the Court fulfils an important function as a budget counsellor by commenting on all budget drafts submitted to the legislative assemblies for approval. The Court's documents are discussed by the Finance committees of the different assemblies in the presence of a Court representative.

**Jurisdictional task**

The Constitution also charges the Court of Audit with auditing and validating the accounts of the general administration and of all accounting officers answerable to the public Treasury. The accounts of the accounting officers are sent to the Court every year, as well as in the event of a deficit and when they leave office.

Within this context a counsellor from each chamber is appointed by order of the President to decide by administrative ruling whether the accounting officers' accounts are in balance, are in their favour or in the State's favour. If the ruling shows a deficit, the relevant minister has to summon the accounting officer to appear before the Court of Audit, unless he considers that the accounting officer can evoke circumstances beyond his or her control ('force majeure') or if the deficit does not exceed an amount set by royal decree. After a public procedure, in the presence of the parties involved, the Court may exonerate the accounting officer if it concludes that the debt has been cleared or that there are circumstances beyond the accounting officer's control. Otherwise it rules that the accounting officer has to make good the amount, or part of it in the case of mitigating circumstances. The rulings can be referred to the Court of Cessation. If the judgement of the Court of Audit against an accounting officer is quashed by the Court of Cessation, the case will be referred to an appropriate "ad hoc" committee, made up of members of the Chamber of Representatives, who judge without any subsequent appeal. The Court also has a jurisdictional role in relation to authorising officers delegated by the minister. It requires them to repay the amounts if they committed appropriations in violation of legal provisions or incurred losses to be paid by the Treasury. The procedure is the same as that applying to the accounting officers.
Reporting

The 1846 law requires the Court to report its observations relating to the State account to Parliament annually. Since 1989 separate reports have been submitted to the Parliaments (legislative bodies) of the Communities and Regions.

The reports deal with

- cases of violations of the budgetary law, surveys on specific subjects, financial data and details of where the Court has been ordered to approve payments orders with reservations;

- the general account of the State, the Communities or Regions and the results of the accounts of the operating budget of the State, the Communities and Regions and certain public service institutions depending on them;

- the accounts reflecting the implementation of the budget of various public service institutions.

Summary

The current Court of Audit was established in 1830 and its role was referred to in the Constitution of 1831. The key features of the Court are:

Appointment of the Court

- The Members of the Court are fully independent of the Government. They are elected by the Chamber of Representatives for terms of six years and can only be dismissed by it.

Skills of staff

- The 608 staff members of the Court are categorised as civil servants. Audit staff are usually graduates in law or the economic, political and social sciences. Senior posts are filled by internal promotion. Staff are allocated among 14 directorates.

Budget

- The Court draws up its own budget and submits it to the President of the Chamber of Representatives.
**Audit Remit**

- The Court of Audit performs a financial audit and a legality audit and monitors the sound use of public funds. Its checks concern the expenditures and receipts of the federal, community, regional and provincial governments. The results of these three kinds of audit lead to information statements that are regularly submitted to the legislative assemblies. The Court is also charged with a jurisdictional task.

**Access**

- The Court has rights of access to the information it needs to carry out its audit duties. It also has a right to carry out on-the-spot checks. These rights extend to all bodies within its remit.

**Reporting**

- The Court reports the results of its work - by means of its annual reports or its separate reports - to all parliaments (federal, community and regional).

**Key legislation**

- The activities of the Court are governed by Article 180 of the Constitution.
Denmark is situated in northern Europe and comprises the Jutland Peninsula and over 400 islands including Zealand, Funen, Lolland, Falster and Bornholm. Outlying territories are the Faeroes and Greenland in the North Atlantic. Denmark occupies a land area of 43,000 square kilometres and has a population of 5.3 million. Denmark's history is closely identified with that of Sweden and Norway, and for a time in the 15th century the three countries were joined in union. Sweden withdrew in 1523 but Norway remained under Danish rule until 1814. Denmark ceded its last north German territories to Germany in 1864 but after World War I the German border was redefined as a result of a referendum in 1920. In 1944 Iceland, under Danish rule since 1380, declared itself independent.

Almost 70 per cent of the working population are employed in the service sector or commerce, and 27 per cent in manufacturing industry. Less than two per cent of the labour force work in the agriculture sector, even though agricultural produce forms a significant proportion of Danish exports. Denmark has one of the highest per capita levels of GNP in the world and a high standard of living.

The structure of the Danish state

Denmark has been a constitutional monarchy since the passing of the Act of Constitution in 1849. Between 1849 and 1901 executive power was accountable to the monarch rather than to Parliament. The most recent Act of Constitution, passed in 1953, provides for a clear separation of powers between the executive, the legislature and the judiciary. Parliamentary supremacy is manifested in the power of the legislature to remove a minister or the entire government by means of a vote of no confidence.
At present (2000) the central governmental administration in Denmark consists of 20 ministries. They are staffed by non-political civil servants, headed by a permanent secretary. Denmark has adopted a policy of devolving administrative tasks to subordinated directorates, which are headed by a permanent director. Examples are the Road Directorate and the Directorate of the Working Environment Service. These have responsibility for inspection and regulation. In addition, there are a number of service delivery agencies, for example museums or research agencies. Of the 200,000 people employed by the central government in Denmark only 5,000 work in the central departments. The remainder are employed by directorates or state enterprises.

In Denmark there is a tradition of central government devolving powers to regional or local government. The Constitution provides both with various rights of self-rule but requires that these be exercised under state supervision. There are 14 directly elected County Councils with responsibility for matters such as secondary education, roads programmes and the hospital system. There are also 275 directly elected local governments, which are responsible for matters such as primary education, libraries, social security benefits and cultural and sporting facilities. Each tier of local government has strong representative bodies, the Association of County Councils and the National Association of Local Authorities, which liaise with central government. Local government is financed by a combination of central government grants, locally raised taxes and fees and charges.

Denmark therefore has a highly decentralised governance structure with most public expenditure and services being delivered by local rather than central government.

The electoral system

Since 1953 the Danish Parliament - the Folketing - has consisted of a single chamber with 179 members elected by a system of proportional representation. Members of Parliament are elected for four years, unless a general election is held before. Governments are normally formed by coalition. Ministers are usually but not necessarily members of the Parliament. The Constitution provides for those ministers who are not members to attend sittings of the Parliament on an ex-officio basis. They can address the Parliament but they cannot vote.

The Parliament’s homepage is: www.folketinget.dk
The political environment

According to the constitution the powers of the executive are officially exercised by the monarch through the Cabinet led by the Prime Minister. There are few prescriptions regarding the role of the Cabinet and its role is thus heavily influenced by the Prime Minister. The monarch formally appoints the Prime Minister, but in practice this choice is made following negotiations between all political parties. Ultimately the Government must have the support of a majority in the Parliament, or at least it must not be opposed by a majority.

Once appointed, ministers have significant autonomy within their policy area. The Cabinet makes few specific decisions and ministers do not generally become involved in the affairs of other ministries. However, the Prime Minister takes an interest in politically sensitive issues within each ministry and along with the minister responsible, the Prime Minister may be held to account for failed or ill conceived policies. The Ministry of Finance has some responsibility for the oversight of financial management for each ministry, but relies on persuasion rather than coercion to ensure that ministers' proposals are in line with the overall financial policy of the Government. The Ministry of Finance also has other central management responsibilities for the civil service such as personnel and wages, and has an oversight of the development of information technology.

The Government accounting environment

In 1976 Parliament introduced a centralised accounting system, a single system covering all government bodies, both for departments and individual agencies. Each agency has a book-keeping/payment facility within the system and delivers its totals into the centralised general accounting system on a monthly basis. The National Audit Office of Denmark (NAOD) - the Rigsrevision - helped to design the system.

In accordance with the Auditor General's Act, the Auditor General shall be informed of all regulations regarding accounting matters and other matters of significance for the audit. The Act also requires that the Auditor General is given an opportunity to give his opinion before an agency makes changes in its accounting system or procedures which are of significance for the audit.

The NAOD relies primarily on systems audit and it carries out substantive audit for added assurance. The NAOD has full access to the centralised accounting system, to run tests and to examine whether the agencies comply with the procedures set out by the minister. This informs NAOD risk assessment process, so that it can categorise the various agencies and decide its audit priorities. The NAOD reviews the monthly figures in the database, which are part of the state account.
From the year 2000, a local accounting system "Navison Stat" will be implemented in the agencies in place of the centralised system.

The Supreme Audit Institution

Historical development

The Danish state audit system dates back several centuries, but audit departments were not established in most of the ministries until the 1840s. During the years 1917-20 the Parliament's Public Accounts Committee requested a reorganisation of the state's bookkeeping and accounting system. The Minister of Finance therefore established a Commission in 1921 which, among other things, considered whether a reorganisation of the state's auditing system was appropriate. The Commission was in favour of implementing changes in the state audit system and an Act on the State Accounting and Audit was passed in 1926.

The audit of the state accounts has since been the responsibility of the Parliament's Public Accounts Committee and four main audit agencies in the Ministry of Finance. After the adoption of the State Accounting Act in 1926 auditing covered both financial and performance aspects of all the accounts of the state. The Act also improved other features of the state audit arrangements, but it proved inadequate in relation to performance audit which had to be carried out in all parts of the central administration of the state.

In 1974 the Minister of Economic Affairs, who was responsible for the audit departments, established a committee to examine the structure of the state audit. The committee recommended that audit be gathered under one roof but still as part of the central administration of the state. The Auditor General's Act, which was adopted on 1 January 1976, provided for the audit of the state accounts to be carried out by an independent Auditor General leading a unified audit organisation.

The Auditor General was to be appointed by the King on a recommendation from the Minister of Economic Affairs in co-operation with the Parliament's Public Accounts Committee. In budget and staff related matters the Auditor General was under the authority of the Minister of Economic Affairs. The budget proposal however also had to be negotiated with the Parliament's Public Accounts Committee.

Following an amendment to the Auditor General's Act in 1991 the NAOD was organisationally placed under the authority of the Parliament and the Auditor General was no longer appointed by the King, but by the Chairman of the
Parliament on a recommendation from the Parliament's Public Accounts Committee. This change also meant that the budget of the NAOD no longer had to be approved by the Minister of Economic Affairs.

In 1996 the Auditor General's Act was amended again. Amongst other things this resulted in the NAOD obtaining direct access to accounts and other kinds of company information, and that the Auditor General withdrew as an auditor in completely limited liability companies.

The structure of the NAOD

In accordance with the 1991 Act the Auditor General is appointed on a nomination from the Parliament's Public Accounts Committee to the Speaker, who, after consultation with the Deputy Speakers, presents the nomination to the Standing Order Committee of the Parliament. The Auditor General's Act establishes that the Auditor General is independent in the performance of his duties. Since 1975 the Auditor General has been chosen from within the NAOD. There is a compulsory retirement age of 70.

In recent years the NAOD has made major changes to its organisation, resulting in greater specialisation. The NAOD is divided into departments most of which are responsible either for financial audit or performance audit. One department is still responsible for both financial audit and performance audit.

The NAOD adopts a structured planning process in order to achieve a balance between the various suggested topics. This includes a statement of objectives as well as an estimate of resources. The plans are considered by the Auditor General and the Assistant Auditors General, who make the final decision according to predetermined principles of priority. Such principles include rotation among agencies or focussing on past problem areas.

The recruitment, remuneration and qualifications of staff and other resources

At 1 January 2000 the NAOD had a staff of about 260 - 47 per cent were university graduates and bachelors of commerce, 40 per cent were audit and clerical staff, and the remaining 13 per cent primarily comprising management. Staff receive extensive in-house training and work in divisions of generally between 5 and 15 people, usually made up of a mix of university graduates, auditors and administrative staff. The specialisation which has taken place in the NAOD gives the staff greater experience, insight and expertise in their respective fields of audit.
The scope, role and rights of access of the NAOD

The main task of the NAOD is to audit the central government accounts and to examine whether central government funds are administered as Parliament intended. The audit of the central government accounts covers about 620 agencies and a number of other companies, enterprises etc. Section 3 of the Auditor General's Act 1991 states that the audit shall ascertain that the accounts are correct and that the transactions covered by the presentation of accounts comply with authorised budget appropriations, laws and other regulations and with customary practice. Furthermore, an evaluation shall be made as to whether sound financial management has been applied to the administration of funds and the running of operations covered by the accounts.

The scope of the Auditor General's audit is set out in the Auditor General's Act and includes the audit of the central government accounts and the accounts of agencies, foundations etc. whose expenditure or accounting deficits are covered by central government funds. This also includes the accounts of independent administrative units established by law and accounts of partnerships and enterprises. The Auditor General also has a statutory right of access to bodies that receive grants, loans or other financial support from the state, and has complete or partial access to limited liability companies accounts, or accounts for which there are special audit arrangements established by law. In addition, the Auditor General has access to local government accounts if expenditures are reimbursed by the state. The NAOD does not have access to the Crown, the Parliament, the National Bank (in the Bank's capacity as central bank) or companies providing services to the Government on a contract basis.

The Auditor General may request all information and all documents from any public authority, which in his opinion are relevant to the performance of his duties.

The audit of local government is not carried out by the NAOD. Local authorities may appoint any Certified Public Accountant, but most audits in this sector are carried out by the Local Government Auditing Department.

Relations with Parliament and the Government

The Parliament's Public Accounts Committee was established with the first Constitution in 1849. The current form of the Committee was set up in 1976. It is a constitutional body and an independent agency. It is thus not subordinate to either the Parliament or the Government. It is composed of six paid members who need not be members of the Parliament. The Committee's tenure is for four years and is not affected by general elections. The Chairman is traditionally the
longest serving member of the Committee. Members are appointed by the Parliament on the basis of proportional representation so that each main party is represented on the Committee.

The Parliament's Public Accounts Committee reviews whether the central government accounts are correct and whether the transactions covered by the presentation of accounts are in compliance with authorised budget appropriations, the laws and other regulations and with agreements made and customary practice. Furthermore, the Committee assesses whether sound financial management has been applied to the administration of the funds and the running of the operations covered by the accounts. The Committee makes use of the Auditor General's reports as the basis for its work. The Committee submits the reports to the Parliament. The Government must respond to the Committee's recommendations. This ensures that the Committee has a high profile and an important function in improving public sector administration.

Only the Parliament's Public Accounts Committee may request the NAOD to examine certain matters. Such requests are provided for in the Auditor General's Act which requires the Auditor General to assist the Committee in its review of the government accounts by carrying out inspections and submitting reports on matters the Committee wishes to have examined. The NAOD cannot refuse a request from the Committee but in practice some of the requests are incorporated into other plans.

The Parliament's website: www.folketinget.dk, includes a link to pages on the Parliament's Public Accounts Committee.

**The auditing process**

**General Methodology**

The NAOD audits on the basis of internally developed guidelines and instructions in order to ensure quality and consistency in its work. The guidelines are tested, updated and developed continuously.

The NAOD carries out both financial audit and performance audit in accordance with the principles of 'good public auditing practice'. These principles include the requirements and conditions that form the basis for carrying out the audit of the central government accounts. The paper 'Good Public Auditing Practice' can be found on the following homepage: www.rigsrevisionen.dk
Financial audit

The purpose of financial audit is to examine whether the agencies' and ministries' accounts give a true and fair view. The NAOD examines, for example, whether the procedures of the agencies are efficient, and whether they include the necessary controls. Financial audit is largely systems based and is planned on the basis of materiality and risk.

In recent years the NAOD has developed a catalogue of packages for financial audit, for instance 'audit through the year' and 'closing audit'. Audit through the year involves a review and assessment of the procedures and internal controls of the agencies. There are also a number of special audit packages such as for the audit of salaries and subsidies. Each year the NAOD visits some 200 of the 620 agencies. In the course of the visits sample transactions are selected and tested.

Internal Audit

Over the past 20 years there has been significant development of the internal audit function in Denmark, and all the main ministries now have internal audit units. Agreements on establishing internal audit units are made between the Auditor General and the responsible ministers. If an internal audit unit has been established the NAOD seeks to rely on its work, but a unit has to be independent of the agency and sufficiently competent to examine the accounts on behalf of the NAOD. The responsibility remains, however, with the NAOD which reviews the work of the various internal audit units against annual audit plans approved by the NAOD.

Appropriation control

The Auditor General reconciles the State accounts and compares budgetary appropriations with actual account figures. The Auditor General shall ascertain that the accounts are correct and that the transactions covered by the presentation of accounts are in compliance with authorised budget appropriations, laws and other regulations and with agreements made and customary practice. Every year the Auditor General submits an Appropriation Control Report to the Parliament's Public Accounts Committee.

The findings of financial audit work are reported on an aggregate level in the Appropriation Control Report and, from 1999, at annual meetings between the NAOD and the top management of the ministries. In addition the NAOD informs agencies on a day-to-day basis while the audit is under way.
Audit of Grants

The NAOD may also audit the accounts of a number of other bodies. The Auditor General may request that the relevant accounts be submitted from the minister in question, who - in turn - is statutorily obliged to co-operate. The audits can be carried out on-the-spot if necessary and the Auditor General decides what information and documents are relevant for the audit.

The purpose of the Auditor General's audit work in relation to these accounts is to ensure that they have been subject to adequate audit, and that the stipulated provisions have been complied with, in other words that funds have been applied according to rules and regulations.

Performance audit

The Auditor General will carry out a performance audit examination if he feels that there are matters that require attention in view of their financial significance, or for other important reasons. Performance audit involves an examination of how tasks have been carried out, including whether the necessary financial considerations have been taken into account when administering the appropriated funds. Performance audit has three broad aspects: Economy (has the cost of resources been minimised having regard to appropriate quality?), efficiency (is there a maximum benefit between use of resources and output?) and effectiveness (to what extent have the intended results and effects been achieved?).

As part of performance audit work, financial management examinations are carried out. These examinations may, for example, look at whether procedures have been established and whether information flows sufficiently to the management. This is to ensure that the objectives of the organisation are complied with in the best possible manner, taking into consideration the aspects of economy, efficiency and effectiveness. The concept of sound financial management is described in detail on the following website: www.rigsrevisionen.dk.

The NAOD recognises that if performance audit is to be based on a sound professional view, then various skills such as legal, statistical, economic and sociological skills are important. Therefore, as part of the planning process the management ensures that appropriate skills are available and that ad hoc inter-unit groups are formed for specific performance audit studies. On occasion, outside expertise is brought in.
Finally, performance audit reports include recommendations for improvement as well as criticisms of existing practice. Before a report is published it is discussed with the ministry concerned with the aim of clarifying the report's factual information. In addition, the staff and management of the audited agency will be involved throughout the examination. This involvement ensures the accuracy of the report and that the recommendations are realistic.

Advice

The Auditor General's Act requires the Auditor General to assist the ministries in the organising of accounting and internal accounting control. The NAOD offers advice and guidance on how to organise the accounts and the accounting control for state agencies. The NAOD may also offer advice on procedures in connection with presentation of accounts etc.

Reporting procedures

The NAOD produces three types of report: the Annual Appropriation Control Report; performance audit reports - some 15-20 each year; and an Annual Report on NAOD's activities. In addition, about 80 memoranda are produced each year for the Parliament's Public Accounts Committee. Audit conclusions are cleared with the ministries, and where agreement cannot be reached the different views are recorded.

Reports are presented to the Parliament's Public Accounts Committee, which forwards it with any comments to the Parliament and to the Minister concerned. The Minister must respond within four months (two months for the Annual Appropriation Control Report) with a statement to the Parliament's Public Accounts Committee of the measures and considerations which the report has given rise to. This statement is also forwarded to the Auditor General who must submit his comments to the Committee within one month. The statement and the Auditor General's comments are included in the final report of the Committee to Parliament.

Reports form the basis for agencies' follow up. The NAOD reviews the agencies' work and if necessary a follow up review will be carried out. Further information is contained on the NAOD's website at www.rigsrevisionen.dk.
Summary

The NAOD is an independent agency under the authority of Parliament carrying out part of the parliamentary control in Denmark with its remit and status set out in the Auditor General's Act. The key features of the NAOD are:

Appointment and status of the Auditor General

- The Auditor General is appointed on a nomination from the Parliament's Public Accounts Committee to the Speaker who, after consultation with the Deputy Speakers, presents the nomination to the Standing Order Committee of the Parliament. The Auditor General is independent in the performance of his duties.

- The NAOD is an independent organisation under the authority of the Parliament carrying out part of the parliamentary control in Denmark.

Budget

- The budget of the NAOD is set by the Parliament after a submission by the Auditor General to the Parliament's Public Accounts Committee.

Skills of staff

- The staff of the NAOD are university graduates, bachelors of commerce, public servants and office workers. The staff have extensive in-house training.

Audit remit

- The Auditor General has an extensive audit remit, including the central government accounts and the accounts of agencies and foundations whose expenditure or accounting deficits are covered by central government.

- The scope of the audit includes whether the accounts are correct and whether the transactions covered by the presentation of the accounts are in compliance with authorised budget appropriations, laws and other customary practice. Furthermore, NAOD evaluate whether sound financial management has been applied to the administration of funds and the running of operations covered by the accounts.
Rights of access

- The NAOD has a statutory right of access to bodies that receive grants, loans or other forms of financial support from the state, and it has complete or partial access to limited liability companies' accounts, or accounts for which there are special audit arrangements established by law.

- The Auditor General may request all information and all documents from any public authority which in his opinion are relevant to the performance of his duties.

Reporting

- The Auditor General reports to the Parliament's Public Accounts Committee which forwards the report, with any comments, to Parliament and the Minister concerned.

- There are three kinds of reports: the Annual Appropriation Control report, performance audit reports and the annual report on the activities of the NAOD. In addition, about 80 memoranda are produced each year for the Parliament's Public Accounts Committee.

Key legislation

- The NAOD's audit remit is set out in the Auditor General's Act which was adopted on 1 January 1976. The Act was amended in 1991 and 1996 to emphasise the constitutional independence of the Auditor General from executive power and to give the NAOD direct access to accounts and other kinds of company information.
Background information

Economic and general information

Finland is situated in northern Europe and is bounded by Norway, Russia, Sweden and the Baltic Sea. It has a land area of 305,000 square kilometres, and a population of 5.2 million. Forests cover three quarters of the country's surface area. Other outstanding features of Finland's scenery are some 190,000 lakes and approximately as many islands. Finland's land border with Russia (1,269 km) is the eastern border of the European Union.

Finland was formerly part of the Swedish Empire and then later an autonomous grand duchy of the Russian Empire. It proclaimed its independence in 1917 following the Russian Revolution. Finland twice fought the USSR during World War Two and peace was signed in Paris in 1947. Finland joined the United Nations in 1955, the European Free Trade Association in 1985 (having been associated with it since 1961) and the European Union on 1 January 1995.

Finland is an advanced industrial economy: the metal, engineering and electronics industries account for 50 per cent of export revenues and the forest products industry for 30 per cent. Forests are still Finland's most crucial raw material resource, although the engineering and high technology industries have long been the leading branches of manufacturing. The most important export product today is the mobile phone, and Finland is one of the few European countries whose exports exceed imports in data and communications technology. Finland is said to be "the most on-line nation in the world", with more mobile phones and Internet connections per capita than any other country. Finland also has a high international reputation in fashion, textiles and household products.
The structure of the Finnish state

Under the Constitution of 17 July 1919 Finland is a republic with a unicameral Parliament (the Eduskunta) and a President as Head of State. Legislative power is vested in the Parliament and the President, and supreme executive power is held by the President and the Council of State. Finland is a unitary state divided into 6 provinces, each headed by a Governor. Four Constitutional laws cover the basic structure of governmental organisation and the tasks of government bodies. The Constitution stresses the principle of the sovereignty of the people.

The reform of the Finnish Constitution carried out during recent years has now been brought to a conclusion. The new Constitution entered into force in March 2000 with the replacement of a framework of four separate constitutional laws by a single statute.

The fundamental principles of the Constitution have remained unchanged for decades. The flexibility of the Finnish Constitution is due to the use of exceptive laws, a distinctive feature of the Finnish system. In the Finnish context this means legislation enacted according to the order prescribed for the enactment of constitutional legislation which, without altering the Constitution, enacts a material exception to its provisions. This procedure has been particularly important in the area of fundamental rights, and has been increasingly used in recent decades for enacting legislation relating to international obligations which conflict with the provisions of the Constitution (eg. accession to the European Union).

The new Constitution is intended to amend and fine-tune the Constitution without altering its fundamental principles. The structure of the new Constitution reflects both organisation and areas of government responsibility. One of the main goals of the constitutional reform process has been to move Finland further in the direction of a parliamentary system of government. For example parliamentary supervision of the Government and of the overall administrative machinery of government is to be enhanced by transferring the State Audit Office, which monitors management of the public finances and compliance with the Government budget, from its current position under the Ministry of Finance to become an independent office working in conjunction with Parliament.

The main changes in content contained in the new Constitution relate to the constitutional regulation of decision-making by the President of the Republic and the formation of the Government. The Government is given a greater role in presidential decision-making, while the appointment of the Prime Minister is transferred from the President to Parliament. The new Constitution also clarifies
the constitutional framework for the management of international affairs and strengthens parliamentary control over foreign policy and over the actions of the President of the Republic.

The President of the Republic is elected by a system of straightforward direct two-stage popular election for a period of six years, with re-election for one further consecutive term permitted. The President shares executive power with the Government and has the power to dissolve Parliament and order new elections on the basis of a reasoned initiative by the Prime Minister, and after consulting the Speaker of the Parliament and political groups in Parliament while Parliament is in session. The President can also convene Parliament for extraordinary sessions.

Finland's foreign policy is conducted by the President of the Republic in co-operation with the Government. However, as a general rule it is the role of Parliament to ratify and withdraw from international obligations and decide on their implementation, while the President decides on war and peace with the consent of Parliament. The President also appoints important civil servants, including the Chancellor of Justice, the Deputy Chancellor of Justice, judges, the Prosecutor of State, senior ministerial officials, military officers and provincial governors.

The new Constitution transfers the appointment of the Prime Minister from the President to Parliament. The President will take a prominent role only when the parliamentary groups are unable to reach agreement on a suitable basis and programme for the Government, and consequently on a suitable candidate for Prime Minister. The members of the Council of State (the Cabinet) are also appointed by the Parliament. Government must always enjoy the confidence of the Parliament. An incoming Government is obliged to present Parliament immediately with a statement of its programme to enable Parliament to take a vote of confidence in the new Government.

Laws are proposed by the Council of State. The President gives proposed Government bills to the Parliament. According to the new Constitution the normal procedure is for the President to take decisions at sessions of the Government based on the proposal of the Government. The President can return the proposed bill to the Council of State once for a new preparation but the final decision on the introduction and withdrawal of Government bills, including bills in the area of foreign affairs rests with the Government.

Laws passed in Parliament require confirmation by the President. The President cannot change the content of laws and he cannot suspend them. If the President does not confirm the law, the Parliament immediately takes the law under a new consideration. After this the law is either passed or rejected by the Parliament.
The Finnish Parliament assembles annually at the start of February, with the session usually lasting 120 days, although it can lengthen or shorten the sitting at will. There are 200 members of the Parliament, which has been unicameral since 1906. Parliament has three main duties through which it represents the people and makes the basic decisions on Finnish policy. It passes laws, it debates and approves the Budget, and it supervises the government of the country. The legislature controls the Government and administration by dealing with government reports and notices on policy issues, as well as the reports of the Parliamentary State Auditors and the Ombudsman.

There are also 13 parliamentary committees (and a Grand Committee), which scrutinise legislative proposals before plenary consideration. Individual members of the legislature can exercise control over the executive by questioning the Council of State in writing. In addition, as a group of 20 or more, they can take advantage of a process of interpellation through which a minister is questioned, a plenary discussion is allowed, and ministers can be removed if a vote of confidence is not won.

There are 12 ministries and a maximum of 18 ministers, which prepare and implement the policy decisions of the President and the Council of State. Ministries are headed by one or more ministers, with their administration run by a secretary general, the senior permanent civil servant. Ministers are responsible for their ministries or specific areas within ministries, and can be held legally as well as politically accountable for their actions. On average ministries employ 250-300 people.

In addition there are around 115 central agencies subordinated to the relevant ministry. These often have responsibility for specific areas of administration such as education, transport or social services. Agencies are largely independent and have traditionally been well resourced; ministries do not usually overturn agency decisions. In the early 1990s the Government introduced a system of results oriented budgeting and in 1995 all ministries and agencies operated under this for the first time. In addition, in recent years some of the work of agencies has been delegated to provincial and local levels of government.

Regional administration in Finland consists of provincial governments, state district administration and regional councils formed by municipalities. There are 5 provinces and 19 regions in mainland Finland, with the autonomous Åland islands forming an additional province. There are 452 municipalities which under the Constitution have considerable independence. They can collect their own taxes, and are responsible for delivering many services in the fields of education, social services and health care. They are headed by elected municipal councils. Other municipal organs obligatory for every local authority are the municipal board, the municipal manager and the auditing committee.
The auditing committee prepares audit related matters for the municipal council. Groups of municipalities come together in federations to coordinate planning and delivery of health, education and planning.

In the 1990s Finnish Governments introduced a number of public sector management reforms in an attempt to reduce the range of tasks carried out by the state and hence the share of GDP accounted for by public expenditure (around 60 per cent in 1994). Such changes have included a shift in government bodies to management by results, increased independence, budget cuts, increased privatisation and the transfer of state bodies to joint stock companies. The rapid rise in public expenditure in the late 1980s to early 1990s was mainly caused by temporary factors, such as the severe depression that increased spending on unemployment benefits, other social transfers, and support for the ailing banking sector. As economic conditions have improved, Finland's public expenditure to GDP ratio has been reduced (around 50 per cent in 1997).

The electoral system

Presidential elections in Finland are held every six years, with the first direct elections held in 1994. Before that, the President was elected by a combined electoral college and direct popular voting system. Parliamentary and municipal council elections are held every fourth year and are based on universal suffrage and a system of proportional representation. The number of representatives per constituency varies between 9 and 21. All Finnish citizens aged over 18 are entitled to vote.

The political environment

The Government in Finland consists of the Prime Minister and other ministers, who together make up the Council of State. Following elections the Parliament decides who stands the best chance of forming a new Government and nominates a candidate. The President of the Republic can no longer dismiss the Government or ministers as long as they have the confidence of Parliament.

Ministers are collectively responsible for the conduct of affairs and for the general policy of the Government. The role of the Council of State is to prepare the bills that are formally submitted to Parliament in the name of the President. They also have decision making powers in issuing regulations, nominating senior civil servants and issuing government guarantees. They meet weekly and deal with around 3,000 issues a year, mostly on matters relating to government appointments, administrative appeals and other administrative matters. The Council of State is supported by a number of ministerial committees. In addition, informal evening sessions of the Council are held at which important political matters are discussed.
The Supreme Audit Institution

Historical development

Finland was part of Sweden until 1808 and only acquired an independent public finance system in 1809. Between 1809 and 1824 state audit was dealt with by an office subordinate to the Chamber of Execution of the Economic Division of the Government Cabinet. The Government Cabinet was renamed the Senate of Finland in 1816. In 1824 the first predecessor of the State Audit Office, the General Revision Court (including the Revision Office which operated as a part of the Court), was established by imperial decree as an agency under the Senate of Finland.

The basic constitutional law of Finland, the Form of Government Act 1919, gave legal authority for government audit, stating that there should be an office (the State Revision Office) to audit the accounts and balances of the state funds. This body was required to check that the figures were correct, and ensure that revenue and expenditure were legal, the budget was complied with and financial management was appropriate. The 1923 Audit Decree stated that the role also included considering whether there was wasteful or unnecessary expenditure.

During World War Two a second audit body, the Audit Office of War Economy, was established as a result of the demands of wartime expenditure. In 1945 a committee was formed to consider how the two bodies could be merged. The 1947 State Audit Act resulted from this and established the present State Audit Office to audit the legality, appropriateness and budgetary compliance of the state's financial management. The State Audit Office began its work in 1948. Under the 1991 State Audit Decree the terms of the 1919 Act were modernised and in 1993 a new State Audit Decree was passed, again detailing the tasks and organisation of the Audit Office. In 1995 an Act was passed giving the State Audit Office the right to audit transfers of funds between Finland and the European Union.

The State Audit Office's predecessors all operated under the Ministry of Finance or the corresponding department of the old Senate. The new Constitution which came into force on 1 March 2000 breaks this tradition. Section 90.2 of the new Constitution states that "To audit the State's financial management and compliance with the State budget there shall be an independent State Audit Office under the supervision of Parliament. The position and tasks of the State Audit Office shall be prescribed in greater detail by legislation". New laws concerning the status and the duties of the State Audit Office came into force on 1 January 2001.
The organisation and structure of the State Audit Office

The head of the State Audit Office is the Auditor General. He and three Audit Councillors form the Audit Council, a four member collegiate body. In recent years some of the duties of the Council have been transferred to the Auditor General, who is assisted by a management group comprising the Audit Councillors and the Head of Planning. The Audit Council considers the financial plan and draft budget, audit planning instructions, and the issuance of guidelines to state bodies. Disputes within the Audit Council are resolved by a majority of votes, with the Auditor General as chairman, having the casting vote where necessary. Auditors General have only been outvoted once in the last 20 years. Under the provisions of the new Act on the State Audit Office the Audit Council will be abolished.

Since 1 January 1996 the State Audit Office has been divided into four operational units, two of which are responsible for performance audit, one for financial audit and one for internal services. These were created following a decision of the Auditor General. The Auditor General and the operational units establish annual result agreements through which units commit themselves to certain levels of performance in return for given levels of resources. Within the three audit result units work is divided between Audit Groups, brigading together the audits of a number of ministries. The Audit Groups are led by Heads of Audit. The internal services result unit is divided into three result groups and provides support to the rest of the office, as well as liaising on subjects such as European affairs.

Also in 1996 a special unit was established under direct supervision of the Auditor General. The Special unit monitors and deals with irregularities in national administration and their direct and indirect effects as well as measures to prevent improprieties. The Special unit also handles complaints and enquiries to the State Audit Office concerning the management of the State economy.

The Auditor General is appointed by the Parliament. The appointment is for a term of six years which is renewable and the retirement age is 65. Candidates can have an administrative or political background. Appointments have usually been made from outside the office. The Auditor General can only be removed by the Parliament following serious misbehaviour. Audit Councillors and other officials are appointed by the Auditor General.

The Auditor General is charged with directing and developing the operations of the State Audit Office and is responsible for its efficiency and the achievement of objectives. He decides on all matters except those that according to the SAI’s working order are assigned to other officials. Although each operational unit decides on its own work programme, the Auditor General
can reserve individual decisions to himself on a case by case basis. In the absence of the Auditor General, an Audit Councillor nominated by the Parliament on the basis of seniority can carry out the Auditor General's duties.

The recruitment, remuneration and qualifications of staff and other resources

The complement of the State Audit Office at the end of 1999 was around 135, of whom 120 were auditors and 15 administrative staff. Sixty five auditors worked in performance audit and fifty five in financial audit. There were 15 (including audit staff) in internal services. The majority of the staff (118) work in Helsinki. A further 17 work in three regional units that were established in 1995 in the towns of Turku, Jyväskylä and Oulu.

All audit staff at the State Audit Office have university degrees. The largest proportion have a master's degree in accounting or business and they are followed by postgraduates in areas such as public administration, political science, economics and sociology. The third most significant group is that of qualified lawyers with a Master of Law degree. Seven out of 18 of the senior officials in the office are qualified lawyers.

Audit posts are advertised in the Official Bulletin of the State and in certain newspapers. Candidates are interviewed and often tested by psychologists. Recommendations are made to the Auditor General, who makes the final decisions on recruitment. New staff often start on a probationary period before becoming permanent. This period can vary from three to 12 months. Salaries are decided by the Auditor General, who, like the heads of offices and agencies, has considerable freedom in this area, while taking account of the government General Salary tables. Salaries are considered to be about average for the public sector in Finland. Individual salaries depend on the length of service in the public sector as a whole and not just at the State Audit Office.

The State Audit Office's budget in 1999 was 42.5 million Finnish markka (FIM), some 7.12 million euros. Of this, FIM 23 million was spent on performance audit, FIM 19 million on financial audit and FIM 0.4 million on the special unit. Internal services cost FIM 4.2 million. Some 42 per cent of direct time was spent on financial audit and 52 per cent on performance audit. The remainder was spent on providing internal services, expert services and advice.
The scope, role and rights of access of the State Audit Office

Currently, the State Audit Office comes under the jurisdiction of the Ministry of Finance, although under the Constitution it has independence as to its audit work. Under the new Constitution the State Audit Office will be organised under the supervision of Parliament by 1 January 2001. This new organisational status will also bring some small changes to the role and duties of the State Audit Office. However the Office's main duties and rights of access will remain as they are.

For the allocation of financial resources, the State Audit Office has been treated as part of the executive and has also been required to provide the Parliamentary State Auditors (see separate section at the end of this chapter) and the Ministry of Finance with its activity and financial plan. However, the Audit Office is the auditor of the Ministry of Finance, and has a statutory duty to submit its audit reports separately to the Parliamentary State Auditors and the Ministry of Finance. Indirectly, however, through the Parliamentary State Auditors, the State Audit Office supports the control exercised by Parliament.

The State Audit Office is authorised to examine the revenue and expenditure of the following bodies: the Council of State; government administrative units (including ministries, state offices and agencies); state enterprises; recipients of state subsidies including local communities, public utilities and joint stock companies in which the state, or the state and a state-owned company together, control over half of the voting rights conferred by the shares. It can also examine funds outside the state budget, and under 1995 legislation has a right to examine Finland's contribution to, and payments from, the European Union budget.

The State Audit Office does not audit the Finnish Parliament, the Bank of Finland or the State Insurance Institute, which are audited by auditors nominated by Parliament. When state bodies are privatised the State Audit Office is unable to examine the new bodies, although it is able to conduct the audits of the regulators of the new bodies. The accounts of the State Audit Office are subject to examination by the Parliamentary State Auditors.

The State Audit Office has a statutory right of access at all times to all documents it may require during its audits. All information, with any necessary explanations, must be provided to the Audit Office without delay and under the 1947 State Audit Act the State Audit Office can fine anyone failing to comply with such requests within set time limits. It can also insist that books, documents and other material are provided in a form suitable for audit on threat of a fine, although to date it has never had to use these powers.
Relations with Parliament and the Government

So far there has been no direct official contact between the State Audit Office and Parliament. Instead, relations have been conducted through the Parliamentary State Auditors, who are responsible for overseeing the finance of the state and supervising compliance with the budget on behalf of Parliament. The subject of a merger of the State Audit Office and the Parliamentary State Auditors has been discussed for many years, and has been considered by parliamentary committees on various occasions. The main arguments for it are that the Parliamentary State Auditors' reporting does not adequately fit into the budgetary process; that the adoption of results oriented budgeting may have decreased Parliament's ability to control state finances; and that there is a need to increase the independence of the State Audit Office with regard to its resourcing.

As part of the revision of the Finnish constitution these matters were considered by a special parliamentary committee (The Constitution 2000-Committee) which published its report in July 1997. The committee proposed that the State Audit Office should become the responsibility of Parliament and that a special review should be launched in order to clarify the relations between the State Audit Office and the Parliamentary State Auditors, and the status and functions of the new State Audit Office.

In addition, in 1997 a special governmental project was set up to find the most effective ways of improving the overall management of the State entity, and in particular external auditing. It reported in May 1997 and proposed that the State Audit Office should be transferred from the Ministry of Finance to the Office of the Council of State. In October 1997 the Ministry of Finance set up a special working party, of which the Auditor General was a member, to draw up proposals concerning the organisation of state audit, taking into account the demands of both the Parliament and the Council of State. It reported in December 1997 and proposed that the State Audit Office should either be transferred into the affiliation of the Council of State or into the affiliation of the Parliament. Under both proposals the institution of Parliamentary State Auditors would remain as it is.

In February 1998 the Government submitted a law proposal to Parliament concerning possible changes to the Constitution, which left the issue of the future status of the State Audit Office unresolved. The proposal was discussed in the Financial Committee and in the Constitutional Committee and it was agreed that the matter could not be left open, with the Financial Committee stating that the State Audit Office should be connected to Parliament. In November 1998 the Constitutional Committee took the same position and said that the starting
point in arranging the administrative status and the duties of the State Audit Office should be to secure by law its credible independence, both administratively and functionally.

The new Constitution was approved on 12 February 1999. Under section 90.2 it states that "To audit the State's financial management and compliance with the State budget there shall be an Independent State Audit Office connected to Parliament. The position and tasks of the State Audit Office shall be prescribed in greater detail by legislation". The Parliament's Council of Speakers set up a committee in February 1999 to prepare a proposal for legislation concerning the status and the duties of the State Audit Office. The Committee, of which the Auditor General was a member, completed its work in December 1999. New law, the Act on the State Audit Office, concerning the status and the duties of the State Audit Office will come into force on the 1st of January 2001.

