



**International PEER REVIEW  
of the Supreme Audit Office  
of the Slovak Republic**

**2011**



## CONTENTS

<b>Summary</b> .....	3
<b>About the Peer Review</b> .....	4
I. Introduction .....	6
II. Peer Review Findings: Audit activities.....	9
III. Audit Process: The audit of Central Government.....	9
IV. Audit Process: The audit of regions (upper-tier territorial units) and municipalities .....	17
V. Peer Review Findings: Assessing the quality of audit activities .....	22
VI. Peer Review Findings: Human Resources.....	25
VII. Peer Review Findings: Communications and Public Relations.....	29
VIII. Conclusions: Responding to future challenges.....	32
<b>Annex One:</b> Scope of the SAO SR's activities .....	34
<b>Annex Two:</b> Recommendations .....	36



## Summary

1. In common with many other SAIs, the Supreme Audit Office of the Slovak Republic (SAO SR) has had to respond to some significant challenges in recent years. To face these challenges in a constructive manner, the SAO SR prepared and implemented a Development Strategy 2007 - 2012. In 2010 the SAO SR submitted itself to an external Peer Review by four EU-partner SAIs to provide both an assessment of progress to date and to offer recommendations for the future. This report results from that Peer Review exercise.
2. Taking all the findings of the Peer Review exercise together, the Peer Review team concluded that the SAO SR had responded effectively to the range of challenges that it had faced in recent years. It has improved the quality and professionalism of its audit activities; it has improved the impact of its work by making it more accessible to its stakeholders; it has improved the impact of its work by strengthening the cooperation with the media; and it has improved the infrastructure of the organisation to support its overall objective of enhancing its performance. We concluded that this ambition was well articulated in the SAO SR's development strategy. We also concluded that the strategy itself and its implementation would help secure the improvements in the quality and impact of the SAO SR's audit activities which the organisation is seeking to achieve.
3. Specifically in relation to the audit quality methodology that the SAO SR is putting in place, we concluded that in developing these arrangements the SAO SR had complied with relevant INTOSAI guidance and standards. We are confident that these arrangements will contribute to the continuing improvement of the quality, professionalism and impact of the SAO SR's audit activities.
4. In the course of our work on the Peer Review, we had a number of observations and specific comments about the SAO SR's audit activities and also about its HR and public relations functions. Accordingly, we include in this report a set of recommendations and some general comments intended to help inform the SAO SR's assessment of and decisions about, its future strategic direction. We hope these will help the SAO SR identify and respond to the challenges that lie ahead for it and for the wider community of SAIs. A complete set of the recommendations we make can be found at Annex Two.

## About the Peer Review

5. After the implementation of significant organisational and competence changes in its operation the Supreme Audit Office of the Slovak Republic (SAO SR) commissioned in 2010 an independent peer review to assess the quality and effectiveness of its work in a number of areas. The SAO SR invited the National Audit Office of Estonia, the Supreme Chamber of Control of Poland, the Court of Audit of the Republic of Slovenia and the National Audit Office of the United Kingdom to undertake the Peer Review. The SAO SR agreed the scope of the Peer Review with the participating SAIs. This was set out in a Memorandum of Understanding (MOU). The MOU set the Peer Review team two objectives:
  - improving the quality and effectiveness of independent audit activities; and
  - reviewing whether the development strategy of the SAO SR was properly elaborated and supports the effectiveness and quality of the SAO's audit activities, meeting the mission of the SAO in compliance with the legislation on the Office.
6. Specifically the SAO SR asked the Peer Review team to examine “the correctness of some internal procedures set out in the internal directives of the Office in relation to two topics”. These were:
  - the soundness of the updated Development Strategy of the Office and its compliance with the mission of a modern audit institution with a particular focus on:
    - Audit activities (audit planning, conducting audits and reporting audit results);
    - Human resources; and
    - Public relations;
  - audit quality assessment methodology and its compliance with international standards to achieve independence, high quality and effectiveness of audit activities in particular:
    - reviewing whether the audit quality assessment system was drafted in compliance with INTOSAI auditing guidelines;

- reviewing whether the audit quality assessment system has been drafted so that it provides a reliable guarantee to achieve objective audit results.
7. The Peer Review team<sup>1</sup> undertook its fieldwork between June and December 2010. This included a review of relevant SAO SR policies, processes and procedures; a review of specific audit activities; a review of the legal requirements the SAO SR has to meet; a review of media analyses; and a visit to one of the SAO SR's Regional Offices (Trenčín). This was supplemented by a series of detailed discussions with and presentations by SAO SR staff. In this regard, the Review Team acknowledges the help and support it received from the SAO SR and that it was given free, unfettered access to all the documents and information that it needed.
  8. In particular the Review team acknowledges the help and support provided by Dr Ján Jasovský President of the SAO SR; Ms Zora Dobříková, Vice President of the SAO SR; Mr Peter Táborný, Director General of the Strategy Department; Mr Igor Čiho, Director of the International Relations Division; Ms Annamária Víziková, Director of the President's Office; Ms Andrea Reichová, Director of the Division of Methodology, Planning and Analysis; Ms Eva Gašparová, Director of Human Resources Division; and Ms Lenka Nosáľová, Director of Communication and Public Relations Department.
  9. In undertaking the Peer Review, the Peer Review team took full account of the guidance on peer reviews prepared by the INTOSAI Capacity Building Committee and presented at INTOSAI's XX Congress in Johannesburg in November 2010 and used these as our benchmarks and key criteria. We based our assessment on a review of relevant SAO SR documents and regulations. We also interviewed SAO SR colleagues from across the organisation including Senior Management and key staff from each Department.

