



Peer Review Report  
on the Romanian Court of Accounts  
*Curtea de Conturi a României*

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## Introduction

An international team with representatives of the Supreme Audit Institutions of Poland (Peer Review leader), Austria and the Netherlands conducted a Peer Review of the Romanian Court of Accounts (the Court, the RCoA) from December 2020 to July 2021. The Memorandum of Understanding was signed in November 2020.

In accordance with the Memorandum, the objective of the Peer Review was to assess the RCoA's extent of compliance with the International Standards of Supreme Audit Institutions (ISSAIs) in areas relating to: (1) financial, compliance and performance audit methodologies and processes, including reporting on audit findings, and (2) quality control and quality assurance of audit reports. The Peer Review has also provided recommendations for improvements in these areas, and recognised the efforts and attempts that the Court has made to date.

Due to the pandemic of COVID-19 and restrictions on travelling that all countries introduced in response to the disease, the Peer Review was conducted through interviews via videoconferences. There were no personal meetings between the Staff of the RCoA and the Reviewers, which prolonged the exercise and made it a real challenge. Also, the report drafting process took place through exchange of correspondence and videoconferences among the Peer Review Team members. The Peer Reviewers would like to thank the Staff of the RCoA for their openness when expressing opinions, as well as for flexibility and ability to adjust to the unique situation, and for providing access to all requested documents. The Reviewers would also like to appreciate the lessons that they have learned while conducting this exercise – which is also an objective of a peer review, and the new experience they have gained.

The Peer Review was conducted in accordance with the Peer Review Guidelines of the International Organisation of Supreme Audit Institutions – INTOSAI (GUID 1900), and inspired by the methodology of the Supreme Audit Institutions Performance Measurement Framework (SAI PMF). Criteria used in the Peer Review to assess the performance of the RCoA were based on the INTOSAI Principles, Standards and Guidance comprised in the INTOSAI Framework of Professional Pronouncements (IFPP).

This report presents the main observations of the Peer Reviewers. On the basis of their observations, the Reviewers formulated a set of recommendations related to various aspects of the Court's performance, aimed to help it improve.

## I. Summary

The Romanian Court of Accounts has for a long time been expressing willingness to improve its activities – it is a good practice for Supreme Audit Institutions. A step towards this end is this Peer Review conducted by representatives of the Supreme Audit Office of Poland (NIK), the Austrian Court of Audit (ACA) and the Netherlands Court of Audit (NCA).

### *Need for Changes as the Main Challenge*

In the opinion of the Peer Review Team, the greatest challenge that the Romanian Court of Accounts has to face is a change in the culture of the organisation – mainly the way the Court perceives itself and its role in the Romanian society, and the way the society perceives the Court and its role.

Therefore the key recommendation that the Peer Reviewers have made is that the Court should strive to also act as, and to be perceived as, an *advisor*, in addition to being just a detector of irregularities. This is not an either-or choice, though. The Reviewers do not, in any way, encourage the RCoA to abandon the task of indicating shortcomings and room for improvement. However, apart from identifying the areas where the state is underperforming – through listing its individual entities' faulty areas – the Court should envisage potential manners to improve. To this end, the Court should be able to give advice, present good practices and examples to follow, instead of tracking whether irregularities have been eliminated. Moreover, focusing on errors – as it is currently the case – does not contribute at all to a learning attitude on the part of auditees. That is why the role of advisor and co-thinker is so important. Ultimately, the interests of auditors and auditees are the same: better governance so that public services are better. Hence not only the role of the Court should be changed, but also its perception internally – by the Staff themselves, and externally – by auditees and other stakeholders, such as Parliament, the executive branch, the media, non-governmental organisations, and society.

The Peers would like to appreciate the awareness of the above that the Court's management has displayed throughout the Peer Review exercise. Without the management's involvement and leading by example, such a significant change would be hard to introduce and implement. The Peer Reviewers recommend further disseminating of the need for change. Also, shared values should be further promoted, innovative methods of work introduced, and efforts demanded by such a change should be encouraged.