**Relations with other auditors**

The State Audit Office has contact with the Parliamentary State Auditors in several ways. The Office is statutorily required to provide the Parliamentary State Auditors with its annual plan of operations and submits all its reports to them for information. The Parliamentary State Auditors often include comments from the State Audit Office in their annual audit report to Parliament. In order to avoid duplication of effort there are also informal discussions between the bodies at the time of the annual planning round, and in addition the Parliamentary State Auditors can suggest that the State Audit Office conducts audits in specific areas, as can any other body or individual.

In addition to working closely with the Parliamentary State Auditors, the State Audit Office has contact with other auditors - in particular through the Cooperation Team of Public Administration Auditors. This is a joint working group comprising representatives of the State Audit Office, the Parliamentary State Auditors, the Association of Finnish Municipalities and that Association's auditing company. The group meets regularly to discuss audit legislation and initiatives in public administration, and to arrange training.

Internal audit in Finland is carried out by internal audit sections within ministries and agencies. This is a management support function, designed to examine the administration and accounts of the institution as well as to audit how the body has functioned in awarding government subsidies. Internal audit functions are quite separate from the State Audit Office, although it does have a statutory advisory role in the organisation of internal audit and internal control. The State Audit Office exercises this role in carrying out its external audit function and making recommendations regarding internal control on the basis of its audit work.
The government accounting system

In recent years the Finnish Government has introduced major changes to its budgetary and management systems. These changes were first tested on three pilot agencies and have since been introduced to all bodies. The most important aspect is that agencies are given lump sum appropriations, which can be applied at the agency’s discretion without detailed parliamentary scrutiny and can be carried over into the following year. In return efficiency and effectiveness objectives are set for the agency in negotiations with the Ministry of Finance and the relevant line ministry.

The system is designed to provide increased delegation and accountability, and also to increase parliamentary knowledge of what agencies will provide for the resources given to them. Agencies must submit Annual Reports detailing their performance to the Ministry of Finance, their line ministry and the State Audit Office. Agency financial statements include calculations of compliance with budget, and an administrative balance sheet, while the accounts now include elements for the market based rental cost of their offices and pension contributions.

The auditing process

Planning of audit work

The work of the State Audit Office is planned throughout the year with an annual programme put together between August and December. In September seminars are held for each operational unit to discuss the work planning guidance and obtain input from all staff members about factors that should be taken into account. In November proposals for audit topics are submitted in the light of identified priorities and risks, and preliminary topic selection takes place. In December final decisions are made on the work programme by the head of each operational unit, taking account of targets agreed with the Auditor General. The programmes are combined and issued together as the State Audit Office’s programme at the end of the year. The main factors that determine the work programme are materiality, risk, the practical usefulness of the proposed work, and the need to obtain adequate assurance on the legality of expenditure and revenue and its compliance with the budget.

Financial audit

Before 1987 audits of ministries and agencies combined financial and value for money work, and audit reports included value for money observations. After this, separate financial audits were conducted on a three to five year cycle
within a new definition of financial audit. In the early 1990s the audit approach was again revised to include not just an examination of the accuracy of the accounts but also the achievement of performance targets and the correctness and adequacy of the information on which performance was judged.

The State Audit Office's Financial Audit unit and its four audit groups focus solely on financial audits. The Unit is divided into audit groups according to the different fields of administration which correspond to the jurisdiction of ministries.

All ministries and agencies are audited annually by the State Audit Office. There is no statutory requirement to do so, but since 1995 all ministries and agencies have been subject to an annual audit by the Office's Financial Audit unit, because by then all of them had adapted the results oriented budgeting system. In 1998 the State Audit Office submitted 106 financial audit reports. Some audits concerned information systems used in financial management. In 1999 the State Audit Office performed around 115 financial audits.

The aims of the financial audit are to ensure that the financial statements are correct, to check the legality of financial management and that internal controls are functioning, and to assess whether book-keeping and other accounting practices are reliable and appropriate. Traditionally this has included checking that funds have been used in accordance with budgetary statutes and regulations, as well as within budget appropriations, and that they have been brought to account correctly. Financial audit unit's scope is divided into five different parts: book-keeping and other accounting in the centre, compliance with the budget, internal controls, true and fair view of annual accounts and annual reports and performance goal setting.

The Government's economic management is based on a results oriented budgeting system - a division of accounts and less detailed budget implementation instructions adapted for framework and result management. This has affected the financial audit approach of the State Audit Office. Agency performance is now judged against the targets set in result agreements with the relevant ministry, and so these bodies have had to develop systems to record costs and outcomes in more detail. The State Audit Office has adapted its work to take account of these changes. This has involved increased assessment of the accuracy and adequacy of outcome data and the rationale for performance goal setting.

The state accounting system was reformed in 1998. This increased development work in the Financial Audit unit, including the revision of the auditing manual and the development of computer-aided auditing.
Performance audit

The State Audit Office's Performance Audit units evaluate activities, which have a direct or indirect bearing on state revenues and expenses. Performance audits investigate the achievement of objectives and problems related to the overall efficiency of the state economy and produce information to direct the state economy. Performance audit provides information, assurance and advice to support the economy, efficiency and effectiveness of the state administration. It also ensures the legality and propriety of the state's financial management and compliance with the state budget. Special focus areas during recent years include state financial control systems, state subsidies and other support, and state revenues.

Performance audit work in the State Audit Office is divided into two units, Performance Audit unit 1 and Performance Audit unit 2. Performance Audit units are divided into three audit groups per unit, according to different fields of administration which correspond to the jurisdiction of ministries. Furthermore there is a separate audit group within the Performance Audit unit 1 that audits special topics. Performance Audit unit 1 also conducts annual financial audits of the joint-stock companies in which the Government has a majority shareholding. The State Audit Office uses a new computerised system, through which auditors are able to monitor and follow the changes in the economic situation of the companies based on the information from their annual accounts. Performance Audit units also carry out audits on governmental information management.

In 1999 the State Audit Office completed 26 performance audits, taking an average of 235 employee days to carry out the work leading to a final report. Performance audits are usually done by 1-3 auditors. Performance audits that were completed in 1999 covered issues such as the procurement of Hornet fighters, managers' contracts in state-owned companies, state energy subsidies, forest tax system, control of value added tax, environmental information system, and control of environmental support for agriculture.

Suggestions for new performance audits come from audit staff and from senior management. Financial auditors are also expected to raise value for money issues identified from their work. Performance audit staff review their own areas of responsibility and prepare papers with suggestions. Some 200 ideas are produced annually, of which around 10-15 per cent are approved and reach feasibility study stage.
The State Audit Office's evaluation includes an assessment of the economy, efficiency and effectiveness of financial management; the correctness and adequacy of external information about results; the validity of the basis for setting objectives, and compliance with budgets and objectives. Many studies take a cross-administrative approach to examining common functions.

Recently the State Audit Office has focused on establishing and developing the quality of the performance auditing process. An internal working group investigated quality requirements and methods for evaluating the quality of auditing. Quality criteria were formulated and on this basis the first evaluations of the quality of performance audit reports by an outside expert were performed in 1998. A model was also created for monitoring the effects of individual audits after their completion. The objective is to collect information on special problems and development possibilities related to the effectiveness of audits.

**Reporting**

The State Audit Office produces separate reports on financial and performance audits. In 1999 there were 98 financial audit reports. The State Audit Office also took part in 59 other financial audits, mainly in state-owned companies, state enterprises, funds and international bodies. All financial audit reports as well as systems and performance audit reports are submitted to the Parliamentary State Auditors and to the Ministry of Finance, as well as to the audited body and, where this is an agency, to the relevant supervising ministry.

Draft reports are presented to the auditee (and other relevant government bodies as necessary) for comments and clarification. Decisions on the final content of the report are made by the relevant Audit Councillor but auditees' comments are usually incorporated into the final text. The report is sent for information and possibly for discussion to the Auditor General, who usually comments within five days. The Auditor General can require changes to be made, but to date has not overruled an Audit Councillor. Final reports, which are usually 50-150 pages long, are available to the public. A press release is issued with the report, which, in the case of more critical or significant reports, can receive considerable media attention.

In addition, the State Audit Office produces an Annual Report, which is submitted to the Parliamentary State Auditors and the Ministry of Finance and is distributed widely within the Government. The report includes an overview of the year by the Auditor General, an examination of the State Audit Office's activities and operations, and an assessment of achievement of objectives in both financial and performance audit against targets.
As the State Audit Office is now organised under the supervision of Parliament, the Office submits once a year (in September) an Annual Report of its work to Parliament and other necessary reports.

**Summary**

The Finnish State Audit Office examines the legality and soundness of the Government's financial management and compliance with the national budget. The key features are:

**Independence**

The role of the State Audit Office is provided for in the basic constitutional law of Finland, the Form of Government Act 1919. The State Audit Office itself was established by the State Audit Act 1947.

The Auditor General is appointed for life, although he must retire at 65. The Auditor General can only be removed following serious misbehaviour.

Under the new Constitution that came into force on 1 March 2000 the State Audit Office will be organised under the supervision of Parliament by 1 January 2001.

**Organisation**

The Auditor General and three Audit Councillors together form the Audit Council, which considers the financial plan, draft budget, audit planning instructions and guidance to state bodies. In recent years some of the Council's duties have been transferred to the Auditor General, who is assisted by a management group consisting of the Audit Councillors and the Head of Planning.

The State Audit Office is divided into operational units of which two are responsible for performance audit, one for financial audit and one for internal services. There is also a special unit under the direct supervision of the Auditor General, which monitors and deals with irregularities in national administration and their direct and indirect effects, as well as measures to prevent improprieties. This unit also handles complaints and enquiries to the State Audit Office concerning the management of the State economy. Result agreements between the units and the Auditor General are made annually. In these, the units commit themselves to a certain level of performance for given levels of resources.
Staff

Decisions on staffing and appointments are made by the Auditor General. The current complement of the State Audit Office is 140. All audit staff have university degrees.

Discretion over work

Although currently under the jurisdiction of the Ministry of Finance, the State Audit Office has complete discretion over the planning, execution and reporting of its work. It has a statutory duty to submit each report to the Parliamentary State Auditors (Parliament’s audit body) and the Ministry of Finance.

Audit remit

The State Audit Office has a wide remit covering the Council of State, all government administrative units (ministries, agencies and offices), state enterprises, recipients of state subsidies, and joint stock companies in which the state owns a majority of the shares. It can also examine funds outside the state budget and transfers between Finland and the European Union.

Ability to report

The State Audit Office has a duty to send each report to the Parliamentary State Auditors (Parliament’s Audit Body) and the Ministry of Finance for information. The Parliamentary State Auditors draw on some State Audit Office findings for their reports to Parliament.

The State Audit Office produces separate reports on financial and performance audits and an Annual Report. All individual audit reports are discussed with the audited body, whose comments are usually included in the text.

Reports are available to the public and are issued with a press release.

Access to information

The State Audit Office has a statutory right of access at all times to all documents required for its audits. It can fine anyone failing to provide material within set time limits, although it has never had to use these powers.
Parliamentary State Auditors

Role

Under the Form of Government Act 1919 the Parliamentary State Auditors are responsible on behalf of Parliament for overseeing the activity and use of funds of the Council of State, the ministries, state offices and institutions, as well as state subsidies and the activities of corporate bodies receiving such subsidies. They also have the right to receive information and documents from the companies in which the state has a majority of the shares and supervise compliance with the budget. Their work is detailed in the Parliament approved Instructions of the Parliamentary State Auditors and they can conduct visits of inspection at state offices and institutions.

The Parliamentary State Auditors and their staff

The Parliamentary State Auditors comprise five members of the Finnish Parliament elected for each parliamentary session by a system of proportional voting. The Auditors elect a Chairman and Vice Chairman from among their number. To carry out their work the Auditors divide into two sections with the areas to be investigated shared between them. All matters concerning the activity of the Parliamentary State Auditors, the most important issues relating to the working of the office and its staff, and issues associated with the Auditors' annual report are considered in the meetings of the Parliamentary State Auditors.

The Parliamentary State Auditors are supported by an office with a staff of 14 civil servants. The office is overseen by a Head of Office and its activity is supervised by the Chairman of the Parliamentary State Auditors. The staff make the arrangements for the Parliamentary State Auditors' work, collect documentation, help the Auditors in carrying out their visits of inspection, provide administrative and secretarial support, carry out the control activities where instructed by the Auditors, and deal with the publication of reports.

Scope and role

The extent of the Parliamentary State Auditors' mandate is quite similar to that of the State Audit Office but inevitably the scale of their work is restricted by limited resources. In addition, they examine state spending in a more general way than the State Audit Office, avoiding detailed examinations of the functions of the Government. The Parliamentary State Auditors and the State Audit Office may cooperate and hold meetings to discuss work proposals and key areas for
coverage. These are designed to prevent duplication of effort. In addition, the Parliamentary State Auditors may draw to the attention of the State Audit Office particular issues that they have identified in the course of their own work.

**Reporting**

The Parliamentary State Auditors report annually to the Finnish Parliament. Their report provides a general overview of varying topics in each administrative branch, as well as suggestions for measures to correct the deficiencies observed. The report also compares the final annual State Accounts with those of the previous year and highlights compliance with the budget for the year. The report is considered by the State Finance Committee of the Finnish Parliament, which produces its own report. These two documents are considered by the Council of State, which produces a report on its actions. This is dealt with by the State Finance Committee and later by Parliament.
Cour des Comptes
France

Background information

Economic and general information

France (without overseas territories and departments) has an area of 544,000 square kilometres, including the island of Corsica, and a population of 58.5 million. A further 1.6 million live in overseas territories. After many hundreds of years of monarchy, a variety of political systems followed: First Republic (1792-1804), First Empire (1804-1815), Restored Monarchy (1815-1830), Liberal Monarchy (1830-1848), Second Republic (1848-1852), Second Empire (1852-1870), Third Republic (1870-1940), Fourth Republic (1946-1958). The current Fifth Republic was proclaimed in 1958.

France is one of the world’s leading industrial countries. Manufacturing industry is strong and provides some 33 per cent of GDP. The most important elements are food products, transport equipment, chemicals, machinery, metals and metal products. Agriculture (including forestry and fishing) contributes some 3.3 per cent of GDP. During the 1980s, under socialist governments, France underwent a programme of nationalisation ranging across the economy, including banking and insurance as well as heavy industry. However, the periods 1986 to 1988 and since 1993 have seen a change in government and moves towards privatisation. This has been driven in part by the opportunity to raise revenue to offset budget deficits. This policy was not affected by the newly elected left-wing government.

The structure of the French state

France’s republican status is enshrined in the Constitution. The Fifth Republic increased the power of the executive over the legislature in order to promote strong and stable government, although ultimate sovereignty rests with the people. The Constitution also provides for a legal system based on two types of court: administrative and judicial.
The Head of State is the President of the Republic. Since 1962 the President has been elected by direct universal suffrage for a seven year period, recently reduced to five years. A distinctive feature of the Fifth Republic is that the President combines formal responsibilities with purely ceremonial functions. The President appoints the Prime Minister and, on nomination from the Prime Minister, the other ministers. He promulgates laws passed by Parliament and has the power, albeit seldom used, to refer laws back to the Parliament. The President is head of the armed forces and also plays a high profile role in foreign affairs.

The Government is led by the Prime Minister who is constitutionally responsible for determining and pursuing the policy of the nation. Members of the Government cannot be members of the French Parliament, and when called to government service resign in favour of a 'deputy'. There are usually between 40 and 50 members of the Government at any one time, divided between about 20 ministries. The Prime Minister has authority over other members of the Government and can issue instructions to them. The Government is responsible to the National Assembly (the lower house of Parliament) and must resign if it loses a vote of confidence. The resignation has not always been accepted by the President, who may maintain the Prime Minister in office and call for new general elections after dissolution of the National Assembly.

France (without overseas departments and territories) is divided into 22 administrative regions for national development, planning and budgetary policy. There are 96 départements within the 22 regions, to which must be added the four overseas départements, which also have regional status: French Guiana, Guadeloupe, Martinique and Réunion. Two overseas collectivites territoriales (Mayotte and St Pierre and Miquelon) and three overseas territories (French Polynesia, New Caledonia and the Wallis and Futuna Islands) are also all integral parts of the French Republic, the three last quoted with a special status.

Central government is represented in the regions and départements by the préfets, high ranking officials appointed by Presidential decree, who come under the authority of the Ministry of the Interior. In 1982 there was a significant transfer of power from central to local government. The Act of Decentralisation transferred administrative and financial power from the préfets to locally elected departmental assemblies (conseils généraux) and regional assemblies (conseils régionaux). However, the préfets retain the power to refer to the administrative courts those local government actions they consider to be in contradiction of national laws and regulations. They can also refer the budgets of local authorities to the regional Chambres des Comptes (court of accounts) in certain circumstances.
Under an Act of February 1992 on the territorial administration of the Republic, and a Decree of July 1992 containing a ‘Deconcentration Charter’, the roles of central and local levels of state services were redefined and rules on power sharing between the central and local levels of government services were significantly changed, in an attempt to strengthen the role of local level within the administration of the state. Regional authorities have responsibility for economic development, employment, infrastructure and secondary education.

**The electoral system**

Parliament consists of the National Assembly and the Senate. The 577 seat National Assembly is directly elected by universal adult suffrage for a five year term, subject to dissolution by the President of the Republic. The Senate consists of 321 senators, one-third of whom are elected every three years for a nine year term by an electoral college. This body is composed of members of the National Assembly and delegates from all tiers of regional and local government. The Senate ensures the representation of the various parts of the local administration and cannot be dissolved. Following an amendment to the Constitution passed in 1995, Parliament sits from October to June.

The National Assembly determines the financial resources and obligations of the state. It also initiates legislation and holds the Government accountable for its programme. Legislation requires approval by both the National Assembly and the Senate. But, if these two bodies disagree over a bill, the National Assembly has the last word. The Cour des Comptes (the state audit body) assists Parliament and the Government in supervising the implementation of the finance laws and in supervising the implementation of national health and pensions organisation financing laws.

**Other central government supervisory bodies**

France has a long history of professional public administration. There are a number of powerful central management bodies. The General Directorate for Administration and the Public Service falls within the authority of the Prime Minister and deals with the conditions of service of all civil servants, as well as recruitment and development issues. It also has the trusteeship of the highly regarded Ecole Nationale d'Administration and has responsibility for modernising and improving the quality of service provided by public servants.

The other important central body is the Budget Directorate of the Ministry of Finance. This body, working from the framework laid down by ministers, establishes the spending priorities and allocates resources between ministries accordingly. A network of financial controllers working in each ministerial department is part of the Directorate.
The nature of the civil service

Over 2.9 million people work in the French state public sector (and 1.5 million in the local government public sector, 0.8 million in the public health services). This figure includes teachers and postal and communications staff. The mainstream civil service is highly professional and non-political. The most senior civil servants are graduates of the Ecole Nationale d’Administration. Ministers have large private offices (cabinets) staffed mainly by people appointed personally by the minister.

The government accounting system

Financial control within public administration

The requirements of the French public accounting system are set out in a Decree of 1962 (No 62-1587). The French Constitution requires Parliament to authorise all public spending. The budget proposals are set out by ministries in the 'blue book' and then sub-divided into spending heads. For example, the Ministry of Education at the first tier; education expenditure is then further broken down into areas such as higher education. The annual budget law also authorises revenue, and without this no tax can be collected.

The Constitution requires Parliament to authorise expenditure at chapter level, with a chapter defined as a spending item. There are some 5,000 such items and they are further divided into 72,000 budgetary accounts, or paragraphs, that are published in the 'green book' once the budget has been approved. After the year end, Parliament receives a report on spending at chapter level and on the basis of this report gives discharge for the year's spending.

The past ten years have seen the development of programme budgets, which spell out objectives and resources and include performance indicators. These documents were intended to form a sound basis for parliamentary debate, enabling Parliament to consider more effectively the Government's goals and priorities. In practice the documents have been used as background material, and the focus for debate has continued to be the traditional 'ways and means' budget, which does not facilitate broader debate. There have, however, been developments across the administration in the use of programme evaluation techniques.

An ambitious reform, including budgetary frame, procedures and accounts, is currently being discussed by Parliament. This would involve a further move towards a program and performance approach to the state budget.
Financial control posts

There are three key posts in the French government accounting system. These are the ordonnateur (authorising officer); the financial controller; and the comptable (or public accountant). Ordonnateurs are administrators who have authority over parts of the budget within defined spending limits. A minister can authorise spending but more often it will be senior officials acting on his behalf. The financial controller is an official of the Ministry of Finance based in each ministry. His task is effectively to audit the acts that initiate financial commitments, to oversee the actions of the ministry and to ensure that it does not exceed prescribed limits. He will also endeavour to restrict departmental expenditure in accordance with wider government aims to reduce public spending. Financial controllers must attach a visa (indicating approval) to all vouchers committing Government funds.

The comptable's role is to ensure financial equilibrium, integrity, regularity and quality in the application of public funds. Comptables are officials of the Ministry of Finance who are personally responsible for the funds within their control and are fully independent of the bodies in which they work. They are assisted by a large staff but retain personal responsibility. Comptables and their staff number some 55,000, operating in central, regional and local government.

Comptables provide the internal control at the time payments are made. The comptable makes the payments authorised by the authorising officer and approved by the financial controller. As comptables are personally responsible for the decisions taken, they are liable for the sums involved should a payment be made without appropriate authorisation or without legal authority in the budget. All comptables are protected by a bond to cover this risk, and they retain the risk until the Cour des Comptes audits their accounts and discharges them of their responsibility.

The General Inspectorate of Finance

Each ministry has internal inspectors who carry out a similar role to internal audit in the United Kingdom. They report to the minister and can have wide ranging powers. The General Inspectorate of Finance is the most prestigious of these bodies. It was set up in 1816 and, along with the Cour des Comptes and the Conseil d'etat, is one of the 'grands corps de l'état' - the three senior bodies in the French state service. It has a staff of some 100 Senior Inspectors who have wide powers of access to documents in ministries and any institution or enterprise that spends or receives public money, including grants and subsidies. The Inspectorate is regarded by observers and public servants alike as thorough and professional.
The Inspectorate also monitors the work of all officials responsible for public finance, its task being to assess performance. Its reports can be made public and its recommendations about procedures or the performance of individuals are usually accepted. The Inspectorate will carry out a full investigation should a comptable's decision be overridden by an authorising officer.

**The State Account**

The State Account is drawn up by the Ministry of Finance. It includes details of:

- the revenue and expenditure of the national Government, including both a budgetary income and expenditure statement based on a modified cash basis, and a cash statement showing all sources of funds cashed and all disbursements made during the year;

- additional schedules detailing estimates and actuals with respect to revenue and expenditure (on a line item basis);

- the balance sheet of the Government, which, for all practical purposes, is limited to financial assets and liabilities;

- the financial results for the current year, and the consolidation of these figures with those for preceding financial periods.

Provisions have been laid down in recent years to move toward a presentation of state account on an accrual basis.

**The Supreme Audit Institution**

**Historical development**

The Cour des Comptes was created in its present form by Napoleon I in 1807. Its predecessors, the Royal Chambers of Accounts, which had been established in most provinces at the start of the fourteenth century, were abolished in 1790 during the French Revolution. The Cour is one of the oldest and most prestigious institutions in the French administration. The Constitution states that the Cour des Comptes should assist Parliament and Government in supervising the implementation of the state budget and the national health and pensions organisation financing laws. It plays a significant part in the accountability and control processes.
The Cour's audit remit was last set out in a law passed in 1967. This provides for the audit of all ministries and public bodies. The audit of social security, public enterprises and nationalised industries was added in 1976 when the audit bodies previously responsible were merged with the Cour. This last category of work expanded considerably in the 1980s with the nationalisation programme. In addition, all private bodies that receive money from public funds can be examined by the Cour. Where public funds exceed 50 per cent of turnover, all funds can be examined. Only public funds can be examined at bodies receiving less than 50 per cent. The Cour also examines the accounts of associations that rely on public generosity for their funds. Since 1996, after a modification of the Constitution, the Cour issues an annual report based on the control of the implementation of social security financing laws. All the laws and regulations about the Cour des Comptes and the 'chambres regionales des comptes' (regional chambers of audit) have been merged in the Financial Courts Code (Code des juridictions financieres).

The structure and staffing of the Cour des Comptes

The Cour is headed by the Premier Président, appointed in Ministers Council, through a decree from the President of the Republic. The post has a retirement age of 68. In some cases ex-ministers have been appointed although the current Premier Président - himself a former minister - also spent some of his career in the Cour. The Cour is divided into seven chambres each headed by a Président de Chambre, who is always chosen by Government from among a list of conseillers maîtres prepared by the Premier President. Présidents de Chambre must retire at 65.

In addition to the seven chambres there is also the Parquet Général, headed by the Procureur Général who is appointed by the Government. The Procureur Général provides advice on legal matters, as they affect the work of the Cour, and acts as intermediary between the state services and the Cour. The Procureur Général may, for example, report to the Government important matters that the Cour wants to arise after its audit work. The Procureur Général must be represented on the committees of the Cour, and reviews reports prepared on the conclusion of audit work.

The Cour des Comptes consists of some 618 people, 171 of whom are magistrates appointed for life by decree from the President of the Republic. This group is divided into 99 conseillers maîtres, 53 conseillers référendaires and about 19 auditors presently on duty within the Cour. Support staff are usually seconded from the civil service for fixed periods and carry out basic audit (342) or administrative tasks (105). Three quarters of the conseillers référendaires were previously auditors and the remainder are selected from the wider civil
service, particularly the Ministry of Finance. Two thirds of the conseillers maîtres were previously conseillers référendaires and the remainder come from senior public service posts.

Auditors start as trainees and are postgraduates from the Ecole Nationale d'Administration with qualifications in public law, finance and economics. Their training is mainly through practical experience, and development is monitored by a mentor of a more senior grade. Appointment for life guarantees their independence as magistrates, but there is an expectation that staff of the Cour will also gain experience elsewhere in the civil service and more widely at different stages in their career, particularly after the auditor stage.

The fact that such a high proportion of senior magistrates have experience from outside the Cour increases their appreciation of the practical management problems in the bodies they audit and increases their credibility with those subject to their examination. In addition, many magistrates have worked in the internal control environment of ministries, sometimes even as comptables. Once appointed to a chambre, staff tend to stay within one area and build up considerable expertise. Magistrates are also encouraged to assume responsibilities in the wider public sector, for example by teaching at the Ecole Nationale d'Administration.

**Scope and role of the Cour des Comptes**

The Cour is required to audit government accounts. This requirement is divided into two key tasks: to give discharge to each comptable for each financial year (although several years' accounts may be audited together), and to provide an Annual Report on the accounts of the Government on which Parliament can rely in granting discharge for the year. In addition to these tasks, the Cour des Comptes examines aspects of financial management. Therefore the nature of the Cour's audit is oriented towards examining both compliance with judicial powers and procedures, and performance.

Until 1983 the Cour also had responsibility for auditing regional and local government. However, since then there has been a continuous process of decentralisation in French administration and this has included the establishment of chambres régionales des comptes (regional chambers of audit). These bodies have independent jurisdiction and powers akin to those of the Cour. However, the Cour remains a court of appeal against decisions made by the chambres régionales. A liaison committee composed of members of the Cour des Comptes and the chambres régionales exists to co-ordinate the strategic programmes of the chambres régionales and identify areas where joint investigations may take place. An example of joint working was an investigation into the management of water in local areas in 1995.
Organisation of the workload

The division of work between the seven chambres is determined by the Premier Président after consultation with the Présidents de Chambre and the Procureur Général. Within the chambres, the work is allocated by the President de Chambre to teams each headed by a conseiller maître. Each chamber proposes to the First President, on an entirely independent basis, an annual work programme and a medium term programme. These set out the audits needed for the discharge of comptables and the choice of subjects for the examination of financial management, including performance audit investigations. On the basis of these proposals from the chambres, and after discussion within the Public Report and Programme Committee, the Premier Président decides on the annual programme of the Cour as a whole.

The balance between judicial and performance audit work is important. Because the judicial work is the audit of a control mechanism that is generally performed to a very high standard, the Cour seeks to devote just enough resources to provide the information necessary to form its opinion. It then focuses its attention on those areas that could escape the comptables' attention.

Agreement is reached within each chambre on the performance work and the certification audit that will be carried out. The audit approach is then determined by the magistrates, with consideration of the guidelines and methods defined by the mission organisation et méthodes the chambres, and the audit team leader. Magistrates tend to assume individual responsibility for their own work, although more senior magistrates will offer advice to junior staff when necessary. The results of the audit work, both certification and performance audit, are presented by the responsible magistrate to a college made up of conseillers maîtres. The conseiller maître responsible for the area of work will act as a contra-rapporteur at this presentation, and will offer criticism as appropriate in order to help the college to come to a decision.

Access

The Cour has access to any documents relating to the management of bodies within its jurisdiction. All administrators of audited bodies and agents of the state must provide all documents, information and explanations as requested. This includes access to the reports of the state inspection bodies. In addition, the external auditors of public enterprises may also be asked to disclose audit working papers to magistrates. The Cour des Comptes does not usually have access to the papers of private sector companies, even those that have contracts with a public body, but the law allows limited exceptions for mixed economy bodies and partnerships.
The auditing process

Discharge of the comptables

Not all accounts are examined by the Cour every year. On occasions, up to five years' accounts may be audited at a time, with an audit of a comptable covering all financial years since the last audit. The Cour believes that auditing several years' accounts simultaneously provides economies of scale, gives an overview of operations that cover more than one year, and improves relations with the auditee. The work is carried out largely at the Cour as all accounts and supporting information are stored there, but the magistrate may also visit the body to identify areas worthy of more in-depth examination. In a few years, the major part of these documents will be stored in computers of the controlled entities and will be directly accessed from the Cour. Along with the State accounting system reform, the files of the Public Accounts Office are gradually being opened on line to the auditors.

The purpose of this kind of audit is essentially to verify the legality of the transactions that have taken place. It is on this that the comptable account is 'judged'. Aspects of financial management are also considered and where appropriate are reported on, but the discharge relates only to the legality of the transactions in the account. If all is regular, the magistrate will recommend to the college that the accounts be discharged, and if a comptable has come to the end of his period of office the magistrate will recommend that the bond on his property is released. Comptables may retire or transfer to other ministries but the bond relates to the particular account and remains in force until the Cour has reached a judgement.

Where a magistrate considers a comptable has acted illegally, he presents his findings to a college of his chambre, including its Président. If the chambre agrees with the magistrate, it issues a provisional judgement. This details the offence and the sums involved, and sets a time for the comptable to respond in writing, which must be at least one month. The chambre considers the response and can either cancel the provisional judgement or ratify it. If ratified, it is legally binding, and the amounts to be repaid plus interest are legally due from the comptable.

Judgements emanating from this work are communicated to the minister, with the intention that a repetition of errors will be avoided, or that the tasks can be reorganised. Comments on the performance of individual comptables will also inform the decision as to where they should be posted next. In 1998 the Cour produced 910 judgements on the accounts of public sector accounting officers. These judgements related either to amounts owing that were the responsibility of the comptable to settle, or to matters to which the comptable had to reply.
Discharge of the State Account

The State Account is drawn up by the Ministry of Finance rather than individual ministries. The financial year ends in December and the account is prepared by March. The Cour has until April to present a provisional report to the Parliament and the final report is presented in June.

The work required for the discharge of the comptables feeds into the view taken on the State Account as a whole. Additional work is carried out where necessary by the first chambre, which has responsibility for producing the overall report on the State Account. The final report includes a general declaration of conformity and details of significant breaches of budgetary rules.

Work in support of the declaration includes an examination of all aspects of out-turn compared with budget and seeks to explain any differences. But that work can go further. In the 1998 and 1999 State Account Report, public accountability regulations were called into question. According to the Cour, they are technically obsolete and do not comply with international standards of public accounting. A thorough reform of these regulations is under way.

The audit of financial management and performance

Two-thirds of the resources of the Cour are devoted to the audit of financial management or performance. This work is described as the audit of 'bon emploi des fonds', which is interpreted as the scrutiny of the achievement of desired objectives by means of public expenditure.

Within the Cour, performance audit is carried out by each chambre. The results are approved by the college of the chambre. Topics for performance audit are selected by each chambre according to risk, the audit cycle, experience of the area concerned, and the level of political or public interest. Since 1992, regional authorities can ask the chambres régionales to carry out specific audits of areas where the internal control mechanism has highlighted weakness. There are no similar developments planned for central government, where only the Finance Committees of the National Assembly or the Senate can make such requests.

As with financial audit, magistrates have considerable autonomy over the approach taken. Once the subjects and level of available resources have been determined by the chambre, the team leader undertakes the detailed planning, including the identification of tasks and the allocation of work. Each auditor retains personal responsibility for the tasks allocated and will present the results to the senior magistrates. The Cour make much use of secondees detached
(détachés) from the civil service. The work of secondees or other experts is integrated into, or appended to, the report of the magistrates, who then assume responsibility for its content.

The results are then sent to the ministry or body concerned, which must respond. The most significant cases, or those where the response is unsatisfactory, are then considered for inclusion in the Annual Public Report. The Cour decides in formal session which of these matters will be included in the Annual Public Report. Normally between 25 and 30 matters are included annually, along with the detailed response from the Minister. The Premier President is responsible for this report and ensures that its drafting and presentation are satisfactory.

In recent years, the techniques of programme evaluation have been developed in France as a way of analysing the totality of the effects, direct or indirect, of a programme and the environment within which it functions. An example would be the effect of the road programme on traffic safety and the natural environment as well as on communications. In the last period, a very large study on the civil service, especially the Ministry of Finance, caused a great sensation.

Examples of the Cour’s studies that have had evaluative aspects include the Credit Lyonnais Banking Group (1995), decentralisation of secondary education (1995), interventions of local authorities in favour of firms (1996), management of local public services for water and sewerage (1997), programme planning and budget management in the Ministry of Defence (1997), research by the scientific and technological public agencies (1997), organisation of the struggle against drug addiction (1998), national motorways policy (1999), port policy (1999), state civil service (2000 and 2001). (The complete listing can be found on the website of the Cour: http://www.ccomptes.fr). However, while these studies sought to evaluate the results and compare them with the objectives, the focus was still on the quantitative rather than qualitative aspects. The Cour is developing its programme evaluation methodology and has included a study on evaluation in its Verification Manual, the magistrates' audit guide.

This development in the Cour’s approach has coincided with the setting up of other bodies to carry out evaluation of government programmes. These include the Technology Selection Evaluation Office which was set up by Parliament, and the National Committee for the Evaluation of Universities (set up by the ministry for Education) which examines the performance of all universities. In 1990, the Government set up a more formal mechanism for the development of evaluation. This included an inter-ministerial committee to select priority subjects for evaluation at the request of government and external bodies.
(including the Cour des Comptes); a national fund for evaluation development; and a scientific evaluation committee to report on the approach taken in specific programme evaluation projects.

**Reporting**

Since 1995, the Cour has issued three main reports a year: the report to Parliament on the execution of the budget law, the Annual Public Report, and the report on the social security system. The report on the execution of the budget law is a single document commenting on the performance of government spending against the plans approved by Parliament. It contains information on significant breaches of budgetary rules and analyses out-turn against budget with explanations for variances. The report can also include comments on cutbacks decided by a financial controller at a ministry that have resulted in inefficiency or wasted expenditure. The report is considered by the Finance Committees of both the National Assembly and the Senate, and both Committees can ask the Premier Président to give a presentation on it, although in practice this is rare.

The Annual Public Report is submitted to the President of the Republic, the National Assembly and the Senate and is published in the Official Journal. It includes matters arising from the audit of performance, a summary of the main points arising from the report on the discharge, and observations on local authorities, social security and public enterprises. Follow-up action is monitored by the Cour. Recently, the Finance Committee of the National Assembly created a 'Study and Control Team' (Mission d'étude et de controle) which works closely with the Court. It is an innovation in France where, traditionally, the control of Government by Parliament is not very strict.

**Summary**

The main features of the Cour des Comptes are:

**Structure of the Cour**

- The Premier Président and other magistrates are appointed by decree from the President of the Republic with tenure until retirement. They are selected from within the Cour des Comptes as well as from elsewhere in the wider civil service.

- The Cour is divided into seven chambres each headed by a Président de Chambre.
Control over the Cour

- The Cour is one of the oldest and most prestigious institutions in the French administration. It is one of the three 'grands corps de l'état'.

- The annual work programme results from a collegiate process beginning with the proposals of each chambre and ending with the decision signed by the Premier Président. The Cour has complete discretion as to its work programme.

Skills of staff

- The Cour's staff are high calibre graduates from the Ecole Nationale d'Administration with qualifications in public law, finance and economics.

Audit remit

- The Constitution states that the Cour should assist Parliament and the Government in supervising the implementation of the state budget and in supervising the implementation of the social security financing law.

- The audit remit is varied and includes the discharge of the comptables, the preparation of the certificate on the State Account and the audit of financial management and performance.

- Until 1983, the Cour also had responsibility for auditing regional and local government. Since then, regional chambers of audit have been established to take over this work.

Access

- The Cour has access to all documents relating to the management of entities within its remit. All administrators of audited bodies and agents of the state must provide documents, information and explanations as required.

Reporting

- The Cour issues three main reports each year and a number of special reports, particularly on performance issues. The report on the execution of the budget law and the report on the implementation of the social security financing law are submitted to the National Assembly and the Senate, and the Annual Public Report is submitted to the President of the Republic and the legislature.
Legislation

The Cour's activities are governed by the French Constitution and supported by audit law. The most recent relevant laws were passed in 1967, 1976 and 1995-6. The laws have recently been edited in a Code des Juridictions Financières, which combines all legislation and regulations pertinent to the Cour and the chambres régionales des comptes.
The Federal Republic of Germany came into existence in 1949. In October 1990 it was enlarged by incorporating the former German Democratic Republic (East Germany). This followed a year of rapid change in East Germany after movements for political change and liberalisation developed and the Berlin Wall was opened in November 1989. The Federal Republic has a land area of 357,000 square kilometres and a population of some 82 million people. Around 67 million live in the former West Germany and 15 million in the former East Germany.

Between the 1940s and reunification in 1990, the former West Germany experienced sustained economic success, making it one of the strongest economies in the world. It was a predominantly industrial economy, the principal industries being coal mining, iron and steel production, the manufacture of steel and metal products, electrical goods, chemicals and textiles and the production of foodstuffs. In the 1990s the German economy has had to cope with pressures arising from reunification and has experienced relatively high levels of inflation. In addition, there was a sudden loss of Eastern European markets and wider problems associated with the conversion of the former East Germany into a market economy.

The structure of the German state

The constitutional basis for the German state is the Basic Law of 1949. It represents a guarantee of basic rights akin to a constitution. The intention was that these should apply to all Germans, but in recognition of the denial of constitutional rights to those living in East Germany at that time, the term 'constitution' was deliberately avoided.
The Head of State is the Federal President, elected for a period of five years by the Federal Convention (Bundesversammlung). This body comprises all the deputies of the Bundestag (the lower house of the legislature) and an equal number of members elected by the Länder (states) Parliaments. The Federal President's functions are largely ceremonial, but he proposes candidates for Federal Chancellor to the Bundestag and has a role in the appointment and dismissal of cabinet ministers, albeit on the recommendation of the Chancellor.

There are three levels of administration in Germany - federal, Land and local. Each level has clearly defined constitutional tasks, is legally autonomous and is independent within the constitutional structure. The Federal Republic comprises 16 Länder, of which 11 are situated in the former West Germany. The Länder are autonomous, but not sovereign, states with their own constitution, parliament, government and administration. Land constitutions differ but must adhere to certain principles laid down in the Basic Law. In addition, there are also two tiers of elected local government.

Government in Germany is financed by a series of federal, Land and local taxes, as well as some taxes shared between the Federal Government and the Länder and, in some cases (for example income tax), also with the local authorities. The principle stated in the Basic Law is that each level of administration should pay for its own activities. In practice, different levels of government co-operate and the Federal Government also seeks to ensure equity between the Länder. Thus the Länder are financed by Land taxes, joint taxes and value added tax, as well as by the Federal Government for those functions where the Land acts as its agent.

Legislative power rests with the Bundestag (the Federal Assembly) and the Bundesrat (the Federal Council). The former has 669 elected members, and the latter 69 members appointed by the governments of the Länder. Around three-quarters of Federal Government legislation is implemented or enforced by the Länder and local government. The Basic Law provides for direct federal administration of certain federal functions, such as finance, postal services, foreign services, railways, armed forces, waterways, air traffic control and frontier police.

There are 14 ministries employing on average around 1,000 people. Their main task is to formulate policy. Federal administrative functions are delegated partly to the Länder or to local authorities, or are performed by higher, intermediate and lower federal authorities. Authorities at the higher level include bodies such as the Federal Environmental Agency, which is subordinate to the Ministry for the Environment, Nature Conservation and Nuclear Safety. In total the Federal Government employs over 300,000 people.
There are also legal entities governed by public law. These fall into several categories: corporations created by statute and governed by public law (including the Federal Social Insurance Corporation for Salaried Employees); institutions with legal personality governed by public law (for example broadcasting institutions); institutions without legal personality that provide services (such as the federal printing press); and foundations that have money for specific tasks (such as overseas aid).