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<sup>1</sup> The Peer Review Team was composed of Mr Frank Grogan, Mr Ray Watkins and Mr Nigel Penny (the UK -Chair), Mr Tonis Saar (Estonia), Mr Paweł Banaś and Mr Jacek Mazur (Poland), Ms Nina Furman, Ms Mojca Planinšek and Ms Alenka Zidar (Slovenia)

## I. Introduction

10. The SAO SR was established in 1993. Its remit and mandate are defined by the Constitution of the Slovak Republic and by legislation, specifically the law referred to as Act No 39/1993 as subsequently amended by other legislation.
11. At April 2010, the SAO SR employed 314 people. Of these 253 were designated as auditors. In accordance with the law that established the SAO SR, the organisation is headed by the President who in turn is supported by two Vice Presidents. There are six departments based at the SAO SR's headquarters in Bratislava. These include the Department of the President; the Strategy Department; the Finance and Taxes Department; the Special Branches and Activities Department; the Department of Economic Branches and the EU Funds Audit Department. In addition the SAO SR has eight Regional Offices. These are concerned primarily with the audit of municipalities and are located in Bratislava; Nitra; Trnava; Trenčín; Žilina; Banská Bystrica; Košice; and Prešov. There are around twenty staff at each of these regional offices.
12. In common with many other SAIs, the SAO SR has had to respond to some significant challenges in recent years. These have included:
  - developing the organisation's capacity to deal with the audit of EU funds following Slovakia's accession to the European Union in 2004;
  - taking on the responsibility for the audit of municipalities and local organisations in Slovakia; and
  - responding to the implications of the global financial crisis for the preparation of the state budget and for the public finances generally in Slovakia.
13. During the Peer Review, we saw for ourselves how the SAO SR is dealing with these challenges operationally (through the expansion of its network of regional offices), materially (through for example the investment it has made in a better working environment for its staff, and providing excellent facilities for the media) and professionally (through the steps it has taken and continues to take to raise the quality and impact of its audit work, developing new auditing manuals, going through extensive training initiatives covering the whole organisation and developing its website which has greatly improved SAO SR's internal and external communication).






14. This was brought together in the SAO SR's development strategy for the period 2007 to 2012. The objective of the development strategy which was updated in January 2010 is "to establish the main tasks for further improvement of the quality of audit activities in order to make the contribution of the Office to the improvement of management with public funds more visible" (page 1, updated version of the SAO SR's Development Strategy 2007-2012, published January 2010).

15. The main elements of the updated Development Strategy are:

- Audit Activity, specifically (i) audit planning and (ii) methodology of preliminary preparation, carrying out audits and reporting audit results;
- External relations;
- Public Relations;
- Information technologies and technical equipment; and
- Human Resources development.

16. In this context, the SAO SR decided to commission an independent Peer Review that would have the objective of improving the SAO SR's system of quality assurance and the effectiveness of its independent audit. The SAO SR wanted the review to assess whether its Development Strategy complies with the mission of a modern



audit institution with a particular focus on audit activities (planning, preparation, implementation and reporting audit results), audit quality assessment, human resources development and public relations. The SAO SR has stated that it expects the Peer Review to provide ,...a real picture of implementation of internationally accepted standards, overall correctness of internal standards design ....' and to make recommendations for improvement. (Source: page 13 August 2010 Activities of the SAO SR in the field of application of International standards and capacity building in the years 2005-2010, published August 2010).

## II. Peer Review Findings: Audit activities

17. In assessing the SAO SR's audit activities, the Peer Review team focused on three key areas:

- the SAO SR's audit process in relation to its responsibilities as the auditor of central government departments, agencies and organisations;
- the SAO's audit process in relation to its responsibilities as the auditor of municipalities and local organisations; and
- the SAO's processes for assessing the quality of its audit activities.

## III. Audit Process: The audit of Central Government

18. In this section of the Peer Review report, we focus on our findings, conclusions and recommendations in relation to the SAO SR's responsibilities for the audit of central government in Slovakia. In particular, we concentrated on the planning and the conduct of audits and on the reporting of the results of the SAO SR's audit work.

19. We have reproduced at Annex One, some background material to illustrate the full range of the scope of the remit of the SAO SR.

20. The main outputs of the SAO SR's audit activities are as follows:

- an opinion on the proposal for the state budget and an opinion on the proposal for the final state account - both submitted to the National Council;
- a summary report on the results of the SAO SR's audit activities for the previous calendar year;
- audit reports and public audit reports (most of them arising from SAO SR's own initiative, some of them arising from a National Council resolution, where the audit has been carried out for the purposes defined by the National Council provided that the audit is within the remit and powers of the SAO SR);
- the issue of declarations on the winding up of assistance granted under the EU's Structural Funds and Cohesion Fund programme for the period 2004-06; and
- tasks linked to the certifying body for the European Agricultural Guidance and Guarantee Fund for the period 2004-06.

21. We drew on a range of planning background documents, in particular:

- the SAO SR's Development Strategy for 2007 to 2012;
- the SAO SR's triennial plan of audit activities for the period 2010 to 2012;
- the SAO SR's annual audit activities plan for 2009 and for 2010;
- the SAO SR's annual activity report for 2008 and for 2009;
- the SAO SR's opinions on the proposal for the state budget of the Slovak Republic;
- the SAO SR's opinions on the proposal for the final State account of the Slovak Republic; and
- relevant quality assessment reports.

22. We looked in detail at three audits undertaken by the SAO SR. These were:

- the audit of measures intended to increase employment of handicapped people in the state administration;
- the audit of selected investments by the Slovak Road Administration; and
- the audit of public funds allocated for the insulation of accommodation.

For each of these audits, we reviewed the audit report and the associated working papers.

## **Planning audit activities that focus on Central Government**

23. The broad context of planning the SAO SR's audit activities is set by the organisation's Development Strategy. This is supplemented by the SAO SR's triennial plan of audit activities which sets out the scope of the SAO SR's audit activities for a three year period.

24. Against this background, the SAO SR prepares an annual plan for its audit activities. This process is set in motion by the SAO SR's Strategy Department and involves close consultation of the other

Departments within the organisation as well as its eight regional offices. The final annual plan also reflects the views of SAO SR enlarged management. In identifying specific subjects for inclusion in the plan, the SAO SR pays due regard to aspects such as strategic targets, risk analyses, materiality and the impact or added value of proposed activities.

25. For the period 2009 to 2012, the SAO SR has decided to focus its audit activities on three specific areas:


- transfers from the EU;
- areas of social interest; and
- the impact of the global economic crisis.

The SAO SR identifies a series of different audit activities that fall into one or more of these three areas. As part of this selection process, the SAO SR also decides on what type of audit it will undertake in relation to a specific area of examination. The SAO SR undertakes three types of audit. These are:

- performance audit;
- compliance audit; and
- financial audit.