### *Reports as the Main Product*

The key outcome, or product, of every audit is an audit report. One of the objectives of an audit report is to present the audited entity with irregularities detected during the audit. The main objective, however, is to provide citizens with information on how their money is spent by state authorities and bodies appointed to provide public services. Therefore, the focus of this Peer Review has been on reporting, and several recommendations refer to the need for developing readable, informative and high quality reports, and the necessity to have them published. Only widely available reports, written in an understandable manner, containing information on the causes of irregularities, potential remedial measures and good practice examples, can make an actual impact.

### *Impact as the Main Goal*

The current perception of the RCoA in society is, to a large extent, due to the decisions it issues. However, the legal provisions *do not* require the RCoA to issue decisions – this is at the RCoA's

discretion. An abundance of decisions after every report blurs the desired focus on improvement, results in constant tracking of irregularities and follow-up, and may hamper the opportunity to publish reports (due to court litigations). The Peers are of the opinion that the Court's recommendations – if properly disseminated – can bring a higher added value and have more impact on the state improvement than decisions.

#### ***Internal Regulations as a Tool***

The Peers observe that frequently the huge workload that the Court's Staff experience is due to the Court's interpretation of legal regulations. Hence, several recommendations encourage the RCoA to consider the way they read the legal provisions and translate them into internal procedures, e.g. in relation to issuing decisions, or to the obligation to conduct audits at the same auditees on a regular basis, regardless of the actual results of previous audits. Moreover, detailed regulations and lengthy manuals may force auditors to focus on procedures rather than on the quality of their work and its main products – i.e. audit reports. In the opinion of the Peers, the very change in how the RCoA approaches the provisions that regulate its activity may reduce the workload and provide better impact of its activities.

#### ***Communication as a Prerequisite***

Supreme Audit Institutions do not operate in a vacuum, and their reports need addressees and readers. Hence several recommendations of this Peer Review encourage the RCoA to improve and develop communication with its key stakeholders – the auditees, Parliament, the media, and the public. The key advice in this area is strengthening cooperation with competent bodies of Parliament, where there seems to be willingness and need to do so, too. This would contribute to the visibility of the Court, as well as to the proper understanding of its role and impact on good governance. The need for developing high quality audit reports and for making them public – which is also frequently emphasised by the Peers – is a necessary element of good communication with all stakeholders.

#### ***Quality Assurance System as Another Prerequisite***

Every organisation needs to ensure high quality of its performance and products. While appreciating the efforts that the RCoA has made to date with developing its quality management system, the Peers observe room for improvement in the area. Hence several recommendations are related to necessary elements of the quality assurance system of the Court, which either still need to be introduced, e.g. hot reviews, or need strengthening, like changing the focus from procedures to the quality of work and audit reports, and more focus on learning, improvement and dissemination of lessons learned internally.

#### ***Auditing as the Basic Task***

International auditing standards recognise three basic types of audits: financial, performance and compliance, which can be conducted separately or in various combinations. The RCoA aspires to carry out these three audit types in accordance with the international standards, and one of the objectives of this Peer Review is to examine to what extent the RCoA has succeeded. While appreciating the RCoA's efforts to introduce the three audit types after the transition from a judiciary body and to train the audit staff appropriately, the Peers observe room for improvement. Hence, several recommendations have been formulated as for better understanding of the concepts of these audit types and their increasing importance and value to the society.

### *Central Departments and Regional Chambers as Elements of One Body*

The Peers observe potential synergy that could be obtained if better cooperation and coordination among the central Departments of the Court and its regional structures, i.e. Chambers of Accounts, is ensured. Therefore recommendations have been proposed in the area, such as more coordinated audits involving the central and regional levels of the RCoA, which can provide a wider and more exhaustive picture of the state's performance, better use of resources, increased visibility and higher added value of the Court's work.