The Länder are responsible for administering the rest of government. In most cases they have complete independence in carrying out these functions, although in some circumstances they act as agents of the Federal Government. The tradition of regional government in Germany is strong and the Länder also have significant legislative powers in certain fields. In education, for example, they have almost total responsibility for legislation, financing and administration from primary to university level. They also have powers in other areas such as local government law, aspects of policing and the administration of justice.

In addition there are two levels of local government: the Gemeinde (municipality) and the Kreis (district). In general local authorities are responsible for services such as social services, hospitals, public transport, public amenities and water and gas supplies. Councils are directly elected but the organisational structure varies between the Länder. They also implement federal and Land legislation. They are financed from local property and business taxes, grants from the Länder and have a 15 per cent share of income tax.

Each level of government can establish public enterprises. These may be located entirely within the particular level of government and may have no separate identity. A number of such public enterprises at federal level (such as German Railways, Postal Services, Post Bank, Telecommunications) have been converted into public limited companies, with the Federal Government as the sole shareholder. Other public enterprises have been established under company law with the Government as sole or majority shareholder from the start.

**The electoral system**

Elections to the Bundestag take place every four years under a 'personalised proportional representation system'. This is a hybrid system under which each elector has two votes. Half the members of the Bundestag are elected according to a simple majority system in the constituencies by the so-called "first vote", and the remaining members are elected from party lists by the so-called "second vote" under a proportional representation system.
The second vote is the more important because it determines the overall number of members each party can send to the Bundestag, including those directly elected in the constituencies. To send any members to the Bundestag, a party must win at least three constituencies by first votes or five per cent of the second votes. The result is that the Bundestag is constituted in almost direct proportion to the votes cast across the Republic and government is usually by coalition. Members of the Bundesrat are appointed by the governments of the Länder in proportion to the size of their population. Each Land has at least three delegates.

The political environment

Executive authority rests with the Federal Government led by the Federal Chancellor. The role of the Federal Chancellor is a very significant one and he is the only member of the Government elected by the Bundestag. The Chancellor nominates federal ministers for appointment by the President, and determines the political guidelines within which ministers work, although once appointed ministers enjoy a high degree of operational independence. The Chancellor is supported by the Federal Chancellory with a staff of about 500, which is divided into sections shadowing each ministry. This enables the Chancellor to monitor developments in each and co-ordinate policy where necessary.

The Cabinet of ministers takes decisions on a majority basis, with the Federal Chancellor having a casting vote. The exception to this is when the Federal Chancellor decides that an issue is one that comes under his power of determining general policy guidelines, when he may decide alone. Central involvement in the affairs of each ministry is limited to personnel, information technology and finance matters. The Minister of Finance can object to decisions of the Cabinet that are financially significant, and cannot be outvoted if he has the support of the Chancellor. The same rule applies where the Minister for Justice objects to legislation.

Legislation can be initiated by the Bundestag, the Bundesrat or the Federal Government. It is passed by the Bundestag, although the approval of the Bundesrat is also required for about 60 per cent of legislation. The Bundesrat also has the right to object to all legislation, but such objections can be overruled by the Bundestag. Within the Bundestag, parliamentary committees play a significant role and there is at least one for each ministry. Legislation must be referred to them and they have the power to suggest amendments.
The nature of the German public service

The German public service includes all personnel at all levels of government. However, employees of bodies partially or fully owned by government but constituted as private companies are not regarded as public employees. There are clear divisions within the public service that operate at all levels of government. Staff are classified as the Beamte (official), Angestellte (employee) and Arbeiter (worker). The Beamten are employed under public law and are career civil servants with secure tenure of office and no right to strike.

The conditions of service of Länder and local government officials are determined by the laws of the respective Land but must conform to federal framework legislation. Federal officials are also covered by federal civil service law. The Angestellten and the Arbeiter are employed under private law and their terms and conditions are negotiated by a collective convention between employers and trade unions.

The senior posts within the Federal Government are political appointments. Typically a minister is supported by one or two Parliamentary Secretaries of State (members of Parliament), who are appointed and dismissed on recommendation to the President, and one or two Secretaries of State from the Beamten who are themselves served by several directors. All such posts are political by law, and the political civil servants can be dismissed without explanation, although they are compensated financially.

The Supreme Audit Institution

Historical development

The beginnings of state audit in Germany date back to 1714 when the Bundesrechnungshof's earliest predecessor was established in the German state of Prussia (which largely set the pattern for public administration and audit for the whole of Germany). Initially the institution reported to the sovereign but in 1848, when Prussia became a constitutional monarchy, its annual 'Observations' also had to be submitted to Parliament. After the Prussian-led unification of Germany in 1871 it became the supreme audit institution.

In 1949 the Bundesrechnungshof was established as its successor with its status and functions specified in the Basic Law. In 1969 the reform of the Budget Law enhanced the Bundesrechnungshof's audit mandate and extended its role to that of advisor to the Bundestag, the Bundesrat and the Federal Government. It
also granted the Bundesrechnungshof direct access to the Bundestag. This reinforced its role as the independent and impartial audit and advisory body at Federal Government level.

This position was expressly stated in the 1985 Federal Court of Audit Act, which provided that the Bundesrechnungshof was a supreme federal authority and an independent institution of external government audit subject only to the law. It also stated that within the context of its statutory functions the Bundesrechnungshof should provide assistance to the Bundestag, the Bundesrat and the Federal Government in reaching their decisions. The Bundesrechnungshof is thus constitutionally independent. Reference to it as a 'court' reflects the collegiate nature of the decision making processes at all levels, rather than implying it has the judicial powers of some other audit courts.

**The structure of the Bundesrechnungshof**

The Federal Court of Audit Act sets out the constitutional status of the Bundesrechnungshof as well as the operational arrangements in place, such as the assignment of duties and the internal decision making process. The office is organised into nine audit Divisions and one administrative Division. The nine audit divisions are further divided into a total of 52 audit units.

The Bundesrechnungshof has 63 Members, namely the President, the Vice President, nine Senior Audit Directors and 52 Audit Directors. They enjoy judicial independence and a constitutional status similar to that of judges. They cannot be dismissed and are subject only to the law. Since 1985 the appointment of the President and Vice President of the Bundesrechnungshof has been by joint action of the Government and the two Houses of the (German) Federal Parliament. In essence the Federal Government proposes candidates and the two Houses of the (German) Federal Parliament elect them, election requiring an absolute majority. Appointments for both officers are for a period of 12 years or until the statutory retirement age of 65, whichever is the earlier.

The other members of the Bundesrechnungshof are appointed by the President of the Federal Republic upon proposals made by the Bundesrechnungshof’s President, usually after consultation with the Standing Committee of the Senate (see below). By law, either the President or the Vice President and one third of the Members of the court should be trained lawyers. Members have a significant degree of operational freedom and there is no centrally determined and uniform audit approach. The final output from the individual audits is in practice decided by the cognisant collegiate body. Individual audit decisions are normally made by 'colleges' (committees) within the Bundesrechnungshof.
comprising a Senior Audit Director and an Audit Director. The two college members may be joined by the President or Vice President in making their decision.

Where a college cannot agree on a particular point, the difference of view will be referred upwards to either the Divisional Senate, or the Senate for decision. The Divisional Senates consist of the respective divisional director, all the division's Audit Directors and an Audit Director from another division. Following the allocation of responsibilities between them, either the President or the Vice President may attend any Divisional Senate and vote in any decisions. The Senate normally consists of 16 members - the President, the Vice President, the Directors of Audit, three Audit Managers, and two rapporteurs. It has the power to set up its own subcommittees to investigate specific issues. In addition to having an arbitration role, the Senate decides the content of the Bundesrechnungshof's Annual Report.

As well as being responsible for the work of specific ministries, audit divisions also undertake cross-departmental audit work in areas such as human resource policy and expenditure, data processing, pensions and public works. In addition ad hoc audit teams, known as Audit Groups, from different divisions may be set up to undertake specific audit projects.

**Recruitment, remuneration and qualifications of staff and other resources**

The members of the Court are supported by auditors. Staff are recruited from other areas of government administration, and are generally placed in the audit division responsible for that ministry. There is a regular rotation of audit staff, especially of those staff holding university degrees. The Bundesrechnungshof’s staff are part of the civil service and are subject to the same pay and grading structures.

The independence of the audit function from the executive is reinforced by the method of setting the Bundesrechnungshof's budget, which is determined by Parliament on an annual basis. The Bundesrechnungshof prepares a draft budget, which is discussed with the Ministry of Finance, which then presents it to Parliament. If the Ministry recommends a change to the Bundesrechnungshof’s budget, the President has the right to submit comments on proposed amendments to Parliament through the Minister of Finance. The accounts of the Bundesrechnungshof are examined by the two Houses of the (German) Federal Parliament, which both grant discharge.
Scope, role and rights of access of the Bundesrechnungshof

The 1949 Constitution, as later amended in connection with the reform of the budgetary law, requires the Bundesrechnungshof to 'audit the account and examine the performance and regularity of financial management'. The 'account' referred to is the State Account. The 1969 Federal Budget Code states that the functions of the Bundesrechnungshof extend to the entire financial management of the Federal Government, including its separate property funds.

The Bundesrechnungshof also examines the Federal Government's participation in private enterprises in which it holds a direct or indirect interest, and commercial or industrial co-operatives of which the Federal Government is a member. Where public enterprises have undergone the first stage of privatisation, the Bundesrechnungshof's audit mandate changes from that of auditing the accounts of the bodies to auditing the Federal Government's management of its shareholding in them, as provided for by the Federal Budget Code.

The Bundesrechnungshof can also examine the financial management of private entities that receive grants or guarantees: those that are run by the Federal Government or a person appointed by it, and those where an agreement or the entity's charter provides for such an examination. These audits also cover the proper and sound management of the use of funds and, for grants, can extend to recipients' other resources. Such audits may also extend to any third parties to whom such funds are passed by the bodies concerned. These arrangements are more extensive than originally proposed in 1969, representing a success for the legislature given that originally the Government had proposed a narrower audit remit.

Given the scale of government operations and the volume of transactions, as well as the availability of advanced audit techniques, the Federal Budget Code has given the Bundesrechnungshof powers to decide which accounts to audit and which accounts to leave unaudited for forming an opinion on the State Account.

The Bundesrechnungshof has complete discretion over the nature and extent of audit work carried out and it may carry out work on-site at departments if necessary. All relevant papers must be disclosed and explanations provided as requested.
Relations with Parliament and Government

Historically there have been tensions in the relationship between the audit bodies and the sovereign, the Government and the legislature. The 1848 Prussian Constitution decreed that the work of the auditors was to be communicated to the legislature, but there followed a long and protracted dispute as to how the relationship between the legislature and the auditor should be developed. Various attempts to cultivate a closer relationship through different Budget Codes failed, and it was not until the reform of the Budget Law in 1969 that there was provision for the Bundesrechnungshof and the audit courts of the Länder to have direct access to their respective parliaments.

This relationship has developed since 1969 and was further recognised in the 1985 Act, which stated that the Bundesrechnungshof should provide assistance to both houses of the German Parliament and to the Federal Government. The Bundesrechnungshof does not examine policy, but can look into the assumptions of fact on which decisions were made and whether policy objectives were met.

Such responsibilities have been met in a constructive way. The primary duty of the Bundesrechnungshof is to examine the financial management of the Federal Republic. The results are reported to ministries and the Government, and the Bundesrechnungshof’s overall conclusion is supported by detailed analysis of certain significant cases reported to Parliament. In addition, the Bundesrechnungshof can use the wealth of knowledge gained during this process to advise both the Government and the legislature on future spending decisions, especially during the budget process, and on planned legislation.

The 1969 Federal Budget Code (section 88), which enabled the Bundesrechnungshof to advise Parliament as well as the Government, stimulated an increase in advisory reports. These were principally to the Bundestag Appropriations Committee, the Public Accounts Committee and on occasions specific select committees. However, not all of the reports are readily available to every member of Parliament or to the general public and to some extent this reflects the Bundesrechnungshof’s co-operative role towards government. It relies on informing the Government and the legislature of ways in which public administration can be improved, rather than publicly highlighting examples of poor management. It does issue reports that are critical of government administration, but only if a ministry displays reluctance to accept its recommendations.
Other public sector audit institutions

As mentioned above, the Länder enjoy significant decision making powers and administrative responsibility. Each Land has its own audit body (Landesrechnungshof) which liaises and works on equal terms with the Bundesrechnungshof in areas where there is dual responsibility for the provision and delivery of public services. In cases where the Bundesrechnungshof works with one or more of the Landesrechnungshöfe, they perform joint audits or agree to divide audit responsibilities between their respective organisations. There are also joint working parties where the Bundesrechnungshof and the various Landesrechnungshöfe discuss matters of common interest, such as budgetary law, taxation, public works, data processing and other matters of general policy and guidance.

Government accounting systems

The Federal Minister of Finance prepares an annual account of all receipts and payments, assets and liabilities and submits it to the German Parliament within the following financial year. It is then audited by the Bundesrechnungshof, which presents the results to Parliament the following autumn. The annual observations in 1999 relate to the financial year 1998 for which parliamentary discharge is sought. In addition, they contain audit findings addressing much more recent matters that are still under way and set out recommendations that may have an impact on the future development of programmes and projects that are not yet finalised.

The Bundesrechnungshof was actively involved in the development of the Federal Government's computerised accounting information system. The new system is regarded as a major development for future a posteriori audit of government departments, as it automatically produces the accounts in a single, standard cross-government system. Ministries must notify the Bundesrechnungshof of any changes to their regulations that might have financial consequences and the Bundesrechnungshof must approve any changes that affect accounting or auditing.

The auditing process

Advising on the state budget

Since the 1969 reform of the Budget Law, the Bundesrechnungshof has been involved in the development of departmental budgets and particularly in meetings between spending departments and the Ministry of Finance held prior to the submission of departmental budgets to Parliament.
Bundesrechnungshof representative is present to enable experience gained from audit work to be brought to the attention of the budget groups and to inform their discussions. These meetings take place at three levels: section heads, division heads and federal ministers or secretaries of state, with a representative of the Bundesrechnungshof involved at each stage.

Each year, the Bundesrechnungshof acts in an advisory capacity to ministries on financial regulations and systems and also during the drafting of legislation with significant financial consequences. This work is summarised in a separate section in the Annual Report. The Bundesrechnungshof also takes part in the meetings of the Budget Committee, which take place after the first reading of the budget statement in Parliament and involve the reporting member of the Committee, the spending departments and the Ministry of Finance. Following these meetings, the Bill has two further readings in the Bundestag as well as evaluation by the Bundesrat before becoming law, assuming there are no major objections from the Bundesrat. The involvement of the Bundesrechnungshof in the development of the Government's budgetary plans is a major distinguishing feature of its work. It considers that its independent and constitutionally enshrined status precludes the possibility that it might be compromised when subsequently auditing the implementation of the budget.

**Financial audit**

The Bundesrechnungshof’s audit approach is set out in the Federal Budget Code, which requires the audit to examine whether the regulations and principles of correct financial management have been observed, including compliance with the Budget Act, the Estimates and supporting documentation. It also specifies that checks are made to examine whether funds are administered efficiently and economically, and whether functions could be carried out with fewer resources.

A major responsibility of the audit units of the Bundesrechnungshof is to ensure that the receipt and spending of central funds complies with the legal criteria against which the funds were originally granted. It is this emphasis upon the legality of federal spending which explains the requirement for a high proportion of Bundesrechnungshof staff to hold legal qualifications. During the 1980s, the emphasis of the Bundesrechnungshof’s work moved towards performance audit and it began employing staff with a greater variety of skills and disciplines, including economics, business studies and engineering.

In carrying out its duties, the Bundesrechnungshof does not draw a clear distinction between financial audit and wider issues of financial management. Its nine regional offices (of some 900 staff) supplement the Bundesrechnungshof’s audit work on issues of financial management, compliance and value for money. The regional audit offices have been set up in
Berlin, Coblence, Cologne, Frankfurt, Hamburg, Hanover, Madgeburg, Munich and Stuttgart thus replacing the former pre-audit system in Germany. Effective since 1 January 1998, the new system is designed to enhance audit efficiency and effectiveness. The restructuring resulted in sizeable savings of some 600 staff and annual budget savings of some DM 50 million. The Bundesrechnungshof and its regional audit offices have the right to inspect any documents or files necessary to carry out an effective audit.

In addition to a posteriori audits of completed accounts and projects, the Bundesrechnungshof has the right to inspect the accounts and management practices of projects while they are still in progress. However, it will only consider decisions that have already been taken. These concurrent programme audits can identify areas of potential improvement and consequential savings. For construction contracts, the Bundesrechnungshof has increased rights of access to documents and can audit both the tendering process and the planning process.

The Bundesrechnungshof summarises the results of its individual examinations and suggestions for improvement in management letters to the departments. As an aid to the persuasion process, Parliament, through the Appropriations Committee and its subcommittee, the Public Accounts Committee, tries to ensure that the necessary conclusions are drawn from the reports of the Bundesrechnungshof.

Sanctions

The Bundesrechnungshof may indicate, in management letters or in special reports to Parliament, cases where the personal liability of civil servants is in question. Individual government departments are responsible for taking appropriate action and reporting to the Bundesrechnungshof and/or to Parliament. Where an offence against the disciplinary or penal code is suspected, the Bundesrechnungshof notifies the Federal Prosecutor for Disciplinary Matters and/or the Public Prosecutor. This may lead to a trial before a disciplinary and/or a criminal court of law. In disciplinary matters, sanctions ranging from fines to dismissal may be imposed by the court. For criminal offences, punishment may include both fines and prison sentences.

The audit of performance

Prior to 1910, the notion of efficiency was included within the work of verifying the legality and regularity of expenditure. The Reich Budget Code of 1922 included 'efficiency' as a new audit criterion, gave further clarification on sampling and made specific reference to field work or on-the-spot-audit. The establishment of fieldwork as an audit requirement was intended primarily to
reduce clerical and administrative work, but it also promised to change the role and scope of the work in that an auditor could now ‘form his own opinion on the efficiency and suitability of government transactions'.

Since 1952 the President of the Bundesrechnungshof has had an additional responsibility as Federal Commissioner for Efficiency in Public Administration. The Commissioner is charged with appraising the efficiency of federal administration and making recommendations concerning its improvement either in relation to specific departments or cross-departmental matters. In this capacity, the President may also advise Parliament, if requested, on the structure and operational efficiency of public administration.

**Reporting**

The Bundesrechnungshof’s Annual Report, known as the Observations, plays a key part in the process whereby Parliament approves the Government's accounts. The Report is submitted to Parliament in the second autumn following the end of the financial year. It contains details of exemplary cases, significant matters that require further action and instances where the Bundesrechnungshof is dissatisfied with the response of a department to its findings. The department's response to such criticism is included as an appendix to the Observations. Comments on financial management are not limited to the year for which parliamentary discharge is sought but represent findings up to the date of publication.

The Observations of the Bundesrechnungshof are discussed by the parliamentary Public Accounts Committee. These discussions will involve the Bundesrechnungshof and the government departments where appropriate. Once satisfied, the Public Accounts Committee passes its comments to the Appropriations Committee, which will recommend to Parliament that the Federal Government is formally discharged with respect to the financial year under review. The Observations Report is published by Parliament and simultaneously presented to the press, receiving significant media attention.

The Bundesrechnungshof can report the findings of its examination of broader financial management issues either in the Observations on the accounts or separately in special reports. Currently about thirty are prepared each year. These reports tend to be more timely and ensure that parliamentary attention is focused on the major issues of financial concern. In addition, the Bundesrechnungshof has carried out work on behalf of parliamentary committees, particularly the Appropriations Committee, though only where it decides independently that there is merit in a particular investigation.
Audited bodies have the opportunity to comment on the findings of the Bundesrechnungshof and their views are incorporated into the report. When the Observations Report is considered by the Public Accounts Committee, representatives of the Bundesrechnungshof and the ministries give their views. The Public Accounts Committee drafts a recommendation for a resolution, which can be very detailed, and the implementation of these recommendations is then monitored by the Bundesrechnungshof.

Summary

The Bundesrechnungshof is an independent body subject only to the law and this status is enshrined in the German Constitution. The Governments of the Federal States (Laender) are audited by independent audit courts within each federal state (Land), which have structures and rights similar to the Bundesrechnungshof. Key features of the Bundesrechnungshof are:

Appointment of Members of the Court

- The President and Vice President are appointed by the legislature on recommendation from the executive and their appointments are for a fixed period.

- New Members are appointed by the President of the Federal Republic upon the proposal of the Bundesrechnungshof’s President. The latter must consult the Standing Committee of the Senate prior to submitting such a proposal. All Members enjoy judicial independence and have a constitutional status similar to that of judges.

Control over Members

- The Members of the Bundesrechnungshof have considerable discretion in the way they approach their tasks, but audit decisions are made collectively.

Skills of Members and staff

- The President or Vice President and one third of the Members of the Bundesrechnungshof must be lawyers by training. Members are supported by auditors who joined the Bundesrechnungshof after gaining experience of the wider civil service.

Budget

- The Bundesrechnungshof’s budget is ultimately determined by the legislature.
Audit Remit

- The Bundesrechnungshof's statutory duties include financial and regularity audit as well as the examination of value for money.

- The Bundesrechnungshof has a very wide audit remit. It covers the entire financial management of the Federal Government. In addition to mainstream ministries, it includes public and private enterprises in which the Federal Government is a stakeholder and private enterprises that receive grants.

- The Bundesrechnungshof has complete discretion to set its own audit priorities and can leave accounts unaudited. Neither the executive nor the legislature can require the Bundesrechnungshof to carry out specific examinations, although in practice it seeks to accommodate Parliament's suggestions.

- The Bundesrechnungshof does not examine the merits of policy. However, it may conduct examinations of the advice on which the policies were made, and whether they achieved their objective.

- The Bundesrechnungshof relies on the work of its nine regional audit offices which supplement the Bundesrechnungshof’s audit work.

Access

- The Bundesrechnungshof determines the timing and nature of the audit and it may conduct investigations on the spot. It has access to all records and vouchers and can demand explanations as required.

Other duties

- The Bundesrechnungshof has a role to play in the budget process; it brings to bear the benefit of audit experience on spending proposals put forward by ministries.

- The Bundesrechnungshof also gives sanction to any changes in regulations introduced by ministries that have financial consequences.

Reporting

- The Bundesrechnungshof has a duty to report to the legislature and the executive. Its main Annual Report is published and publicly available. Less significant audit findings are reported directly to the executive and are not published. It also carries out some work directly for parliamentary committees that is not published.
Ministries have an opportunity to comment on the reports of the Bundesrechnungshof, and such comments are incorporated into the reports.

**Key legislation**

- The Bundesrechnungshof’s mandate to report direct to the legislature was only enacted in 1969. Before then its Annual Reports had to be submitted to Parliament through the Government.

- The 1985 legislation placed the Bundesrechnungshof between the legislative and executive branches of Government and brought in a more specific responsibility to Parliament.
Hellenic Republic Court of Audit
Greece

Background information

Economic and general information

Greece is situated in south eastern Europe, bounded landwards by Albania, the former Yugoslav republic of Macedonia, Bulgaria and Turkey, and also by the Aegean, Mediterranean and Ionian seas. Some 80 per cent of the land area is on the Greek mainland, the majority of the remainder being inhabited islands. In 1991 the total population was around 10 million. Greek civilisation has a long history characterised by exceptional architectural, literary and artistic achievements. In more recent times Greece was ruled by Turkey but gained independence in 1829 following eight years of revolution.

In the early twentieth century the country experienced periods as both a republic and a monarchy, but in 1952 a new system of proportional representation provided Greece with a period of stable government, increased economic prosperity and the establishment of a new Constitution. A coup in 1967 was followed by a period of military government and the suspension of the 1952 Constitution. A republic was established following referenda in 1973 and 1974, but military rule collapsed in 1974 and a new Constitution was introduced in June 1975. In 1981 Greece became a full member of the European Economic Community.

Although in recent years there has been increased industrialisation, agriculture remains highly significant in Greece, employing some 25 per cent of the working population. The most important products are tobacco, wheat, cotton, sugar and rice, while fruit such as olives, peaches, oranges, lemons and figs are widespread. Athens, Thessaloniki, Patras and Volos are the main manufacturing centres and the country’s chief industries are textiles, chemicals, glass, metallurgy, tourism and shipbuilding.
Greece remains the poorest of the European Union countries, with no region reaching the Union average of GDP per capita. It has benefited from being the largest net recipient of European Community funds, much of which has gone on infrastructure projects. Recent Governments have contended with a high public sector borrowing requirement and current account deficit. However, due to recent achievements in controlling inflation (2.5 per cent in 1999), and because of economic growth, Greece is expected to become a member of the European Monetary Union in 2001.

The structure of the Greek state

The Greek Constitution came into force in June 1975. Under this, Greece is a representative democracy with a parliamentary regime. The fundamental principles of the Constitution are sovereignty of the people; representative democracy; separation of powers between the executive, legislature and judiciary; a welfare state; and a state based on law. The Constitution recognised economic and social rights, introduced economic planning and environmental protection and provided for nationalised industries. The use of referenda for important national issues is also recognised.

Executive power rests with the President, who is Head of State, and the Prime Minister. The President is indirectly elected by the Chamber of Deputies for five years, requiring two-thirds of the vote of the members. According to the Constitution, the President has a moderating role, although his powers are increasingly seen as ceremonial. Candidates for the presidency must be aged 40 or older, be able to vote, have had Greek nationality for at least five years and have a Greek father. The President can be re-elected only once.

The President has the power to nominate the Prime Minister, nominate and remove the other members of the Government on the recommendation of the Prime Minister, dissolve the Chamber in certain circumstances specified by the Constitution, promulgate laws and send draft legislation back to the Chamber for further discussion. He can also sign decrees bringing into force laws on the recommendation of the minister concerned. The 1975 Constitution reinforced the powers of the executive, in particular the President, with a corresponding reduction in the legislative and control responsibilities of the Chamber. In March 1986 a Constitutional Amendment was passed to reduce certain presidential powers; for example, the power to remove a Government having the confidence of the Chamber and the right to dismiss the Prime Minister.

Greece became a republic in December 1974, having rejected 'crowned democracy' in a referendum by 69 to 31 per cent. There is a unicameral 300 member Chamber of Deputies, elected for four years by a system of proportional representation. Twelve of the 300 seats are reserved for State
Deputies, not elected from specific electoral constituencies but instead designated by each political party according to the total percentage of votes obtained. Greek elections are by secret, compulsory and universal suffrage.

The Chamber of Deputies meets as of right once a year for a regular session of at least five months. The right to propose laws is vested in both the Chamber and the Government. Bills relating in any way to the granting of pensions can only be submitted by the Minister of Finance, after consultation with the Court of Audit. In the Chamber, a majority of those present is required for bills to be adopted unless otherwise stipulated in the Constitution.

All bills are examined by the relevant parliamentary standing committee. These specialise in cultural affairs, national defence and foreign affairs, economic affairs, social affairs, public administration, public order and justice, and production and commerce. The committees consist of 40-50 deputies and can call anyone to give evidence. They propose the adoption or rejection of the bill and make modifications to it. Where necessary special ad hoc parliamentary committees are established to deal with particular bills.

Ministries of the Greek Government include central bodies such as the Ministry of Finance and the Ministry of the Interior, and 'line' ministries and departments. These range in size: the Ministry of National Education and Religion with over 100,000 staff (including teachers) is the largest. There are some 230,000 civil servants in Greece. Staff have traditionally had security of employment and progressed within a strongly hierarchical structure.

A number of other types of body have direct or indirect dependence on the state. These include public establishments such as hospitals, universities and the Church of Greece, and economic bodies. There are private state establishments that intervene in key economic sectors. Examples include the Independent Raisin Board, the Export Promotion Agency and the Cotton Board. Some state companies, such as the National Electricity Enterprise, have a monopoly, while others, notably banks such as the National Bank of Greece, operate in a competitive environment.

Since 1987 Greece has been divided into 13 regions. Within these regions there are a total of 52 prefectures. Within the prefectures there are around 900 municipalities and 130 communities with fewer than 10,000 inhabitants. Each region has a regional council, which is responsible for development. The council is presided over by the Secretary General of the region, who is the direct representative of the Government for planning, programming and coordinating the regional development. The Secretary General of the region is subject to the authority of the Minister of the Interior and other ministers, depending on the issue.
There are two categories of local government. The first category consists of the municipality and community authorities. Their responsibilities include an exclusive role in the construction and maintenance of water supply and drainage systems, roads and bridges, in rubbish collection, and a co-operative role in the promotion of economic, social and cultural matters, such as operating tourist sites and libraries. They have limited powers to impose taxes and most of their funds come from central government, which pays an annual general subsidy to them based on the size of their population.

The second category of local government, called 'prefectural self-administration', was established by Law 2218/1994. Under this law, administration consists of the Prefect, the Prefectural Council, and the prefectural committees. Prefects and members of the Councils are elected for four years by direct suffrage throughout the country. This grade of administration oversees financial, social and cultural development. There is no hierarchical relationship between the two categories and they act independently in exercising their duties. They both report to the Minister of the Interior.

The political environment

Since the Constitutional Amendment of 1986, executive power has shifted more towards the Prime Minister, in particular because he must now be the head of the majority party or coalition and so is no longer dependent on the confidence of the President. Under the Constitution the role of the Prime Minister is particularly strong, and ministers rely on the support of the Prime Minister as much as they do on the Chamber of Deputies. The role of the Prime Minister is to direct the activities of the Government, direct the public administration to apply government policy, ensure the implementation of the laws, propose and dismiss members of the Government and, with the relevant minister, nominate the heads of ministries.

The Prime Minister is supported by a Cabinet (or Council of Ministers) comprising Vice Presidents of the Government, ministers, deputy ministers and ministers without portfolio. Secretaries of State, who are not members of the Cabinet, may be called on to attend by the Prime Minister but cannot vote. The Vice Presidents are designated by presidential decree on the Prime Minister's advice. They represent the Prime Minister in his absence, and are responsible for the functions he allocates to them as well as their own ministries.

The role of the Cabinet is to determine and conduct policy within the terms of the Constitution. It decides matters of the highest political importance, recommends the promulgation of ordinances, and proposes decrees under the Constitution. The Cabinet is assisted by several committees, including the Higher Council for Economic Policy, and the Interministerial Committee for
Prices and Incomes. The latter brings together the Prime Minister, relevant ministers and the Governors of the Bank of Greece and the National Bank of Greece.

The Supreme Audit Institution

Historical development

The Hellenic Republic Court of Audit was established by the Decree of 27 September 1833 and was modelled on the French Cour des Comptes. The Decree provided for a President, one Vice President and four auditors (from 1923 known as Counsellors). Law AYOZ of 1887 assigned the preventive audit of the expenditure of the state to the Court, and further consideration was given to improvements to its work in 1923. In more modern times the work of the Court has been assisted by a number of decrees, including Law Decree 321/1969 on public accounting, which clearly established the principle that expenditure in the budget should be reported in detail and money used only for intended purposes. Law Decree 1265/1972 classified the judicial audit of public money into a priori and a posteriori audit.

The role of the Court was outlined in the 1975 Constitution. Under article 98 it is primarily responsible for auditing expenditure and monitoring the revenue of the state, as well as local administration agencies and other public corporate bodies. The Court is required to submit an Annual Report to the Chamber of Deputies on the state financial statements and balance sheet. Under the same article it must be capable of `providing an expert opinion on laws regulating pensions, as well as on any other matter defined by law'. According to article 42 of Presidential Decree 774/1980, the Court prepares an Annual Report on its audit work.

Since the early 1980s the activities of the Court have been governed by two presidential decrees. These are 774/1980, which covers the rights of the Court and consolidates previous laws, and 1225/1981, which outlines Court procedures. Since then, some 80 further items of legislation have been passed that have made minor amendments and modifications to the original decrees. The Court expects that at some stage these will be incorporated into a new presidential decree. In addition to the decrees, more detailed audit procedures and rulings are promulgated in decisions of the Plenum, the Court's supreme authority.
The structure of the Hellenic Republic Court of Audit

The head of the Court is the President. He is chosen by the Cabinet on the advice of the Minister of Justice from among all the Vice Presidents, the Judge Counsellors and the Vice Commissioners who have been in place for more than four years. There are now six Vice Presidents under the President. They each head one of the Court's Judicial Sections and are chosen, in the same way as the President, from among the Judge Counsellors and Vice Commissioners who have been in place for more than three years. The most senior Vice President stands in for the President where necessary.

The Court has 116 posts of judge, of whom the most senior are the 24 Judge Counsellors. There are 40 second rank judges and the remaining 40 are junior judges. There is an age limit of 67 for judges. They are liable to disciplinary action if they express party political opinions. Judges are promoted on a decision of the Court's Supreme Judicial Council, which is composed of senior Judge Counsellors chosen by lottery and presided over by the President of the Court.

Included among the judges are the General Commissioner of the State, the Commissioner of the State and three Vice Commissioners, who are supreme magistrates under article 66 of Presidential Decree 774/1980. They are functionally independent and hold permanent posts under the Constitution. The General Commissioner is appointed by the Cabinet, and candidates must be a Vice President, a Judge Counsellor or a Vice Commissioner with at least four years' experience. The responsibilities of the General Commissioner (and the Commissioner and the Vice Commissioners) include attending the sessions of the Court's Plenum (the supreme judicial body), Judicial Sections and Climakions (or units of judges); introducing the issues for consideration by the Plenum and announcing the rulings to the relevant authorities; and monitoring the Court's work and reporting to the Minister of Justice.

The Court consists of Climakions, Judicial Sections and the Plenum. Auditing offices headed by commissioners (judicial employees with a university degree) of the Court are situated in ministries and prefectures and have competence in both a priori and a posteriori audit.

Seven three-member Climakions sit on the premises of the Court in Athens. The responsibilities of the First Climakion include the audit of the accounts of public management and the off-budget special accounts. This Climakion also examines appeals against orders of the Minister of Finance related to the fulfilment of pension rulings. The Second Climakion audits the annual financial statements of public entities and local agencies. Both the First and Second Climakions impose charges where there are deficits on accounts and impose disciplinary sanctions on accounting officers for delays in submitting accounts.
and reviews, as well as for not executing the Court's orders in relation to audit work. The Third Climakion examines appeals against administrative orders relating to the obligatory retirement of civil servants, and the responsibilities of the Fourth Climakion include dealing with the Court's relations with other audit bodies around the world and monitoring the audit missions of the European Court of Auditors to Greece. According to law 2741/1999 (article 8), the Fifth, Sixth and Seventh Climakions carry out an examination of the legality of the public works/supplies/services contracts made by the state public entities or public enterprises, whenever the cost exceeds one billion GDR (for public works) or 500 billion GDR (for public supplies or services). To enable the Climakion to carry out this work, a file containing all the relevant documentation, as well as a draft of the contract to be signed, is submitted to the Court. Where the audit is not concluded and the relevant file is not returned within forty days from its submission, the contract may be signed. If, within the set deadline the Climakion refuses the legality of the contract, it is not signed.

The Court's Judicial Sections are responsible for:

- pre-examining the State's Annual Financial Statement and Balance Sheet;
- issuing judicial acts, rulings and minutes on the reports of commissioners in respect of the approval or non-approval of the payment orders of the state and public entities;
- trying appeals against acts or decisions issued by the administration and the commissioners of the Court relating to financial management, as well as the management of the material assets of the state, public entities and local agencies;
- trying the General Commissioner's motions for charging public servants of state bodies, local agencies and the remaining public entities;
- trying appeals against actions of the three-member Climakions; and
- trying appeals against acts regulating the pensions of employees of the state, public entities, local agencies and the armed forces.

The Plenum is the supreme (or 'cancelling') judicial body of the Court, consisting of the President, the Vice Presidents and the Judge Counsellors. The Plenum deals with appeals against the decisions of Judicial Sections, in particular over the sound interpretation and the correct application of relevant provisions. It also submits the Court's Annual Report to the Chamber of Deputies via the President.
The recruitment, remuneration and qualifications of staff and other resources

In addition to the 116 judges, the Court has some 645 staff, of whom 360 are auditors. Around 240 (of whom 155 are audit staff) work in regional offices, the rest at the head office of the Court or within government ministries. Staff are classed as judicial public servants and are usually trained economists, lawyers or accountants. They are classified into one of four categories, depending on the level of their educational qualifications, and are classified within these categories according to their years of active service. The most senior in the highest two categories are usually appointed as heads of divisions on a decision of the Judicial Council (the body of Judge Counsellors and judges that decides on promotions and appointments for the judicial public servants).

New audit entrants must pass an examination covering accountancy law, public law, pension law and the basic principles of law. They are generally over 25 years old and usually move between jobs within the Court every two to five years. Salaries are linked to those of the civil service, although they are slightly higher to reflect additional training. Internal training for staff has been limited because of lack of funds, although the Court has been able to use European Community funds in recent years. During 1995 a seminar was organised for staff covering accounting, economic analysis and European Community issues.

Second rank judges are selected either by transfer from the penal, civil or administrative courts or from among the Court's Junior Judges. Until recently, auditors from within the Court, or from the Ministry of Economics, with a law degree and at least eight years of experience, were also appointed as second rank judges, following a decision of acceptance by the Supreme Judicial Council. More recently, a School of Judges has been established from which individuals with a law degree and aged from 25 to 35 can qualify to become first rank judges for the Court of Audit, the civil, penal and administrative courts and the Council of State.

The Court prepares its own budget according to directives of the Ministry of Finance. The budget is submitted to the Ministry of Finance through the Ministry of Justice. The Ministry of Finance issues the final form of the Court's budget and submits it to Parliament for approval. In recent years the Court's budget has amounted to between 0.035 per cent and 0.037 per cent of the total state budget. The Court's budget is divided roughly equally between a priori and a posteriori audit work.
The scope, role and rights of access of the Hellenic Republic Court of Audit

The Greek judicial system comprises civil, criminal, and administrative courts as well as the Court of Audit. The Court is classified as a supreme public financial court, dealing with public accounting and pension cases. The courts, including the Court of Audit, may examine the constitutionality of laws in dealing with a case, and may refuse to apply any provisions deemed not to conform with the Constitution. For example, in 1993 the Court prevented the implementation of a law containing pension provisions for which it had not previously provided an expert opinion. Where there are disputes between the Court of Audit and other courts, or where there is contradiction between judgements of the Court of Audit, the Council of State and the Supreme Court of Appeal, a final decision is made by the Special Supreme Court.

The Court of Audit has a number of roles:

- examining and approving payment orders for government and public corporation expenditure (a priori audit);
- verifying the public accounts of state and public establishments and local authorities, mainly relating to their conformity with legislation and regulations;
- auditing and deciding on the liability of public servants, as well as servants of public bodies or local agencies, for damage caused to the state, public corporations or local agencies through fraud or gross negligence;
- submitting to the Chamber of Deputies an annual report of findings from the Court's work and a report on the Annual Financial Statements and the Balance Sheet of the state;
- monitoring of state revenues and checking revenue collected;
- providing an expert opinion on the laws regulating pensions and their implementation in specific cases, as well as pronouncing on bills concerned with pensions and retirement;
- giving an opinion when called upon to do so by a minister.

The Court's jurisdiction extends to government departments and ministries, local government bodies and other public sector organisations. It does not have responsibility where the Government has decided that a body is a private corporation (for example, banks and the electricity company), although even
here the Court may have representatives among the auditors appointed to examine an organisation's accounts. Through this the Court will have a say on the conduct of the audit and obtain information on how funds have been spent.

Under Laws 1892/1990 (article 85) and 1943/1991 (article 77), the Court may conduct audits of financial management or financial administrative management transactions of particular importance carried out by the state, the legal entities and public sector organisations. Such audits can be carried out at all public and private entities overseen or financially assisted by the state or public entities. In these cases the competent three-member Climakion can require repayment of any arising deficit. Legal remedies against their decisions can be sought before the Court's Judicial Sections.

For the purposes of its work, the Court has complete access to all accounting books and supporting documentation and persons in central and local government under Presidential Decree 774/1980. It has the right to require relevant information from any competent authority, and refusal to co-operate is a disciplinary matter. Where supporting documents prove to be false, or the information is incorrect, the Court has the right to reconsider its judgement on the accounts within the terms of the statute of limitation.

The Court can conduct on-the-spot audits related to financial or asset management (such as the inspection of stock and the verification of cash) when there is a strong suspicion of irregular management. Usually, however, the Court does not conduct on-the-spot audits, being satisfied instead with written certification from the competent public authorities.

**Relations with Parliament and the Government**

The Court's relationship with the Chamber of Deputies is limited to the submission of the Annual Report on a priori and a posteriori audit work, and the Declaration on the Annual Financial Statement and the Balance Sheet of the state. The Chamber takes account of the Declaration in giving its discharge to the state budget at the parliamentary debate on the Annual Financial Statement and the Balance Sheet. In addition, the Chamber approves the Court's budget based on the recommendations of the Ministry of Finance. In general the Court avoids cultivating relationships with individual deputies, but some are interested in the findings of the Court, especially when they generate significant press interest.