26. We have the following observations on the way in which the SAO SR plans its audit activities.

- The process used by the SAO SR to plan its audit activities is robust and leads to a coherent programme of work that addresses major issues of interest for Slovakia. A question might be posed on the scope in which the SAO SR examines and uses informal external suggestions for the audit topics, e.g. from Parliament, Government and other central state bodies, and public opinion.
- There are a number of aspects of the process where we believe further refinement and enhancement is possible. We believe that one factor that the SAO SR should build into its planning process is some indication of its audit coverage of central government programmes and departments. The aim here would be twofold: first, and most obviously, to identify any significant gaps in the SAO SR's coverage; and second, to assess whether any areas of government are subject to an unduly excessive degree of audit.

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- A second area of potential refinement would be to develop further the SAO SR's methodology for evaluating risk and determining materiality. The aim here would be to ensure that the SAO SR is identifying and addressing key areas of concern within the public sector. This could also be linked to the resources which the SAO SR allocates to different audit activities and priority areas. The aim here would be to demonstrate that the SAO SR is using its resources efficiently in the sense of deploying them in those areas where the assessed risk is highest and where the amount of expenditure or revenue subject to audit scrutiny is the most significant or material.
  - A further refinement would be to build into the SAO SR planning process a more explicit assessment of the likely impact of its different audit activities. It seems that the SAO SR could conduct more audits covering whole areas of Government activities (as e.g. sector policies or strategic programmes). The aim here would be to ensure that the SAO SR deploys its resources to good effect in terms of securing improvement and beneficial change in the management of public finances in Slovakia and, at the same time, meet the expectations of Parliament, Government and other central state bodies, and public opinion.

27. In light of these observations, we make the following recommendation:

**Recommendation 1:** The SAO SR should consider further developing and refining how it plans its audit activities. Specifically we recommend that the SAO SR should consider how best to further refine and enhance its methodology for assessing risk and materiality. We further recommend that the SAO SR's audit planning process indicates the audit coverage and takes more explicit account of the likely impact of individual audit activities.

## Undertaking audit activities that focus on Central Government

28. The key points that we noted in relation to how the SAO SR undertakes its audit activities are as follows:

- The SAO SR undertakes its audit activities in a structured and systematic way. This reflects the steps taken across the organisation to discharge its audit responsibilities in a professional manner and as consistently as possible.
- The spread of audit responsibilities across the SAO SR together with the three different types of audit activities that SAO SR departments can undertake underlines the importance of ensuring consistent audit judgements and the importance of audit conclusions being drawn on a consistent basis. This in turn emphasises the importance of the initiatives the SAO SR has taken to ensure consistency across the organisation in the approach to audit activities. It also emphasises the need for effective quality control arrangements - a subject we return to below.
- On a more strategic issue, we noted that it was not clear enough, when taken together, what the ultimate purpose was of all the SAO SR's audit activities. What we have in mind here is whether the sum total of the SAO SR's audit activities is to provide some sort of an opinion on the financial statements of the Slovakian state, or alternatively whether it is to secure the better use of public money and resources and enhance accountability, or whether it is a combination of these different elements.

29. Another aspect of the audit process where we felt there may be scope for further refinement and development turned around the scope for the SAO SR to use external support, advice and expertise. There are three possible areas of support that the SAO SR could draw on:

- at the most basic, the SAO SR could supplement its own staff with people from other organisations to help during periods of high demand or high workload;
- the second area relates to the potential for using external expertise who could offer specialist skills and knowledge to help with specific audit activities; and

- the third relates to the current developments in Slovakia which, we understand mean that for the first time individual Government ministries are preparing financial statements which will be subject to audit by private sector companies - this could open up the possibility of the SAO SR using the findings of these other auditors to inform the judgements the SAO SR makes about the quality of public financial management in Slovakia.

30. Taken together, the Peer Review team's assessment of the audit process put in place by the SAO SR in that it is in line with INTOSAI guidance and that it is contributing to more systematic, structured and consistent audit activities. We do, however, believe that there is scope for further refinement and improvement of those processes and, accordingly, we make the following recommendations.

**Recommendation 2:** The SAO SR should consider defining the overall strategic purpose of its audit activities and reflect the direct link with it while planning and reporting the audit.

**Recommendation 3:** The SAO SR should consider the scope and benefit of increasing the use it makes of external advice and expertise to strengthen even further and improve its audit activities. However, we recognise that this will depend on having sufficient budget available which might be difficult particularly in times of budget cuts.

31. Turning to the future development of the SAO SR's audit activities, we noted the SAO SR's aim of increasing the number of performance audits which it undertakes. While we support this ambition, we have two observations.

- First, any expansion of the SAO SR's performance audit activities should be accompanied by the further strengthening of performance audit skills and ensuring that the performance audit methodology supports the use of those skills.
- Second, it will be still important for senior management to assess and decide on the appropriate balance between the different types of audit activities undertaken by the SAO SR, specifically the balance between its compliance audit, financial audit and performance audit work. This in turn reinforces the importance of the SAO SR defining clearly the overall strategic purpose of its audit activities taken as a whole.



**Recommendation 4:** To facilitate the expansion of performance audit work and its performance capability, the SAO SR should consider further strengthening the skills of staff undertaking performance audit. The SAO SR should also consider using a more extensive set of performance audit methods which also recognise the new skills.



## Reporting the results of SAO SR audit activities that focus on Central Government

32. In the course of the Peer Review, we considered a range of reports produced by the SAO SR. Our overall conclusion was that these were all thorough, professional pieces of work. We did, however, identify a number of ways in which the SAO SR could improve its reports. The intention of the comments that follow is twofold: to make clearer the conclusions drawn from SAO SR audit activities and to help SAO SR's reports have more impact.