## **II. Romanian Court of Accounts**

### **Legal Framework**

The Romanian Court of Accounts (*Curtea de Conturi Romane*) is an institution with old traditions in Romania, established in 1864. Originally, it was the High Court of Accounts with a jurisdictional function, operating until the communist time, when it was closed and its functions were taken over by the Ministry of Public Finance. The Court of Accounts was re-established in 1992, with a judicial function preserved in Law No 94/1992 on the organisation and functioning of the Court of Accounts. The judicial function was abandoned as late as in 2003, just before Romania entered the European Union. However, no new law on the Court has been adopted, with several amendments having been introduced to Law No 94/1992 instead. Therefore this law, as well as Article 140 of the Romanian Constitution, have been still governing the operations of the Court of Accounts. According to the Constitution, the Court is a Supreme Audit Institution whose main task is to conduct the control of establishment, management and use of state and public sector financial resources. Also, the Court is legally obliged to submit to Parliament, on an annual basis, a report on the state budget management accounts of the closed state budget, which should also comprise irregularities identified during the state budget execution audit<sup>1</sup>. In the opinion of the Reviewers, the judicial origins of the RCoA have severe consequences until the present.

### **Mandate**

Article 140(1) of the Constitution of Romania requires the Court of Accounts to exercise control over the formation, administration and use of the financial resources of the state and public sector. The Court is tasked with control of all financial resources that the law defines as public funds<sup>2</sup>, namely: funds allocated to the state budget, social insurance, special funds, local budgets, state treasury budget, budgets of public institutions financed entirely or partially from the state budget, or from own revenue, budgets of non-reimbursable foreign funds, foreign loans contracted or guaranteed by the local public administration authorities, as well as budgets of public institutions financed in full or in part from local budgets. The term "control" is of vital importance, as it reflects to a large extent the judicial past of the RCoA, which, in the opinion of the Peer Reviewers, has important implications for its current operations.

The Peer Review Team observe that in Romania the Court is still perceived as a judicial body rather than as a Supreme Audit Institution as understood in contemporary auditing standards.

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<sup>1</sup> Constitution of Romania, Article 140(2).

<sup>2</sup> Article 2(e).

The Audit Authority, which is part of the Court, is an independent body without legal personality, representing the only national authority competent to perform external public audit of the European Union's funds granted to Romania<sup>3</sup>. The scope and functioning of the Audit Authority is not an element of the Peer Review, so it has not been discussed in more detail.

### **Cooperation with Parliament**

The Court is related to the Romanian Parliament through the joint Budget, Finance and Banks Committee of the two Chambers of the Parliament: the Chamber of Deputies and the Senate. According to the regulation on the joint activities of the two Chambers, the Parliament appoints and removes the Members of the Plenum (the RCoA Board) and should examine the reports of the Court. The joint Budget, Finance and Banks Committee issues reports to the joint Chambers of the Romanian Parliament in order to approve the Law on the execution of the national budget accounts – on the basis of the RCoA Annual Public Report.

The Romanian Parliament has not appointed a dedicated audit committee or subcommittee to deal with the Court's audit reports. The Court is invited to take part in the sittings of the joint Budget, Finance and Banks Committee that debate on the annex to the draft budget of the Court, or the draft laws amending and supplementing the law concerning the Court itself.

The RCoA Annual Public Reports are submitted to Parliament, published in the Official Bulletin of Romania, and available from the Court's website. They are not presented or discussed at plenary sessions of the Romanian Parliament, though.

Since there is no structured cooperation between the RCoA and Parliament, reports on individual audits are rarely submitted to Parliament. Individual audit reports or their summaries are not regularly discussed by parliamentary committees in the presence of the Court's representatives, either. According to the information provided by the RCoA, in 2018 various parliamentary committees received eight reports, while both in 2019 and 2020 – five reports only.

### **President and Plenum**

The management of the Court is exercised by the President, who is assisted by two Vice-Presidents, and is elected by Parliament. The RCoA President is charged with executive, coordinative and staff agendas, is responsible for the Court's relations with public institutions and authorities, as well as with national and international bodies<sup>4</sup>. The Court's governance and regulations are established by the Plenum composed of eighteen members called Counsellors of Accounts, appointed by Parliament. One-third of the Plenum Members are renewed every three years. The Members are legally bound to act independently, and they cannot be removed during their term of office. Sessions of the Plenum are headed by the RCoA President who has the final word in case of an equal division of votes (the Plenum takes decisions by a simple majority vote). Importantly, Plenum Members are sometimes appointed by Parliament from candidates from among Members of Parliament, proportionally to the number of seats won by individual parties, or based on political negotiations. It is not uncommon to appoint people with a political background as members of SAIs boards, and political experience may be beneficial for SAIs' impact. On the other hand, Plenum Members may lack professional audit

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<sup>3</sup> Article 12(e).