**Relations with other auditors**

In carrying out its work, the Court does not place reliance on other auditors. However, the Court does have contact with other auditors and inspectors such as officers of the General Accounting Office Units, which report to the Ministry
of Finance and are located in each ministry and in every prefecture. These officers carry out a priori audit of the legality and regularity of the expenditure. Their work is of an internal administrative nature while the Court's audit is an external one.

In addition, inspectors of the Directorate of Financial Management, also responsible to the Minister of Finance, carry out a posteriori reviews and investigations of the accounting officers in government departments. Special units operate in the three branches of the armed forces. The Court also takes account of reports of chartered accountants and international private sector audit firms where they are available and relevant.

The auditing process

A priori audit

The Court is responsible for the a priori audit of state and public corporation expenditure under specifically issued laws. This involves it in the examination of payment orders issued by various public bodies, in particular to assess the accuracy, legality and regularity of the expenditure. For state expenditure, all types of transaction are examined except for salaries and rents, which are considered to be less risky and are submitted to a posteriori audit. For public corporations salaries and rents are subject to a priori audit. Around one million payments a year are examined, with work on each completed within a day or two of receipt.

For a priori audit, orders are sent to the Auditing Office for examination. Where the head of the Auditing Office in a ministry or a prefecture considers the expenditure to be legal under the relevant regulations, the payment order is given approval and forwarded to be paid. Where expenditure is deemed not to be legal, the Office returns the uncertified order with its supporting documents and provides a brief report outlining the grounds for refusal. Where this judgement is disputed, the initiator of the order can resubmit the payment order with an explanation, which the head of the Auditing Office may accept. In this case the order will be certified.

Where the head of the Auditing Office insists that the case for refusal remains, a report outlining the case, together with all the auditee’s arguments, goes to the Judicial Section. Here a Vice President, two senior judges and two second rank judges (who do not vote, but offer their opinions) consider the written evidence and reach a final decision by majority. No lawyers or witnesses are present and the final decision must be accepted by the Auditing Office.
A posteriori audit

The second role of the Court is the a posteriori audit of the accounts of public accounting officers and the statements of public bodies and local administration agencies. The purpose of this is to decide upon the adequacy or otherwise of the accounts, give a discharge where satisfied or take action where not.

To do this civil and military public accounting officers submit monthly and annual statements of accounts of their economic management of public funds to the relevant Climakion. Where the Climakion has doubts about the soundness of the accounts, Court staff forward a report to the accounting officer, together with a request for amendment or further information. Where changes or further information are satisfactory the accounts are considered to be sound and the auditor reports to the competent three-member Climakion. This Climakion pronounces on the accounts either by making a declaration that they are sound or by charging the accounting officer with the identified deficit, or the amount of funds not collected.

Where a deficit is identified, the Court initiates recovery proceedings against the accounting officer. The latter is usually an individual but in the case of local government there is collective responsibility. In deciding on the amount to be recovered, the Climakion can take account of the financial position of the accounting officer and the circumstances of the case, such as his absence when the loss or error took place. Individuals are not insured against losses occurring in the course of their work. The auditee has a right of appeal against the decisions of the Climakion or the Judicial Section and can eventually appeal to the Plenum, though on legal grounds only.

Where a criminal offence is discovered in the course of the Court's work the case is reported to the relevant minister and the Court's President and taken up by the Public Prosecutor in the criminal courts. On average around 10 cases a year are dealt with in this way. If an accounting officer does not submit the appropriate accounts (with documentation) to the Court within the time limits provided, the Court may fine him. The Court has the same power if an accounting officer does not comply with the Court's orders with regard to the audit of his management of the account. Where an accounting officer refuses to submit documentation at the request of the Court, the appropriate disciplinary court may impose a penalty on him, possibly leading to a temporary or even permanent loss of employment under Presidential Decree 774/1980.

Audit work carried out by the Court is largely an examination of documentation in order to test the legality and regularity of expenditure. In general a posteriori audit involves inspection of all transactions of the financial statements. Sampling is only used under Presidential Decree 774/1980 when authorised by
the Plenum or in cases where serious delays are being experienced in completion of the audit. In cases where there is a suspicion of irregularity, a full audit must be carried out. Systems examination is not normally carried out as a separate exercise. As audited bodies are subject to both a priori and a posteriori examination, evidence about weaknesses in internal control systems can usually be gained in the course of routine audit work. Trend analysis is also only carried out on the initiative of individual staff and does not provide assurance.

Performance audit

The Court does not carry out performance audit. The limitations on its budget, extensive existing audit responsibilities, and the lack of suitably qualified personnel make such audit work unlikely in the near future.

Reporting

The Court reports to the Chamber of Deputies by issuing two reports. The first is an annual report of findings, which is published in the State Gazette. This sets out the results of the Court's operations, observations stemming from its work, and suggestions on reform and improvements, including changes to the relevant laws. The Court has also used this report to raise value for money issues from its audit work. In addition, to make the most of their findings, all auditees receive all the decisions and acts taken by the Court, so that they can use them as guidance.

The second report is the annual Declaration on the Annual Financial Statement and the Balance Sheet of the state, which examines the execution of the budget. This is required under article 98 of the 1975 Constitution and is a declaration that the accounts are correct. Both reports are discussed in sessions of the Court's Plenum and are then passed to the President of the Chamber of Deputies. Although the Chamber does not usually devote much time to the Annual Report, the Declaration is taken into account when the Annual Financial Statement and the Balance Sheet are discussed. Any discussions that do take place are in the full Chamber, rather than in the parliamentary committees. Because of the judicial nature of the work of the Court its reports and findings are not publicised and it does not issue a press release or make senior staff available for interviews.
Summary

The Hellenic Republic Court of Audit is part of the Greek judicial system. The main features are:

Appointment of the Court

- The Court's senior appointments - the President and the six Vice Presidents - are made by the Cabinet on the advice of the Minister of Justice. Appointments are on the basis of merit and seniority and are from within the office.

Budget

- The Court's budget is prepared by the Court according to directives of the Ministry of Finance. It is submitted to this ministry through the Ministry of Justice. The Ministry of Finance submits the final form of the budget to Parliament for approval.

Skills of staff

- Staff are usually trained economists, lawyers or accountants who have passed examinations covering public law, accounting and economics. Senior staff are lawyers and economists.

Audit jurisdiction

- The Court has responsibility for: a priori audit of payment orders for government and public corporation expenditure; verification of the public accounts of state and public bodies and local authorities; auditing and deciding on the liability of public agents for losses and damage to the state through fraud and mismanagement; reporting to the Chamber of Deputies on the State's Annual Financial Statement and Balance Sheet; monitoring state revenues; dealing with matters relating to pension legislation; and giving an opinion when called upon by a minister to do so.

- Performance audits are not currently carried out.

Access

- The Court has complete access to all accounting books and supporting documentation as well as staff in central and local government for the purposes of its work. It usually avoids performing on-the-spot verification unless there is strong suspicion of irregular management. Refusal to cooperate with the Court is a disciplinary matter.
Reporting

- The Court reports to the Chamber of Deputies in two ways. The first is an annual report of findings, setting out the results of the Court’s operations, its observations and suggestions for improvements to systems and the law. The second report is the annual Declaration, giving the Court's view on the Annual Financial Statement and the Balance Sheet of the state.

- The Chamber does not usually devote much time to the reports and there are no procedures for a detailed oral hearing on the reports. However, under the Constitution the Chamber is obliged to take the Declaration into consideration in giving its discharge to the state budget.

Key legislation

- The activities of the Court are mainly governed by two Presidential Decrees: 774/1980, which covers the rights of the Court and consolidates previous laws, and 1225/1981, which outlines Court procedures. More detailed audit procedures and rulings are promulgated in the decisions of the Plenum of the Court, its supreme authority.
Background information

Economic and general information

The Republic of Ireland covers some 80 per cent of Ireland, with the exception of the six counties of Ulster, which remain a part of the United Kingdom. In 1999 the population was around 3.7 million. The Republic was established in April 1949, after over 30 years of constitutional change following insurrection against British rule in April 1916 and an armed struggle between 1919 and 1921. In 1921 a treaty was signed between Great Britain and Ireland under which a new Irish Free State accepted Dominion status within the British Empire.

Subsequently constitutional ties between Ireland and the United Kingdom were gradually removed by the Irish Parliament. The original 1922 Constitution of the Irish Free State was amended and ultimately replaced by the 1937 Constitution under which the name Ireland (Eire) was restored. In 1949 the passing of the Republic of Ireland Act led to the severing of the formal association with the British Commonwealth and the creation of a republic.

Political, cultural and economic relations with the United Kingdom remain important to both countries. The British Irish Agreement, signed at Belfast on Good Friday, 10 April 1998 devolved power to the new Northern Ireland Assembly and Executive Committee of Members, and put in place a series of new institutions to provide a framework for cross border co-operation. These were the North/South Ministerial Council, six North/South Implementation Bodies, the British-Irish Council and the British-Irish Intergovernmental Conference. Although Irish is the first official language, English is a recognised second language. In addition, economic relations are important. The United
Kingdom is the Republic's most important trading partner (around 33 per cent of imports and 22 per cent of exports), while Ireland provides the United Kingdom with its sixth largest market.

The industrial sector dominates the Irish economy, accounting for 39 per cent of Gross Domestic Product, around 90 per cent of exports and 29 per cent of total employment. The most important contributors include the high-technology computer, pharmaceuticals and engineering sectors. Agriculture, traditionally important to the Irish economy, now employs only some 10 per cent of the employed workforce. Livestock farming, including the slaughtering, preparing and preserving of meat and the manufacture of dairy products predominates. Large scale manufacturing is centred around Dublin, the capital and main port, and Cork and Limerick. Ireland also possesses reserves of oil and natural gas.

The structure of the Irish state

The current Irish Constitution came into effect in 1937. It sets out the powers and functions of state organs. It applies to the whole of Ireland, but unless reintegration of the six northern counties occurs, the laws enacted by the Irish Parliament will continue to apply only to the 26 counties of the old Irish Free State. No amendment to the Constitution can take place without approval in a referendum.

The President is the Head of State. The role is largely ceremonial although the post does have the power to refer to the Supreme Court proposed legislation that might infringe the Constitution. On the advice of the Government, the President summons and dissolves Parliament, signs and promulgates laws and approves the appointment of judges. At times the President is obliged to consult with the Council of State, a body made up of the Prime Minister (Taoiseach), the Deputy Prime Minister (Táiniste), the Chief Justice, the President of the High Court, the Chairmen of the House of Representatives and the Senate, the Attorney General, nominees of the President, and those former Presidents, Prime Ministers and Chief Justices willing to act in this capacity.

Along with other parliamentary democracies the Irish state comprises three main branches - the legislature, the executive and the judiciary. Exclusive law-making powers are vested in the bicameral Parliament. Bills can be introduced in either the Dáil (the House of Representatives or lower house) or the Senate (the upper house), but must pass through both. A maximum of 90 days is allowed for the Senate to consider or amend bills sent by the Dáil, but the Senate has no power to veto legislative proposals. When a bill has been passed by both houses it is sent to the President for signature and promulgation as law.
Executive power is exercised by the Cabinet, led by the Prime Minister, who is appointed by the President on the nomination of the Dáil. The President appoints other ministers nominated by the Prime Minister with the prior approval of the Dáil. The Cabinet is responsible to the Dáil and is collectively responsible for the departments of state administered by its members.

Under the 1937 Constitution, unless provided otherwise by law, all revenue of the state must be paid into one fund (called the Central Fund of the Exchequer) on which the Government draws for expenditure on state services. Government expenditure is mainly voted expenditure for the ordinary supply services of Government authorised by the Dáil annually. Non-voted expenditure is paid by law out of the Central Fund without annual reference to the Dáil and consists of items such as the service of the national debt and repayable advances to state bodies.

Administrative responsibilities in Ireland are divided between the central civil service administration and local government organisations, including a variety of bodies ranging from directly elected local authorities (city and county councils) to regional boards. State sponsored bodies also exist to carry out a wide range of functions in both the commercial and non-commercial areas, free from ministerial control.

There are around 30 government departments and offices, ranging in size from those for revenue collection, justice, agriculture and social welfare to the much smaller specialist offices such as the President's Establishment and the Office of the Director of Public Prosecutions. The most important department is the Department of Finance, which has a lead role in overseeing all government expenditure. It also has responsibility, via the Office of the Revenue Commissioners, for the collection of taxes and excise duties.

Appointments to the civil service are made by the Civil Service Commission through examination and interview, but top appointments are made by the Government on the recommendation of the Top Level Appointments Commission. Civil servants are divided between industrial and non-industrial. The non-industrial are divided between those on general service, who can be moved between departments, and departmental civil servants appointed to meet a particular need.

The Irish public sector has experienced a range of management reforms in the past decade. The Irish Government launched its Strategic Management Initiative in February 1994 which gave rise to its Delivering Better Government Programme. These have contributed significantly to the modernisation of the Irish Civil and Public Service and have resulted in the enactment of the Freedom of Information Act 1997 and the Public Service Management Act 1997. The significant features of the process are: the publication of strategy statements by
all civil service bodies; the development of business plans to underpin these
statements; the assignment of responsibility and accountability to line
management; the phased introduction of performance management at
individual and team level and of processes to identify appropriate skills,
competency and development needs to achieve superior performance; the
establishment of partnership committees comprising management, staff and
unions; and the introduction of a quality customer service initiative.

The elected local authorities in Ireland comprise 29 county councils, five
county borough corporations, five borough corporations, 49 urban district
councils and 26 Boards of Town Commissioners. All members are elected under
a system of proportional representation, usually for five years. Local authorities
are responsible for housing and building; road transportation and safety; water
supply and sewerage; development incentives and controls; environmental
protection; recreation and amenity; elements of agriculture, education, health
and welfare; and other services.

State sponsored bodies are autonomous public bodies responsible to their
'parent' departments. Some are statutory corporations, others are public or
private companies. Such bodies exist for a range of reasons: strategic - Aer
Lingus; cultural - the National Theatre Society; promotional - the Irish Tourist
Board and research - Teagasc.

**The electoral system**

Ireland is a sovereign independent, democratic republic. The President is
directly elected for seven years. There is a bicameral Parliament (Oireachtas).
The Dáil is the lower house of 166 members directly elected for a five year term.
The Senate is the upper house of 60, comprising 11 members nominated by the
Prime Minister, six elected by certain universities and the remaining 43 elected
from five panels of candidates representing culture and education, agriculture,
labour, industry and commerce, and administration.

From the age of 18 every Irish citizen has the right to vote in elections for the
Dáil and the President, in local and European elections and in constitutional
referenda. Voting is by proportional representation using the single transferable
vote system. There is one Dáil representative for every 20,000-30,000 people.
Constituencies are multi-seat, with not fewer than three and not more than five
representatives per constituency. Each elector has the same number of votes as
there are seats.
The political environment

The Head of Government is the Prime Minister, who is responsible for the overall direction of cabinet meetings. The Prime Minister nominates other cabinet ministers for approval by the Dáil and formal appointment by the President, and appoints one as Deputy Prime Minister. The Prime Minister and the Deputy Prime Minister must be members of the Dáil. The Prime Minister can call a general election at any time by advising the President to dissolve Parliament. The President may refuse to dissolve Parliament on the advice of a Prime Minister who has ceased to retain the support of a majority in the Dáil. The maximum life of the Dáil is five years.

The Cabinet comprises the Prime Minister and between seven and 15 ministers. All must be members of the Dáil or the Senate, and the Minister of Finance must also be a member of the Dáil. Three non-cabinet ministers attend Cabinet: the Chief Whip, the Attorney General and the Secretary to the Government. The Prime Minister assigns ministers to a specific department or departments and a number of junior ministers without cabinet rank are appointed to specific responsibilities within departments.

Formulation of policy is the responsibility of the Cabinet and conflicts are resolved at this level. Members of the Government conduct business through the Dáil in the area assigned to their department, and are supported by their party. To avoid Parliament becoming involved with much of the technical detail of proposed legislation, ministers are empowered by Parliament to promulgate statutory instruments. These are reviewed by one of the select committees operating within Parliament.

Other committees operating in Parliament include the Committee on Procedures and Privileges, which looks after the efficient running of Parliament; the Committee of Public Accounts, which reviews public spending; ad hoc committees dealing with specialist subjects, and those such as the joint committee on the secondary legislation of the European Communities.

The Supreme Audit Institution

Historical development

The Office of the Comptroller and Auditor General was originally provided for under the Exchequer and Audit Departments Act 1866 at the time when Ireland was part of the United Kingdom. Many of the provisions have since been repealed or consolidated into subsequent Acts, although sections 22-26, which relate to the preparation of the appropriation accounts (of Government
Departments, Offices or Services), still form an essential part of the statutory government accounting framework. In 1921 the Exchequer and Audit Departments Act amended and updated certain provisions in the 1866 Act, in particular setting out the detailed statutory functions of the Comptroller and Auditor General in the examination and audit of appropriation accounts, revenue accounts and others. The 1923 Comptroller and Auditor General Act covered the terms and conditions of the appointment of the Comptroller and Auditor General.

The 1937 Constitution dealt with the role of the Comptroller and Auditor General along with other elements of the state, providing that the terms and conditions of the office are determined by law. The 1937 Constitution stipulates that there shall be a Comptroller and Auditor General who is required to report to the Dáil at stated periods and who shall exist to 'control on behalf of the state all disbursements and to audit all accounts of monies administered by or under the authority of the Oireachtas'.

Further Acts between 1944 and 1964 amended and repealed earlier provisions in relation to the salary and pension of the Comptroller and Auditor General. In addition, in 1968 the Department of Finance issued instructions to departments emphasising that the Comptroller and Auditor General's functions as auditor involved not just examining accuracy and regularity but also identifying and reporting on instances of loss, waste or uneconomic expenditure. Although having no function with regard to policy or policy decisions, the Comptroller and Auditor General could examine the implementation of policy in the course of investigations.

Impetus for reform of the Comptroller and Auditor General's role grew in the 1980s. In 1985 the Committee of Public Accounts published a special report on the Resources and Functions of the Comptroller and Auditor General. In 1986 the Minister of Finance suggested that there might need to be an enhancement of the powers of the Comptroller and Auditor General through further legislation. Subsequently the Government undertook a review of developments in national auditing in other countries. Concerns about the role of the Comptroller and Auditor General increased in the late 1980s with reductions in public spending and increased concern about the monitoring and auditing of government spending.

In October 1992 the Government produced a White Paper on The Role of the Comptroller and Auditor General, which announced that the Government had decided to update and extend the statutory mandate of the Comptroller and Auditor General and widen the scope of his audit of public sector bodies.
The Comptroller and Auditor General (Amendment) Act 1993 made several significant changes to the role of the Comptroller and Auditor General. In particular it extended his audit to vocational education committees, health boards and a range of other bodies. It also placed his value for money work on a statutory basis, empowering him to carry out examinations of economy, efficiency and management effectiveness. It also gave the Comptroller and Auditor General the statutory right to inspect commercial harbour authorities, regional tourism organisations and other bodies receiving more than 50 per cent of their annual income direct from a department.

The structure of the Office of the Comptroller and Auditor General

The Comptroller and Auditor General is appointed by the President on the nomination of the Dáil and holds office until a prescribed retirement age of 65. He may not be a member of the Parliament and may not hold any other office or position. His independence is secured by the constitutional requirement that he cannot be removed from office except for misbehaviour or incapacity, and then only upon a resolution passed by both houses of the legislature. The Comptroller and Auditor General is independent of all other institutions of state, and his relationship with Parliament is solely a reporting one, which is exercised by way of an Annual Report.

Following the changes to the role of the Comptroller and Auditor General, the work of the Office of the Comptroller and Auditor General is now divided between three Directors of Audit, responsible for the Votes and corporate services, health, education and non-commercial state sponsored bodies and value for money work. Deputy directors are responsible for work within individual divisions - for example, education or state sponsored bodies. Staff within the Office are divided between these areas. All divisions are located in Dublin but staff may be required to travel to temporary locations according to the demands of work.

The recruitment, remuneration and qualifications of staff

In January 2000 the Office had some 142 staff, an increase of 70 since the expansion of the role of the Comptroller and Auditor General under the 1993 Act. All except the Comptroller and Auditor General are civil servants, and so are governed by the general rules applicable to all staff directly employed by the state. There are three Directors of Audit, nine Deputy Directors, 33 senior auditors, 86 auditors or trainee auditors and 11 clerical staff. To help meet work peaks, contract staff from the private sector are used and around eleven man years of work per annum are contracted out to the private sector at present.
The Office recruits staff through the Civil Service Commission as trainee auditors. Recruits have a university degree in a finance related discipline such as commerce, business studies or economics, or have reached a certain level in studies leading to a professional accounting qualification. Trainees must acquire an accounting qualification within five years and are appointed as auditors if their service is satisfactory. As part of the training for some professional bodies staff may spend six months working in a private sector accountancy firm or in industry on an exchange basis. Professional training is supplemented by at least five days' office training, provided either in-house or at an appropriate institution. In addition, staff are moved around different audit divisions to gain a range of experience.

**The scope, role and rights of access of the Office of the Comptroller and Auditor General**

The Comptroller and Auditor General combines two statutory functions. The first, as Comptroller General of the Exchequer, is to ensure that no money is issued from the Central Fund to the executive except for purposes approved of by the Parliament. Before any monies may be issued from the Exchequer, the Minister for Finance must, in accordance with the 1866 Act, address a written requisition to the Comptroller and Auditor General requiring him to issue a credit on the Exchequer Account. If satisfied, the Comptroller and Auditor General communicates to the Central Bank that he grants the credit. The second role, as Auditor General, is to audit government accounts for accuracy and regularity and to report to Parliament on this work and the results of the value for money examinations.

Before 1993 the general principles relating to the Comptroller and Auditor General's audit were that where voted money was a direct source of a body's annual income the Comptroller and Auditor General was appointed auditor or given rights of inspection of books and accounts. The main exception was that the Comptroller and Auditor General did not audit the accounts of local authorities, health bodies and vocational education committees or the commercial state body sector. At that stage the Comptroller and Auditor General audited some 200 accounts. These were: the accounts of issues from the Central Fund; the appropriation accounts and other accounts attached to the appropriation accounts; departmental stock and store accounts; the accounts of the receipts of the revenue of the state; and the accounts of a number of departmental funds, state bodies and other agencies.

Under the 1993 Act the Comptroller and Auditor General's remit was extended to include the country's eight health boards, vocational education committees, Institutes of Technology (formerly regional technical colleges), and tertiary education bodies including Trinity College Dublin, as well as a range of state sponsored bodies. In the case of health boards and vocational education
committees the extension of the Comptroller and Auditor General's remit was justified on the grounds that they received over 90 per cent of their income from the Exchequer, yet there was little parliamentary scrutiny. The Comptroller and Auditor General also has financial audit inspection rights under the 1993 Act to bodies receiving not less than 50 per cent of their gross receipts from government funds.

The Comptroller and Auditor General examines the appropriation accounts from two perspectives. The financial audit work tests the accuracy of the records and the reliability of the systems underlying them, and examines whether the accounts are in agreement with the records and so fairly represent the out-turn. In addition, regularity audit ensures that expenditure accords with the intention of the Dáil and has been authorised by the Department of Finance, and that the provisions of the relevant statute, regulations or other rules have been complied with.

Until recently section 28 of the 1866 Exchequer and Audit Act and section 9 of the 1921 Act provided the Comptroller and Auditor General with a statutory basis for access to information. In addition, under a 1968 Department of Finance circular letter it was understood that the Comptroller and Auditor General had access to any document or file required for an audit unless it was of exceptional secrecy, in which case he would be shown it personally in confidence. Where, on rare occasions, ministers decided it was not in the public interest to show the Comptroller and Auditor General a document, the department was expected to explain the reasons and satisfy his requirement in other ways.

In view of the extension of the Comptroller and Auditor General's role the 1993 Act provided a new statutory 'right of access'. Under this the Comptroller and Auditor General has rights to such books, records, documents, data or data material as he may 'reasonably require' and may obtain information from any official of the department concerned, including information in relation to the content of any such material listed above.

**Relations with Parliament and Government**

The Comptroller and Auditor General's relationship with Parliament is essentially a reporting one exercised by way of an Annual Report, which forms the basis of Parliament's examination of state revenue and expenditure by the Committee of Public Accounts. Under the 1923 Act the Comptroller and Auditor General reports annually on his examination of the appropriation accounts. He presents the report to the Dáil and it is then considered by the Committee of Public Accounts, forming the basis of its examination of the relevant heads of government departments and state bodies.
The committee consists of 12 Deputies, none of whom may be a minister. Traditionally the Chairman is a member of the Opposition. The committee is entitled under Standing Orders to send for persons, papers and records. It reports its findings to the Dáil but follow-up is a matter for the Government, and the Ministry of Finance notifies the Committee of Public Accounts of action taken in response to its reports. Meetings are held in public.

Historically the Comptroller and Auditor General has strong links with the Committee of Public Accounts and is a permanent witness at all meetings. It was this committee that pressed for the development of the Comptroller and Auditor General’s role in the 1980s. By tradition he does not report to any other committee. The Office of the Comptroller and Auditor General has a liaison officer on a two year secondment to the Committee of Public Accounts, and although committee staff write their own reports and briefs, the liaison officer will agree the contents informally with the Office of the Comptroller and Auditor General. The Office now works closely with the committee to identify prospective study topics under the 1993 Act.

**Relations with other auditors**

Relations are maintained between the Office of the Comptroller and Auditor General and local government auditors appointed by the Minister of the Environment, private sector auditors and internal audit bodies. Local government auditors continue to audit local authorities such as city and county councils. In the past, since much of the funding of local authorities, regional health bodies and vocational education authorities came from grants from central government, the reports of local government auditors were made available to the Comptroller and Auditor General for inspection. The Comptroller and Auditor General selectively referred to the results of this inspection in the Annual Report to Parliament. The 1993 Act extended the role of the Comptroller and Auditor General into some of these areas. Since then the Office has continued to liaise with the Local Government Audit Service on matters of common interest and the Comptroller and Auditor General continues to refer to matters of interest contained in their reports in his submissions to the Dáil.

In some circumstances the Comptroller and Auditor General relies on the work of other auditors from the private sector. The audit of universities, for example, relies to some extent on the work of private sector auditors employed by the university authorities, although the Comptroller and Auditor General can, as statutory auditor, do additional work if he sees fit. The Comptroller and Auditor General liaises with the private auditors at the planning stage and when they are compiling their audit report. The audit of the Post Office Savings Bank is also carried out by the private sector on contract to the Comptroller and Auditor General.
Where appropriate the Office liaises with the internal audit sections of government departments and other bodies. The Office examines departmental internal audit plans to avoid duplication of effort, and also reviews internal audit reports where appropriate.

**The auditing process**

**Financial audit**

The Comptroller and Auditor General examines the appropriation accounts of each government department and reports annually to Parliament on the results. The main purpose is to carry out sufficient audit work to enable the certificate or auditor’s opinion to be issued. This states that in the opinion of the Comptroller and Auditor General the accounts properly present the department’s receipts and expenditure. It also refers to material cases in which departments have failed to apply expenditure recorded in the accounts for the purposes intended by Parliament, or where transactions do not conform with authority. For the audit of trading operations the Comptroller and Auditor General’s certificate states that the accounts properly present the loss or profit of the operation and its balances at the year end.

In order to provide the opinion the Comptroller and Auditor General carries out tests to obtain evidence to meet the audit objectives of occurrence, completeness, accuracy, regularity and proper disclosure. The auditor obtains this evidence by testing departmental accounting systems and through direct testing of transactions and balances for correctness. In recent years analytical review of key data and risk assessment have also been used.

Where the Comptroller and Auditor General finds transactions that in his opinion are not properly chargeable to an appropriation account, he must raise the matter with the departmental accounting officer or, if not satisfied, with the Minister of Finance. In addition, where he believes material expenditure has been incurred without authorisation of the minister, he must advise the minister and report to the Dáil unless informed that it has been ratified. Where the Comptroller and Auditor General is not satisfied with the reply or does not receive one, he may qualify the certificate on the account and report to the Dáil.

**Financial audit reporting**

Under section 3 of the 1993 Act the Comptroller and Auditor General presents the report of his examination of the appropriation accounts annually to the Dáil. In practice this covers matters arising from the accounts
such as breaches of regularity, matters of propriety and public interest and issues arising from departmental internal accounting controls. The Comptroller and Auditor General must complete the examination of the appropriation accounts and present these, the certificates and any reports thereon to Parliament by 30 September each year.

The Comptroller and Auditor General also prepares reports on the other accounts. For non-commercial state sponsored bodies these reports are submitted to the responsible minister, who submits them to Parliament. For health boards and vocational education committees a report on matters arising is submitted with the accounts and certificate to the board or committee and to the relevant minister, who in turn submits it to Parliament.

**Value for money audit**

Until 1993 the authority for this work was implicit in law, and conducted as part of the Comptroller and Auditor General's financial and regularity audit with the approval of the Committee of Public Accounts and the Department of Finance. This was similar to the United Kingdom position until 1983. In 1989 the Office decided to carry out 'project audits' examining value for money issues and using resources diverted from existing work. Eleven reports were prepared between 1989 and 1992. The approach involved the preparation of outline study proposals, followed by a preliminary study to decide whether the subject was worthy of full study, and a full study with a report, which was sent to the relevant organisation for its comments. The comments were incorporated with the published report.

The Government's 1992 White Paper considered that a different approach was required and argued that non-statutory 'loss, waste and extravagance' examinations were no longer adequate for parliamentary accountability or to help develop a more cost conscious public sector. As a result the 1993 Act gave the Comptroller and Auditor General discretion to carry out examinations to consider the extent to which the acquisition, use or disposal of resources has been carried out economically and efficiently. The Comptroller and Auditor General may also examine the systems, procedures and practices employed by bodies to evaluate the effectiveness of their operations, making any comparisons with other bodies, practices or systems as he sees fit. However, unlike the Comptroller and Auditor General in the United Kingdom, the Irish Comptroller and Auditor General may not examine directly the effectiveness of departmental activities themselves. He can consult at his discretion with the Committee of Public Accounts on proposals for studies.
Value for money reporting

Under the 1993 Act the Comptroller and Auditor General presents value for money reports to the relevant minister, who is responsible, within a period of three months, for submitting them to Parliament. The Committee of Public Accounts can take evidence on the reports in open session, question the heads of the organisations reported on and present a report to Parliament. The Act provides for the Comptroller and Auditor General to report value for money examinations individually as they are completed, rather than annually. Some 10 per cent of the Office's resources are allocated to this work. Value for money studies are normally undertaken by two people and completed within six months, with on average 6 to 7 reports being completed each year.

The Office discusses reports with departments during the fieldwork. When a report is finalised it asks the department to confirm the report's factual accuracy and submit any comments within one week. Any major differences are set out in the report. A short press release is issued on its publication.

Summary

The Office of the Comptroller and Auditor General has expanded in size in recent years against a background of public expenditure restrictions and concerns about the value for money obtained by government. The main features of the Office of the Comptroller and Auditor General are:

Independence

- The role of the Comptroller and Auditor General is provided for in the 1937 Constitution, which can only be altered following a referendum. The Comptroller and Auditor General cannot be removed except for stated misbehaviour or incapacity and then only by resolutions of both houses of the legislature.

Discretion over work

- The Comptroller and Auditor General has complete discretion as to the nature and extent of the work carried out, but must report annually to Parliament on the appropriation accounts and may, at his discretion, seek the views of the Committee of Public Accounts on his value for money examination plans.
Audit remit

- The Comptroller and Auditor General's audit remit has been extended under the Comptroller and Auditor General (Amendment) Act 1993.

- Under earlier legislation the Comptroller and Auditor General audits the accounts of issues from the Central Fund, the appropriation accounts and other accounts attached to the appropriation accounts, departmental stock and store accounts, the accounts of receipts of revenue of the state and the accounts of a number of departmental funds, state bodies and other agencies.

- Under the 1993 Act the Comptroller and Auditor General also audits the state's health boards, vocational education committees, institutes of technology, tertiary level education institutions and a range of other state sponsored and other bodies.

- The Comptroller and Auditor General also has financial audit inspection rights to a number of bodies receiving more than 50 per cent of their gross receipts from the Government.

Ability to report

- The Comptroller and Auditor General reports on his work on the appropriation accounts to the Dáil and it is then considered by the Committee of Public Accounts. Reporting arrangements for value for money examinations and the reports of audits of many other bodies are treated differently, in that the Comptroller and Auditor General reports to the appropriate minister, who lays the reports in Parliament within three months.

- Reports on accounts are presented annually, while value for money studies are presented as and when they are completed.

- Reports are publicly available and a short press release is issued when reports are published.

Rights of access

- The Comptroller and Auditor General has rights of access to such books, documents, records and data of a department as he may "reasonably require", as well as information from employees of audited departments.
Other duties

- The Comptroller and Auditor General's role includes that of Comptroller General of the Exchequer. Under this he authorises the granting of credits from the Central Bank, having satisfied himself that the amounts requested by the Ministry for Finance are authorised under the relevant statute. This provides an independent check that monies are being made available to the executive only to the extent that the Dáil has authorised.
Corte dei Conti
Italy

Background information

Economic and general information

Italy is situated in southern Europe and has a land area of some 300,000 square kilometres. This includes the large islands of Sicily and Sardinia, together with the smaller Elba and 72 other islands. Italy is bordered by France, Switzerland, Austria and Slovenia and has a population of some 57 million. The Kingdom of Italy was proclaimed in 1861 and the country unified in 1870. In the late nineteenth century Italy acquired an overseas empire in north Africa. After World War Two Italy became a republic rather than retaining a monarchy following a referendum in 1946.

Around 50 per cent of the employed labour force work in industry and manufacturing, much of which is in the north of the country. Cars, machine tools, textile machinery and engineering are particularly important. Agriculture flourishes in much of the country, with cereals, vegetables, olives and vines the principal crops. Italy is a leading producer and exporter of wine, and cheese is an important commodity. Tourism is also an important source of income.

The structure of the Italian state

Under the Constitution of 1948 Italy is a parliamentary republic. The President is the Head of State and is elected by an electoral college comprising both houses of Parliament, as well as regional representatives. Two-thirds of the votes are required for election, but an absolute majority will suffice after a third inconclusive vote. The President exercises certain powers - for example, appointing the Prime Minister (the President of the Council of Ministers), and other ministers on a recommendation of the Prime Minister. The President can also dissolve Parliament, except during the last six months of the presidential term, but other presidential duties are largely ceremonial.
The Constitution sets out the respective roles of the legislature, executive and judiciary, and envisages a clear separation of powers. Executive power is exercised by the Council of Ministers, which is responsible to Parliament. The Council comprises all ministers, including those with and without portfolios. The latter group are a significant part of the Italian political process and their existence stems from the coalition nature of the Government. There are ministers without portfolio responsible for issues such as legislative relations, the civil service and community policy. Ministers are traditionally members of the legislature but there is no legal requirement for this. The exact number of ministries can change but there are usually around 18. Once ministers are appointed the Prime Minister does not have the power to dismiss them.

In addition to the ministries there are numerous public bodies covering a wide range of functions, including sport and leisure services. There are also banks and state holding companies that hold shares in industrial or commercial enterprises - the shareholder of which is currently the Minister of Finance. They are not staffed by civil servants.

Italy has a hierarchy of administrative and political layers and is divided into 20 regions. Of these, five are autonomous regions with special status justified on geographical or ethnic grounds. As a result the regional assemblies of the islands of Sicily and Sardinia, together with Trentino-Alto Adige, Friuli-Venezia Giulia and Valle d’Aosta have parliaments in their own right, with significant and wide-ranging economic and administrative powers.

The Constitution of 1948 envisaged that all regions would have certain powers but this has taken time to develop. Regions raise local taxes but as these represent only a fraction of the funds they require they remain dependent upon central government. Regions are responsible for a wide range of functions, including health care, public transport, housing, the environment and agriculture. Below regional government is local government, comprising 103 provincial authorities and some 8,000 municipal authorities. They are financed partially from local taxes, but are also heavily dependent on central and regional grants. The provinces have responsibility primarily for roads and environmental protection, and the municipalities for areas such as primary education, water, and refuse collection. In 1989, major legislation created five ‘metropolitan areas’ for the major cities by amalgamating the provinces and the municipalities. These have enhanced powers to raise taxes.

**The electoral system**

The Italian Parliament is a bicameral institution. The Chamber of Deputies and the Senate have equal powers and authority, and all laws are subject to the approval of both. There are 630 members of the Chamber of Deputies who are elected for five years by universal and direct suffrage. The Senate is also
elected for five years on a regional basis and has 315 members, each region having at least seven senators. The President of the Republic can nominate five senators for life from among eminent people. Deputies must be over 25 years old and senators must be over 40 years old. The minimum voting age is 25 for the Senate and 18 for the Chamber.

Between 1949 and 1994 elections for deputies and senators were based on systems of proportional representation. However, this led to numerous fragile coalition governments. Following a referendum on amending the Constitution a new electoral system was adopted in 1994. This is a hybrid system under which 75 per cent of seats in each house are determined by a 'first past the post' approach and the remaining 25 per cent by proportional representation. Deputies are elected in their constituency by majority voting, and parties are chosen by proportional representation. A party requires four per cent of the national proportional vote to be awarded any of the 155 proportional representation seats. A candidate is allowed to stand in one 'first past the post' constituency and three proportional representation electoral districts.

The government accounting environment

There are strong internal control mechanisms within the Italian public sector and the controls established for central government spending are mirrored in the regions and municipalities. The central control system is supervised by the Treasury’s General Accounting Division headed by the Accountant General. This body has four main functions. These are drafting the state budget, evaluating the financial consequences of proposed legislation, inspecting the management of public administration (a task delegated to the Treasury's General Inspectorate of Finance), and carrying out an internal audit function.

The auditing function is carried out by central accounting offices located in each ministry. These offices are independent of the ministry in which they are based and supervise the compliance of administrative action with financial laws and Treasury directives. They operate by checking the regularity of proposed payments, and applying a 'visa' signifying approval. Irregular transactions are referred to the minister, who can order the central accounting office to attach its visa. Such cases are referred automatically to the Corte dei Conti, the state audit body.

The General Inspectorate of Finance carries out on-the-spot examinations of the activities of ministries and public bodies, and can propose corrective action where necessary. It also ensures that internal audit is functioning correctly in each body. The General Inspectorate's reports are forwarded to the Accountant General of the Treasury and, where financial loss is detected, to the Attorney General based in the Corte, who can prosecute civil servants suspected of financial impropriety.
In 1993 a law was passed requiring the setting up of 'internal evaluation units' within all state and public administrations. These units investigate the performance of managers in the public sector. The Corte expects that the work of these units will in time be a useful source of information on the performance of audited bodies.

All activities related to internal audit functions have recently been reviewed by Decree 286/99 which aims to provide a new and modern framework for the sector.

**The Supreme Audit Institution**

**Historical development**

The origins of public audit in Italy date back to Roman times but the Corte dei Conti was established in its present form by Law No 800 of 1862. This merged the four courts (based in Turin, Florence, Naples and Palermo) that existed before the Kingdom of Italy was proclaimed in 1861, and gave to the Corte the functions of accounting jurisdiction and a priori audit. These functions were later enshrined in the 1948 Italian Constitution.

Article 100 of the Constitution describes the Corte as 'an auxiliary organ of government', although this description belies the Corte’s independent status. Specifically the Corte is required to act in a supervisory capacity with regard to government spending, and is also required to report its findings to Parliament. The work of the Corte is regulated by a law passed in 1934 (Law 1214/1934). A royal decree introduced in 1939 (RD No 1038) provides the Corte with an opportunity to comment on any legislation affecting the Corte or its rights.

The Corte audits all tiers of government and after World War Two decentralised offices were established in each of the regions. In 1958 the Corte was granted the audit of bodies to which the state provides contributions on a regular basis, and internal changes were made to carry out this work. In 1981 a further change was introduced whereby all provinces and town councils with more than 8,000 inhabitants were required to submit their accounts to the Corte. The Corte reports the results of its audit of these bodies to Parliament by 31 July each year.

Traditionally the Corte has had responsibility for the a priori audit control of the regularity of all transactions of the central administration and the a posteriori control of the use of public resources. However, the way the Corte’s work is carried out changed significantly as a result of new audit legislation - Law No 20 - introduced in 1994. These changes were first proposed some 20 years
before when members of the Corte recognised that their existing remit and responsibilities were becoming unmanageable. The changes introduced in 1994 reduced the extent of the Corte's role in a priori audit control of expenditure, and greatly enhanced its ability to carry out a posteriori audits of accounts. In addition they facilitated the development of performance audit.