- We noted that, in relation to the SAO SR's annual report on the proposal for the state budget execution, the SAO SR's overall opinion can only be found by going through most of the report. In addition, that opinion is not presented in an eye catching way. Accordingly, we think this report could usefully start by highlighting the SAO SR's overall opinion. This would then provide the context for setting out the results of the relevant audit activities which underpin this report.
- We also believe that there may be scope for reviewing the way in which the SAO SR presents its findings on irregularities in expenditure and in come to enable year on year comparisons and to help draw out significant trends in the quality of public financial management in Slovakia.
- In relation to the SAO SR's annual report and specifically to those parts of the report that deal with the results of its financial audits we think the report could set out more clearly the key findings, and any relevant trends and the conclusions which the SAO SR has drawn from its work.
- We noted that the SAO SR's public reports (Správa o výsledku kontroly) tend to be short, concise documents. We believe that the presentation of these reports can be improved to make them more accessible to an informed but not necessarily professional audience. The sorts of changes we believe the SAO SR should consider include placing the report summary (zhrnutie) at the start of the report; ensuring that only the most important findings are included in the report; and using shorter,

simpler headings to help readers navigate their way through these reports.

33. Accordingly, we make the following recommendation:

**Recommendation 5:** In order to increase the impact of its published reports, the SAO SR should consider improving the presentation of these documents to make clearer what their key conclusions are.

#### **IV. Audit Process: The audit of regions (upper-tier territorial units) and municipalities**

34. In this section of Peer Review report, we focus on our findings, conclusions and recommendations in relation to the SAO SR's responsibilities for the audit of regions (upper-tier territorial units) and municipalities. In particular, we concentrated on the position of this work within the wider structure of the SAO SR, the planning and coverage of these audits and on the reporting of relevant audit results.

35. By way of background we highlight the following:

- Under the legislation governing the SAO SR, its remit includes "... municipalities and upper-tier territorial units, legal entities established by municipalities, legal entities established by upper-tier territorial units, legal entities with capital participation of municipalities and legal entities with capital participation of upper-tier territorial units...".
- Within Slovakia there are eight regions (upper tier territorial units), some 2,891 municipalities and some 5,143 legal entities established by municipalities.
- In 2009, total spending by municipalities amounted to €2,758m. The 20 largest municipalities accounted for 30 per cent of this total and the 75 largest accounted for 50 per cent of the spending. The 600 smallest municipalities accounted for just one per cent of this total.

## Position of the audit of regions and municipalities within the wider structure of the SAO SR

36. The SAO SR is structured along essentially thematic lines and its eight regional offices, and the 160 staff located in those offices, have a general responsibility for the audit this sector but they also participate in and contribute to the audit of central government activities. We have two observations on these arrangements:

- First, they may not allow the development of audit experience and expertise relevant to a sector that accounts for around one quarter of the national budget;
- Second, there is a risk that the decisions and judgements that SAO SR auditors make in relation to this sector are not consistent.

37. Given this, we make the following recommendation:

**Recommendation 6:** Given the size and importance of public expenditure at the state, municipal and regional level in Slovakia it is important to get as much advantage as possible from organisational structure of the SAO SR. Taking into account its development in the longer term, we recommend that the SAO SR consider the following:

- The SAO SR regional branches' role inside the Office structure should be strengthened up to the level of sections' equal partners, i.e.: (a) they should coordinate some of supra-regional audits, (b) they should build their own position as competence centres for topics vital for the whole country that are not covered by the sections.
- By performing their own and ambitious supra-regional audits, the regional branches will be forced to build stronger expert teams and to look for their own competence areas. Even if it may make the first period of work somehow cumbersome and risky for the sections and the SAO top management. After that initial stage, being a natural part of the learning process, the SAO will get a chance to become a more versatile and competitive public institution, giving more opportunities for the professional development of its staff.

## Planning of audit activities involving regions and municipalities

38. The SAO SR plans its audit of regions and municipalities as one element of its overall audit activities. The key documents in this process are:

- the SAO SR's Development Strategy for 2007-2012;
- the strategy for implementing the audits undertaken from 2008 by the SAO SR's regional offices;
- the SAO SR's triennial plan of audit activities covering the period 2009-2011; and
- the SAO SR's annual plan of audit activities.

39. On the basis of these planning documents, the Peer Review noted that the frequency with which the SAO SR will audit the key administrative components of regions and municipalities are as follows:

- Each of the eight regional governments and each of the county towns should be examined at least once in every three to four year cycle.
- Of the 79 entities categorised as district towns, the SAO SR will audit 20 each year with the aim of covering all district towns in a four year cycle.
- The SAO SR also aims to audit each year around 20 of the 140 or so municipalities that have more than 3,000 inhabitants meaning that the aim of SAO SR will be to audit all of these municipalities in a seven year cycle which corresponds with the tenure of the president and the Vice-Presidents.

40. Taken together, the total number of local government entities audited by the SAO SR each year amounts to just over 3 per cent of the total. In terms of the overall budget allocated to local government entities in Slovakia, the SAO SR plans to examine about 15 per cent each year. To put this in context, and to give a better sense of the challenge that faces the SAO SR, there are in the order of 2,900 local government entities in Slovakia spending around €2,758m in 2009, equivalent to almost a quarter of total public spending Slovakia.

41. Given this context, we have the following observations:

- First, in terms of planning SAO SR's audit coverage of local and regional government entities, we believe that there is scope for enhancing the processes that the SAO SR currently has in place by introducing additional criteria, specifically the materiality of the budgets of individual entities and also some assessment of risk in relation both to individual entities and more thematically in relation to the different activities and services that those entities are responsible for.
- Second, we recognise that in terms of the demands on the SAO SR the resources that could be devoted to the audit of regional and local entities is potentially enormous and that physically it is not possible (and it would not be appropriate) for the SAO SR to attempt to do everything everywhere. We also note that the SAO SR has already invested significantly in the resources available to its eight regional offices and that in allocating resources to audit work at the regional and local level, the SAO SR has to take account of the total resources available to it as a whole and the need to discharge its responsibilities in relation to the audit of central government in Slovakia. Nevertheless, as point of principle, it should be audit need (as determined by factors such as risk, materiality and compliance with international standards) that should determine the level of resources devoted to audit activities in specific sectors. Given this, we believe that there is scope for the SAO SR to consider whether it should supplement the resources available to it (by for example contracting in expertise or contracting out certain activities) in order to meet that audit need.
- Third, we believe that there may be scope for the SAO SR to enhance their planning documents so that they reflect better and more fully the work that the SAO SR does at regional and local level.