<sup>4</sup> Regulation on the Organisation and Functioning of the Court; latest update 23 April 2018; Article 11, letter o, Regulations of the Plenum.



experience, which may be of importance considering that they are simultaneously heads/coordinators of the RCoA departments.

**Headquarters and Regional Offices**

The structure of the Court comprises twelve central Departments, 42 territorial Chambers of Accounts and the General Secretariat. Among central Departments there are ten audit departments, as well as two specialised departments – one for legal issues and the other coordinating the regional Chambers. The twelve Departments are coordinated by the two Vice-Presidents and the President. The other structures – dealing with audit methodology, external relations, technical issues, audit of procurement, communication and internal audit structures – fall under direct subordination of the President of the RCoA. The central Departments, in general, are responsible for auditing public central administration entities (ministries, national agencies, inspectorates), and they are headed by Chancellors of Accounts – Plenum Members.

The regional Chambers audit local government units and entities at the local level<sup>5</sup>. The management of the Chambers lies with Directors and Deputy Directors.

**Staff**

The Staff of the Court comprise management (Directors, Heads of Services), external public auditors, whose duties are regulated in a specific statute<sup>6</sup>, as well as civil servants and contractual staff. Each Department is coordinated by a Counsellor of Accounts (Plenum Member), who also acts as a Head of Department appointed by the Plenum. According to the information provided to the Peer Review Team, the number of available positions remains more or less constant over the last years, with a considerable vacancy rate of more than 300<sup>7</sup>.

	2017	2018	2019	2020
Total number of approved positions	1,966	1,966	1,966	1,966
External public auditors	1,625	1,620	1,621	1,621
Public servants and contractual staff	341	346	345	345
Vacancies	369	368	282	338

*Source: RCoA and Activity Reports 2017–2020*

<sup>5</sup> Article 10 of Law No 94/1992.

<sup>6</sup> The statute of the external public auditor, 2014.

<sup>7</sup> According to the latest staff list (approx. 1,984 staff in total, out of which approx. 1,621 at audit positions), the actually occupied positions amount to 1,645, out of which 1,317 are auditors, with 339 vacant positions, out of which 304 are audit posts.

### III. General Observations of the Peer Review

#### Change the Perception of the RCoA

For a modern Supreme Audit Institution it is necessary to demonstrate ongoing relevance to citizens, Parliament and other stakeholders<sup>8</sup>. However, in the opinion of the representatives of the Court's main stakeholders interviewed by the Reviewers (parliamentarians, media, non-governmental organisations and auditees), the Court is still perceived as 'a punisher' or 'a policeman' rather than as an institution that makes an actual difference to the lives of citizens. Already in 2006, in its peer review SIGMA observed that *the elimination of the jurisdictional function of the Court was done without any impact on the nature of the audit activity*<sup>9</sup>, and in this Peer Review the Reviewers also observe that control methods – which are to a great extent a remnant of the judicial past of the RCoA – are still used for auditing. This is not only a semantic issue, so it is not enough to start using, overnight, the name 'audits' for 'controls' (i.e. verifications) conducted by the RCoA. For many years, until 2018, for RCoA auditors the main performance indicator was the number of irregularities found, and sanctions and litigations were considered the main element of the RCoA prestige.

The current perception of the RCoA in society is, to a large extent, due to decisions that the Court issues in order to provide for capitalisation of findings recorded in reports. Article 43 of Law No 94/1992 sets forth that the RCoA issues the remedy actions that an entity should follow, yet it does not state that the RCoA is obliged to issue documents called 'decisions'. Thus the law gives the RCoA the right to decide, yet the main internal document of the RCoA – Regulation of 29 May 2014 regarding the organisation and development of the specific activities of the RCoA, i.e. the RODAS – provides that decisions *shall be* issued. Simultaneously, Article 33(3) of the Law introduces an obligation for the management of the auditee to take measures if deviations from legality and regularity are identified by the RCoA. Therefore, the Peers observe that the legal provisions do not require the RCoA to issue decisions, this being a last resort measure.