The organisation and structure of the Corte dei Conti

The Corte is composed of the United Chambers, a board based in Rome (both Sicily and Sardinia have their own United Regional Chambers based in Palermo and Cagliari); the Audit Chamber; 20 regional audit offices; 15 regional audit committees; three jurisdictional chambers for appeal based in Rome; 20 regional jurisdictional chambers; the Office of the Attorney General for Appeal; 20 regional attorney's offices; the chamber for public bodies; the chamber for local authorities; and the chamber for international and European Union affairs. In addition, there are also the Offices of the President and the Secretary General and the offices required for the management of personnel (the presidential council, the administrative council and the disciplinary committee).

The Corte comprises 560 magistrates. These are the President, who is head of the Corte, the Secretary General, the Attorney General, Presidents of Chambers, consiglieri (counsellors), vice procuratori-generali (the deputy attorneys general), and referendary or principal referendary. 169 magistrates are charged with audit functions and 391 magistrates are charged with jurisdictional functions. The President is appointed by a decree of the President of the Republic of Italy, upon a proposal by the Head of Government, after a prior resolution of the Council of Ministers. The appointment as President lasts until retirement at the age of 72.

Magistrates at the Corte are professionally qualified lawyers. They are appointed by a decree of the President of the Republic after a competitive public examination open to certain categories of civil servant such as lawyers, professors and members of the Bar. Magistrates, either with jurisdictional or audit functions, enjoy a status similar to that of judges, being independent and irremovable, and they are appointed until a retirement age of 72. Counsellors and those above them can only be removed from office on the approval of a special committee composed of the President and Vice President of both houses of the Italian Parliament. Some counsellors, mainly high ranking officials who are appointed by the Government following advice by the Corte, are appointed from outside the Corte.
The recruitment, remuneration and qualifications of staff and other resources

The Corte employs some 3,400 administrative and audit staff who are categorised as civil servants. Around 2,000 carry out audit work and the remainder are administrators divided between the administrative offices, the Attorney General’s Office and the jurisdictional chambers. About two-thirds work in Rome. Staff are appointed to the administrative and audit grades by a decree of the Prime Minister and after a public competitive examination. Administrative and audit staff with a degree in law may sit the examination to become a magistrate after a minimum of five years in the Corte (or in any other ministry). The upper audit grades and administrative staff receive training from the School of Public Administration and from the "Seminary" which is a training school of the Corte.

Parliament ultimately decides on the level of resources available to the Corte, following discussions between the Corte and the Treasury. Since 1995 the Corte has had a separate budget, rather than being included as part of the budget of the President of the Council.

The scope, role and rights of access of the Corte dei Conti

The Corte has wide ranging jurisdictional and audit responsibilities, and ultimately all state spending falls within its remit. As well as the accounts of ministries and government bodies the Corte audits the accounts of all state enterprises and has a locus in bodies that are authorised to operate autonomously. These include bodies to which some functions of government have been devolved, which can include private as well as public entities. The Corte also audits all bodies receiving a regular subsidy from the state.

The Corte's functions are divided between its various component parts as follows. The United Chambers reports to Parliament on the audit of the financial management of the state budget and of the state balance sheet. The Audit Chamber carries out a priori and a posteriori audit. The jurisdictional chambers investigate allegations against those responsible for managing public money and assets, and pass judgement on the accounts of those holding these responsibilities.

The Attorney General has 'the power to act in defence of the public treasury' and prosecutes public employees or officials, including ministers, who, through negligent or fraudulent behaviour, have caused financial loss to the public administration. Demands for damages are imposed and these must be met personally by public employees.
A complex structure exists for audit in the regions. Four of the five regions with special statutory autonomy are subject to audit by the relevant regional audit chamber of the Corte, which reports annually to each regional council on the financial statements. The fifth - Valle d’Aosta - is audited in a special way.

All the other regions are audited by a regional commission comprising four senior officers from central government and one from regional government, as well as a magistrate from the Corte. However, audit chambers will soon be set up in the ordinary regions and the existing regional commissions will cease to function. The audit is largely an a priori examination of activities of the regional government. In addition, in 1997 regional audit committees were set up to verify whether regions were achieving the objectives set under general and planning laws, fulfilling the task entrusted to the Corte since 1994. The Corte reports annually to Parliament and to each regional council on the results of this work.

The audit of local authorities (municipalities and provinces) is carried out by boards composed of three professional auditors, who examine the regularity of financial management and certify the annual accounts. They report to the elected bodies of the local authorities. Each region has a committee that monitors the financial performance of the relevant local authorities. It can make recommendations for improvement and the results of its work are passed to the Corte. The Corte can examine the main local authorities itself, including around 1,300 provincial authorities and those municipalities with over 8,000 inhabitants. A dedicated chamber of the Corte carries out this task, and reports annually to Parliament on the results of any examinations carried out. In doing this work the Corte has complete access to the work of all the bodies involved in the audit of local authorities.

There are also some 8,000 public bodies, entities and state owned companies, of which some 600 are local units of the health service. These bodies have within them an internal audit function consisting of a board of auditors appointed by the Treasury and the supervising ministries. The board's task is to verify the regularity of the financial management and to certify the annual statements. The board reports the results to the Treasury and the relevant ministries. A special chamber of the Corte carries out external audit of these bodies.
The auditing process

A priori audit

Until 1994 the Corte was subject to a legal requirement to audit almost all individual decrees and payment orders before their execution. Only very minor items of expenditure were excluded from this process, which was designed to prevent unlawful expenditure. This requirement gave the Corte a key role in the control process for public spending, but with some five million transactions per annum requiring examination, the work was time consuming and in many ways duplicated the work carried out by the central accounting offices referred to earlier.

The 1994 legislation retained the a priori audit function but restricted the work to far fewer transactions - in total a few thousand. In effect the only transactions now subject to this requirement include general planning acts, administrative measures emanating from the Council of Ministers, acts disposing of public property, and high value contracts. The Corte can also carry out a priori audit of acts in areas where repeated errors have been detected in the a posteriori audit, or where the President of the Council of Ministers specifically requests it.

Transactions subject to a priori audit must be sent to the Corte with all the relevant documentation. The Corte examines whether the transaction has been properly authorised, has a legal basis and is for the correct amount. The Corte then either sanctions the act or the payment by attaching its visa or, if irregularities are found, returns the documentation to the relevant body. The law imposes a strict timetable on the work of the Corte and the transaction is enforced or the payment is effected automatically if the Corte has not given approval or not objected to the act or payment within 30 days of receipt of the documentation.

A posteriori audit

Since the 1994 legislation a posteriori audit has been the main focus of the Corte’s work. It is designed to establish who is responsible for identified unlawful acts and irregularities. There are two types of work: checking individual acts of state administration and verifying individual management and related accounts; and auditing the state’s annual balance sheet.

The a posteriori verification of individual acts has traditionally been confined to activities of autonomous public corporations such as the Road Agency. Examination is similar in nature to that carried out for a priori audit work. If a
transaction proves to have been illegal or irregular, the person responsible is considered liable for the sum involved. The changes in legislation introduced in 1994 extended this work to all acts and accounts.

The audit approach

Audit work is carried out by the Corte's central and local offices, with specific offices examining each ministry. In addition, since many ministerial functions are carried out by peripheral ministerial branches, the Corte has set up a regional office in each of the 20 regions. These offices audit state acts carried out by the ministerial branches based in that region with both a priori and a posteriori audits carried out throughout the network. A change in the organisation of the Corte dei Conti in the regions is under consideration. Cases of irregular expenditure are referred initially to the body under examination, which has the opportunity to reassess its decision and cancel the payment if appropriate. If the administration does not accept the view of the local office of the Corte the case is referred to the Corte's Audit Chamber, which issues an official pronouncement following a debate involving representatives of the body. The power to refuse the visa therefore rests solely with the Audit Chamber.

The Government is able to override the decisions of the Chamber using a procedure known as 'visas with reservation'. This action does not in itself legalise a payment but effectively transfers the debate from a legal to a political level. Parliament must be informed by the Corte every 15 days of any such action, and will hold the Government to account. In practice few 'visas with reservation' are issued.

The audit of the state budget

The United Chambers of the Corte, with the participation of the Attorney General, examines the implementation of the annual budget by departments each year. In doing this it reviews the individual expense categories and compares the budget to out-turn. It also reconciles the records produced by the Treasury's General Accounting Division with those of the Corte. The Corte also examines the accounts, comparing them with its computerised records and the terms of the budget laws. It checks to see whether the revenue and the expenditure, as well as the balances outstanding for collection or for payment, match the figures given in the periodic reports and the general summary accounts submitted by individual departments. In addition, it ascertains the size of the deficit balances on the basis of documentary evidence supplied by ministries. The purpose is to issue a declaration of the final balance or on the existence of a surplus or deficit on the account. Regional audit chambers and the Regional audit committees report to the relevant regional assemblies (the Consigli Regionali).
For the state balance sheet, the Court's examination is first of all addressed to ensuring that the opening and closing assets and liabilities relating to budgetary operations match the results to which they refer, and also to confirming the sound management of these assets and liabilities.

A special "a posteriori" audit chamber carries out "performance audits" following an annual programme, and presents specific reports to Parliament.

The audit of bodies receiving contributions from the state

The Corte is able to audit all bodies that receive public money on a regular basis. Bodies receiving regular public contributions are audited by a special chamber of the Corte, with examination covering the financial management of the body, including economic and commercial aspects. The chamber is required to report annually to Parliament on the financial management of these bodies.

Such bodies forward their accounts to the Corte annually, along with supporting documentation and the reports of the internal auditors. In practice, however, the Corte may audit several years' accounts simultaneously. Where necessary, the Corte has access to these bodies to carry out the audit and form a view about the legality of the transactions in the account. Where it has doubts, the Corte does not declare transactions null and void but reports such matters with recommendations for improvement to the body concerned and any relevant ministry, to Parliament, and to the Prime Minister. The onus is then on the body and the ministry to take remedial action as necessary. The report also includes a judgement on the cost of services provided by the body and the balance between resources and outputs.

The audit of performance

The 1994 legislation expanded the Corte's ability to examine aspects of performance. The Corte defines this task as being an assessment of the results achieved by audited bodies in accordance with objectives set by law, and further an evaluation of the costs, procedures and timeliness of administrative action. In order to carry out this work the Corte has complete powers of access to audited bodies and to their internal auditors. This represents a considerable change in emphasis for the Corte, which is currently determining its approach to the work and examining whether its skill mix is appropriate.
Clearance procedures

The Corte does not undertake a comprehensive clearance procedure for the results of its work, although ministries and audited bodies may be asked to explain their actions where transactions are considered to be irregular. In addition during an audit visit matters arising may be discussed with ministries prior to incorporation in the Corte's report.

The Annual Report to Parliament

The Corte is required by the Constitution to report the results of its work directly to Parliament. It delivers its Annual Report to the Presidents of the two legislative assemblies, as well as to the Treasury, at the end of June each year. This report is the responsibility of the Corte's United Chambers and is a wide ranging document covering the general government accounts and drawing on information gained from all the Corte's work. The purpose of the report is to provide Parliament with an insight into the way in which the activities of the administration have been carried out.

The Annual Report includes the results of all the tasks carried out by the Corte. It also includes a general section covering matters relevant across the administration, such as budgeting or contractual activities, and a section with chapters devoted to each ministry. A further part presents an overview of all public administration, including information on the regions and local authorities. The report also includes a summary of the results of the Corte's comparative analysis of all ministries, a task that is undertaken centrally within the Corte, using information collected during the course of audit work.

The Annual Report is not simply an evaluation of the legality of government action, but also includes a review of budget management in order to ascertain whether the most important objectives set by Parliament have been achieved. Finally, the report includes recommendations for improvements needed in laws and regulations governing public administration.

Before submitting its Annual Report the Corte is required to give a prior compliance ruling on the central government accounts. This is effectively the seal of approval on the Government's overall financial management of the previous year. This ruling comes in the form of a 'judgement' arrived at by the Corte's United Chambers, sitting as a court of law in a public hearing with the Attorney General present.
Other reports to Parliament

The Corte also carries out specific pieces of work at the request of Parliament. For example, the Corte carries out every year reviews of public expenditure on labour costs in public administration, public contracts cost, European Community employment funds and contributions to the EU budget. The results of this type of work are reported to Parliament in special reports, which tend to attract media attention. Since 1988 the Corte has also been required to produce a four-monthly report to Parliament setting out its views on the financial appraisals carried out on all legislation passed in that period. In addition, the Corte is required to present an interim report each October on the progress of spending against budget for the year.

Follow-up action

The reports of the Corte are not presented to a single parliamentary committee. Instead, sections dealing with individual ministries are considered by the appropriate parliamentary committee. Recommendations of the Corte have no binding force. Rather, their purpose is to provide a basis for Parliament to exert its control. An example of this is seen in the examination of the financial situation and of the public debt for Italian participation in European Monetary Union. From 1995 public debt fell rapidly in Italy and the Corte dei Conti contributed, through its careful audit, to the legitimacy and regularity of the financial management.

Summary

The Corte dei Conti is an independent constitutional body that exists to provide Parliament with the information necessary to hold the Government to account. There have been significant changes to the Corte’s approach to its work in recent years. The key aspects of the Italian system are:

Appointment of magistrates

- The President of the Corte is appointed by the President of the Republic on a proposal by the Head of Government after a prior resolution of the Council of Ministers.

- The magistrates of the Corte are independent and appointed for life by the President of the Republic following open competition. They enjoy a similar status to judges.
Control over the Corte

- The Corte is governed by laws regulating its work. However, within the legislative framework the priorities are set by the individual magistrates. Parliament can ask the Corte to carry out specific reviews.

Skills of magistrates and staff

- The magistrates are professionally qualified in law. Audit staff are often graduates in law or economics. Administrative and audit staff with a degree in law may sit the examination to become a magistrate after a minimum of five years in the Corte.

Audit remit

- The Corte has a wide audit remit covering all ministries, public bodies, public enterprises, bodies receiving subsidies, as well as most regional and local authorities.

- The tasks carried out by the Corte include a priori audit of significant transactions, a posteriori audit of individual accounts and the accounts of the Government as a whole, and performance audit. The work of the Corte provides Parliament with the information it needs to grant discharge to the Government for the previous year's spending.

- The Corte also has jurisdictional functions, including responsibility for prosecuting those it suspects of misusing public funds.

Access

- The Corte has complete rights of access to all the bodies that fall within its remit and to the work of internal audit and other central government control offices.

Reporting

- The Corte reports the results of its work to Parliament each year, and can produce special reports on topics requested by Parliament. Reports are publicly available.
Legislation

- The activities of the Corte are governed by various pieces of legislation dating back to 1934. Recent legislation includes Law No 19 and 20, passed in 1994, Law no 639 passed in 1996 and Decree no 286 passed in 1999, which relates to the co-ordination of internal and external controls.
Background information

Economic and general information

The Grand Duchy of Luxembourg occupies a land area of around 2,600 square kilometres and has a population of some 420,000. It is landlocked and bordered by Belgium, France and Germany. Around 90 per cent of its area is agricultural or woodland. Letzebuergesch is the spoken and official language, but French is used for administrative purposes and German is widely used in commerce and the press.

Luxembourg was established as an independent state by the Congress of Vienna of 1815 under the sovereignty of the King of the Netherlands as Grand Duke. It was included in the Germanic Confederation from 1815 until 1866. The 1867 Treaty of London established Luxembourg as a neutral territory and in 1890 sovereignty was vested in the House of Nassau. The Grand Duchy was occupied in both the 1914-18 and 1939-45 wars. After World War Two its neutral status was abolished and it became a founder member of the North Atlantic Treaty Organisation. Luxembourg has played a major role in the postwar moves towards European integration and it is one of the main bases for institutions of the European Union.

Luxembourg is one of the most prosperous countries in the world. Its economy relies significantly on the financial sector, with a liberal tax climate encouraging financial institutions to locate in Luxembourg City. This sector now represents some 20 per cent of its GDP. Approximately one-fifth of the working population are engaged in industry, in particular in a strong iron and steel industry. The main agricultural outputs are cereals and root vegetables.
The structure of the Luxembourg state

The Grand Duchy of Luxembourg is a hereditary and constitutional monarchy. The original Constitution was established in 1868 and revised most recently in 1999. Executive power is vested in the Grand Duke but is usually exercised by the Council of Ministers, led by the Prime Minister. The Grand Duke countersigns all Acts of Parliament and also exercises some executive and judicial powers. He plays a part in the selection of the Government, and in particular the Prime Minister. Ministers can head a number of departments and there is a strong tradition of ministerial responsibility for the operation of government.

Legislative power is exercised by the unicameral Chambre des Députés. Legislation is passed initially but must return for a second vote three months later, thereby providing the opportunity for the public to raise objections. In practice the three month rule can be waived if the Conseil d'Etat agrees.

The Conseil d'Etat comprises 21 members appointed by the Grand Duke for 15 years. The Grand Duke also selects a President for the Conseil each year from among their number. The Conseil d'Etat acts almost as a second legislative chamber. It deliberates on proposed laws and can postpone enactment of bills, but decisions made by it can be overruled by the legislature. It can also form an opinion on any issue referred to it by the Grand Duke or the Government. There are also official groups, the chambres professionnelles, representing agriculture, handicrafts, commerce, private employees and labour, which are consulted on legislation that will affect them.

There are two levels of administration in Luxembourg - central government and the Communes. Communes relate to electoral districts and each has a local council elected every six years. The Mayor and Aldermen are appointed by the Grand Duke. The Communes have responsibility for public money, health and education.

The electoral system

Luxembourg has a unicameral parliamentary system with election to the Chambre des Députés by universal suffrage every five years. Voting is compulsory. Electors must be citizens of Luxembourg and be over 18 years of age. The country is divided into four electoral districts with voters selecting from party lists in multi-member constituencies. There are 60 members of the Chambre des Députés with 23 representing the South, 21 the Centre, nine the North and seven the East.
The Supreme Audit Institution

Historical development

The former Chambre des Comptes was established as an independent institution by the Royal Grand Ducal Decree of 1840. It exercised control over all the financial operations of the State and had the power to refuse to meet expenditure. In this way it exercised a priori control over State expenditure (the system of certifying edicts) providing a check on the legality and regularity of expenditure before payment but after the commitment of expenditure.

However, the system of a priori audit is compromised when it exercises no systematic control over the commitment of expenditure. In addition, the use of a preliminary check for each item of State Expenditure engaged the responsibility of the Chambre des Comptes at this stage and prevented the controller from presenting a posteriori qualitative observations relating to best practice in the financial management of public funds.

In the exercise of its functions the Chambre des Comptes was therefore relatively lacking in independence from the executive function. It was directly involved in internal control of the financial operations of the State and was dependent on the Government for both its funding and the recruitment of staff.

The ties between the auditor and the auditee proved an obstacle to the qualitative control of the financial operations of the State, as carried out in the majority of the member states of the European Union. The legislation of 8 June 1999 gives the Cour des Comptes an external audit function, encompassing not only legality and regularity of expenditure but also the sound financial management of public funds.

The audit function of the Cour therefore covers the economy, efficiency and effectiveness with which the budget is implemented, without making any judgements on the appropriateness of expenditure. In a democratic state, the appropriateness of expenditure always depends on the political choices made by citizens and their parliamentary representatives. To them alone falls the right to judge appropriateness i.e. the necessity or usefulness of expenditure.

This reform has necessitated changes in ministerial departments, in particular the introduction of an effective internal audit function as well as checks on the commitment and payment of expenditure. It has been important to draw a distinction between internal financial control on the one hand, to be organised and operated by the government; and on the other hand external financial control to be put in place by the Cour des Comptes. The aim has been to realise
an overall concept of the function of audit in the system of financial management in the public sector, with internal control and inspections on the one hand and external audit from the Cour des Comptes on the other.

**The structure of the Cour des Comptes**

The Cour des Comptes was set up by article 105 of the Constitution which was revised in 1999. It is now organised and functions according to the provisions laid down by the legislation of 8 June 1999. The Cour comprises five members, the president, the vice president and three counsellors.

The Grand Duke appoints the members of the Court, from a list of three qualified candidates presented to him by the Chambre des Députés for each vacancy. The members of the Cour hold office for six years, and can be reappointed.

The members of the Cour des Comptes cannot exercise any other public function, whether elected or not, nor can they take part directly or indirectly in any undertaking, the supply of goods or any other business activity in which their interests might be in conflict with those of the state.

The Cour makes decisions on a collegiate basis. Its work programme, general annual report, special reports and opinions, internal rules for preparing and implementing the budget and regulations are all passed by a majority of all members. All other decisions made by the college are taken by a majority vote of members present at a meeting of the Cour, with a quorum of three members and the president holding the casting vote in the event of a split decision. Internal regulations passed by the Cour must be approved by the Chambre des Députés.

**The recruitment and qualifications of staff and other resources**

In the exercise of their functions, the members of the Cour des Comptes are assisted by around forty staff of various grades, whose responsibilities and rights, notably conditions of appointment, remuneration and pension are linked to those of civil servants. Recruitment is carried out to specific posts and in accordance with the staffing framework approved by the Chambre des Députés. The Cour des Comptes may call on external consultants who act under the control and responsibility of the Cour.

The State budget each year makes a provision for the Cour's maintenance on the basis of the Cour's estimates. This arrangement ensures the independence of the Cour des Comptes from the executive power it is charged with auditing. Moreover, a system of annual settlements means that the Chambre des Députés
can monitor whether the Cour has the necessary level of staffing. The accounts of the Cour are audited each year under arrangements made by the Chambre des Députés and in parallel with the audit of the accounts of the Chambre des Députés.

**The scope, role and rights of access of the Cour des Comptes**

The Cour des Comptes audits the financial management of the instruments, administration and services of the State. The Cour is also entitled to examine other public bodies insofar as these are not subject to another system of financial audit prescribed by legislation. The Cour can audit the use of public funds granted to private sector bodies for a particular purpose.

**The auditing process**

The Cour des Comptes examines the legality and regularity of receipts and payments a posteriori, i.e. after revenue is collected and expenditure is incurred, as well as the sound financial management of public funds. The Cour determines the timing and type of audit undertaken, either at the Cour or at audited bodies through mandated agents and it takes all precautions to maintain the confidentiality of its investigations.

Any document or other information which the Cour deems necessary for carrying out its aims must be presented to the Cour on request, including those regarding the internal financial controls of each ministerial department relating to the commitment and payment of expenditure. Any representative, administrator, agent or civil servant of an audited body, any representative or agent of the State, any manager of public funds or member of an audit or inspection team where audit evidence is judged necessary is obliged to respond to a request from the Cour des Comptes. In this context, financial managers, accountants and consultants of audited bodies are released from their duty of confidentiality and can give evidence to mandated agents of the Cour des Comptes during investigations carried out in their departments.

The Cour's audit involves an exchange of correspondence with the audited body. The Cour informs the relevant minister or other responsible official of its audit findings so that they can comment at a time fixed by the Cour.

The Cour des Comptes presents its findings to the staff of the audited body on completion of each audit. If it decides that a fact or circumstance brought to its attention is of a nature which is likely to lead to a legal case or disciplinary action, it informs the Chambre des Députés and other interested parties.
Reporting

The Cour has a statutory duty to produce a general report each year on the general accounts of the State. This report is submitted to the Chambre des Députés, together with any response from the Government or other relevant organisation. The Cour can also present, at any time, either at the request of the Chambre des Députés or on its own initiative, its observations on specific areas of financial management in a special report. These reports, which may take into account the results of audits covering several years are submitted to the Chambre des Députés, together with any response from the Government or other relevant organisation.

In its observations the Cour des Comptes focuses in particular on:

- the consistency between amounts in the State’s budget and those in the accounting records and the regularity of audited receipts and payments;
- the significant cases in which budgetary rules and principles of sound management have not been observed;
- the main observations resulting from the audit of public bodies or private bodies in receipt of public funding; and
- lessons which might be learnt and recommendations for the future.

Finally, the Cour can be consulted by the Chambre des Députés on draft legislation which has implications for Treasury funds, as well as on the management of the budget and proposals for legislation relating to the accounting systems of the State and other public sector bodies.

Summary

The role of the Luxembourg Cour des Comptes is enshrined in the Constitution and it is organised and functions as set out in legislation of 8 June 1999. Its key features are:

Appointment of Members

- The Members of the Cour - the President, the Vice President and the three counsellors of the Council are appointed by the Grand Duke from a short list produced by the Chambre des Députés.
Security of tenure

- The Members are appointed for six years, although this term can be renewed.

Staff

- The Cour has around forty staff of various grades. Their responsibilities and rights are linked to those of civil servants. Recruitment is carried out in accordance with a staffing framework approved by the Chambre des Députés.

Budget

- The State's budget makes a provision each year for the Cour's running costs based on the Cour's plans.

Audit remit

- The Cour audits the financial management of the instruments, administration and services of the State. It can examine other public bodies as long as they are not subject to another system of financial audit and can audit private sector bodies which have received public funding for a particular purpose.

Reporting

- The Cour produces a general report each year which is submitted to the Chambre des Députés, together with any response from the Government or other relevant organisation.

Key legislation

- The Cour des Comptes is organised and functions according to the legislation of 8 June 1999.
Background information

Economic and general information

The Netherlands occupies a land area of over 41,000 square kilometres and is one of the most densely populated countries in the world with a population of approximately 15.9 million. It is bounded by Germany, Belgium and the North Sea. More than half the country lies below sea level and major capital projects have allowed the habitable land mass of the country to be expanded over time and the flood waters to be kept in check.

During the Middle Ages the Netherlands comprised a group of autonomous duchies (Gelre and Brabant) and counties (Holland and Zeeland), together with the bishopric of Utrecht. During the first half of the sixteenth century these territories, together with present day Belgium and Luxembourg, formed the Low Countries, which were part of the Burgundian-Hapsburg Empire. The second half of the sixteenth century saw the beginning of an 80 year war of independence and in 1648 the Republic of the seven United Provinces was recognised as an independent state. The 'Netherlands' remained independent until 1795 when it became a vassal state of the French Empire. This lasted until 1814 when, following French withdrawal, a son of the last stadholder - the most important nobleman during the time of the Republic - was crowned King.

The Dutch economy is heavily oriented towards the service sector with around 60 per cent of GDP coming from this source. A further 30 per cent comes from the manufacturing sector and agriculture contributes much of the remainder. The Netherlands has been a major trading nation for centuries, with banking, shipping and general commerce contributing to its balance of trade and payments surplus.
The structure of the Dutch state

The Netherlands is a constitutional monarchy. The balance of authority within the state has changed since the first Constitution of 1814, which decreed that the executive would be accountable to the monarch. The second Constitution of 1848 established the monarch as part of the executive, accountable to the States General (the Parliament). The Constitution is the highest authority in the Netherlands, even regulating the royal succession. There is no separate body to interpret the Constitution, and the legislature considers any constitutional implications during the passage of other laws.

The Constitution provides for a series of High Councils of State. These include the States General (the Upper and Lower House), the Council of State, the Netherlands Court of Audit (the Algemene Rekenkamer) and the Ombudsman (soon to be). The Council of State comprises former politicians, judges, businessmen and academics appointed until a retirement age of 70. It is headed by the monarch and advises the Government on all legislation. It arbitrates on disputes between ministries and also has separate divisions that monitor the activities of each ministry. Other important advisory bodies include the National Economic Development Council, the Central Planning Bureau and the Scientific Board for Government Policy. In addition, there are many other external advisory bodies and professional advisory committees.

The Constitution allows for a clear separation of powers. The Government (the executive) comprises the monarch and ministers, but the Constitution specifies that it is ministers who are responsible to the States General (the legislature) for all the actions of Government, including the actions of the monarch. The monarch has one significant constitutional role in selecting the person (usually the future Prime Minister) who will be responsible for forming the next Government. This power is of significance given the history of coalition governments in the Netherlands.

There are 13 ministries, each of which enjoys a great deal of autonomy. Certain ministries have central responsibilities, for example those of the Interior, Finance and Justice. The Ministry of the Interior includes the Directorate General for Public Management, which looks at a range of issues from ensuring equality and evaluating performance to promoting economy, efficiency and effectiveness. The Directorate General for the State Budget within the Ministry of Finance co-ordinates the financial management of all ministries.

In addition many government tasks are devolved to other bodies. These have regulatory functions in addition to their judicial, administrative and advisory duties. They exercise these functions independently but can be influenced where necessary by ministers, and can be both public and private entities. There is also state involvement in enterprises, including telecommunications, airports
and seaports. The level of state participation varies from one per cent to 100 per cent ownership of capital. Many of the tasks of ministries are carried out by decentralised governmental services. These employ over half of all civil servants and are within the hierarchy of ministries, but enjoy significant independence.

As well as central government there is a strong tradition of regional and local government. There are 12 provinces, each of which is administered by a Provincial Council, a Provincial Executive and the Queen's Commissioner. The members of the Provincial Councils are directly elected. Each Provincial Council appoints its own Provincial Executive, which is responsible for the day to day administration of the Province. It is from the individual Provincial Councils that the members are elected to the upper house of the States General. The Queen's Commissioner acts as President of both the Provincial Council and the Provincial Executive. The Netherlands is further subdivided into around 540 municipalities.

**The electoral system**

The States General is a bicameral institution. The Lower House (the Second Chamber) is elected by a system of proportional representation with universal suffrage. It comprises 150 members, who are elected for a period of four years. The upper house (the First Chamber) has 75 members who are elected indirectly by the Provincial Councils (thus reflecting the interests of the Provinces) also for a period of four years. The political composition of the two houses tends to be similar and government in the Netherlands is invariably by coalition.

**The political environment**

Ministers are not members of the legislature but the Cabinet must have the support of the Lower House of the States General. It will thus broadly reflect the political composition of that house. The Prime Minister is usually the leader of the largest political party in the Lower House and the Cabinet will be a broad coalition, agreed after consultation with the politicians in the Lower House.

Dutch ministers have considerable autonomy in the exercise of their functions, and are subject to little central control. Ministerial responsibility covers both ministers' personal actions and action taken by their departments. However, in practice ministers are unlikely to resign because of mistakes made within their departments. Laws are passed when they gain approval in both houses of the States General, and following signature by the sovereign, the responsible minister and the Minister of Justice who is responsible for the proclamation of the laws.
Each house has different powers. The Lower House has full time members and can initiate and amend legislation, although in practice most legislation comes from the Government. The upper house has part time members and can revise legislation. Both houses operate a comprehensive committee system, the composition of which broadly reflects the composition of each house. The lower and upper house both have a number of permanent committees and can set up special committees on an ad hoc basis.

The States General has three other ways in which it can hold the Government to account. The first is in the setting of the state budget, where it considers the proposals put forward by the executive. The second is the right of interpellation, through which either house can question ministers about present or future policies. Finally it has a right of enquiry, whereby it can set up specific investigations.

The Supreme Audit Institution

Historical development

The origins of state audit in the Netherlands can be traced back to 1386. Over the following 500 year period the organisation underwent many changes but traditionally carried out its work on behalf of the sovereign. The audit institution was given a legal basis in 1814 with the reinstatement of the rule of the House of Orange over the Netherlands.

As the locus of sovereignty has shifted to the States General over the last 180 years, so the Algemene Rekenkamer ("the Rekenkamer") has reoriented itself towards serving parliamentary requirements more directly, though not to the extent that it is merely an office of the legislature. The present day Rekenkamer is independent, but increasingly supports the work of the States General by responding to requests for specific studies to be undertaken. However, it retains the right either to decline these requests or to postpone the commencement of any studies if these do not fit sensibly into its plan of work.

After World War Two the need to control public expenditure and improve the performance of government resulted in the Rekenkamer placing considerable emphasis on developing efficiency audits as the principal focus of its work.

This position was formalised in the 1976 Government Accounts Act. Amendments to this Act were suggested quite soon after its introduction and in 1988 the original Act was modified. As a result, government departments are now required to submit their accounts within four months of their year end.
The profile of the Rekenkamer has increased significantly since the mid-1980s, when the States General began to take account of past audit recommendations in considering new policies. As greater attention was given to audit reports, their impact has increased and resulted in an enhanced role in the accountability process for the Rekenkamer.

**The structure of the Algemene Rekenkamer**

The Rekenkamer has a Board of three Members, including the President, each of whom is appointed by the Government from a recommendation made by the lower house of the States General. Each Member is appointed for life or until the state retirement age of 70 (in practice recent Presidents have retired at the age of 65). The composition of the Rekenkamer's Board is politically balanced. In 2000 it was made up of a former State Secretary of the Ministry of the Interior and member of the Labour Party; a former Mayor of (amongst others) The Hague and member of the Christian Democratic Alliance and a former Mayor and Dike Reeve of one of the Water Authorities of the Netherlands and member of the Liberal Party. The secretary-general advises the Board and heads the organisation.

The Rekenkamer has three audit and two supporting directorates. The audit directorates are divided into audit sections, most of which are based in the ministries. This process of situating staff in the audited bodies started in 1930 and was seen by the Rekenkamer as having the advantage of facilitating communication between itself and the audited department. At this moment an audit section of the Rekenkamer - employing about 20 auditors - is sited in every ministry. The supporting directorates and the government-wide audit sections are located at the headquarters.

**The recruitment, remuneration and qualifications of staff and other resources**

In 2000 the Rekenkamer had around 320 staff. Of these about 220 were directly involved with audit work and the remainder were support staff. Eighty percent of the auditors are graduates in disciplines such as economics, law, political and social sciences, accountancy and statistics. All employees undergo a one year internal training course explaining the Rekenkamer's audit approach.

The Rekenkamer's budget is set following discussions with the Ministry of the Interior and the Ministry of Finance. In case of disagreement the Rekenkamer may raise the issue with the State Expenditure Committee, but must rely on members of the States General to propose amendments to the budget.
The scope, role and rights of access of the Algemene Rekenkamer

Algemene Rekenkamer' means the 'General Chamber of Audit', 'General' being a reference to the fact that it audits all national government activities. The term 'Chamber' is a reflection of the tripartite nature of the Rekenkamer's leadership rather than an indication of judicial powers, as it does not possess the powers of a court. The Rekenkamer cannot judge or sanction those responsible for public expenditure or act as a court of appeal. The juridical pillars of the Algemene Rekenkamer are embedded in the Constitution. Its further authorities and tasks are specified in The Government Accounts Act. The Algemene Rekenkamer can conduct regularity and performance audits and audits of a variety of budget or premium financed bodies.

The Rekenkamer has a very broad audit remit and the Constitution specifies that it 'is responsible for auditing state revenue and expenditure'. To further define its role the Algemene Rekenkamer has formulated the following mission statement: "The mission of the Algemene Rekenkamer is to audit and improve the performance of the State and its associated bodies. To this end, it provides the government, the States General and those responsible for the bodies audited with information based on its audits. Such information consists of audit findings, conclusions and recommendations on organisation, management and policy. Objectivity, reliability and practicability are the principal characteristics of the Court of Audit's products, and independence and efficiency the principal characteristics of its production process."

The Rekenkamer has extensive rights of access to all documentation, even personal notes. Generally relations with audited bodies are good and this is helped by the physical location of the Rekenkamer's staff within ministries.

Extension of the Rekenkamer's audit remit in 1989 occurred as a result of public debate about subsidies to the Dutch shipyards, which resulted in a parliamentary inquiry. This concluded that there was a need for greater audit of loans and guarantees. The other pressure was the growth in the volume and cost of social security in the 1980s, and the States General's realisation that it had no information about this important area of public spending. In short the legislative changes arose because the States General wanted an independent view of key spending decisions. Such rights of access are extremely important in a country where a good deal of the administration of government - for example, the social security payment system - is already undertaken by non-government bodies. Article 59 of the Government Accounts Act 1989 enables the Rekenkamer to examine (not certify) both the regularity and the performance aspects of the following:
- public limited companies and private companies whose issued share capital is completely or partially held by the state (minimum five per cent share stake and a financial interest greater than 100 million guilders);

- corporate entities and partnerships in which the state has given, directly or indirectly, a grant, loan or guarantee;

- corporate entities performing a function regulated by statute and funded wholly or partially by receipts from levies instituted by statute - for example, social security, education, employment intermediaries and broadcasting bodies.

Such audits are carried out initially by inspecting audit reports and files held by the relevant ministry but the Rekenkamer can call for further information from the organisations themselves. If still not satisfied it can inspect the organisation's books after giving notice to the appropriate minister. The Rekenkamer views its power of access to state aided bodies as 'an excellent tool to obtain information from agencies and public bodies put at a distance from their former departments'.

The Rekenkamer has adopted a five-year programme 1999-2004. In this programme strategic audit choices are made. Regarding regularity the Rekenkamer will continue to carry out audits in the field in accordance with its statutory mandate. It seeks to ensure at the very least that present standards are maintained. Furthermore, by 2002 the Rekenkamer intends to give an annual overall opinion on individual minister's financial arrangements. Such an opinion will be broader in scope than has hitherto been the case. The Rekenkamer will also pay systematic attention to the availability and reliability of information on the results of policy. For the audits of budget or premium financed bodies, the Rekenkamer seeks to ensure that by the year 2005 ministers can be reasonably assured of regularity in the sectors that fall under their responsibility. For performance audits the programme means an intensification and an attachment of priority on the following sectors: safety, income, care, education, housing and environment. The reason for focussing on these fields is that they have a direct impact on the public and that basic amenities are at stake. Possible shortcomings of Government can have serious consequences.

In the very near future new legislation in the form of an adjustment to the Governments Accounts Act is expected that will give the Rekenkamer a broader authority on audits regarding European money flows. This extension will give the Rekenkamer the power to audit European money through to the level of the beneficiaries.
Other public sector audit institutions

Both the provinces and the municipalities in the Netherlands have responsibility for different aspects of administering and managing local and regional services and programmes. Each tier of government is financed by a combination of central government grants and locally raised taxes. The financial audits of the organisations and bodies associated with these services and programmes fall to the regional and local authority audit institutions and are outside the remit of the Rekenkamer. In the future an exception will be made for European funds.

Relations with Parliament and the Government

The Rekenkamer's reports are submitted to the States General and as official parliamentary documents are in the public domain. Any parliamentary committee can discuss the reports but they are usually considered by the State Expenditure Committee, which has the authority to call ministers to account and seek further evidence from the Rekenkamer.

The relationship between the Rekenkamer and the States General has gradually evolved. Until the mid-1980s there was little public or political concern about matters of financial accountability and as a result the work of the Rekenkamer received little attention. The increased importance of financial accountability in the mid-1980s altered this situation. The Lower House now frequently uses the reports of the Rekenkamer to question ministers. The Rekenkamer also recognises that it needs parliamentary interest for its work to be successful, and this interest can be measured, for example by the number of questions asked of the Government by the States General.

The Rekenkamer has complete independence in its choice of work except that it must approve the State Account every year. Both houses of the States General can request work to be carried out but the Rekenkamer determines its final work plan. The Rekenkamer and the State Expenditure Committee meet about three times a year to discuss matters of mutual interest and the committee consults the Rekenkamer when it makes recommendations. The relationship between the Lower House and the Rekenkamer is often discussed in the States General, where politicians have requested more information about the process of selecting topics for further examination. However, the Rekenkamer is resistant to parliamentary moves to harness it and seeks to ensure that maximum benefit is derived from its work without its independence being jeopardised.
The Rekenkamer and other countries

The Rekenkamer also looks beyond its country borders. As an institution it can test its theories and amass knowledge in other countries, as well as transferring know how. It is of the opinion that a properly functioning audit office is a necessary component of sound financial management by the government. In the context of development co-operation, the Rekenkamer endorses the concept of good governance by supporting other audit offices. It elects to concentrate its activities in a number of regions believing that this will increase their effectiveness. In doing so it takes as its basis the policy of the relevant minister and international organisation.

The auditing process

Regularity audit

There is a strong onus on ministers in the Netherlands to make sure that systems and controls are in place to ensure the proper use of public money and they are accountable to the States General for this. A minister must secure the agreement of the Ministry of Finance and the Rekenkamer to changes to the financial systems in operation. Ministers are supported in this by ministerial audit divisions, which form their own opinion of the accounts.

The Rekenkamer's audit approach is systems based and relies heavily on the work of the ministerial audit divisions. This is permitted by article 67 of the Government Accounts Act 1976. Internal audit divisions share their findings with the Rekenkamer, which examines their audit programmes and the conclusions reached, and plans its own audit around these. The Rekenkamer carries out further regularity audits as necessary.

The Rekenkamer must therefore be confident that it can place reliance on internal audit. In 1985 it carried out an examination of the performance of departmental internal audit divisions and found significant staff shortages, lack of qualifications, weak audit programmes and poor accounting procedures in place. This resulted in significant problems in financial accountability, including a very low profile for the State Account and a general decline in standards within ministries. As a result the mid-1980s saw a radical change in approach, signalled by the Government Accounting Reform Operation, a five year plan to improve the timeliness of financial information and its usefulness to the decision making process. In 1999 a new and comparable development process was started named "from policy budget to policy report". One of the main goals of this approach is amongst others to focus on the achievements of
governmental policy. A transitional period of three years should result in the sending of the annual reports of the ministries to Parliament by the middle of May and finalisation of the parliamentary debates before summer recess.