42 On the basis of our review of the SAO SR's activities at the regional and local level, we make the following recommendations:

**Recommendation 7:** The SAO SR should consider enhancing or expanding the criteria that they currently use to plan their annual audit activities in relation to regional organisations and municipalities. Specifically, the SAO SR should consider the further development of the concepts of materiality and risk in their planning criteria.

**Recommendation 8:** The SAO SR should consider further refining and developing the basis on which they plan their audit activities in relation to regional organisations and municipalities by putting in place processes that record in full the scope and extent of past audit activities in this sector.

**Recommendation 9:** The SAO SR should consider supplementing the resources available to it for the audit of regional organisations and municipalities to ensure that it is meeting audit need in this area.

## Reporting the results of audit activities involving regions and municipalities


43. In the course of the Peer Review, we noted that the SAO SR uses a number of mechanisms to draw attention to the results of its audits of municipalities and regional organisations. Chief among these are:

- publishing information about reports (though not the full reports) on the SAO SR website and in Spravodajca which can also be downloaded from the website; and
- using the SAO SR's annual report to inform the National Council (MPs), regional organisations, municipalities and other local organisations about the number of audit activities that the SAO SR undertook and about the main findings and conclusions flowing from those activities.

44. We believe that there is a real opportunity for the SAO SR to enhance the impact of its audit of regional organisations and municipalities. Essentially, this would mean drawing out the key lessons of its work and communicating them to other regional organisations and other municipalities to help those organisations improve their financial management and secure greater impact from the services they provide. In line with the SAO SR's Development Strategy the types of mechanisms we have in mind include seminars, conferences.

45. On the basis of our review of the way in which the SAO SR reports the results of its audits of municipalities and regional organisations, we recommend the following:

**Recommendation 10:** In order to help improve the performance of regional organisations and municipalities, the SAO SR should



consider using methods such as seminars or conferences to explain the main findings and conclusions flowing from its audit work and to provide advice about the way in which municipalities and regional organisations can make better, more effective use of the resources available to them.

## **V. Peer Review Findings: Assessing the quality of audit activities**

46. A key element of the tasks allocated to the Peer Review team was to examine the processes and procedures which the SAO SR is putting in place for assessing the quality of its audit activities. To put our work in context, we note the following:

- SAO SR introduced its new quality assessment arrangements in June 2010. Consequently the Peer Review team was able to review the processes that the SAO SR had put in place but, because of the timing of the Peer Review, we were not able to see the results of the operation of these processes over a complete audit cycle. Nevertheless the Peer Review team concluded that the SAO SR is moving in the right direction.
- The SAO SR's arrangements for Audit Quality Assessment are set out in its Guideline 3/2010. The guidance there is very detailed and sets out clearly the steps that have to be taken at different stages of the audit process.
- There are two elements in the SAO SR's quality assessment procedures: continuous assessment that takes place in the course of an audit and post-audit assessment which, as its name implies, happens after the conclusion of an audit.
- Responsibility for continuous assessment is shared between the Team Leader responsible for the specific audit activity and the relevant Departmental Director General or Director of the Regional Office. The results of the different stages of this process of quality assessment are fully recorded.
- Post audit assessment is the responsibility of the SAO SR's Methodology, Planning and Analysis Division. Again the results of these assessments are fully recorded.



- The SAO SR intends using the material generated by these processes to produce two reports - one that will summarise the results of the different quality assessments and a more general one that will focus on the overall quality of audit achieved.

47. We have the following observations on these developments:

- First, the Peer Review Team was pleased to note that in developing its audit quality assessment arrangements the SAO SR had complied with INTOSAI standards and had also followed EUROSAI guidance;
- As noted in the preceding sections of the Peer Review report, the range of SAO SR audit activities and the division of responsibility for those activities between the SAO SR's departments and regional offices mean that it is vital to have strong, well managed processes to secure consistency in audit judgements and conclusions. In addition, effective quality assessment arrangements will play a key role in raising, generally, the professionalism of the SAO SR and its work;
- The Peer Review team also felt that the SAO SR could usefully supplement its quality assessment arrangements by developing mechanisms for identifying and measuring the impact of the work of the SAO SR. This could include quantitative measures of, for instance, savings achieved or errors detected and remedied. In developing its audit quality assessment arrangements, the SAO SR recognises that other external bodies and organisations can provide an insight into the quality of its work, particularly its impact. These external organisations include entities that the SAO SR audits, as well as the National Council, the media and public, academic institutions, private sector auditors and other Supreme Audit Institutions. The Peer Review team would encourage the SAO SR to persevere with these efforts in order, ultimately, to introduce an element of external assessment of the quality of SAO SR audit activities, as well as to implement external feedback of CAF model (Common Assessment Framework);
- could also extend to qualitative measures of, for example, improvements in financial management in audit entities as well as improvements in their performance;



- Finally, the Peer Review Team noted that, in the context of audit quality, it was important to bear in mind issues such as the professional training that staff receive and the quality of the resources and infrastructure that the SAO SR has in place to discharge its responsibilities to a proper level of professionalism. This is a point we return to below when we consider the SAO SR's HR function.

48. In the light of the Peer Review Team's reflections on the SAO SR's arrangements for assessing the quality of its audited activities, we make the following recommendations.

**Recommendation 11:** The SAO SR should consider developing its links with external organisations with a view to introducing, in due course, regular external assessment of the quality of its audit activities.

**Recommendation 12:** The SAO SR should consider developing mechanisms, in addition to the twice yearly media analysis, for measuring the impact of its work (in both quantitative and qualitative terms) to supplement its procedures for assessing the quality of its audit activities.

**Recommendation 13:** The SAO SR should continuously support and monitor at top management level the implementation as well as sustainability of the newly established auditing manuals, methodologies and quality control mechanisms.

## VI. Peer Review Findings: Human Resources

49. In line with the requirements of the Memorandum of Understanding for the Peer Review, we assessed the soundness of the SAO SR's Development strategy in relation to Human Resources (HR). We concentrated on two aspects:

- how effectively the current HR development strategy supports the SAO SR's overall development goals; and
- how effectively the HR development strategy is being implemented with specific reference to recruitment, remuneration and training and development.