During the interviews, RCoA directors and auditors indicated that a change in the procedures and measures applied by the RCoA may weaken the impact of its findings. In their opinion, auditees would be less likely to react to the RCoA's findings if these were presented in the form of recommendations, which consequently could hamper its impact on transparency, accountability and good governance. When issuing mandatory decisions the Court accepts the responsibility for auditees' management. In addition, decisions issued by the RCoA are not always fully feasible for auditees, which was emphasised by their representatives during the interviews with the Peers. Frequently, audited entities have no capacity to introduce measures required by the RCoA, or have no concept how they could do so. Hence, in order to have an actual impact on auditees' improvement, better communication is necessary, accompanied with mutual understanding – of responsibilities, opportunities and limitations. It is even more so when one realises that some irregularities may be unintentional, and stem from frequently changing regulations in Romania, or from misinterpretation of newly introduced regulations.

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<sup>8</sup> INTOSAI-P 12: *The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens.*

<sup>9</sup> SIGMA, *Assistance and Evaluation of Court of Accounts of Romania*, 3 July 2006, paragraph 25 ([https://www.oecd-ilibrary.org/governance/developing-effective-working-relationships-between-supreme-audit-institutions-and-parliaments\\_d56ab899-en](https://www.oecd-ilibrary.org/governance/developing-effective-working-relationships-between-supreme-audit-institutions-and-parliaments_d56ab899-en)).

### **Recommendation 1**

Apart from indicating irregularities, strengthen the advisory role by solution-oriented recommendations to remedy the irregularities identified, and by sharing good practices in the area. Resign from issuing decisions as a separate document following every audit report.

### **Practices of the Peer Reviewer SAIs**

#### **Austrian Court of Audit:**

The ACA publishes “position papers” on selected issues. For instance, on the occasion of premature elections in 2019, the ACA President flagged out ten most important issues for the (new) federal government<sup>10</sup>. Also, to safeguard the ACA’s advisory role and to raise awareness of its tasks and mandate, the ACA President maintains contacts *i.a.* with the Speakers of the “Court of Audit” Committee<sup>11</sup>.

For ACA reports, there is no possibility of litigation<sup>12</sup>. In case of divergence of opinion between the ACA and an auditee as for interpretation of competences, the matter is directed to the Constitutional Court, at the request of either the ACA or the competent government authority. The Constitutional Court decides whether the ACA is entitled to audit or not. In case of divergence of opinion on the facts presented in the report or recommendations, the audited entity can comment on the so-called “draft report”. Once the ACA receives this statement, it compiles – if necessary – a reply (so-called “statement of reply”). Both statements are included in the final report and published.

#### **Netherlands Court of Audit:**

In general, every audit report contains conclusions and recommendations. However, the NCA also publishes reports without conclusions and recommendations, some of which are fast and narrow in scope *focus reports*, dedicated to topical subjects.

Additionally, the NCA publishes *accountability reports* released on a specific day each year (Accountability Day) wherein financial audits, performance audits and audits on financial and operational management are combined, with one main message.

#### **Supreme Audit Office of Poland:**

Two types of reports are published: individual reports (similar to management letters) addressed to auditees’ managers, and overall audit reports. The latter provide the authorities and society with knowledge on the state’s operations, and on how public services are performed. The main addressee of overall reports is the Lower House of the Polish Parliament (*Sejm*), but they are published and publically available.

Systemic recommendations (conclusions) are published, addressed to central state bodies, including proposals for amendments or changes in legal regulations, called *de lege ferenda* proposals.

<sup>10</sup> [https://intra.rechnungshof.gv.at/fileadmin/downloads/\\_jahre/2017/Aktuelles/Wasjetztgetanwerdenmuss.pdf](https://intra.rechnungshof.gv.at/fileadmin/downloads/_jahre/2017/Aktuelles/Wasjetztgetanwerdenmuss.pdf) (only in German).