This means that the timeliness of financial information and audit reports will be radically altered. Ministers are required to submit an interim account three months after the end of the financial year. The Rekenkamer presents an audit report on each account to the States General at a fixed date the third Wednesday of May. This information is used during the next budgeting process. These audit reports are amalgamated to produce the opinion on the State Account, which the Rekenkamer is required to approve before discharge can be given by the States General.

The Rekenkamer's opinion on each account is therefore based largely on the results of internal audit work. Where this work is assessed as weak by the Rekenkamer or reveals problems, the Rekenkamer carries out further work. Most of the Rekenkamer's reports on accounts refer to weaknesses in financial control systems. Other criteria for selecting a department or focus for examination or inspection may include: a sharp increase in spending in a particular sector; cyclical examination; clear political or social relevance; or distinct signs that something is wrong. The results of performance audit are not material to the view on the accounts.

When the Rekenkamer objects to some elements of spending and the minister refuses to accept the recommendations for changes, the Rekenkamer can report its objections and thus force a minister to submit a bill eliminating this objection. This bill is called an Indemnity Act and permits the inclusion of 'irregular' expenditure in the State Account.

Performance audit

Performance audit forms an important part of the work of the Rekenkamer. The statutory basis for this work is article 74 of the Budget and Accounting Act 1976, which requires the Rekenkamer to 'give attention to the effectiveness of the management of the state and to the organisation and functioning of the public service'. The legislation also enables the States General to request the Rekenkamer to carry out particular examinations. In practice it seeks to ensure that such requests are incorporated into its planned work. The importance attached to this work has increased since the mid-1980s, largely as a result of the increased parliamentary attention paid to it.

The Rekenkamer can examine the efficiency and effectiveness of government policy, but is prohibited from examining the policy itself. The audit process is well established, starting with the policy decision and then developing criteria
against which the policy can be evaluated. The criteria vary with each audit, but checklists for suggested improvements are generally used. The Rekenkamer aims to secure future change rather than apportion blame.

The Rekenkamer considers that early intervention can highlight cases where ministers should clarify or define further their objectives. It interprets its a posteriori audit remit as permitting examination of a subject as soon as the minister has taken a decision that has financial implications.

The impact of the performance audit is difficult to assess. The Rekenkamer estimates that the Government accepts a large majority of its recommendations, but the extent to which remedial action follows is less clear. Since the mid-1980s the Rekenkamer has followed up audits to ensure that the promised action has been delivered.

**The clearance process**

The Rekenkamer submits its reports to the auditee for comment although it is not required to do so. The audit findings will normally be discussed with the senior civil servants of the audited department and their responses will be considered in drafting the final report. The relevant minister is also invited to comment on the audit findings and given two months to respond. Depending upon the findings and the responses of the department the Rekenkamer may choose to treat the audit as complete and 'close the file', but in most cases the results and conclusions of the audit will be presented to the States General. The response of the auditee to the Rekenkamer's report may be included in the report, as might a further response by the Rekenkamer.

**Reporting**

The Rekenkamer reports to the States General at various times throughout the year. By 31 March each year it is required to have produced an Annual Report on its activities, and it strives to produce its report on the State Account on the third Wednesday in May.

The results of performance audits are published throughout the year. Any reports of the Rekenkamer that are published through the States General automatically pass into the public domain as parliamentary documents and are thus available for public scrutiny.

The Rekenkamer assesses the impact of its work by carrying out follow-up audits on a regular basis. These normally take place between one and three years after the initial report is published and the results of the follow-up work are published in the Annual Report. In the follow-up work the Rekenkamer indicates which of its recommendations have been implemented.
Summary

The Algemene Rekenkamer follows in a long established tradition of independent state audit in the Netherlands. Its purpose is set out in the Dutch Constitution and its detailed tasks are set out in public law. Key features of the Rekenkamer are:

Appointment of Members of the Board

- The Members of the Board are appointed by the Government from a shortlist recommended by the legislature. The Board is politically balanced and Members are appointed for life (i.e. until the retirement age of 70).

Control over the Rekenkamer

- The Rekenkamer has considerable discretion in the nature and scope of the audits it performs though it must approve the State Account each year. The legislature can ask, but not demand, that the Rekenkamer carries out specific examinations.

Management and staff

- Professional management; the secretary-general, directors and heads of bureau manage the Rekenkamer organisation without performing audits themselves. Audit staff of the Rekenkamer are usually graduates in economics, law, political and social sciences, accountancy and statistics.

Budget

- The resources available to the Rekenkamer are determined following discussions with the Ministry of the Interior and the Ministry of Finance. In cases of disagreement the Rekenkamer may raise issues with the State Expenditure Committee.

Audit remit

- The Rekenkamer has a very broad a posteriori audit remit, established in the Constitution and expanded upon in public law. Its duties include the audit of regularity and performance.

- In addition to the mainstream ministries and government bodies the Rekenkamer also has comprehensive inspection rights to public corporations, public and private companies where the state holds more than a five per cent stake, and bodies performing functions regulated by statute or funded by statutory levies.
In the very near future new legislation in the form of an amendment to the Governments Accounts Act will give the Rekenkamer a broader authority on audits regarding European money flows. It will then have the opportunity to audit European money through to the level of the beneficiaries.

The Rekenkamer has discretion in its approach to its work. It is entitled to rely on the work of other auditors for its financial audit, carrying out extra work as it deems appropriate. It has statutory access rights to the working papers of other auditors.

The execution of performance audit is completely unrestricted. The legislature can request but not demand particular examinations. The Rekenkamer is not permitted to comment on matters of policy but can examine an issue as soon as a decision that has financial consequences has been taken.

Access

The Rekenkamer has extensive rights of access to audited bodies. It can see all documentation, including personal notes, and it can carry out on-the-spot examinations.

Other duties

The Rekenkamer makes recommendations to ministries on changes in their systems that have financial consequences.

Reporting

The Rekenkamer is required to report to the States General at least twice each year. In March it produces its Annual Report, and in May it reports on the State Account. The results of performance audits are published throughout the year. Finally the Rekenkamer can write to the States General on important matters with financial consequences.

The reports of the Rekenkamer are publicly available and can result in significant media comment.

Any parliamentary committee can discuss the Rekenkamer’s reports but they are usually considered by the State Expenditure Committee.

Key legislation

The legislation that governs the work of the Rekenkamer, the Government Accounts Act, is regularly updated, most recently in 1995.
Background information

Economic and general information

Portugal occupies a land area of 92,000 square kilometres and has a population of about 10 million. As well as the mainland on the Iberian peninsula (the Continent, with 88,796 square kilometres), there are also the archipelagos of Azores (9 islands) and Madeira (2 islands) in the Atlantic, which are autonomous regions with their own legislative and administrative powers.

Between the twelfth century and 1910 Portugal was a Monarchy. The First Republic lasted from 1910 to 1926. The Republic was overthrown in 1926 and from then until 1974 Portugal was a conservative dictatorship, during which the State managed the economic and political activities of the country and the formation of independent and competing interests, movements and ideologies was inhibited. The condition of the Portuguese economy was poor throughout this period and was heavily based on agriculture, some traditional industries (like textiles) and natural resources of African colonies such as Angola and Mozambique.

After the revolution of 1974, Portugal was transformed into a parliamentary Republic. Since then there has been a political, economic and social process of democratisation and development so that, in 1986, the country was able to become a member of the European Community (now European Union), and, in 1997, Portugal joined the Economic and Monetary European Union.

The Portuguese economy is at present principally based on services (tertiary) and industry (secondary). Agriculture (primary) employment and production are now relatively less important.
While there is a strong reliance upon the services sector for employment in Portugal, industry and building produce about 53% of GDP. Portugal is industrialised with manufacturing capacity in various types of machinery and equipment (including vehicles), textiles and footwear, pulp and paper, pharmaceuticals, wood, cement and glassware, and there are also some important extractive industries. Activities related with tourism are very important as regards employment and GDP.

**The structure of the Portuguese state**

Portugal is a sovereign, unitary republic governed under the 1976 Constitution as revised in 1982, 1989, 1992 and 1997 (the last two revisions concern European integration). The Head of State is the President who is directly elected every five years (with a maximum of two consecutive terms). Executive power is vested in the President, who has a range of functions including appointing the Prime Minister and, on the latter's nomination, other members of the Council of Ministers. In practice the Prime Minister will be the leader of the majority party. The President can also dismiss the Government or dissolve the Assembly (Parliament), although these functions are largely ceremonial and he does not have a veto over legislation. In making his decisions the President is advised by the Council of State, which he chairs. This is made up of former Presidents, other leading public figures and members of the public nominated by the President and the legislature.

Portugal has a unicameral Parliament. Legislative authority is shared between the Assembly and the Government. There are four areas of legislative procedure. Under these the Assembly alone can legislate on issues such as the electoral system; the Government alone can legislate on its own internal organisation; in matters of taxation the Executive legislates if authorised by the Assembly; and in all other cases the Government and the Assembly have concurrent legislative authority.

Government in Portugal is split between central and local levels. Central government (Executive) is led by the Prime Minister and the Council of Ministers. There are also two Special Councils of Ministers - one for economic issues and the other for European Community issues. These are established in law and both are chaired by the Prime Minister.

The Ministry of Finance is responsible for supervision of fiscal policy, the state's budgetary management and the public enterprises. A key directorate within the Ministry is the General Directorate for the Budget, which prepares the state's budget and is responsible for the state accounting system. It gives prior authorisation for all expenditure by dependent administrative bodies (36.3 per cent of all public administrations' expenditure) and authorises monthly transfers to bodies having administrative and financial autonomy.
(21.6 per cent). In addition the General Inspectorate of Finance is, under the Ministry of Finance, a high level internal financial control body that monitors the legality of expenditure by central government and public enterprises and also the property and financial management of local authorities.

There are 21 ministries, which carry out policy determined by the Government. They are led by a minister; some are assisted by one or more Secretaries of State. All are political appointments. The secretaries of state exercise responsibilities delegated by the minister and these may be delegated further to director-generals. The civil service contains both established career civil servants and non-established staff. There are some 600,000 civil servants in total, including all teachers and medical staff (500,000 in the Central Administration; 100,000 in local government). These figures concern the Continent; if one includes the Autonomous Regions (Acores and Madeira) the total is estimated at about 635,000.

In Portugal some public enterprises and corporations are formed under commercial law and their capital is public or shared by the private and public sectors. Most have traditionally been entirely state owned (namely the "public utilities": areas such as energy, transport and communications), but their capital has recently been open to the private sector. In fact, since the late 1980s there has been increasing private involvement in these enterprises. A law passed in 1990 allows for the full privatisation of public enterprises; however, there are also a number of mixed economy enterprises such as shipbuilding companies, where the state is a shareholder.

Local authorities in Portugal are organised in two main tiers: municipalities and parishes. There are 308 municipalities which are responsible for services such as water supply, roads and primary schools. About 50 per cent of their income is derived from central government grants and the remainder from local taxation, fees and charges and loans. There are also 4,241 parishes. The General Inspectorate of Finances and the Tribunal de Contas (the Portuguese Court of Auditors) monitor their spending.

### The electoral system

The President of the Republic is elected by direct universal suffrage and an absolute majority of the votes. The 230 members of the Parliament ("Assembleia da República") are elected every four years from 22 constituencies under a system of proportional representation. All citizens of Portugal over the age of 18 can vote.
The political environment

The Government consists of the Prime Minister, the ministers and the secretaries of state. It is responsible for policy making and public administration. All members of the Government are bound by its programme and the decisions of the Council of Ministers. The Government is answerable to the President of the Republic and the Parliament. The Council of Ministers meets weekly to discuss and decide on the broad basis of policies and their execution, to approve bills, draft resolutions and other important documents, as well as Acts of the Government that affect public revenues or expenditure.

The Parliament votes on the Government's programme, rejection of which would result in the resignation of the Government. The Government must also resign if defeated on a vote of confidence in the Parliament. There are a maximum of 12 parliamentary select committees, which cover all areas of government. They discuss and vote on bills, and the full Assembly largely ratifies their decisions.

In Portugal justice is the responsibility of the courts, which are independent and subject only to the law. There are different categories of courts. These are constitutional, judicial, administrative, fiscal, military and the Court of Auditors - the Tribunal de Contas.

The Supreme Audit Institution

Historical development

Although the present form of the Tribunal de Contas can be traced back to 1849, the very earliest origins of the state audit function date back to 1389. As Portugal was a monarchy for the period from the twelfth century to 1910 (and a constitutional monarchy for only the last 70 years of this period), the role of the forerunners of the Tribunal was closely associated with verifying the 'royal purse'.

From 1849 to 1886 the powers and jurisdiction of the Tribunal gradually increased and by 1886 included a priori as well as a posteriori audit. Following the creation of the First Republic in 1910 the Tribunal, along with a number of other state institutions, was abolished and replaced with the Supreme Council for Financial Administration. The controlling group of the Supreme Council contained no auditors, and failed to fulfil the expectations held of it. In 1919 the Supreme Council was replaced by the Supreme Finance Council. A priori audit control, which had been removed from the ambit of the Supreme Council, was reintroduced for the Supreme Finance Council.
With the overthrow of the First Republic, Parliament was dissolved and a provisional auditing institution (retaining the name Supreme Finance Council) was established. In 1930 it was replaced by the Tribunal de Contas, which was incorporated as a constitutional body in 1933.

The nomination of the President and Members was the responsibility of the Minister of Finance. It was not until the implementation of the 1976 Constitution, following the creation of the Second Republic, that the Tribunal was formally integrated into the system of the courts, and the procedure for nominating the President modified. Substantial alterations were made to the regulatory framework that had governed the organisation, operation and activity of the Tribunal by the Reform of the Court of Auditors Act 1989 (Law 86/89) which has been completed by the recent Law 98/97.

The structure of the Tribunal de Contas

The Tribunal de Contas is an independent, sovereign court of the Second Republic, subject only to the law (articles 202, 203 and 214 of the 1976 Constitution and article 24 of Law 98/97). It is not part of the judicial hierarchy, but it can judge, fine or reduce penalties imposed upon those judged to be guilty of public finance violations. It is thus constitutionally on a par with the judicial, administrative, military and other courts. Since 1989 the Tribunal has had the right to determine its own budget.

The Tribunal is composed of a President and 16 Members for the Portuguese mainland based at its headquarters in Lisbon. There are also two additional Members at the regional sections of the Tribunal in the Azores and Madeira. The Members of the Tribunal in Lisbon include four who work on a priori and concomitant audit (the 1st Chamber), nine on the concomitant and successive control (the 2nd Chamber) and three on the judicial work (the 3rd Chamber). There are nine departments dealing with a posteriori (successive) audit and one dealing with a priori control, which is divided into three divisions.

The President of the Tribunal is appointed by the President of the Republic following nomination by the Government. The term of the office ends after four years but can be renewed. The Vice President is elected for a period of three years. The President may delegate powers to the Vice President. The Members of the Tribunal are selected by a panel comprising the President, the Vice President, the oldest member and two senior academics appointed by the Government. After the selection members are sworn in by the President of the Tribunal. They enjoy the same rights of independence as the judges of other supreme courts. Prior to the 1989 reforms, Members were appointed by the Ministry of Finance. Members are not entitled to take part in party political activities.
The Members of the Tribunal include lawyers and economists. The Tribunal meets in general plenary sessions, chamber plenary sessions, in sub-chamber and seal approval meetings. The general plenary sessions include all Members, while chamber plenary sittings include all Members belonging to a chamber.

Located within the Tribunal de Contas is a representative of the Public Prosecutor - the Attorney General. His role is to 'represent the state, prosecute and defend democratic legality and the interests of the state', as well as inform the Public Prosecutor at other courts of violations discovered in files examined by the Tribunal.

The recruitment, remuneration and qualifications of staff and other resources

In 1998 the Tribunal had 594 staff. Remuneration of Tribunal staff has not always been equivalent to that found in the private sector, but the Tribunal’s legislation now states that it must not be inferior to that of others within the general pay scheme of the civil service and in particular those charged with control responsibilities. The Tribunal’s staffing costs are met by the State. In addition, all audited bodies are charged for audit work undertaken, as well as for any special audit projects. This revenue can be used to recruit more staff or purchase other resources.

The scope, role and rights of access of the Tribunal de Contas

The Tribunal has a number of main functions. These are to provide an opinion on the General State Account and the Social Security Account; to verify the legality, economy, efficiency and effectiveness of public expenditure; and to examine any accounts the law specifies must be submitted to it. Under the 1976 Constitution the Tribunal de Contas has wide powers of access which were confirmed in Law 98/97. Article 1 of Law 98/97 states that the Tribunal holds powers of jurisdiction and financial control within the scope of the whole legal system, whether on national territory or abroad.

The following entities are subject to the financial control and the jurisdiction powers of the Tribunal: the State and its services, whether financially autonomous or not; the autonomous regions; public institutes; social security institutions; local government and city council associations and federations; and other bodies that the law directs the Tribunal is responsible for supervising at a national level, for example private recipients of public funds, including those from the European Community.
Other entities are subject only to the financial control power: public associations which are mostly financed by public entities or subject to its management control; public corporations; corporations formed under commercial law, whose capital is shared by the private and public sectors from Portugal and abroad and where the public sector holds directly the majority of the share capital or has direct control of the respective management; concessionaires companies for the management of public companies, with public share capital or mixed private and public companies controlled by the public sector and concessionaires or managers of public services companies; private law foundations which, annually and regularly, receive funds from the State Budget or from the local authorities.

The Tribunal has a nation-wide remit and there is no local or regional auditing body. It has the power to follow state funds wherever they are spent, albeit at times through the audit of the sponsoring ministry.

A distinguishing feature of the Tribunal de Contas is that, in line with some other 'court' systems of state audit, it has the power to judge and punish those it finds guilty of violations of financial regulations. Under articles 65 and 66 of Law 98/97 it can impose fines in a variety of cases, including the non-settlement, non-collection or non-delivery of assessed revenue, infringements of regulations relating to the preparation and implementation of budgets, the failure to submit accounts within the legally defined timetable, and the unjustified failure to co-operate with the Tribunal.

Fines reflect the seriousness of the offence, with the maximum half the net annual salary of the guilty party. Under articles 59 and 60, the Tribunal can also order reimbursement of any sums embezzled. Under article 64 the Tribunal can also absolve the guilty party from financial liability, or reduce the liability if the error or neglect is not deemed too serious. Where such decisions are taken they must be recorded in official records.

The government accounting system

The Portuguese accounting system is cash based with a financial year ending in December. There are two budget laws. One is organic and describes how the budget is set out; the other is passed each year and elaborates on how the budget will be implemented. The Tribunal studies the legal implications of the state budget. It also analyses the budget debates and from this develops an audit plan for the year to be approved by the full Tribunal. Decisions will be made about which departments and areas of government activity will be audited and whether the audits will be conducted on-site or at the offices of the Tribunal.
The General State Account is prepared by the Ministry of Finance and audited by the Tribunal. The documents include an analysis of income and expenditure, Treasury expenditure, public debt, loans made, how monies have been invested and tax benefits. The General State Account has a standard layout, content and presentation.

The auditing process

Types of audit

The Portuguese state audit function can be divided into two elements. The first is an a priori audit primarily concerned with compliance issues. According to article 44 of Law 98/97 the aim of this is to check whether charters, dispatches, contracts and other documents subject to control "are in pursuance with the law in force and whether the respective obligations are financially covered by their budget". A priori audit control is executed by applying 'seal approval and a certificate of conformance' (the indication of Tribunal approval). Article 47 of Law 98/97 increased the range of a priori audit control exemptions. Since then the level of computerisation of files requiring a priori audit control has increased and this has led to a significant improvement in the management of this work so that it is now essentially compliance oriented.

Four of the Tribunal’s 16 Members and around 91 of the staff (some 17 per cent) are responsible for a priori audit. Although this area of work is declining and of diminishing importance, the same staff are also committed to concomitant control (the second area of competency). In addition, it is through the a priori audit work that the Tribunal gives approval to general funded government debt bonds and other contracts that have the effect of increasing the public debt. In this sense the Tribunal plays a role in controlling government debt.

The most substantial area of work is a posteriori (successive) audit, including performance audit. This work involves preparing the report on the General State Account, examining and verifying management accounts of departments and services with administrative autonomy, and other supervisory functions such as oversight of projects financed by the European Union.

Frequency of audit

Some 11,000 public bodies fall within the Tribunal’s remit, but certain factors - such as the size of its annual income - exempt bodies from audit. In practice around 3,000 bodies are regularly examined, a few annually and the others on a cyclical basis.
The accounts of customs and excise, the inland revenue and the Bank of Portugal are examples of those examined annually.

The Tribunal de Contas classifies its work as "internal" or "external" audit. For internal audits files are inspected at the offices of the Tribunal. These audits are general examinations concerned with legality and regularity, but it is from the internal audits that problem areas are identified, after which specific "external" audits will be undertaken at the audited body. It is in the course of specific audits that assessments of departmental managerial performance are undertaken. Other "stimuli" for specific audits are the identification of problems at ministries by politicians or the media.

**Performance audit**

Under article 5 of Law 98/97, the Tribunal measures a department's performance and progress against its past performance rather than against a standard benchmark. Performance audits of managerial effectiveness are a relatively recent development and are undertaken as part of specific, on-site audits. The Tribunal sees the audit of economy, efficiency and effectiveness as an important strand of its work, and one that represents a growth area for its future development.

Article 5 of Law 98/97 also states that the Tribunal can, at the request of Parliament or the Government, hold audits into specific aspects of state financial management or that of other public bodies subject to its examination. The Tribunal draws up a report with its findings and presents it to these bodies. As a result, an audit developed to consider regional investment grants, for example, would not only examine the compliance and legality issues associated with the contracts awarded but would also consider the social and economic impact of the schemes.

**Reporting**

The Members of the Tribunal are responsible for delivering the audit reports. Therefore, once an audit is complete, a draft report is sent to a committee of 3 Members (including the reporter) who must analyse and approve it.

Before approval and public availability, the draft report is sent to the audited entities and their views may be attached as appendices. However, the Tribunal is not compelled to obtain their agreement. If there is significant disagreement, the counter argument to the Tribunal's findings may be included in the main body of the report.
The Tribunal’s Report on the General State Account and the separate Social Security Account, which analyses implementation of the budget, must be submitted within six months of the year end (by 30 June). The report is approved by the General Plenary and submitted to the President of the Republic, the Parliament, the Government and the organs of government of the autonomous regions. On the basis of the report the Parliament approves the General State Account.

The Annual Report of Activities and other statements by the Tribunal are publicly available in the official newspaper - Diário da República.

**Summary**

**Status of the SAI**

The Tribunal de Contas is an independent body with a role enshrined in the Constitution of Portugal. It has an extensive range of duties and powers and plays an important part in the public expenditure process.

**Appointment of Members**

The President of the Tribunal is appointed by the President of the Republic on a proposal from the Government.

The Vice-President is elected by the members (mandate: 3 years).

Other Members are appointed by the President of the Tribunal, after recruitment by public competition, with a jury composed of the President, the Vice President, the oldest Member and two academics appointed by the Government.

**Control over Members**

The Members are independent and have the status of the judges of the Supreme Court of Justice. Their tasks are defined in law, but they have discretion in the way they carry them out.

**Audit remit**

The Tribunal has a wide audit remit, including all of the state and its services, the autonomous regions, public enterprises, institutes, the social security institutions, local authorities and a variety of other bodies.
The Tribunal's report on the General State Account is used by the Parliament to give discharge for public spending.

The Tribunal has judicial functions and can judge and punish those it finds guilty of violations of financial regulations.

**Access**

The Tribunal can examine information at the audited body or it can request documentation to be sent to it.

**Key legislation**

The legislation that determines the way the Tribunal works is the 1976 Constitution, which formally integrated the Tribunal into the system of constitutional courts, the Reform of the Court of Auditors Act (Law 98/97), which made substantial alterations to the regulatory framework governing the Tribunal and the organisation and structure of the Tribunal Directorate-General (Decree-Law 440/99).
Tribunal de Cuentas
Spain

Background information

Economic and general information

Spain is the third largest country in Europe occupying a land area of 505,000 square kilometres that includes mainland Spain, the Balearic and Canary Islands and the enclaves of Ceuta and Melilla on the northern coast of Morocco. It has a population of some 39 million. Spain has traditionally been a monarchy but was a republic between 1873 and 1874 (the First Republic) and 1931 and 1936 (the Second Republic). The Second Republic ended with the Spanish Civil War, which led to the emergence of General Franco as Head of State and Government. On his death in 1975 the monarchy was re-established under King Juan Carlos I and in 1977 the first multi-party elections since 1936 were held. In 1978 a new democratic Constitution was endorsed by referendum, determining that Spain become a parliamentary monarchy.

Agriculture accounts for around four per cent of Spanish GDP and employs some 11 per cent of the population. The country produces a wide range of fruits and agricultural produce, while vine growing and fishing are also important industries. Spain has mineral deposits including coal and iron ore. The principal industrial exports are cars, steel, ships, footwear and leather goods. Most of the Spanish economy is situated around the service sector. Tourism is a major industry.

The structure of the Spanish state

Under the 1978 Constitution Spain is a parliamentary monarchy organised into a regional structure but not as a federal state. The Head of State is the monarch, whose activity is regulated by the Constitution. The monarch has several important functions, although in large part these are symbolic. They include giving assent to and promulgating Acts of the Cortes Generales (the Parliament), and calling general elections and national referenda. The monarch
also proposes and appoints the President of the Government (the Prime Minister), although the appointment is granted to whoever has the confidence of the lower house of the Cortes. The monarch also appoints and removes the other members of the Council of Ministers on the recommendation of the Prime Minister. The monarch is the senior representative of Spain in international relations.

There is strict separation of duties between the legislature, the executive and the judiciary in Spain. Legislative power is vested in the Cortes Generales, which consists of the Congress of Deputies (the lower house) and the Senate (the upper house). There are 350 members of the Congress and 255 members of the Senate.

Executive power is held by the Prime Minister and the Council of Ministers. Together they form the highest decision making body within the Government, with political, administrative and regulatory functions. They meet in full session and in committees of ministers. The Prime Minister's pre-eminence among his ministers is emphasised by the fact that he retains power over their appointment and dismissal. His role is to manage the action of Government and to oversee and coordinate policies and administration.

Central government is managed primarily by three departments - the Ministry for Public Administration, the Ministry of the Economy and the Ministry of Finance. The former prepares and carries out government policies relating to relations with regional and local government, as well as the civil service. The Ministry of the Economy is in charge of proposing and implementing the general measures of the economic policy of the Government and the Ministry of Finance prepares the state budget and deals with public expenditure. Line ministries prepare bills and decrees within their area of responsibility and are charged with administering policies at a national level.

The process of regional self-government began in 1977 and provision for this development is set out in the 1978 Constitution. This provides for provinces with the same historical, cultural or economic characteristics to seek the approval of Parliament to form themselves into Autonomous Communities following a regional referendum. There are 17 such Communities and two autonomous cities, Ceuta and Melilla, with their own parliaments and governments and the power to raise local revenue, as well as the right to receive assistance from the state. The Constitution describes the powers the Communities can assume. For example, they have control over housing, education and health. Regional parliaments in the Communities were first elected between 1980 and 1983 and last for four years. A Government's Delegate manages the State administration in the territory of each autonomous Community and he will coordinate the own administration of each Community.
Local government is also described in the Constitution and includes provinces and municipalities. There are 50 provinces, comprising groups of municipalities each with their own Council. Government's Subdelegates oversee the municipal functions carried out across the province and coordinate the administration of state and regional functions in their area. The Provincial Councils are indirectly elected by the Municipal Councils. Municipal Councils are directly elected and carry out basic functions such as water supply, refuse collection and the building and maintenance of local roads. They have some revenue raising ability but are heavily dependent on finance from regional and central government.

The electoral system

Members of the Congress are elected by direct and secret suffrage under a proportional representation system. Electors choose between party lists of candidates in multi-member constituencies. The electoral district is the province and the number of representatives for each province varies according to the number of voters. Each has a minimum of two seats. The Senate is also directly elected, each province having four seats and including representation from the islands, the enclaves and the Autonomous Communities. Members of the Cortes are elected for four years.

The government accounting environment

There is a strong framework of internal control of public finance in operation in Spain and each ministry or public body has its own internal control function. The next tier of control is provided by the Ministry of Finance, in particular the Intervención General de la Administración del Estado, which has staff based within, but fully independent of, each public body.

The Intervención General has several functions. It carries out the a priori audit of all transactions, documents or other measures with financial consequences; conducts an a priori audit of the accuracy and regularity of all financial transactions; reviews payments and financial statements; verifies capital spending; audits financial assistance to public and private entities; and controls the finances of certain public agencies. The Intervención General compiles the State Accounts. The third tier of control of public finance is provided by the Tribunal de Cuentas.

In recent years public sector accounting in Spain has seen a number of changes following the Government's adoption of a new Public Administration General Accounting Plan in 1994. This has subsequently been amended and requires every public organisation to produce a balance sheet and profit and loss
account in addition to the traditional cash account. Profit and loss accounts are still in their infancy and the process of valuing the nation’s assets is still taking place.

The Supreme Audit Institution

Historical development

The Tribunal de Cuentas in its current form was established by the Constitution of 1978. Its predecessor, the Tribunal de Cuentas del Reino, was governed by a law dating from 1953 and amended by a law of 1961. The Tribunal is described in the Constitution as 'the superior audit organ of the accounts and financial transactions of the state and of the public sector'. The Constitution set out the governing principles for the Tribunal and made provision for further legislation, passed in 1982, to regulate its composition, organisation and duties.

The Tribunal de Cuentas Organic Act of 1982 set the powers reserved to the Tribunal by the Constitution. It also ratified the status of the Tribunal as completely independent in the performance of its functions and subject only to the law. It promised further audit legislation within six months of the Organic Act but in fact the further legislation took six years. The 1988 Tribunal de Cuentas (Functioning) Act regulates the procedures by which the Tribunal carries out its audit and jurisdictional functions.

The structure of the Tribunal de Cuentas

The Tribunal de Cuentas is made up of 12 Members and the Prosecutor. Six members are elected by the Congress and six by the Senate of the Cortes Generales. Members are elected for a nine year period and are eligible for reappointment. The President of the Tribunal is appointed for three years by the monarch, on recommendation from the Members. All Members are independent and irremovable. They have the power and status of judges and have equal standing within the Tribunal. The supreme decision making body of the Tribunal is the Full Session of the Tribunal which comprises all 12 Members and the Prosecutor.

The Members are appointed by the Cortes and each requires the support of at least 60 per cent of the chamber. The law specifies that in order to qualify for election as a Member an individual must have at least 15 years' professional experience either as an auditor at the Tribunal or as a certified public
accountant, magistrate, university teacher, solicitor or economist. All Members are elected together and when the Tribunal last changed in 1991 three were re-elected.

Each Member heads a division, with the exception of the President of the Tribunal. The Tribunal is divided into two distinct sections - jurisdiction and audit. Four divisions come under the jurisdiction section and the remaining seven come under the audit section. The Members select a President for each section from among their number and these, along with the President of the Tribunal, form the Management board which guides the general policy of the Tribunal. These organisational arrangements are specified in law. Each Member has responsibility for the work of his own division but the Tribunal adopts a collegiate approach to decision making.

The seven audit sections divide the work of the Tribunal as follows. Two cover public administration (ministries) and the other five sections cover social security, public enterprises, public banks, autonomous communities and local corporations. The annual audit work plan is agreed by the Full Session, and takes account of suggestions made by the Cortes Generales. There are also two units, one in charge of the audit of political parties and electoral expenses and another in charge of the audit of contracts.

**The recruitment, remuneration and qualifications of staff and other resources**

In addition to the Members the Tribunal has a staff of some 800, of whom approximately 200 are professional staff and 250 assistants. The rest of the staff take on different duties. Around 50 per cent of staff work on audit and 25 per cent in the field of jurisdiction, while 25 per cent are administrative staff. The professional staff of the Tribunal are normally lawyers or auditors. In addition there are some computer and other functional specialists. The staff are regarded as civil servants and are subject to general civil service pay and conditions of service. The Tribunal has the power to propose its own budget, which it submits to the Cortes for approval.

**The scope, role and rights of access of the Tribunal de Cuentas**

The function of the Tribunal de Cuentas is described as the permanent and final external auditing of the economic activity of the public sector; and the prosecution of accounting liability where such arises in respect of persons entrusted with the handling of public monies or assets. The legislation defines the public sector in Spain as: the state administration; the Autonomous Communities; local corporations; social security management bodies; autonomous public agencies, state corporations and other public enterprise.
The Tribunal also has responsibility for auditing subsidies, credits and other public sector assistance to companies or individuals. The legislation also specifies that the audit work will include verification that the economic and financial activity of the public sector conforms to the principles of legality, efficiency and economy. It applies to all public income and public spending programmes.

Regional tribunals have been established in nine of the 17 Autonomous Communities, without prejudice to the competences of the Tribunal de Cuentas. These certify the accounts of the Community and present a report to the regional parliament. For the remaining Communities this task is carried out by the Tribunal de Cuentas. The Tribunal therefore carries out less direct work in the Communities that have their own tribunal but it still has oversight and can carry out follow-up work. All regional and local authorities are required to have rigorous internal control mechanisms. The Tribunal de Cuentas can delegate some of its jurisdictional functions to a regional tribunal, but only the actions prior to the demand of accountancy responsibility, never the trial itself. The Tribunal also has responsibility for the audit of the 8,000 local entities. Since it would be a huge task to audit all these bodies annually, the Law has ruled that the Tribunal may use auditing techniques and rely on the work of authority internal auditors, providing it coordinates the work of these bodies.

The Tribunal summarises all the information in this area collected throughout the year in a single report, which it attaches to its Annual Report to the Cortes Generales. The Tribunal can rely on examination work undertaken by those external supervisory bodies of the Autonomous Communities that are coordinated by the Tribunal.

The Tribunal's access rights are clearly set out in legislation and all the bodies within its remit must provide all the information it needs to carry out both its audit and jurisdictional functions. Access can be exercised on-site as well as by requests for documents to be examined at the Tribunal. The Tribunal submits its requests for information to any public body, and any failure to comply with such a request can lead to the Tribunal imposing sanctions. All such cases are reported to the Cortes Generales so that it may propose to the Government the imposition of disciplinary sanctions. The Tribunal has a right of access to information held by the Intervención General.
The auditing process

Examination of the State Accounts

Each ministry and public body is required to submit its accounts via the Intervención General to the Tribunal within eight months of the year end. Public enterprises follow the regulations governing private companies and therefore have two months to submit their accounts. The Intervención General examines the format of accounts and ensures that they generally conform to the regulations.

The Tribunal is required to 'verify' the State Accounts within six months of receipt. The verification must be approved by the Full Session of the Tribunal, after it has heard the view of the Prosecutor and the State Legal Service in the Tribunal. The verification is passed to the Cortes Generales and copied to the Government. Legislation prescribes that the Tribunal has four objectives in its financial auditing. These are to ensure that the State Accounts are produced to time; that they are consistent with previous accounts and are internally consistent; that they provide a true and fair view of the operations of the year; and that they accord with the accounts laws.

The State General Account is made up of the General Account of the State Public Administrations and the Account of the management of the taxes transferred to the Autonomous Communities, the General Account of State enterprises and the General Account of the foundations participated in by the State.

The Tribunal also places some reliance on the work of the internal audit function, and in addition uses statistical sampling techniques. There is a strong emphasis on the legality of transactions. When there are signs of accounting responsibility, the case is sent to the jurisdictional section. The audit work leading to the Annual Report on the State Accounts highlights risk areas, which subsequently become the focus of special reports by the Tribunal.

Jurisdictional functions

The jurisdictional functions of the Tribunal are confined to accounting jurisdiction over those accounts that the persons 'collecting, auditing, administering, keeping safe, managing or utilising public goods, monies or assets are obliged to render'. The Tribunal does not examine cases while they are subject to criminal prosecution. The jurisdictional section examines cases referred to it by three sources - the Prosecutor, the public administration affected or public petition. The Tribunal's prosecutors' office is made up of the
Tribunal Prosecutor and the Prosecutor's Attorney, who is appointed by the body that appoints all state attorneys. Their task is to start procedures of accounting responsibility and to intervene in those in progress.

The liability for loss or waste of public money is personal. Where an individual public official is directly liable because he has wilfully acted in a way that has resulted in loss or waste, he must repay the full amount of the loss. Where it is not feasible to prosecute the person directly liable, it may be possible to prosecute a person who could have prevented the act. This is known as secondary liability and arises particularly where the second person was negligent in carrying out supervisory duties.

The jurisdictional section deals with the initial handling of legal proceedings carried out under accounting law, the procedures preliminary to the initiation of those proceedings, and cases heard by the Tribunal as a matter of first instance or appeal. It also carries out the appeals against resolution presented on certain proceedings that are of an administrative nature and are handled by the public Administration in the field of accounting responsibilities. The jurisdictional section dealt with some 550 cases in 1998 and 500 cases in 1999 of first instance, executions of judgement, preliminary procedures and proceedings in the Court of Justice. In 1998 some 250 million pesetas were recovered by way of restitution for loss to the public purse. The appeals to the Supreme Court, the appeals for rehearing against the resolutions of the Tribunal will be presented to the Supreme Court.

Performance audit

This is a relatively new area of work for the Tribunal and the majority of its reports still concentrate on issues of financial regularity. However, the internal control mechanisms within the Spanish system themselves focus on matters of efficiency as well as legality. More emphasis should in future be paid by the Tribunal to matters of economy, efficiency and effectiveness. Although the law does not specifically authorise examinations of effectiveness, the Tribunal interprets its remit as encompassing these issues.

Reporting

All the reports of the Tribunal are sent to the audited body for comments. In practice comments are either taken into account in the final report or, where the Tribunal does not accept them, they are appended to the report along with the Tribunal’s reasons for not accepting them.

The Tribunal is required to submit an Annual Report to the Cortes Generales incorporating an analysis of the accounts of the state and the wider public sector; a view on the financial management of the state and the public sector;
comments on observance of the Constitution, legislation and regulations governing public sector economic activity; compliance with the provisions of the budget (regional and national); the efficiency and economy of public spending; the activities of the state corporations and also the application of other public subsidies; and a statement of the Tribunal's jurisdictional proceedings during the year in question.

The Annual Audit programme will include the ordinary audits, those audits agreed by the Tribunal and those ones requested by those legally empowered to do so (Cortes Generales and Legislatives Assemblies of the Autonomous Communities). Decisions about these issues are taken by the Full Session. In addition to the Annual Report on accounts the Tribunal also issues about 30 special reports each year.

Along with the Annual Report, the Tribunal will present to the Cortes Generales the Final Declaration on the State General Account.

Parliamentary consideration and follow-up action

Parliamentary consideration of the reports of the Tribunal is delegated to the Joint Committee for the relationship with the Tribunal de Cuentas. This committee consists of 48 members of both the Congress and the Senate. For the Report on the State Accounts the Cortes Generales considers and resolves to accept the accounts and can ask for more information. There is no cross-examination of the Government or the auditee, although the power exists to ask the President of the Tribunal to explain the report.

The Cortes does not issue a separate report but expects the Government to act on the recommendations made by the Tribunal. Follow-up work is carried out by the Tribunal in the most significant cases. Reports of the Tribunal appear in the Official Gazettes and attract considerable media attention.

Summary

The Tribunal de Cuentas has a wide range of responsibilities, including both audit and jurisdictional functions. The key features of the Tribunal are:

Appointment of Counsellors

The Tribunal is made up of 12 Members, six appointed by each of the lower and upper houses of the Cortes Generales, and the Prosecutor. The Members serve for fixed periods (nine years) and once elected are independent and irremovable.
The President of the Tribunal is appointed for three years by the Monarch on recommendation from the Members.

Members have significant experience either as auditors in the Tribunal or in accountancy, law, public administration or other professions.

**Skills of staff**

The Tribunal has around 800 staff, of whom approximately 200 are professional staff and 250 are assistants. Professional staff are normally lawyers or auditors, but others have computing or other specialisms.

**Audit remit**

The Tribunal is responsible for the audit of the entire public sector, including the state, regional and local administration, public enterprises, the social security management bodies, and autonomous public agencies. The Tribunal also has responsibility for auditing subsidies, credits and other public sector assistance to companies or individuals.

The Tribunal has power to examine the legality, efficiency and economy of all public sector or publicly funded activities.

The Tribunal has jurisdictional powers and can examine cases referred to it by the Prosecutor, the public administration affected and public petitions.

Regional tribunals have been established in nine of the 17 Autonomous Communities. These certify the accounts of the Community and present their reports to the regional parliaments. However, the Tribunal still has oversight and can carry out follow-up work. For the remaining Communities the Tribunal carries out the task alone.

**Access**

The Tribunal has extensive rights of access, including to all relevant documentation. Access can be exercised on-site as well as by requests for documents to be examined at the Tribunal.

**Reporting**

The Tribunal is required to produce an Annual Report for the Cortes Generales on the State Accounts. This includes a view of the financial management of the state and the public sector and a statement on the Tribunal's jurisdictional proceedings. The Tribunal will present to the Cortes Generales the Final Declaration about the State General Account.
The Tribunal also issues about 30 special reports a year.