50. By way of background we noted the following:

- SAO SR employees are civil servants and employee relations in the institution are regulated by Civil Service Law. The SAO SR Law sets the base 'salary ranks' of which there are seven including their tariffs. These salary ranks are comparable with the civil servants who serve in carrying out state affairs but are higher than those for other civil servants;
- The SAO SR has discretion to hire and dismiss staff and can set, if appropriate, additional criteria for recruitment and for professional development. The SAO SR also enjoys some discretion in what it can pay its employees but legislation sets salary ceilings;
- At the time of our review, the SAO SR had 314 staff-a 10 per cent increase over the previous three years. During the same period, the budget of the SAO SR had increased though it faced a budget cut in 2009 and 2010 that the SAO SR solved by optimisation of its administration expenses;
- Staff turnover was running at around 10 per cent a year and the SAO SR recruits, on average, 30 to 40 people a year. The recruitment process is in line with Civil Service law though the SAO SR usually develops its own criteria for assessing candidates;
- On remuneration, the base salaries which the SAO SR uses are defined in the SAO Act. In addition, SAO SR pays some additional allowances which reflect, for example, management responsibilities and experience and which can increase

base salaries by 40 per cent. We noted that the SAO SR was reviewing its remuneration policy but no new internal regulations had been approved at the time of our review;

- Staff training and development is a key strategic priority for the SAO SR. Currently the SAO SR runs three types of training programmes: training for new recruits, continuous professional education and a three year EU funded programme aimed at improving the skills and professional knowledge. By law every civil servant in Slovakia should receive at least five days of training a year. Within the SAO SR, because of its EU funded programme, the amount of time spent on training tripled in 2010 and stood at around 29 working days a person;
- The SAO SR divides responsibility for HR management and development between two units. It's HR Division, which consists of four people and is under the direct management of the President of the SAO, is responsible for a range of activities including staff recruitment, maintaining personnel records, dealing with the trade union side and handling of the exit of staff. The SAO's Strategy Department is responsible for the training and development of staff, a reflection of the strategic importance that the SAO attaches to this.

51. Against this background we have a number of observations:

- First, we recognise that, over the past five years or so, the SAO SR has evolved and matured as an organisation and that it is now an even more professional organisation. As we have pointed out elsewhere in the Peer Review report, the SAO SR has had to face some significant challenges as it has responded to, for example, the demands of auditing EU funds while at the same time expanding its remit to include regional, municipal and local organisations. SAO SR senior management has recognised the need for improved audit quality and better efficiency in the organisation's work. Accordingly, it has included a focus on the development of human resources in the SAO SR's strategy. This has entailed putting in place measures intended to improve training for SAO SR staff and to enhance the professionalism and expertise of the organisation as a whole. Clearly, all this has been vital to the continuing development of the SAO SR and the Peer Review team acknowledges the positive steps that the SAO SR has taken;

- Second, as the SAO SR moves forward, the challenge for the organisation will be to keep up the momentum for improving the quality of its audit activities by building on the HR initiatives it has already taken. The key issues that we would highlight in this regard are as follows:
  - in taking forward future professional training and development, we see a need to define and regulate better the professional skills and competences that the SAO SR expects its auditors and managers to have;
  - this type of thinking also needs to inform the next exercise that the SAO SR undertakes to assess training needs;
  - currently the SAO SR does not include an external professional qualification as part of its training and development programme. We believe that potentially there could be significant benefit for the SAO SR if it was able to introduce some form of independently moderated professional qualification for its audit staff;
  - to reinforce the steps that it has taken to enhance the quality of its audit activities, the SAO SR could introduce more systematic arrangements for the appraisal of the performance of individual staff. This could take into account the SAO SR's own internal quality reviews and include some form of regular structured feedback from managers on the performance of individuals and, so, feed into decisions about increases in pay and allowances; and
  - to underpin any initiatives of this kind that the SAO SR may decide to take, it will be important to put in place some sort of action plan for the HR

Department that sets out clearly its priorities and goals.

52. Accordingly, the Peer Review Team makes the following recommendations in relation to the future development of the SAO SR's HR function.

**Recommendation 14:** The SAO SR should consider developing an HR action plan that focuses on the framework, priorities and goals needed in order to implement future initiatives intended to enhance the professional skills and competences of SAO SR audit staff.

**Recommendation 15:** As part of its continuing efforts to improve the quality of its audit activities, the SAO SR should consider defining and regulating the professional skills and competences that it expects its auditors and managers to have. This could include some assessment of the possibility of the SAO SR introducing some form of independently moderated professional qualification for its audit staff.

**Recommendation 16:** To reinforce the steps that it has taken to enhance the quality of its audit activities, the SAO SR should consider introducing more systematic arrangements for the appraisal of staff performance and reflect the results of the SAO SR's internal quality reviews.



## VII. Peer Review Findings: Communications and Public Relations

53. In line with the Memorandum of Understanding for the Peer Review, we assessed the soundness of the SAO SR's Development Strategy in relation to its communications and public relations function. We concentrated on four aspects:

- how effectively the activities of the Communications and Public Relations (CPR) Unit of the SAO SR is contributing to the overall development goals of the organisation;
- assessment of the CPR organisational structure and relations with the management;
- assessment of the CPR internal communication; and
- in what ways the work of the CPR could be developed to support the SAO SR's ambition for the organisation as a whole to have a beneficial impact.

54. In the course of assessing the SAO SR's activities and initiatives in this area, we noted the following:

- The organisation's communications and public relations activities are undertaken within a clear legal framework. This encompasses both the legislation governing the SAO SR as well as specialist legislation covering for example media, freedom of information and the code of ethics on dealing with the press and the media;
- The CPR unit within the SAO SR consists of three staff. It reports directly to the President of the SAO and its position within the organisation reflects the importance that the SAO SR attaches to maintaining public confidence in the organisation and reinforcing the commitment of the SAO SR to be an open, transparent institution;
- The importance that the SAO SR attaches to its communications and public relations function is evident from the extensive focus given to these activities in its development strategy;
- Operationally, the work of the CPR Unit is closely integrated with the work programme of the rest of the organisation.