**Key legislation**

The key legislation governing the work of the Tribunal is the 1978 Constitution, the 1982 Tribunal de Cuentas Organic Act and the 1988 Tribunal de Cuentas (Functioning) Act.
Background information

Economic and general information

Sweden is situated on the Scandinavian peninsular and has a land area of some 450,000 square kilometres. It has a population of nearly nine million people, most of whom live in the southern third of the country. Sweden has been a united kingdom since the tenth century. In the seventeenth century Sweden became one of Europe's great powers, with a Baltic Sea empire, which included Finland, the present day Baltic States and areas of Germany, Poland and Russia. Sweden was forced to give up most of its possessions in the course of the following two centuries, ceding Finland to Russia in 1809 and losing its last German possession in 1815. Its ensuing union with Norway ended in 1905. Sweden has not been involved in any war since 1814 and has since the First World War followed a policy of neutrality. Since the Second World War it has been actively involved in various international organisations, in particular the United Nations. Sweden became a member of the European Union in 1995.

The Swedish economy has traditionally been based on the country's natural resources of timber, waterpower and mineral deposits (including iron ore, lead and zinc) and on an innovative and successful engineering industry. More recently, the country's heritage of industrial innovation has been demonstrated internationally in two particular sectors: the pharmaceutical industry and information technology. Sweden is one of the world's foremost IT nations and leads the field in mobile communications and wireless Internet applications. Some 25 per cent of the labour force works in mining, manufacturing and construction, 73 per cent in the service sector, and just 2 per cent in agriculture. The economy is highly dependent on exports, with 45 per cent of industrial output going abroad. The design and fashion industries are new fields in which Sweden is enjoying major export successes and, interestingly, Sweden is also the third-largest music-exporting nation after the USA and the UK.
At the beginning of the twentieth century Sweden was one of the poorest countries in Europe. Rapid industrialisation then transformed it into a modern, wealthy nation, which during the post war period up to 1970, became one of the world's richest countries in terms of the prosperity of the population. Successive governments developed an extensive welfare state in which health care and social welfare are seen as major public sector responsibilities. In the early 1990's Sweden experienced a severe recession. Between 1991 and 1993 GNP fell by five per cent and unemployment, at 13 per cent, was more than three times higher than the norm over the previous decade. After 1995, however, there was an upturn in the economy, with the inflation rate falling to less than two per cent and open unemployment dropping to under five per cent by the end of 1999.

The structure of the Swedish state

Sweden is a constitutional monarchy with a hereditary monarch as Head of State. The written Constitution dates from 1975 and is made up of four fundamental laws: the Instrument of Government of 1974; the amended Act of Succession of 1980; the Freedom of the Press Act of 1949; and the Freedom of Expression Act of 1991. The Constitution is based on the principles of popular sovereignty, representative democracy and parliamentarianism.

Sweden has been a constitutional monarchy since 1866. As Head of State the monarch is the official representative of Sweden, and opens the annual session of the Parliament (Riksdag) without playing any further part in its activities. The monarch's role is now purely ceremonial. As a result of amendments to the Instrument of Government in 1974, the monarch does not sign any government decisions, and his/her previous role in selecting the Prime Minister has passed to the Speaker of the Riksdag.

Executive power in Sweden rests with the Prime Minister and the Cabinet. The legislative power is the Riksdag, which since 1971 has been a unicameral assembly of 349 seats. The Cabinet is responsible to the Riksdag. The Riksdag enacts laws, sets the budget, approves the use of revenue and examines the actions of the Government. The work of the Riksdag is overseen by the Speaker, who plays a non-political role. Bills are introduced by the Government and by members of the Riksdag. They are given thorough consideration by one of the 15 parliamentary standing committees prior to receiving scrutiny from the plenary session of the full chamber.

Public administration in Sweden is highly decentralised. Government ministries are small, with many employing only a few hundred staff. In total around 4,000 work within the ministries. They are concerned primarily with supporting ministerial policy-making through the preparation of bills for the Riksdag and
general government directives, as well as handling the budget and dealing with higher public appointments. Ministries have little or no involvement in administrative matters.

Associated with the ministries are over 400 agencies and state boards employing around 240,000 staff. They have been a feature of Swedish government for over 300 years. Agencies execute government policy but have considerable independence of action according to the Constitution. Each is headed by a director general appointed by the Government on a six year contract. Although agencies are independent in that they propose their own work to meet ministerial policy objectives, the Government can influence them. The Government often uses agencies to carry out special assignments and investigations.

The Government also governs agencies through a system of management by results. Each agency submits two documents to the Government. The first is an annual report, which analyses the agency’s activities; and the second is a budget request. After discussions about how the agency can improve performance and agreement on objectives and targets, the Government approves a new appropriation, which is then decided by the Riksdag.

Sweden is divided into 289 municipal districts, 18 county councils, two regions and one municipality, which do not belong to a county council or region. Each of these has a popularly elected council. County councils are responsible for medical care (which accounts for the majority of their expenditure), public transport, and certain levels of education and vocational training. They are entitled to raise income tax within their area and locally derived sources account for over 60 per cent of their revenue. Municipalities are able to levy income tax and fees for services, although they also receive significant subsidies from central government. Their responsibilities include housing, education, child and social welfare, roads, cultural activities, water supply and sewerage.

Central government also plays a regional role via 18 county administrative boards under government appointed governors. The boards represent central government, in particular on issues such as regional planning. They also coordinate the different levels of administration within the county.

Public access to almost all official records and papers, including most prime ministerial correspondence, is a key principle of government in Sweden. This principle is enshrined in the Constitution and means that the documents of state and municipal administrations are available on request. Those requiring access to official information are not obliged to give a reason or to reveal their identity. The only reasons for not making documents and information available are ones of security, commercial sensitivity and personal confidentiality. Such cases require a legal justification.
The Swedish public sector has experienced considerable change in recent years, stimulated by the need to control state expenditure. Management by results has been introduced for agencies, a privatisation programme has developed and there has been increased decentralisation of powers to county councils and municipalities. Expenditure cuts have been implemented following the economic crisis in the early 90's. The tax system was reformed and the old pension scheme has been changed, partially into a funded scheme. Government expenditure is subject to "ceilings" decided by the Riksdag.

**The electoral system**

Members of the Riksdag and local government assemblies are directly elected for four years under a system of proportional representation. According to the Constitution local and national elections must be held on the same day. There is universal suffrage for all over 18 years old and foreigners resident in Sweden for more than three years can vote in local elections.

There are 29 constituencies across the country and from these 310 of the Members of the Riksdag are elected. The remaining 39 'adjustment seats' are distributed across the country from a national pool to ensure exact proportionality of seats to votes for all parties gaining more than four per cent of the turnout. The seats are filled from candidates nominated in the constituencies. Only parties receiving more than four per cent can qualify for representation in the Riksdag.

**The political environment**

Government in Sweden is conducted by the Cabinet. This comprises the Prime Minister and the ministers nominated by the Prime Minister. It is responsible to the Riksdag and ministerial decisions are usually made collectively and not by individual ministers. Although ministers are usually Members of the Riksdag, during their period in office they lose their voting rights and parliamentary responsibilities, which are taken over by replacements. The Cabinet takes all important decisions at regular formal meetings. Informal policy discussions also take place in connection to these weekly meetings of the Cabinet.

The process of forming a government is initiated by the Speaker, who nominates a candidate as Prime Minister. Should more than 50 per cent of members of the Riksdag vote against this candidate, another must be put forward. If after four attempts no agreed candidate has been found another election must be held within three months. The Prime Minister can be dismissed by the Speaker following a vote of no confidence, and ministers can be removed by the Prime Minister or a vote of no confidence.
Members of the Riksdag exert control over the Government in a number of ways. A majority of members can require a vote of censure, which may result in the resignation of ministers or possibly the Government. The standing committees mentioned earlier can ask ministers and senior officials to attend their meetings to answer questions and provide further information. However, committees cannot prevent a bill from reaching the plenary session of the Riksdag.

**The Supreme Audit Institution**

**Historical development**

State audit has existed in some form in Sweden since the sixteenth century. In 1921 the National Accounts Board was set up as the body controlling the administration of government funds. In 1943 the Government Audit Bureau was formed to examine whether government was organised in the most suitable way, doing this by examining certain state bodies. In 1961 the National Accounts Board and the Government Audit Bureau were merged to form the Riksrevisionsverket or the Swedish National Audit Bureau (later Office).

In 1967 the work and organisation of the Riksrevisionsverket were revised and restructured, with performance audit of agencies introduced and financial audit (as internal audit) delegated to a number of decentralised small audit bodies. Located at a number of 'host agencies' with between five and 25 auditors, these audit bodies were responsible for financial audit while the Riksrevisionsverket concentrated its own efforts on performance audit and financial management assistance. The Performance Audit Division examined how government agencies planned their work and whether they achieved their objectives, as well as making recommendations for improvements.

In the late 1970s the scope of performance audit was extended to cover the role of the agencies and their operations, rather than just work planning. In 1987 financial audit work was returned to the Riksrevisionsverket, now as external audit. During the 1980’s a systems based approach was introduced in performance audit and the audits became more focussed on effectiveness rather than efficiency. In 1998 the responsibility for the state accounts - hitherto the responsibility of the Riksrevisionsverket - was moved to a new agency. The RRV was thus established as a pure audit institution. Historically the RRV reports to the Government and informs the Riksdag on the initiative of the Riksdag. A proposal to change the status of the audit institution is currently being considered by Parliament. The principal content of the proposal is that the state
audit should be a body under the Riksdag with its independence guaranteed in the Constitution. According to the set timetable the Riksdag should decide on the principles in this proposal during the autumn session in the year 2000.

As the execution of the proposal requires a change in the constitution there will be two separate decisions in the Riksdag, the second one after the general election in the autumn of 2002. The new organisation is planned to be operational on January 1st 2003.

**The structure of the Riksrevisionsverket**

The Riksrevisionsverket is the central administrative body for government auditing and is subordinate to the Swedish Government through the Ministry of Finance. It is headed by the Auditor General, who is appointed by the Government for a six year term which can be renewed. Candidates have usually come from outside the Riksrevisionsverket and have a political or administrative background. A Deputy Auditor General is also appointed by the Government. There are three Assistant Auditors General, heading the Financial Audit Department and the two Performance Audit Departments. They are appointed by the Auditor General.

The Financial Audit Department carries out annual audits of government agencies, public utilities, foundations and certain government companies. The Performance Audit Departments examine the efficiency and the effectiveness of Government programmes. The departments' divisions largely mirror the government ministries.

The Operations Department provides administrative and support services. In addition, the Auditor General's Secretariat assists with office planning and development activities as well as providing support to the Auditor General and co-ordinating office-wide projects. The International Secretariat assists with contacts with professional organisations, European Union related activities, international auditing assignments, bilateral international activities and international development co-operation. The Auditor General chairs the Riksrevisionsverket's Advisory Council, which is made of representatives of the major political parties, the Ministry of Finance and some interest groups.

**The recruitment, remuneration and qualifications of staff and other resources**

The Riksrevisionsverket has just under 300 employees, of whom more than 200 are based in Stockholm and the rest in regional offices. One hundred and forty staff work in financial audit and 85 in performance audit. The remainder are administrative and clerical staff. All audit staff are graduates, predominantly in economics and the social sciences. In recruiting new staff, the
Riksrevisionsverket prefers candidates with previous work experience. Candidates take an examination before being accepted by the Riksrevisionsverket. Staff are largely trained on the job, but in addition regular training courses and seminars are held. A five year professional training, which ends with a certification is arranged at the Financial (Annual) Audit Department. In recent years it has become unusual for staff to move between audit departments/audit fields. Instead, most tend to specialise in one part of the Office’s work.

Salaries within the Riksrevisionsverket are generally lower than those for comparable jobs in the private sector, and as a result staff turnover in some years has reached around 20 per cent. Well-qualified staff with financial administration, accounting and audit experience are also sought after by ministries, agencies and other public administration bodies.

The budget of the Riksrevisionsverket for 2000 is 197 million Swedish krona, of which around 70 per cent is financed by government appropriations. Additional income is derived from the fees paid by some agencies for financial audit work and income from contracted studies, including those commissioned by the Government as well as fees for international co-operation.

The scope, role and rights of access of the Riksrevisionsverket

The Riksrevisionsverket is the central government audit institution. Its role is not regulated by a special audit law but by a state ordinance. Its stated aim is to promote effectiveness and the highest standards of financial control in the government administration. The Riksrevisionsverket's audit mandate covers: state agencies including their regional and local offices; public utilities such as the state railways; national subsidy transfers to households, businesses and government bodies; certain state owned companies such as Telia (the Swedish telecom company); and certain state controlled foundations.

When agencies are restructured, become foundations or joint stock companies, or take other forms, the Riksrevisionsverket only continues as auditor if this is stated in law, the foundation's charter, the company articles of association or the organisation's constitution. The Riksrevisionsverket does not audit the Riksdag and associated bodies, individual ministries, or the Cabinet Office. All are audited separately by the Riksdagens Revisorer (see separate section below). On the other hand the Riksrevisionsverket scrutinises Government undertakings and in highlighting the effects, the laws and regulations may be indirectly criticised.
The Riksrevisionsverket has access to all information it requires for its audit work. Under the principle of public access to information, the Riksrevisionsverket's own audit files can be examined after audit work has been completed, along with lists of all those interviewed in the course of its work.

**Relations with Parliament and Government**

The State Budget Act (1996:1059) states that the Government is responsible for rendering an account to the Riskdag on activities carried out by central government, and that a high level of efficiency and economy are to be maintained in government activities. The auditing activities of the Riksrevisionsverket are necessary for the Government to be able to comply with the requirements of the Budget Act. The Riksrevisionsverket is the Government's audit institution and is thus a part of the government structure. The Government appoints the Auditor General and the budget of the Riksrevisionsverket is agreed with the Ministry of Finance. The tasks of the Riksrevisionsverket are laid out in government ordinances. Ordinance 1998:418 sets out the current framework for the Riksrevisionsverket's work and many other ordinances include audit requirements. Ordinance 1996:882 covers the annual reports delivered by agencies.

The Riksrevisionsverket has complete independence in planning and carrying out audits, and is free to choose the subject of an audit, the areas to be examined and the methods to be applied. The Riksdag and its standing committees are not able to instruct the Riksrevisionsverket to carry out particular work, although the Government can initiate commissioned investigations for which the Riksrevisionsverket is reimbursed.

**The auditing process**

**Financial audit**

The Financial Audit Department audits the annual financial/performance reports of approximately 350 government agencies. The Riksrevisionsverket appoints employees with specific qualifications to audit public utilities, several government owned limited companies, public foundations and other organisations. In addition, it undertakes 'thematic' audits of economic issues within government. The audit of agency performance reports is carried out in conjunction with the Performance Audit Department.
Agencies' annual reports contain a balance sheet, an income statement (full accruals accounting), an appropriation report (on a cash basis), a statement of changes in financial position (showing how the agency has financed its activities) and a performance report. Accounting requirements for agencies are very similar to those for companies.

The aim of the Financial Audit Department's work is to assess whether accounts are true and fair, whether they constitute reliable basic data with which the agency can manage its work, and whether the agency's financial administration complies with relevant regulations. Qualification can result from inadequacies in the compilation of the accounts and failure to comply with regulations, as well as from the agency including inaccurate information in the performance report. The Riksrevisionsverket follows up recommendations made in previous years. Where the response has been inadequate this will be highlighted or, in serious cases, addressed in the consolidated annual Audit Report to the Government.

The Riksrevisionsverket's approach to auditing an agency's annual report covers the following main aspects: an assessment of the relevance of the contents of the report and whether it includes the appropriate material; whether the agency has met relevant requirements; whether the report provides information that allows the reader to assess if the agency has been effective. There is also a review of trends and calculations as well as an assessment of the overall quality of the report.

As well as auditing agencies, the Riksrevisionsverket also appoints at least one auditor to limited companies and foundations where the state has a major influence. This enables the Riksrevisionsverket and the Government to maintain an oversight of such bodies. In recent years, following the Swedish banking crisis, there has been considerable criticism of the degree of independence of chartered accountants and there have been increased calls for the Riksrevisionsverket to be more closely involved in the audit of state-owned companies. As a result, while company shareholders or foundation boards appoint a chartered accountant to carry out the majority of the work, the Riksrevisionsverket also appoints one of its staff as an additional auditor to provide assurance about the use of public funds. The Riksrevisionsverket's representative has the same formal responsibilities and mandate as the other auditor and reports back to the shareholders' meeting and the management of the limited company.

Performance audit

The Riksrevisionsverket has conducted performance audit and programme evaluations since 1967. Performance audit on a smaller scale was introduced as early as 1921. The aim is to improve government efficiency and
effectiveness through examinations of government programmes or operations. Performance audits are intended to identify problems and suggest improvements. The Riksrevisionsverket scrutinises the efficiency and the effectiveness in Government undertakings with which agencies operate and the ways in which they co-ordinate their work with others, as well as their compliance with government requirements in a whole range of areas from procurement to financial management. Performance audits are not designed to question general policies, but can analyse the effects of such policies when they are implemented.

The Performance Audit Department's role is laid out in an ordinance issued by the Government. The most significant and resource intensive part of its work is the audit of government programmes. These studies are initiated and planned by the Riksrevisionsverket, following continuous monitoring. In addition the Government can commission investigations of topical issues by the Riksrevisionsverket. For this work the Government outlines what it regards as the problem and it meets the Riksrevisionsverket's investigation costs. According to the Standing Committee on the Constitution, the number of commissioned investigations should not impact on the main purpose of the department - the preparation of performance audit reports. The Riksrevisionsverket also provides official comments on around 120 reports of government or parliamentary commissions of inquiry a year. This exploits knowledge gained by the Riksrevisionsverket in the course of its audit work.

Most performance audits follow a similar structure of feasibility study and main study, but auditors use a wide variety of techniques to obtain information. Most will involve interviews and document examination, but many also make use of seminars with experts, reference groups, on-site observations and questionnaires. Feasibility studies can take up to three months and full studies up to a year. Studies usually focus on a particular government undertaking, individual agency or a sector within which several agencies operate. The Riksrevisionsverket has developed a number of techniques for assuring the quality of its reports. A key aspect of this is that agencies are required to verify factual material in draft audit reports before they are published.

**Reporting**

The Financial (Annual) Audit Department presents a formal opinion (audit statement) to the Government as to whether the Agency’s Annual Report is clear or has been qualified and sends a copy to the Agency. In addition to this the Department may also issue a detailed report to the Agency Board or to the Director General of the Agency. The Government reports to the Parliament in the case of a qualified audit opinion.
The Riksrevisionsverket prepares a consolidated annual Audit Report, which brings together relevant observations on all accounts examined, and submits it to the Government with a copy to the Standing Committee of the Riksdag. The report is designed to highlight issues and problems of general interest, and contains remarks and recommendations for action to improve central government controls.

The Riksrevisionsverket's reports receive considerable attention from the media as a result of increased concern about public expenditure. Audit reports, results of government investigations and official comments are all freely available to the general public.

The Riksrevisionsverket carries out formal follow-up work on performance audit reports after six months. The results achieved by the Performance Audit Departments are presented in the Annual Report and Accounts. In general the publication is able to report that significant changes have taken place.

Summary

The Riksrevisionsverket is the government audit and accounting body in Sweden. Its main features are:

Organisation

- The Riksrevisionsverket is headed by the Auditor General, who is supported by a Deputy Auditor General. It consists of two main professions - Financial Audit and Performance Audit. Each is department headed by an Assistant Auditor General.

Staff

- All audit staff are graduates, predominantly in economics and social sciences. In recruiting new staff, the Riksrevisionsverket prefers candidates with previous work experience.

Audit Remit

- The Riksrevisionsverket carries out financial audit and performance audit. Its remit covers all state agencies, public utilities and national subsidy transfers, certain state-owned companies and certain state foundations. It does not audit the Riksdag and associated bodies, the Cabinet Office or government ministries.
Rights of access

- The Riksrevisionsverket has access to all information it requires for its audits. Under the principle of the public right to information in Sweden, most state information is available to the public.

Independence

- The Riksrevisionsverket is the Government's audit institution and is subordinate to the Ministry of Finance. The Government appoints the Auditor General and the budget is agreed with the Ministry of Finance.

- The Riksrevisionsverket has complete independence as to the planning and conduct of its audits, being free to choose the subject of its work, the methods to be employed and the areas to be examined. The Government can commission a certain amount of work, but the Riksrevisionsverket is reimbursed for this.

Ability to report

- The Riksrevisionsverket reports to the Government on each set of agency accounts and prepares a consolidated annual Audit Report bringing together observations on the accounts. It can also report to the Government at any time on accounts matters.

- The Riksrevisionsverket also produces between 20 and 25 performance audit reports a year, as well as a wide range of reports on commissioned investigations and official comments on government and parliamentary reports. It produces a follow-up report on progress against its performance audit recommendations.

Riksdagens Revisorer

The Structure of the Riksdagens Revisorer

The Riksdagens Revisorer (Parliamentary Auditors) are a parliamentary body. Its members are elected by the Riksdag from the members of the Riksdag and the composition of the Riksdagens Revisorer reflects the composition of the Riksdag. The Riksdagens Revisorer are the legislature's organisation for examining state activities including the Government. Their role is outlined in the Swedish Constitution which states that "the Riksdag shall elect auditors to examine the activities of the state".
The Riksdagens Revisorer are 12 auditors elected by the Riksdag after each election, along with 12 deputies, for a period of four years in accordance with the party structure in the Riksdag. They are supported by a staff of some 30 audit and administrative staff headed by the Head of Office, and organised into three research units, headed by deputy heads.

The Riksdagens Revisorer are divided into three Audit Divisions of four auditors and four deputies. These mirror the subject areas of the standing committees of the Riksdag. A working committee of four auditors and the Head of Office oversee the office. The Riksdagens Revisorer currently have a budget of 24 million Swedish kronor. Discussions on the budget take place in the Riksdag’s Standing Committee on Finance.

The Head of the Office is elected by the auditors for three years. Audit staff are recruited from a range of backgrounds including public administration and academia, but all must have significant work experience and be capable of drafting reports well.

**Work**

The Riksdagens Revisorer investigate and examine all state activities on behalf of the Riksdag. Their work is focused on general issues and matters of principle, rather than detailed audit work. They assess the performance of public bodies, as well as the adequacy of instructions and directives given by the Government. Under a special law they have access to all documents (including those classified as secret), data and reports as are necessary for their work, and audit staff have no problems gaining access to senior staff of agencies.

The choice of the Riksdagens Revisorer's examinations stem from suggestions from the auditors themselves, the Riksdag’s standing committees, and occasionally from members of the public. They compare plans with the Riksrevisionsverket to avoid duplication of effort. Up to 100 suggestions a year are considered, of which around 20 audits are approved. Before investigations are undertaken a project brief is submitted to the Riksdagens Revisorer for approval. Recent audit studies include state owned companies, higher education, road and railway investments and labour market policy measures.

Individual audit staff carry out research work on their own, engaging consultants or student assistants where necessary. The audit approach can vary considerably between staff, with some taking a macro-economic or legalistic approach and others using a range of information gathering techniques including questionnaires and interviews. Currently audits take around a year to complete.
**Reporting**

In their reports the Riksdagens Revisorer make recommendations for improvements to methods and regulations. When reports are prepared they are sent to the relevant agency and others mentioned for comments. These are included in the text as necessary. Staff also discuss their reports with their own contacts and seminars are organised internally to stimulate comments. Before reports are released they must be approved by the Head and Deputy Head of the Office. The reports are published before the comments of agencies are incorporated.

The final report with agency comments is considered by the Riksdagens Revisorer in plenary session and a proposal is submitted to the Riksdag or sometimes to the Government. The relevant standing committee considers the report, and its decisions are submitted to the full Parliament where they are debated. In 2000 the Riksdagens Revisorer produced 21 feasibility reports, 16 reports and a further 14 proposals to the Riksdag or to the Government.
The United Kingdom of Great Britain and Northern Ireland has existed in its current form since 1921. Great Britain is made up of England, the principality of Wales, which was formally united with England in the sixteenth century, and Scotland, which was joined in formal union in 1707. Following several centuries of unrest and uneasy peace, Great Britain was united with Ireland by the Act of Union in 1801 to form the United Kingdom. The Irish question subsequently became one of the most controversial issues of British politics of the nineteenth century. Ireland was partitioned in 1920, and the following year, the southern part became the Irish Free State, now the Republic of Ireland. Six northern counties, known as Northern Ireland, remained part of the United Kingdom. The United Kingdom has a land area of 245,000 square kilometres and a population nearing 60 million.

The United Kingdom is a major trading country with manufacturing industry still important in a number of areas, a large agricultural sector and a merchant shipping fleet. The United Kingdom has a strong banking and insurance sector, and the City of London is one of the world’s leading financial centres. The service sector has become increasingly important to the economy of the United Kingdom, in particular in London and the south east of England. Tourism is also a major industry.
The structure of Government in the United Kingdom

The United Kingdom is a constitutional monarchy. The Head of State is the ruling hereditary monarch and is also the Head of State of a number of Commonwealth countries, which were formerly part of the British Empire. Unlike other European states the United Kingdom does not have a single codified constitution. Instead the British Constitution is made up of a combination of statute law, common law and conventions.

The United Kingdom Parliament is sovereign and may legislate as it pleases subject to the country's obligations under the European Union and other international treaties. Parliament comprises three elements: the monarch, the House of Lords and the House of Commons.

Until 1999 the House of Lords consisted of some 1,200 unelected members, divided between the Lords Spiritual (the archbishops and 21 most senior bishops of the Church of England) and the Lords Temporal (hereditary peers and peeresses, Lords of Appeal - law lords who assist with the judicial duties of the House - and life peers). Under the House of Lords Act 1999 all but 92 of the 900 or so hereditary peers lost their right to speak and vote in the Upper House. Further changes to the composition of the Lords are being considered and may be based on the recommendations of the Royal Commission on Reform of the House of Lords which reported in January 2000. In the interim, the largest group in the chamber are 'life peers', who are created by the monarch on the advice of the Prime Minister in recognition of service in politics or other walks of life. The leaders of other political parties may submit nominations to the Prime Minister for life peerages.

The House of Commons has 659 Members of Parliament, elected for single member constituencies on a 'first-past-the-post' system. Of these 529 members are from England, 72 from Scotland, 40 from Wales and 18 from Northern Ireland.

As Head of State the Queen has the power to: appoint the Prime Minister; summon, prorogue and dissolve Parliament; declare war; appoint judges, Members of the House of Lords and other senior public office holders including the Comptroller and Auditor General; and give final approval (Royal Assent) to all legislation. In practice, however, these powers are exercised only on the advice of ministers. The Queen's role in government is now largely ceremonial though she gives audiences to her ministers in Britain and overseas, receives accounts of Cabinet decisions and signs state papers.

The Head of Government is the Prime Minister, who is normally the leader of the largest party in the House of Commons. The central executive authority is the Cabinet, presided over by the Prime Minister. This currently consists of
23 Ministers from among members of the governing party in the House of Commons or the House of Lords, who are appointed by the Queen on the recommendation of the Prime Minister. In practice the majority come from the Commons. Most ministers have responsibility for the affairs of a single department (ministry) covering one area of government activity. Ministers are individually responsible to Parliament for the operation of their departments and they also bear a collective responsibility to Parliament for the policies of the Government as a whole. By convention, if ministers disagree with specific government policies they must either reconcile their differences or resign from the Government.

Legislation is normally introduced by the Government in the House of Commons and requires the consent of both Houses of Parliament and the monarch. The powers of the House of Lords are limited. The Lords can amend legislation and delay it for a year, but (apart from a veto on legislation seeking to prolong the life of a Parliament beyond five years) cannot reject it outright. The Lords' powers are curbed further for financial legislation. A Parliament lasts for a maximum of five years but can be dissolved earlier by the Queen on a recommendation of the Prime Minister.

In the House of Commons, a number of departmental select committees examine the work of government departments such as health and defence, and their associated public bodies. These committees of Members of Parliament have the power to send for persons, papers and records and can report on the 'expenditure, administration and policy' of departments and other bodies in their specialist field.

Devolution

Since 1997 the structure of government in the United Kingdom has undergone profound changes as legislative and administrative responsibilities have been devolved to different parts of the union. In 1997, referendums in Scotland and Wales endorsed proposals for a Scottish Parliament and a National Assembly for Wales. Both institutions assumed their full powers in July 1999, following elections in May.

The Scottish Parliament has full legislative powers in all areas of government not specifically reserved by the United Kingdom Parliament. The main reserved areas are foreign affairs, defence and social security, as well as a number of discrete legislative areas such as abortion and gambling laws. The 129 seat Scottish Parliament nominates a First Minister, who in turn appoints an executive of 10 other Ministers.
Primary legislation affecting Wales is still determined solely by the United Kingdom Parliament. But the National Assembly for Wales has assumed administrative responsibility for many aspects of Welsh affairs and can pass secondary legislation. The Assembly consists of 60 members and is headed by a First Secretary and an Executive Committee.

Northern Ireland had a devolved Parliament between 1921 and 1972, before direct rule was introduced following several years of violence. Since then, Northern Ireland has been administered by a Secretary of State, supported by the Northern Ireland Office, a central government department, mainly responsible for law and order matters. Following agreement between the political parties in the region, a Northern Ireland Assembly with legislative powers assumed the responsibilities of the six Northern Ireland departments in November 1999. The Assembly's Executive has powers similar to those of the Scottish Parliament, although unlike in Scotland, the Assembly is responsible for social security issues but not for law and order. Six cross-border executive bodies administer joint policies with the Republic of Ireland in areas such as tourism and European Union programmes. The Northern Ireland Executive is established on a power-sharing basis, with Ministerial posts allocated according to political party strengths.

The delivery of public services

Government departments develop and promote government policy. The work of some departments (such as the Ministry of Defence) covers the whole nation. Others, such as the Department of the Environment, Transport and the Regions, are mainly concerned with affairs in England. This was the case prior to devolution, with a Scottish Office and a Welsh Office enjoying wide administrative autonomy in those countries.

Since the late 1980s responsibility for implementing policy in many areas of government has been devolved to around 130 executive agencies, each supervised by a government department. For example, the Department of Social Security oversees several executive agencies, including the Benefits Agency, which pays social security benefits, and the Pensions Agency, which makes pension payments to state pensioners. Ministers are responsible to Parliament for the work of their departments, but questions regarding the implementation of policy by an agency are answered by the executive agency itself. The staff of executive agencies account for some three-quarters of the total staff of the United Kingdom Civil Service.

Further changes have been devised in late 1990s as part of the Modernising Government Agenda being implemented by the present government. Modernising Government aims to improve the quality of the delivery of public services by ensuring that policy making is more joined up and strategic, that
public service users, not providers, are the focus of policy and administration, and by matching services more closely to people's lives. An essential element of this is that all public service providers will be expected to work together, cutting across traditional departmental boundaries.

Other public bodies also deliver public services. Health care in the United Kingdom is largely the responsibility of a range of local health authorities and health boards, which contract with free-standing hospital trusts and general practitioner practices to provide services within their geographical area. Many other executive functions of government, for example the funding of higher education, housing and legal aid, have been devolved to executive bodies, called non-departmental public bodies, established at arm's length from government.

The United Kingdom has a comprehensive and long established tradition of local government. In the 1990s the traditional two tier structure of local government was reviewed. Scotland and Wales now operate a single tier system, and England has operated a single tier system in some areas and two tier systems in others since the mid 1990s. In Northern Ireland there are 26 district councils responsible for local environmental and certain other services. Responsibility for planning, roads, water supply and sewerage is exercised by divisional offices of the Department of the Environment for Northern Ireland, and area boards responsible to central departments oversee many other services. Local government has responsibility, amongst other things, for providing some state education, aspects of social services, fire services, housing, local roads and refuse collection. It is funded by local taxes and central government grants.

The British Civil Service

The British Civil Service has worked on the principles of objectivity and political neutrality since the mid-nineteenth century. Entry to the civil service has been by open competition and promotion has been based on merit. Civil servants' professional and permanent status has enabled them to advise and serve Governments from any political party and the duty of individual civil servants is first and foremost to the minister in charge of the department in which they work.

In the 1980s and 1990s there have been significant developments in the way public services in the United Kingdom are delivered. These developments have had implications for public servants. The creation of executive agencies has been combined with policies designed to increase the involvement of the private sector in the delivery of public services. Some civil service functions have been opened up to competition from private sector contractors under a system known as market testing, and fixed term contracts have been used for
some specialist staff. The Government is also undertaking a programme of
privatisation of some of its activities, and an increasing number of publicly
funded projects are being delivered in partnership with the private sector. These
developments have led to the creation of a more diverse, market oriented and
decentralised civil service and have also resulted in a reduction of the number
of civil servants from 732,000 in 1979 to just under 500,000 in 1999.

The Supreme Audit Institution

Historical development

The public audit function in the United Kingdom dates back to the fourteenth
century, but was established in its present form in the mid-nineteenth
century as part of a reform of central administration. In 1857 the Select
Committee on Public Monies recommended that accounts comparing
expenditure with the monies voted by Parliament be produced for all
government departments and submitted annually to a committee of the House
of Commons. In 1861 the House of Commons, on a motion moved by the then
Chancellor of the Exchequer William Gladstone, created the Committee of
Public Accounts. This was followed five years later by the Exchequer and Audit
Departments Act 1866, which required all government departments to produce
accounts (appropriation accounts) for independent audit.

The 1866 Act also created the position of Comptroller and Auditor General by
combining the functions of the Comptroller of the Exchequer, who had
authorised the issue of public monies to departments since 1834, with those of
the Commissioners of Audit, who had traditionally presented the government
accounts to the Treasury. Under the terms of the 1866 Act the Comptroller and
Auditor General continued to authorise the issue of money to departments (the
Comptroller function) and was given the new task of examining every
appropriation account and reporting the results to Parliament. He was
supported in this task by the Exchequer and Audit Department, staffed with civil
servants.

From 1866 onwards parliamentary control over public money was complete.
The House of Commons authorised expenditure and the Comptroller and
Auditor General controlled the issue of funds, and audited accounts produced
by departments. The results were considered by a dedicated parliamentary
committee and its conclusions reported to the House of Commons. The
requirement for the Comptroller and Auditor General to report to Parliament on
the audited accounts provided an opportunity for him to consider wider issues
of financial management. The Committee of Public Accounts actively
encouraged such examinations, the results of which formed part of the Comptroller and Auditor General's report on the relevant appropriation account.

The 1866 Act required the Comptroller and Auditor General and his staff to examine every transaction, a task which became less realistic as government activity expanded. The Exchequer and Audit Departments Act 1921 addressed this by allowing the Comptroller and Auditor General to rely in part on departmental systems of control and thus examine a sample of transactions.

Subsequently the most significant alteration in the status of the Comptroller and Auditor General and his staff occurred with the passing of the National Audit Act 1983. The Act followed increasing parliamentary and academic concern about the influence that the executive, in particular the Treasury, retained over public audit. Under the terms of the 1983 Act the Comptroller and Auditor General formally became an Officer of the House of Commons. The Act also established the National Audit Office to assist the Comptroller and Auditor General in the performance of his duties. All statutory powers and rights governing the audit of central government finances are vested in the Comptroller and Auditor General personally rather than the National Audit Office, and the staff of the Office carry out the audit work on his behalf. In addition, the 1983 Act provided the Comptroller and Auditor General with express powers to carry out examinations of the economy, efficiency and effectiveness with which departments and certain other public bodies have used their resources (value for money studies).

The Government Resources and Accounts Act 2000 brought further important developments, in particular the change from a cash-based to an accruals-based accounting system for government departments.

The structure of the National Audit Office

The Comptroller and Auditor General is appointed by the monarch on an address presented by the House of Commons. The motion for this address is made by the Prime Minister acting in agreement with the Chairman of the Committee of Public Accounts (by convention a member of the main opposition party in Parliament). The appointment has no fixed term or age limit and dismissal is by the monarch on a resolution of both Houses of Parliament. A Deputy Comptroller and Auditor General is appointed by the Comptroller and Auditor General.

The Office employs around 750 staff, including some 550 professionally qualified accountants or trainees. It is divided into six units, five devoted to audit and one unit with responsibility for central administration. The audit units cover the range of government departments and between them they carry out
both financial and value for money audit of all departments, executive agencies and other bodies. Assistant Auditors General, who are appointed by the Comptroller and Auditor General, are responsible for the day-to-day management of units.

The recruitment, remuneration and qualifications of staff and other resources

Before the National Audit Office was established in 1983 the staff employed by its predecessor, the Exchequer and Audit Department, were civil servants. The 1983 Act gave the Comptroller and Auditor General the power to appoint to the National Audit Office such staff as he considers necessary to discharge his functions. The Comptroller and Auditor General is also responsible for determining appropriate remuneration for these staff, although statute provides that when setting salary levels he should bear in mind the desirability of keeping them broadly in line with the remuneration paid to civil servants. The Comptroller and Auditor General's own salary is set by Parliament and has been linked by statute to that of senior civil servants and High Court judges.

The National Audit Office's audit staff are recruited as university graduates and trained to acquire professional accountancy qualifications. In recent years the National Audit Office has begun to draw on a wider pool of skills, particularly for value for money work, and now employs specialists on short term contracts for particular pieces of work. The National Audit Office also subcontracts between 15 and 20 per cent of its financial audit work to professional firms in the private sector. A small number of value for money studies have also been contracted out. The use of specialists and contractors allows the National Audit Office to draw on best practice in the private sector.

Since the 1983 Act the resources of the National Audit Office have been determined directly by Parliament. The Public Accounts Commission, a committee of Members of Parliament, considers the National Audit Office's plans and budget proposal put forward by the Comptroller and Auditor General. The Commission reviews the budget and makes a recommendation to the House of Commons to accept it.

The scope, role and rights of access of the Comptroller and Auditor General and the National Audit Office

The Comptroller and Auditor General's Comptroller function makes him responsible for control of the Consolidated Fund and the National Loans Fund. The Consolidated Fund is the overall account of Government originally set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'. The Comptroller and Auditor General is required to give authority for Treasury requisitions for issues
from this and from the National Loans Fund which covers government borrowing and lending. When authorising issues the Comptroller and Auditor General (in practice National Audit Office staff acting on his behalf) must assure himself that credits are requested for purposes having proper statutory authority and within amounts authorised by Parliament.

The audit function of the Comptroller and Auditor General is in two parts: the annual certification audit of the accounts of a wide range of public bodies; and specific examinations of the economy, efficiency and effectiveness with which departments and other public bodies have used their resources. The Comptroller and Auditor General is responsible for the financial audit of almost all central government expenditure, some 520 accounts in total. Many of these accounts fall into the following groups:

- departmental resource accounts (audited by statute under the terms of the Government Resources and Accounts Act 2000);

- accounts of executive agencies (audited by statute under either the terms of the Government Trading Funds Act 1973 or the Government Resources and Accounts Act 2000);

- the accounts of other public bodies (audited either under the terms of the specific statute establishing the body or by agreement).

The Comptroller and Auditor General also has inspection rights to some 3,000 other bodies that receive public funds to provide public services such as housing, education and training. These rights enable the Comptroller and Auditor General to provide assurance to Parliament that the public money has been spent properly and for the purposes intended by Parliament. The Comptroller and Auditor General's rights to carry out examinations of economy, efficiency and effectiveness extend to most of the bodies that fall within his audit and inspection remit. In addition, the Comptroller and Auditor General is the appointed auditor for a number of international bodies.

The terms of the Comptroller and Auditor General's access for financial audit are set out in the Government Resources and Accounts Act 2000 and for value for money examinations in the National Audit Act 1983. In summary, the Comptroller and Auditor General can have such access at all reasonable times to the books of account and other documents, and explanations as he may reasonably require to carry out his statutory functions.
Other public sector audit institutions

The audit of local government and health authority accounts in England and Wales is the responsibility of the Audit Commission, a public body established in 1982 and now operating under the 1998 Audit Commission Act. It oversees the work of the District Audit Agency and appoints the auditors – who can be from either the Agency or private sector firms – for each local authority and a range of health authorities. In addition, the Audit Commission examines aspects of value for money across local government and health bodies and publishes the results. It is funded by fees charged to local and health authorities for audit services.

There is a clear distinction between the roles of the National Audit Office and the Audit Commission in most fields. However, in the health area the National Audit Office audits the summarised and summary accounts of health service bodies that are produced by the Department of Health, while the Audit Commission is responsible for appointing the external auditors for all individual National Health Service bodies and also carries out value for money studies in health service bodies. The National Audit Office and the Audit Commission cooperate wherever possible to ensure that there is no duplication of effort.

In Scotland a body known as the Accounts Commission performs a similar role to the Audit Commission.

The Devolved Audit Institutions

Separate audit arrangements for Northern Ireland have been in place since 1921. And, following devolution, there has been a further revision of audit responsibilities within the United Kingdom.

The Northern Ireland Audit Office

A separate post of Comptroller and Auditor General for Northern Ireland, established in 1921, is responsible for auditing all expenditure on devolved functions by Northern Ireland departments and agencies, as well as a number of other bodies. He also has the power to conduct value for money investigations.

Between 1921 and 1972, the Comptroller and Auditor General for Northern Ireland reported to the Northern Ireland Parliament. Following the suspension of the Parliament, he reported to the United Kingdom Parliament and his reports were considered by the Committee of Public Accounts. With the creation of the Northern Ireland Assembly the Comptroller and Auditor General for Northern Ireland now reports to the Assembly, which has established a committee to
consider his audit reports. A separate committee performs the funding and supervisory functions previously undertaken by the Westminster Public Accounts Commission.

The Northern Ireland Comptroller and Auditor General is supported by some 100 staff in the Northern Ireland Audit Office which is totally independent from the National Audit Office. But the two institutions enjoy a close working relationship, and each year the Northern Ireland Audit Office carry out about 25 audits on behalf of the Comptroller and Auditor General in areas such as Social Security for which he remains responsible.

**The Auditor General for Scotland and Audit Scotland**

The Scotland Act 1998, which established the Scottish Parliament, created the post of Auditor General for Scotland to audit from April 2000 the accounts of bodies funded by the new Scottish Parliament and to conduct value for money studies of those bodies. The Auditor General is appointed by the Queen following a recommendation from the Scottish Parliament. He is supported by a new body, known as Audit Scotland. This consists of the staff previously employed by the National Audit Office in Scotland and the Accounts Commission for Scotland - a total of around 140 staff.

The Auditor General has a wide remit. He is responsible for auditing or appointing the auditors of almost all public bodies in Scotland, other than companies and local authorities. The Scottish Parliament has established an Audit Committee to consider reports from the Auditor General for Scotland, and to make appropriate recommendations to the Scottish Executive.

**The Auditor General for Wales**

An Auditor General for Wales was created by the Government of Wales Act 1998, which established the National Assembly. The Auditor General audits the accounts of the Assembly, and its sponsored bodies, to check that funds have been spent on the purposes intended. He is also empowered to investigate whether value for money has been achieved. The National Assembly has established an Audit Committee to consider the reports of the Auditor General.

The Auditor General for Wales is appointed by the Queen on the advice of the Secretary of State for Wales. The Government of Wales Act allows the Auditor General for Wales to make arrangements with the Comptroller and Auditor General for audit and other support services. The Auditor General for Wales is currently supported by 30 National Audit Office staff based in Cardiff.
The Public Audit Forum

The Public Audit Forum was launched formally in 1998 following a recommendation in 1996 of the Committee on Standards in Public Life, an advisory body which reports to the Prime Minister. The Forum provides a focus for developmental thinking in relation to public audit.

The Forum is chaired by the Comptroller and Auditor General (who is currently also the Auditor General for Wales). The other members are the Comptroller and Auditor General for Northern Ireland, the Auditor General for Scotland and the Controller of Audit of the Audit Commission for England and Wales. The Comptroller and Auditor General of the Republic of Ireland attends the Forum as an observer. A Consultative Forum has also been established which consists of key stakeholders in the public audit process, such as government departments, local government representatives, private sector accountancy firms and consumers representatives. The full Consultative Forum meets around three times a year.

To date the Public Audit Forum has published papers on the principles of public audit, the implications for audit of the government’s modernising agenda, the service public sector bodies can expect from their auditors, and propriety and audit in the public sector. Work in progress includes the development of papers on data matching and the role of public sector auditors, the implications for audit of electronic service delivery, and the relationships between audit, inspection and regulation.

The government accounting system

Each government department, agency or public body is required to produce annual accounts. Most departments produce several, each covering a specific area of activity. The accounts are presented in a format determined by the Treasury and the financial year runs from April to March.

Public accounts in the United Kingdom have traditionally been prepared on a cash basis, but in recent years there has been a gradual shift towards accruals accounts showing income and expenditure. Executive agency accounts are prepared on an accruals basis and government departments are scheduled to provide accounts on a similar basis from 1999 - 2000. Accounts will be accompanied by information on objectives and performance. The new system will be given statutory footing by the Government Resources and Accounts Act 2000.

Departmental accounts are submitted to the Comptroller and Auditor General for audit. The accounts, along with the Comptroller and Auditor General’s certificate and report, are laid before Parliament. The Comptroller and Auditor
General is also responsible for presenting to Parliament the accounts of executive agencies. The arrangements for other public bodies vary and are determined either in statute or in the financial memoranda that govern their activities.

The auditing process of the National Audit Office

Financial audit

In the United Kingdom the main purpose of financial audit is to form an independent opinion on the financial statements. Each audit is planned and performed to obtain sufficient, appropriate evidence on which to base the audit opinion. The form of the opinion depends on the basis on which the financial statements are produced. Where financial statements are produced on an accruals basis a 'true and fair view' opinion is normally given. All the Comptroller and Auditor General’s audit opinions also explicitly state whether the money has been applied for the purposes intended by Parliament and whether the financial transactions conform to the authorities that govern them.

During audit work the National Audit Office perform a variety of procedures, depending on the judgement of the audit staff and the nature of the account. For example, as part of its audit the National Audit Office may examine a sample of transactions, selected using statistical techniques after an assessment of the financial systems in operation. The audit of departments, agencies and other large bodies can occur throughout the year as interim audit work is conducted in many cases during the year of account. This enables the audit to be completed within a few months of the end of the financial year and ensures that the information Parliament receives on public spending is timely. At the completion of the audit a letter is sent to each audited body setting out the audit findings and highlighting aspects of accounting or financial control where improvements might be made.

Inspection rights

The Comptroller and Auditor General has a duty to satisfy himself that the grants made by Parliament have been used for the purposes Parliament intended. To enable him to carry out this function at those bodies funded by Parliament where he is not the appointed auditor, he has been granted a right of inspection. These inspection rights are either provided by the statute that sets up the body or, more commonly, by agreement with the department that supervises it. Such rights are exercised periodically. In most cases the Comptroller and Auditor General also has rights to examine value for money issues at these bodies.
Value for money or performance audit

Formal powers to examine the economy, efficiency and effectiveness with which central government departments have used their resources were granted to the Comptroller and Auditor General in 1983. This legislation built on established practice whereby the Comptroller and Auditor General traditionally included the results of value for money examinations in his reports on the appropriation accounts. Since 1983 he has reported the value for money work of the National Audit Office in some 40-50 reports each year covering a wide range of government activities. The Comptroller and Auditor General can carry out value for money examinations at all departments and bodies audited by statute and most audited by agreement.

The terms economy, efficiency and effectiveness are not defined in legislation but the National Audit Office works to the following internationally recognised definitions:

- economy - minimising the cost of resources used for an activity having regard to appropriate quality;

- efficiency - the relationship between output, in terms of goods, services or other results, and the resources used to produce them;

- effectiveness - the extent to which objectives have been achieved and the relationship between the intended effects and actual effects for an activity.

The Comptroller and Auditor General decides on the subjects to be covered by value for money audits but he is not entitled to question the merits of policy objectives. Examinations are therefore focused on the means departments have employed to achieve the policy objectives set by the Government and approved by Parliament.

The National Audit Office adopts a structured approach to value for money work. Areas of government are monitored routinely using departmental information, academic work, parliamentary debates and the specialist press. Each year the National Audit Office conducts a strategic planning process whereby staff develop study proposals. Units consider the range of study proposals submitted by their staff and put forward to the Comptroller and Auditor General a plan of value for money work. Studies are selected according to a variety of criteria, including: the amount of money involved; prima facie evidence of poor value for money; the level of political, parliamentary and public interest; and the likely added value to be derived from a National Audit Office study.
The National Audit Office is concerned to ensure good relations with government departments and its programme of work is discussed with them. Where possible it takes account of departmental comments, for example on the scope or timing of proposals. These discussions can smooth the progress of studies and lead to more focused reports. From preliminary study to final report the process typically takes about a year but the National Audit Office has also recently started to carry out shorter and more quickly executed studies in response to matters of particular public concern.

There are two stages to producing a report: the preliminary and the full study phases. The preliminary study establishes whether a full study should proceed and outlines the objectives of the study, identifies the tasks, and assesses the likely impact of the work. Where possible the views of the audited body are incorporated at this stage. The full study involves detailed fieldwork and the collection of sufficient, relevant and reliable evidence to support conclusions drawn. National Audit Office study teams are often supplemented by experts in particular fields.

The National Audit Office discusses its findings with departmental staff throughout the progress of its value for money studies. It agrees the factual accuracy of the final report formally with departments and this process, known as clearance, can take some time. Opinions and conclusions in reports are not subject to formal clearance but in practice the National Audit Office notes departmental views where possible. If there is a dispute about the contents of a report, including the facts, opinions and recommendations that cannot be resolved, the department's views are incorporated in the text. The need to agree the factual accuracy of value for money reports requires close and constructive working relations with audited bodies. The clearance process ensures a balanced and fair report and enables the Committee of Public Accounts to focus on lessons to be learned rather than discuss the facts.

In order to test the quality of value for money reports the National Audit Office has in recent years developed comprehensive systems of review, including feedback from audited bodies and quality reviews by independent academics.

**Relations with Parliament and the Government**

The Comptroller and Auditor General and National Audit Office staff work closely with the Committee of Public Accounts - a senior select committee of Parliament - which consists of 15 Members of Parliament. The Committee meets twice a week when Parliament is sitting, approximately 45 times a year in total. These 'hearings' are normally based on a Comptroller and Auditor General's report, either on the accounts of a department, agency or public body
or more commonly on a value for money report. Committee meetings are held in public unless the matters under discussion relate to national security or are commercially sensitive.

The Comptroller and Auditor General provides a briefing for the Committee in advance of its hearing, and he or the Deputy Comptroller and Auditor General is present throughout each hearing to answer further questions that may arise. The main witness before the Committee is the senior official (the Accounting Officer) of the department or body on which the report is based. Representatives from the Treasury attend all hearings to answer any questions about wider issues of financial control.

As an Officer of the House of Commons the Comptroller and Auditor General is independent from government and this is emphasised by his complete discretion in the exercise of his duties. When planning the programme of value for money work the Comptroller and Auditor General is required to take account of the views of the Committee of Public Accounts but the final choice rests solely with him. The Committee can make requests throughout the year for particular examinations and has a formal opportunity to do so each year when it considers the National Audit Office’s two year forward work programme.

Members of Parliament also write to the Comptroller and Auditor General raising specific matters of concern about the propriety and value for money of public spending - he receives some 300 such requests each year. The Comptroller and Auditor General determines what action to take in reply and some matters may lead to examinations which he reports to Parliament.

**Reporting**

The Comptroller and Auditor General’s audit opinion is set out in the audit certificate which is published with the financial statements. The Comptroller and Auditor General may additionally be required by statute to report on that body. If the Comptroller and Auditor General has anything to report he will set this out in a separate report, also published with the financial statements. Otherwise he will add a paragraph to the audit certificate stating that he has no observations to make. In addition, the Comptroller and Auditor General may report to Parliament on any matter he believes should be brought to its attention. He usually does this in his main report published with the appropriation accounts volumes. Most of the Comptroller and Auditor General’s audits are conducted under statute with the requirement that the audited financial statements and audit certificate are laid before Parliament.

The Comptroller and Auditor General’s value for money reports are also laid before Parliament and published by order of the House of Commons. In addition the National Audit Office publishes an Annual Report of its activities.
The results of the work of the Comptroller and Auditor General (and the National Audit Office) are therefore readily available to the public and can attract considerable media attention. Reports are also available on the National Audit Office's Internet web site (www.nao.gov.uk).

The Committee of Public Accounts issues its own reports following its hearings. These reports draw conclusions and make detailed recommendations aimed at ensuring that errors are not repeated. The Government publishes a response to the Committee's report, normally within two months, in which it sets out the action taken or planned to meet each of the Committee's recommendations. Where the Government does not accept the Committee's recommendation, explanations are offered and the Committee has the option of raising the matter again with Treasury officials in a follow-up session.

In addition to the Committee sessions there is a further annual opportunity for the House of Commons to discuss the work of the Committee of Public Accounts in full session. This debate is normally focused on a selection of the Committee's reports and the Government's replies and concludes by passing a motion noting the contents of the reports of the committee during the year.

**Impact**

The National Audit Office measures the impact of its work each year by calculating the number of significant changes made by audited bodies as a result of National Audit Office recommendations. In 1999 some 1,700 significant changes arose following financial audit work and a further 550 changes arose from value for money work. The National Audit Office also estimates that its work led to identifiable savings or economies of some £140 million from financial audit and £353 million from value for money audit in 1999.

**Summary**

The key features of state audit arrangements in the United Kingdom are:

**National Audit Office**

**Appointment and status**

- The Comptroller and Auditor General is appointed by the monarch on an address presented by the House of Commons. The motion for this address is made by the Prime Minister acting in agreement with the Chairman of the
Committee of Public Accounts. There is no fixed term or age limit and he can only be dismissed by the monarch on a resolution of both of the Houses of Parliament.

The Comptroller and Auditor General's independence is underlined by his status as an Officer of the House of Commons. All statutory powers and rights governing the audit of central government finances are vested in the Comptroller and Auditor General personally.

The Comptroller and Auditor General is supported in his work by the National Audit Office, a body established for that purpose, which employs professionally qualified audit staff.

**Budget**

The budget of the National Audit Office is determined by the legislature on recommendation from the Comptroller and Auditor General. The Public Accounts Commission, a committee of Members of Parliament, considers the National Audit Office's plans and budget. The Commission then makes a recommendation to the House of Commons to accept the budget.

**Audit remit**

The Comptroller and Auditor General audits the accounts of central government and a wide range of other public bodies. He has a wide range of inspection rights at some 3,000 other public bodies. He has specific powers to carry out examinations of economy, efficiency and effectiveness.

**Access**

The Comptroller and Auditor General has comprehensive rights of access to the bodies that fall within his remit.

**Reporting**

Most statutory accounts and the Comptroller and Auditor General's certificates and reports thereon are laid before Parliament.

The reports of the Comptroller and Auditor General on economy, efficiency and effectiveness are presented to the House of Commons and are publicly available. The National Audit Office agrees the factual accuracy of the final report formally with the audited body.
The reports are considered by a dedicated parliamentary committee, which makes recommendations for improvements to departmental procedures and practices. The Committee of Public Accounts meets approximately 45 times per annum.

**Key legislation**

The audit arrangements in the United Kingdom are governed by the Exchequer and Audit Departments Acts 1866 and 1921, the National Audit Act 1983 and the Government Resources and Accounts Act 2000. Further legislation provides for the audit of certain other public bodies.

**Devolved Audit Institutions**

In 1999 devolution led to the creation of separate Auditors General for Scotland and Wales appointed by the Queen.

In Scotland, the Auditor General audits or appoints the auditors of the expenditure of the Scottish Executive and a wide range of public bodies and reports to the Scottish Parliament. He is supported by a new body known as Audit Scotland.

In Wales, the Auditor General audits the accounts of the Assembly and all bodies sponsored by it. Like the Auditor General for Scotland, he also has the power to conduct examinations of the economy, efficiency and effectiveness achieved by public bodies. The Auditor General is supported by the staff of the National Audit Office based in Wales. The Comptroller and Auditor General retains full access rights over all expenditure in Wales, and can report to the United Kingdom Parliament.

The Office of Comptroller and Auditor General for Northern Ireland has existed since the foundation of the state in 1920. After the introduction of direct rule in 1972, the Comptroller and Auditor General reported to the United Kingdom Parliament. However following the reinstatement of devolved government, he reports to the Northern Ireland Assembly. He is supported by the Northern Ireland Audit Office.
European Court of Auditors

Background information

Economic and general information

The European Union is a grouping of 15 states covering much of western Europe. It has a land area of some 3.2 million square kilometres, stretching from Sweden and Finland in the north to Spain, Italy and Greece in the south. The European Union was established in 1993 but the process of co-operation between European states began more than 40 years earlier. In 1951 the European Coal and Steel Community was formed by France, the Federal Republic of Germany, Italy, Belgium, Luxembourg and the Netherlands. In 1957 under the Treaty of Rome, the same countries established the European Atomic Energy Community (Euratom) and the European Economic Community (EEC). The principal aims were to preserve and strengthen peace, promote 'a harmonious development of economic activities' and work towards 'an ever closer union among the peoples of Europe'.

Originally the three Communities had separate Councils and executive commissions, but in 1965 the member states agreed to merge them with the result that all three Communities were thereafter generally referred to as the European Economic Community. In the late 1960s member states removed internal tariffs and created common external tariffs, and established the Common Agricultural Policy, designed to protect and develop European agriculture. In 1971 the Community gained its 'own resources' instead of being financed from contributions from the member states. In 1972 Heads of State or Governments set themselves the goal of transforming the Community into a European Union by 1980, but economic and political problems during the decade ensured that development of the Community was slower than had been hoped. The United Kingdom, Denmark and Ireland joined the Community in 1973, Greece in 1981 and Spain and Portugal in 1986.

In the early 1980s the Community experienced significant problems, in particular with financing a range of programmes such as the Common Agricultural Policy and handling the increased national rivalries that made
decision making difficult. In an attempt to break the impasse, efforts were made to increase internal Community trade by removing barriers - such as different national certification procedures and significantly different rates of VAT and excise duties - to the free movement of goods, persons, services and capital. These changes were ratified in each member state in 1987 as the Single European Act.

Further attempts were then made to move towards the vision of European integration envisaged in the original treaties. By the end of 1993 the Treaty on European Union (known as the Maastricht Treaty) had been ratified by all member states, amending the earlier treaties. The new Treaty maintained the European Community as one 'pillar' and added to it two further inter-governmental 'pillars' - one dealing with the creation of a common foreign and security policy and the other co-operation in the fields of justice and home affairs. The three pillars taken together are known as the European Union. The Maastricht Treaty also gave the European Parliament greater involvement in the enactment of legislation, and the right of approval, prior to appointment, of the Commission. It also committed member states to work towards economic and monetary union by 1999. In 1995 Austria, Sweden and Finland became members of the European Union.

A further step in the development of the European Union was the Treaty of Amsterdam, which entered into force in May 1999. The new treaty maintains the three pillar structure, but a series of matters (asylum, immigration and visas) which had been part of the inter-governmental third pillar were transferred to the first (Community) pillar. At the same time, the name (and the content) of the third pillar changed to “Police and Judicial Co-operation in Criminal Matters”. Furthermore, under the new Treaty, action can be taken at the Union’s level in the event of serious and persistent breaches of fundamental rights occurring in any member state. Moreover the European Community now has an explicit remit in the area of the fight against fraud, which is no longer an exclusive competence of the member states.

The structure of the European Union

There are five institutions of the European Union, each with specific roles and powers. These are a directly elected Parliament; a Commission, which acts as ‘guardian’ of the Treaties and has the power to initiate and implement legislation; a Council representing member states and composed of government ministers; a Court of Justice, which ensures that Community law is observed; and a Court of Auditors, which monitors financial management.

The European Parliament is made up of Members (MEPs) from all the European Union countries. With the accession of the new member states in 1995 there are now 626 MEPs. Since 1979 they have been elected by direct universal
suffrage under the electoral systems of each country. MEPs form transnational rather than national political groupings. Plenary sessions of the European Parliament are normally held in Strasbourg, with committee meetings and some part-sessions held in Brussels. A secretariat of 3,500 officials, along with the staff of the political groups, is based in Brussels and Luxembourg but moves to Strasbourg as necessary to support meetings.

Before the Single European Act the European Parliament was predominantly an advisory body, but it has since been given an increased role. It now has the power to dismiss the Commission by a two-thirds majority. It supervises the Commission and the Council by debating their programmes and reports and laying written and oral questions. Under the Maastricht Treaty Parliament can block the adoption of legislation on which it cannot reach agreement with the Council. The powers of the European Parliament were further increased by the Treaty of Amsterdam, through modification of the legislative procedure known as co-decision and by extending the scope of this procedure. The Parliament can also veto international agreements and enlargements of the Union.

The Commission of the European Communities is the central administration of the European Union. Twenty Commissioners nominated by the Governments of the member states make up a Commission, which, from 1995, lasts for five years. Commissioners are required to be independent in performing their duties. They have portfolios of responsibility for areas of Community interest such as agriculture and transport. The President of the Commission is nominated by the member states and, after a vote of approval by the European Parliament, he and the other members of the Commission are appointed by common accord of all the Governments. The President allocates portfolios to the other Commissioners.

The Commission has four main areas of responsibility. It initiates legislative proposals, which go to the Council (or to the Council and the Parliament) for approval. It issues regulations and decisions to implement Community policies established by Council regulations and decisions. It ensures that member states comply with Community law and can issue a 'reasoned opinion' where it considers that a Treaty has been infringed. It can also initiate legal action against offending member states in the European Court of Justice. The Commission is also responsible for administering the European Agricultural Guidance and Guarantee Fund, the European Regional Development Fund and the European Social Fund. Finally, it conducts external trade relations on behalf of member states and is the first point of contact for other countries with the European Union.

The Council of the European Union is the principal law making institution of the Community, although it can only act on proposals submitted to it by the Commission and, increasingly, in co-operation with the Parliament. It has powers to adopt legislation, ratify certain treaties after consultation with the
European Parliament, ask the Commission to carry out certain studies and submit legislation, and delegate executive and legislative powers to the Commission. In cases such as the enlargement of the Community or an extension of powers the Council must act with unanimity, particularly where it wishes to deviate from Commission proposals. In others, particularly with regard to the single market and economic and monetary union, simple or qualified majority voting is allowed.

The Council is made up of representatives of the Governments of the member states, usually ministers. Membership of the Council varies with the subject under discussion. Foreign affairs ministers, who meet monthly, are regarded as the main representatives of member states and help to co-ordinate the work of the other ministers. Each member state holds the presidency of the Council for six months in rotation.

The European Court of Justice is the Community’s supreme legal authority. It comprises one judge from each member state, with the President selected by the Members for a renewable term of three years. The Court is empowered to settle disputes within the Community, between member states and institutions and between member states, and also to pass judgement, at the request of national courts, on the interpretation or validity of points of Community law.

The final and most recent institution is the European Court of Auditors, which became a full institution in 1993, and is the Community’s external auditor.

**The political environment**

Political impetus and strategic guidance within the European Union is given by the European Council (as distinct from the Council of the European Union), which comprises Heads of State or Government of member states and the President of the Commission, assisted by the ministers for foreign affairs. They hold summit meetings at least twice a year in the country then holding the Council Presidency and combine discussion of Community matters with talks on European political co-operation. In recent years summits have been regarded as an appeal body for the settlement of the most contentious political disputes.

Recent years have seen continuing debate about the development of the European Union and the nature and extent of integration of the member states. In particular there has been considerable discussion and developments over the implementation of plans in the Maastricht Treaty for closer economic and monetary union, including the introduction of a single currency and an independent central banking system. Debate has also taken place about a more unified foreign and security policy. This has been the case in relation to former Yugoslavia, where the Secretary-General of the Council has been charged with a co-ordinator role.
A further issue is that of the expansion of the European Union to include central and eastern European countries and others such as Malta, Cyprus and the Baltic states. The possibility of 27 countries belonging to the Union has increased debate about the need for the reform of European institutions, and also how current spending programmes, in particular the Common Agricultural Policy, will be able to cope with new members. An inter-governmental conference of representatives of the member states was convened in February 2000 to explore the issue of reforming the European institutions.

The financial environment

Originally the Community was financed from contributions from the member states. In 1971 these were replaced by the Community’s 'own resources', which now comprise agricultural and sugar levies charged on imports to the Community of products from non-member states; customs duties on trade with non-member countries; contributions based on a notional rate of VAT applied to an identical range of goods and services in each member state; and a GNP based contribution, which takes the same proportion of national GNP and provides the balancing figure for the budget.

The Community budget is prepared by the European Commission on the basis of estimates of the requirements of the institutions, the forecast revenue and a multiannual financial forecast. The preliminary draft is presented to the Council, which, after making amendments, adopts it. The European Parliament is then able to propose modifications to the 'compulsory' elements of expenditure (those that arise from the Treaties) and can amend the 'non-compulsory' elements. Parliament has the right to reject the draft budget and ask for a revised version. Funds approved in the budget are mainly disbursed by national Governments, usually via the accounts of government departments. National Governments are accountable to the Commission for the use of funds.

The European Parliament, acting on a recommendation from the Council, must give discharge to the Commission by 30 April in respect of the implementation of the Community budget from the year before last. To do this Parliament and the Council (known together as the budgetary authority) examine the accounts and financial statements, the Annual Report, the Statement of Assurance and any special reports of the Court of Auditors, along with the responses from the audited institutions. Parliament may require the Commission to give evidence on aspects of its conduct of the budget. The discharge signifies that the Parliament considers that the stewardship of Community monies has been sound, that financial management has been carried out effectively and in line with instructions, and that appropriations have been utilised in line with the objectives set when the budget was adopted.
The European Court of Auditors

Historical development

Until 1977 examination of the accounts of the European Communities was divided between two sets of auditors. There was an Auditor for the European Coal and Steel Community, assisted by a small staff, while financial audit of the other Communities was the responsibility of the Audit Board. Nine part-time Members of the Audit Board met infrequently and had a staff of only around 25. The Board did not publish its reports, which instead were sent to the auditee, the Commission, the Council and, for information only, to the European Parliament. There was little follow-up by the Council of Audit Board observations.

Two major Community reforms in the 1970s emphasised the inadequacy of these arrangements. These were the development of the Community’s 'own resources' in the early 1970s and the extension of the powers of the European Parliament in budgetary control under the 1975 Treaty of Brussels. To strengthen its powers of scrutiny Parliament required an effective audit body. As a result, the European Court of Auditors was established under the 1975 Treaty in October 1977. In 1993 the Maastricht Treaty enhanced the authority and independence of the Court by making it a full Community institution.

In 1999 the Treaty of Amsterdam further improved the role of the Court of Auditors. The Court was recognised not only as an institution of the European Communities but also as an institution of the European Union. Furthermore, the Court was given the opportunity to protect its prerogatives with regard to the other institutions by bringing actions before the Court of Justice. The Court’s role with respect to fighting fraud was emphasised and its access to information held by managing bodies and final recipients was confirmed in the Treaty.

The structure of the European Court of Auditors

The Court consists of 15 Members, one Member drawn from each of the 15 member states. It 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. Each Member is responsible for particular audit fields.

The President is elected for a term of three years and may be re-elected. He is 'first among equals' and plays a coordinating role. He distributes portfolios to Members, sets the agenda for Court plenary sessions and chairs the discussions on the annual work programme. The President also has regular contact with the heads of other European Union institutions and is the Court’s senior representative in its external relations.
The Members of the Court are appointed by unanimous decision of the European Council. This is done after consulting the European Parliament, although Parliament has no right to veto a candidate and its views have been ignored on occasions. Members are appointed for a six year period which can be renewed. Other than through death, retirement or resignation, Members can be removed only by a decision of the European Court of Justice, acting on a request from the European Court of Auditors, where the Member no longer meets the requirements of the office.

Members are expected to act independently in the general interest of the Community and not follow instructions from their home Governments. According to the 1975 Treaty, Members should be chosen from among those who belong or have belonged to external audit bodies or who are especially qualified for the office. During their term in office, Members may not engage in any other occupation, paid or unpaid, and must follow strict codes of behaviour regarding acceptance of benefits. The status of Members is equivalent to that of judges of the European Court of Justice.

The Court is divided into four Audit Groups, plus an Audit Development and Reports Group (ADAR) and a Statement of Assurance Group. Each Group is composed of between three and five Members of the Court.

Audit Group I audits the common agricultural policy, Audit Group II the structural measures and internal policies, Audit Group III external aid and Audit Group IV covers own resources, administrative expenditure and financial instruments as well as banking activities.

The ADAR group co-ordinates the Court’s Annual Report, provides training and computer audit support, advises on the Court’s reports and opinions and co-ordinates the Court’s work programme. It is also responsible for overseeing the Court’s working methods and its Audit Manual. The Statement of Assurance Group deals with the requirement under the Treaty on European Union to provide the European Parliament with an annual statement as to the reliability of the accounts and the legality and regularity of the underlying transactions. The Group is responsible for drawing up the Statement of Assurance and co-ordinating the financial audit and general accounting work supporting the Statement.

The recruitment, remuneration and qualifications of staff and other resources

There are approximately 550 staff at the Court, comprising around 280 auditors, 60 translators, 150 administrators and 60 other staff. Each Member has a cabinet of five staff. Staff from different member states are mixed within the audit groups and sectors for linguistic reasons and also to guarantee the impartiality of their work. Most auditors are officials of the Court and the rest
are on short-term contracts. Among them, 15 auditors are seconded from the national audit institutions of the member states. Staff at the Court are paid on the same basis as those at other European institutions.

The Court is funded from the general budget of the European Community. The Court’s budget setting procedure follows the Commission’s timetable. It draws up a bid for resources, which is submitted to the Commission by 1 May each year. The Commission puts forward a combined general budget to the Council, which, along with the European Parliament, gives final approval. The 2000 budget of the European Court of Auditors is 70.3 million Euro, of which 58.1 million Euro is for staff costs, 11.5 million Euro is for buildings, equipment and miscellaneous operating expenditure, and 0.7 million Euro is for other expenditure.

There is no specific provision in the Treaty for the audit of the Court’s revenue and expenditure because its budget is part of the general Community budget. The funds are therefore subject to the Court’s own audits. To provide an independent examination the Court decided to appoint private accountants to audit its accounts and issue a certificate concerning the regularity and fairness of the annual financial statements. The report of the accountants is published in the Official Journal of the European Communities and the results reported to the European Parliament.

**The scope, role and rights of access of the European Court of Auditors**

Under the Treaty on European Union, which came into force on 1 November 1993, the European Court of Auditors became the fifth European institution. Its primary tasks are to examine: the accounts of all revenue and expenditure of the Community; whether all revenue and all expenditure has been received or incurred in a lawful and regular manner; and whether the financial management has been sound. After the close of each financial year, the Court draws up an annual report, which is forwarded to the other institutions and published in the Official Journal of the European Communities. In addition, the Court must be consulted by the Council on any proposals for financial regulations or for measures in the fight against fraud. The Court can also comment on any draft legislation that is likely to have a significant financial effect. Moreover, it can at any time submit observations on its own initiative (special reports) and deliver opinions at the request of other institutions. The Court assists the European Parliament and the Council to exercise their powers of control over the implementation of the budget. In all respects the Court conducts its work independently of the other institutions, being free to organise its own work, plan its audits, decide how best to present its observations and the extent to which it publicises its findings.
The scope of the Court’s audit covers the general budget of the Community, loans and borrowings by the Commission, and the accounts of all bodies set up by the Communities where Court examination is not specifically excluded by relevant instruments. It audits the European Development Funds; the operational budget of the European Coal and Steel Community; the European Schools and a range of other bodies. The Court also has audit rights towards the European Central Bank.

The Court’s audits are based on the examination of records and where necessary are performed in member states, including at the premises of final recipients of Community funds. 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. The other four European institutions are expected to provide any information the Court considers it requires.

Grants to beneficiaries outside the institutions are subject to the agreement in writing by the recipients to an audit being carried out by the Court on the utilisation of the funds. The Court does not usually encounter significant obstacles to its audits. The Court does not have access in principle to documents relating to files that have no financial implications, or to files, ongoing or pending, designed to prepare the ground for decisions or proposals not yet adopted by the Commission.

**Relations with Parliament and other institutions**

The Court is required to assist the European Parliament and the Council in exercising their powers of control over the implementation of the budget. The most important link with Parliament is in the Community general budget discharge process when the Court’s Annual Report is formally presented to the Parliament by the President of the Court. The President highlights the main points and conclusions, and answers questions. The Parliament’s Budgetary Control Committee examines the work of the Court, together with comments from institutions on Court observations. The President of the Court also makes a statement at the request of the Council of Finance Ministers on the state of Community finances.

The Court has regular contact with the European Parliament at a number of levels. The Presidents of the Court and the Parliament meet frequently. There are also discussions between Members and staff of the Court and Members and officials of the Budgetary Control Committee on individual chapters of the Court’s Annual Report and special reports, as well as informal discussion with other MEPs.
Under the Financial Regulation applicable to the general budget of the European Communities (the key secondary legislation) all institutions are required to transmit to the Court any rules of procedure that they adopt in respect of financial matters, and they must notify the Court of all appointments to financial and accounting posts.

Relations with other auditors

The Court is required by the 1975 Treaty to carry out its work in member states in liaison with the national audit institutions (or other competent national departments where the audit institutions do not have the necessary powers). All Court audit visits to member states are notified to the national audit authorities, which make arrangements with the relevant government departments and may assist the Court with on-the-spot inspections. Each national audit authority is required to inform the Court whether it intends to take part in the audits. The aim of this is to ensure effective audit of Community funds, while avoiding unnecessary duplication of effort and overburdening of the audited body.

Liaison takes place at a number of levels. The heads of national audit institutions and the President of the Court meet annually in the Contact Committee to discuss topical issues. Audit arrangements between the Court and national audit bodies are coordinated by a liaison officer nominated by the audit body and by the Court. Regular meetings are held to exchange views and information on technical audit matters and areas of concern. National audit institutions provide staff on secondment to the Court and provide details of their work plans in areas of mutual interest. A small number of joint audits between the Court and national audit bodies have taken place.

The auditing process

Financial audit

The purpose of the Court’s audit is to ensure that all revenue has been received and all expenditure incurred in a lawful and regular manner, conforming to the Treaties, secondary legislation and other regulations. The Court also examines whether accounting systems are adequate and are capable of recording all transactions correctly. Traditionally the Court has used a cyclical approach to auditing Community expenditure, usually on a four or five year programme. It has focused on risky areas, while trying to cover all fields over the period. Tasks have been selected according to the materiality of the topic, the amount of money involved, the perceived risks, the political interest and the results of previous audits. It has also sought to cover all member states.
Programmes of audit work are approved in each field by Court Members following proposals from audit sectors. The work is usually carried out by small teams of auditors. Since 1981 the Court has used a systems based approach to its audit work, allowing it to limit the amount of transaction testing to be carried out. Before each audit mission staff gather background information. They then analyse management and internal control systems within institutions and carry out compliance tests to identify their strengths and weaknesses. This enables them to concentrate on those operations that present the most risks.

The Court uses analytical review of data to identify significant trends and follows this with substantive tests of transactions, selected using statistical sampling methods, to check whether they are correctly recorded. It follows transactions through to the final recipients of funds in the member states and overseas. Audit teams draw up a mission report (for internal use only) and two sector letters of findings, one of which is sent to the Commission and the other to the member state. The member state is required to reply to the observations within two months. In most cases findings are discussed at the end of each audit mission with the audited body.

**Statement of Assurance**

The Court’s financial audit underwent considerable change in 1995. The Maastricht Treaty requires the Court to provide the European Parliament and the Council with an annual Statement of Assurance as to the reliability of the accounts of the Community and the legality and regularity of the underlying transactions. This has led the Court, for each year since the 1994 year of account, to extend its annual audit coverage across the whole range of Community expenditure. As a result work towards completing the Statement of Assurance has become a major focus for the Court’s financial audit.

To discharge its responsibility the Court selects for examination a sample of commitments, payments and receipts from across the whole of the Community General budget. The Court uses its own staff for Statement of Assurance work, but has discussed with national audit bodies how it might rely on the work of these organisations in order to reduce the amount of work the Court has to carry out. The Court considers that it will be able to accept the work of national audit bodies where it is carried out to similar standards to its own work, in particular in the examination of European eligibility criteria. It has yet to agree on the extent to which it can use the results of other national audit bodies or the format in which results might be reported to the Court.
Value for money audit

As well as examining the legality and regularity of transactions, the Court is also required to examine whether financial management has been sound. The latter is interpreted as meaning whether funds have been used with due regard for economy, efficiency and cost effectiveness. The Court assesses the adequacy of internal systems and considers a wide range of internal and external data to inform its views. The Court is also able to assess the ways in which staff discharge their management responsibilities. In doing this it does not pass judgement on the objectives of Community policies but evaluates the results in the light of the initial objectives.

The Court also seeks to establish that audited bodies are adequately safeguarding assets and have suitable measures for detecting and preventing fraud. Points arising from examination of value for money are included in the Annual Report. Special reports normally concentrate on value for money considerations in specific areas of activity, such as aspects of the management of the structural funds.

Irregularities

Since the Treaty of Amsterdam the Court is called upon to report on irregularities, which include the concept of fraud. It co-operates fully with the newly created anti-fraud office (OLAF) in the Commission.

Reporting

The Court reports its findings in a number of ways. These are the Court’s Annual Report, special reports and opinions. The Court’s Annual Report is published each November in the Official Journal of the European Communities. It includes observations on the management of Community finances during the previous financial year arising from both financial and value for money work, together with the institutions’ replies to the observations. After adopting the report, the Court presents it to the Council and the European Parliament, which examine it together with the accounts for the purpose of granting the discharge of the Community budget. The President of the Court normally makes oral presentations to the Plenary Session and to the Budgetary Control Committee of the Parliament, explaining the main issues arising from the year’s examination.

The Court also reports at its own discretion via special reports, which also usually appear in the Official Journal and can be found on the Court’s Internet site: http://www.eca.eu.int. These can take up to two years to prepare. Special reports arise from audits on specific aspects of management, often over several financial years, which are normally carried out on the initiative of the Court itself but may also be at the request of an institution. Court special reports are
examined by parliamentary committees, whose own reports generally lead to a resolution by the Parliament, listing the problems for which it expects a solution to be found. The Commission must then take follow-up action.

In addition the Court must be consulted and give its opinion before the Council makes financial regulations relating to the general budget, adopts documents relating to 'own resources' or takes measures in the fight against fraud. These opinions are published in the Official Journal. Other European institutions can ask the Court to give an opinion on specific matters. These opinions are given to the relevant institution and are not published.

The Court discusses the findings from its audits with the relevant bodies and the Commission in the course of what is known as the 'contradictory procedure'. Both the Annual Report and the special reports include the replies of the European Commission and other institutions to the Court's observations. Draft chapters are sent to the bodies and the Commission Budget Directorate General, which deals with such discussions. Much of the material included in the reports has already been made known to auditees via sector letters. The opinions and corrections from the auditees and the Commission are taken into account before the Court finalises its reports.

All the Court's reports are adopted in the eleven European Union languages. The ADAR Group within the Court is responsible for coordinating the preparation of reports and ensuring their quality. In recent years the Court has sought to raise the profile of its reports, and since 1994 well attended press conferences have been held at the publication of the Annual Report. These generate considerable interest in the media.

Summary

The European Court of Auditors was established in October 1977. In 1993 the Maastricht Treaty enhanced its authority and independence by making it a full European institution. Since 1999 the Treaty of Amsterdam has reinforced the powers of the Court. The key features of the Court are:

**Independence**

- Members of the Court are put forward by their member states but are required to act independently in the general interest of the Community and not follow instructions from their home Governments. They are appointed by unanimous decisions of the European Council, after consulting the European Parliament, and can only be removed by a decision of the European Court of Justice.
The Court conducts its work independently of the other institutions, being free to organise its own work, plan its audits, decide how best to present its observations and the extent to which it publicises its findings.

**Organisation**

The Court is organised into four Audit Groups, dealing with different fields of Community revenue and expenditure, plus the ADAR Group, which coordinates the preparation of the Court’s reports, provides computer and training support and oversees the Court’s working methods, and the Statement of Assurance Group.

**Staff**

There are approximately 550 staff at the Court of Auditors. Of these 280 are auditors, 60 are translators, 150 are administrative staff and 60 work in other functions, including within Members’ cabinets. Staff are employed from all member states.

**Budget**

The Court is funded from the general budget of the European Communities. In 2000 its budget is 70.3 million Euro.

**Audit remit**

The Court is responsible for examining the accounts of all the revenue and expenditure of the Community, whether it has been received or incurred in a lawful and regular manner, and whether financial management has been sound.

It audits the general budget of the Community, loans and borrowings by the Commission and the accounts of all bodies set up by the Communities where Court examination is not specifically excluded. It audits the European Development Funds, the operational budget of the European Coal and Steel Community, the European Schools and a range of other bodies.

The Court must be consulted and give its opinion before the Council makes financial regulations, adopts documents relating to ‘own resources' or takes measures in the fight against fraud. These opinions are published. In addition, other institutions can ask the Court to give an opinion on specific matters; these opinions are not published.
Access

The Court has access to any document or information relating to the financial management of the departments and bodies subject to its inspection and can question any official. Grants to beneficiaries outside the institutions are also subject to the agreement in writing by the recipients to an audit by the Court.

Ability to report

Findings of the Court are reported in a number of ways. These are the Annual Report, special reports and opinions on documents relating to financial regulations and other legislation.

The Court’s reports are used by the Council and the European Parliament in their consideration of the implementation of the budget of the European Community, and in deciding whether to recommend and grant discharge to the Commission. Court special reports are examined by parliamentary committees whose own reports generally lead to a resolution by the Parliament listing the problems to which it expects the Commission to find a solution.