The Unit contributes to the audit process and has direct links to eight regional offices and their directors which secures harmonised information and consistency of work flow;

- The CPR Unit is responsible for organising and managing all media contacts. This covers the briefing of, and interviews with, individual journalists as well as the more formal, set piece press conferences. In addition, it organises direct contact with the general public in Slovakia through, for example, running open days for members of the public and presenting SAO SR competencies and work through promotion materials and especially through its website;
- When we were undertaking our fieldwork for the Peer Review a key task for the CPR unit was the development and enhancement of the SAO SR's website, which was under reconstruction during the evaluation. The new website represents a major improvement in external communication - the contents have been improved and multimedia has been enhanced, as have the architecture of the site and visual clarity;
- The CPR Unit is also responsible for internal communication which is carried out through many different channels, such as intranet, "Kontrolór" and "Spravodajca". It is evident that this area has been substantially developed;
- We noted that the impact that the activities of the CPR Unit were having. This was reflected in growing media interest in, and reference to, the work of the SAO SR. Also staff within the SAO SR had indicated their general satisfaction with the work of the Unit.

55. Taking all these findings together, the Peer Review Team concluded that the CPR Unit was discharging its responsibilities to a good professional standard. It was succeeding in raising awareness generally of the importance of the SAO SR's work. More generally, we agreed that at a strategic and developmental level, SAO SR senior management was paying due regard to this function.

56. We do, however, have some observations to make:

- In our recommendations for the other aspects of SAO SR activities covered by this Peer Review, we identified scope for the SAO SR to set out more clearly and more succinctly the conclusions and opinions that it draws from its audit





activities. One advantage of doing this would be to support and reinforce the efforts of the CPR to communicate with the media and wider public by giving the Unit a simple, well defined message. As also referred to earlier, the overall risk assessment, materiality and purpose of audit activities will enhance developing the clear message;

- Linked to this is the importance of the consistency of the message drawn from the conclusions of the SAO SR's work. Again the efforts of the CPR Unit will be even more effective if they are given over time a consistent message to communicate;
- Finally, we believe that the SAO SR could do more at the local and regional level to communicate the findings of its work to all relevant stakeholders. We believe that there is an opportunity here for the SAO SR to enhance its standing by using its unique position to identify and communicate good practice with the aim of improving the quality of public administration and promoting better financial management at all levels within Slovakia.

57 Against this background, we make the following recommendations:

**Recommendation 17:** To reinforce its communications with the media and wider general public, the SAO SR should consider how best to set out clearly and consistently the conclusions that it draws from its audit activities.

**Recommendation 18:** The SAO SR should consider what more to do at the local and regional level to communicate the findings of its work to relevant stakeholders with the aim of improving the quality of public management and promoting better financial management across Slovakia.

## VIII. Conclusions: Responding to future challenges

58. Taking all the findings of the Peer Review exercise together, the Peer Review team concluded that the SAO SR had responded effectively to the challenges which it has faced in recent years by improving the quality and professionalism of its audit activities, improving the impact of its work by making it more accessible to its stakeholders and by improving the infrastructure of the organisation to support better, more effective performance. This is reflected in the SAO SR's development strategy. Like other developed SAIs, the SAO SR aspires to be a modern 21<sup>st</sup> century institution whose work is relevant within its own jurisdiction, well regarded by its peers, relevant within the context of the European Union and makes a contribution to the international community of SAIs.
59. Given this we have identified a number of issues that we believe the SAO SR should give some attention to as it sets its future strategic direction and develops the next stage of its development plan for 2012 onwards. The intention of what follows is to enable the SAO SR to identify and respond to the challenges that lie ahead for it and for the wider community of SAIs.
- We support and endorse the SAO SR's aim to produce more ambitious reports that deal with important issues for Slovakia and that address themes of strategic importance. This in turn means improving the impact, effectiveness and relevance of the SAO's outputs. To do this, the SAO SR need is to have in place processes that help it understand the needs and expectations of its stakeholders. It also means the SAO SR being open to more external assessment of its outputs and this will have implications for the way in which it develops its quality assurance arrangements and more generally for the way in which it continues to seek to build quality into its work at all levels.
  - We believe that the SAO SR still needs to pay attention to the future development of its network of regional offices with the aim to deepen cooperation and exchange experience with audit departments. The aim here should be twofold: first, to address the risk that individual offices become isolated from technical and professional developments in the wider organisation; and second, to exploit fully the scope for regional offices to maximise their contribution to the work of the SAO.

- Underpinning these steps in institutional strengthening, the SAO SR needs to ensure it has the information it needs to manage the institution effectively. This means in particular having information about resource use to secure improvements in efficiency and to ensure that the resources available to the SAO SR are used to the best possible effect.
- Usually an SAI monitors the extent to which its activity (audit results and arising conclusions and recommendations) is taken into account by Parliament, Government and other central state bodies, and public opinion. It will help if the Development Strategy of the SAO SR puts more emphasis on the need for such monitoring.
- Finally, we believe that it is vital that the SAO SR is aware of potential gaps in the framework of accountability within Slovakia and that it is able to respond promptly and appropriately to changes in its environment that may have implications for changing reporting and accountability requirements both within Slovakia and also internationally. Using the best practice established internationally, the SAO SR should survey and then assess the entire framework of accountability within Slovakia to determine what gaps there may be in that framework and, where appropriate, to consider how the work of the SAO SR could be adapted or developed to fill those gaps.

## Annex One

### Scope of the SAO SR's activities

1 Scope of the SAO SR's activities in line with the law governing the SAO SR, the Office shall audit the management of:

- budgetary funds approved under the law by the National Council or by the Government;
- property, property rights, funds, obligations and claims of state, public law institutions, the National Property Fund, municipalities, upper-tier territorial units, legal entities with capital participation of the state, legal entities with capital participation of public law institutions, legal entities with capital participation of the National Property Fund, legal entities with capital participation of municipalities, legal entities with capital participation of upper-tier territorial units, legal entities established by municipalities or legal entities established by upper-tier territorial units;
- property, property rights, funds and claims provided to the SR, legal entities or natural persons under development programmes or for other similar reasons from abroad;
- property, property rights, funds, claims and obligations, for which the SR has assumed guarantee;
- property, property rights, funds, claims and obligations of legal entities carrying out activities in the public interest;
- the methods of levying and recovering taxes, custom duties, payments of contributions, charges and fines forming revenues of the state budget, budgets of municipalities and upper-tier territorial units;
- the enforcement and exercise of rights and adherence to obligations arising from financial and economic relationships, resulting from the management with state budgetary funds; and
- the EU funds and any other foreign funds provided for financing projects on the basis of international treaties shall also be regarded as state budgetary funds.

2 In line with the law governing the SAO SR, the following bodies at the National level are subject to audit by the SAO SR:

- the Government, ministries and other central bodies of the state administration and their subordinated bodies, state bodies, as well as legal entities, if the function of their founder or institutor is pursued by central body of the state administration or other state body;
- municipalities and upper-tier territorial units, legal entities established by municipalities, legal entities established by upper-tier territorial units, legal entities with capital participation of municipalities and legal entities with capital participation of upper-tier territorial units;
- special-purpose state funds, public law institutions established by law, legal entities with capital participation of public law institutions, legal entities with the capital participation of the state;
- the National Property Fund, legal entities holding the status of a natural monopoly with capital participation of the National Property Fund exceeding 34 per cent, or other legal entities with capital participation of the National Property Fund of at least 50 per cent; and
- natural persons and legal entities.

Source: Act on the SAO SR.



## Annex Two

### Recommendations

#### List of recommendations made by the Peer Review team and contained in the Peer Review report.

##### On planning audit activities that focus on Central Government

**Recommendation 1:** The SAO SR should consider further developing and refining how it plans its audit activities. Specifically we recommend that the SAO SR should consider how best to further refine and enhance its methodology for assessing risk and materiality. We further recommend that the SAO SR's audit planning process indicates the audit coverage and takes more explicit account of the likely impact of individual audit activities.

##### On undertaking audit activities that focus on Central Government

**Recommendation 2:** The SAO SR should consider defining the overall strategic purpose of its audit activities and reflect the direct link with it while planning and reporting the audit.

**Recommendation 3:** The SAO SR should consider the scope and benefit of increasing the use it makes of external advice and expertise to strengthen and improve its audit activities. However, we recognise that this will depend on having sufficient budget available which might be difficult particularly in times of budget cuts.

**Recommendation 4:** To facilitate the expansion of performance audit work and its performance capability, the SAO SR should consider further strengthening the skills of staff undertaking performance audit. The SAO SR should also consider a more extensive set of performance audit methods which also recognise the new skills.

On reporting the results of SAO SR audit activities that focus on Central Government

**Recommendation 5:** In order to increase the impact of its published reports, the SAO SR should consider improving the presentation of these documents to make clearer what their key conclusions are.

On the position of the audit of regions and municipalities within the wider structure of the SAO SR

**Recommendation 6:** Given the size and importance of public expenditure at the state, municipal and regional level in Slovakia it is important to get as much advantage as possible from organisational structure of the SAO SR. Taking into account its development in the longer term, we recommend that the SAO SR consider the following:

- The SAO SR regional branches' role inside the Office structure should be strengthened up to the level of sections' equal partners, i.e.: (a) they should coordinate some of supraregional audits, (b) they should build their own position as competence centres for topics vital for the whole country that are not covered by the sections.
- By performing their own and ambitious supra-regional audits, the regional branches will be forced to build stronger expert teams and to look for their own competence areas. Even if it may make the first period of work somehow cumbersome and risky for the sections and the SAO top management. After that initial stage, being a natural part of the learning process, the SAO will get a chance to become a more versatile and competitive public institution, giving more opportunities for the professional development of its staff.


#### **On planning audit activities involving regions and municipalities**

**Recommendation 7:** The SAO SR should consider enhancing or expanding the criteria that they currently use to plan their annual audit activities in relation to regional organisations and municipalities. Specifically, the SAO SR should consider the further development of the concepts of materiality and risk in their planning criteria.

**Recommendation 8:** The SAO SR should consider further refining and developing the basis on which they plan their audit activities in relation to regional organisations and municipalities by putting in place processes that record in full the scope and extent of past audit activities in this sector.

**Recommendation 9:** The SAO SR should consider supplementing the resources available to it for the audit of regional organisations and municipalities to ensure that it is meeting audit need in this area.

#### **On reporting the results of audit activities involving regions and municipalities**



**Recommendation 10:** In order to help improve the performance of regional organisations and municipalities, the SAO SR should consider using methods such as seminars or conferences to explain the main findings and conclusions flowing from its audit work and to provide advice about the way in which municipalities and regional organisations can make better, more effective use of the resources available to them.

### **On assessing the quality of SAO SR audit activities**

**Recommendation 11:** The SAO SR should consider developing its links with external organisations with a view to introducing, in due course, regular external assessment of the quality of its audit activities.

**Recommendation 12:** The SAO SR should consider developing mechanisms, in addition to the twice yearly media analysis, for measuring the impact of its work (in both quantitative and qualitative terms) to supplement its procedures for assessing the quality of its audit activities.

**Recommendation 13:** The SAO SR should continuously support and monitor at top management level the implementation as well as sustainability of the newly established auditing manuals, methodologies and quality control mechanisms.

On the future development of the SAO SR's HR function

**Recommendation 14:** The SAO SR should consider developing an HR action plan that focuses on the framework, priorities and goals needed in order to implement future initiatives intended to enhance the professional skills and competences of SAO SR audit staff.

**Recommendation 15:** As part of its continuing efforts to improve the quality of its audit activities, the SAO SR should consider defining and regulating the professional skills and competences that it expects its auditors and managers to have. This could include some assessment of the possibility of the SAO SR introducing some form of independently moderated professional qualification for its audit staff.

**Recommendation 16:** To reinforce the steps that it has taken to enhance the quality of its audit activities, the SAO SR should consider introducing more systematic arrangements for the appraisal of staff performance and reflect the results of the SAO SR's internal quality reviews.





### **On communications and public relations**

**Recommendation 17:** To reinforce its communications with the media and wider general public, the SAO SR should consider how best to set out clearly and consistently the conclusions that it draws from its audit activities.

**Recommendation 18:** The SAO SR should consider what more to do at the local and regional level to communicate the findings of its work to relevant stakeholders with the aim of improving the quality of public management and promoting better financial management across Slovakia.



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