<sup>11</sup> These Speakers are representatives of political parties and deal with audit matters in their committees where ACA audit reports are discussed prior to presentation to Parliament.

<sup>12</sup> The Austrian Court of Audit has no jurisdictional powers, although the name might suggest so.

*Ad hoc audits*, i.e. fast audits on topical issues, are conducted in response to information about irregularities, complaints, or proposals (motions) from MPs, citizens, public institutions, social organisations, etc.

*Reconnaissance audits* are aimed to examine a given issue and to define the exact scope and objectives of a planned audit (an audit included in the annual audit plan).

### **Strengthen Cooperation with Parliament**

The Peer Review Team had an interview with representatives of the Budget, Finance and Banks Committee, as well as conducted a survey among them. The parliamentarians recognise the role of the Court and emphasise the need for its better visibility and impact through, among other, wider availability of audit reports and through making them more understandable.

The Peer Review Team would like to observe disadvantages of the lack of structured cooperation between the RCoA and Parliament. At present, opportunities for receiving feedback are limited. The importance of establishing and maintaining close and professional ties between Supreme Audit Institutions and the legislative branch are highlighted in the international principles for SAIs<sup>13</sup>. Using the existing positive relations with Members of Parliament, the RCoA could take steps to further develop this cooperation, which would bring mutual benefits – the RCoA could increase its visibility and awareness of the value of its work, and simultaneously the Parliament of Romania could benefit from the RCoA's products – by being provided with the actual picture of the state's operations, which could help identify needs for improvement in legislative acts.

### **Recommendation 2**

Work more closely with the Chamber of Deputies and the Senate, and consider opportunities to encourage direct cooperation with a dedicated parliamentary committee to deal with the activity, including reports, of the Court.

### **Practices of the Peer Reviewer SAIs**

#### **Austrian Court of Audit:**

The main addressees of all ACA reports are the Parliament (National Council), Provincial Parliaments, and municipalities. The ACA President has the right to attend and take the floor at the National Council plenary and its respective committees and subcommittees during debates on ACA reports and the Federal Financial Accounts.

In Austria, a dedicated Court of Audit Committee has been established at the federal level, where ACA reports are discussed. When the ACA President presents audit reports at this committee, the responsible minister participates and is obliged to answer questions.

Upon invitation of a specific parliamentary committee, the ACA can take part in debates and contribute with its expertise. When requested, the ACA conducts briefings for parliamentarians before committee meetings. The same procedure holds for Provincial Parliaments.

Twenty members of the National Council (different regulations for provinces) may request *special audits* (based on a motion). Between 2010 and 2020, 39 audits were requested. In order to ensure the

<sup>13</sup> INTOSAI-P 12.

ACA's independence, limits have been imposed on the number of audit requests. Pursuant to the legal framework, motions cannot be tabled as long as three audits at the national and three audits at the regional level are pending.

#### **Netherlands Court of Audit:**

Periodically (twice a year) the NCA Board meets with the Public Expenditure Committee of the House of Representatives to discuss the NCA's work programme, timing of audits and other current topics.

Each year, the President of the NCA is invited to present Accountability Reports to a plenary session of the House of Representatives on the Accountability Day. At the same time, central and ministerial annual financial reports are presented and examined.

Relevant parliamentary (standing) committees can get acquainted with audit results prior to report publication – these results in dozens of NCA briefings to the House of Representatives every year and occasionally also to the Senate. If Parliament is briefed, audit results are also presented to the minister involved, if desired. Briefings to Parliament on specific topics are also provided at request.

The NCA's communication department maintains intense cooperation with its counterparts in Parliament.

#### **Supreme Audit Office of Poland:**

On an ongoing basis, NIK cooperates with the Parliamentary Committee on State Auditing, which is a dedicated structure that deals with the issues related to public auditing and NIK's activity. The Committee is informed on NIK's work plan, annual activity report, draft charter, budget and report on NIK's budget execution. NIK also provides the Committee with information on its international activities, cooperation between NIK and other audit bodies in Poland, and with the analysis of citizens' complaints addressed to NIK. Annually, NIK submits to the *Sejm* (Lower House of the Polish Parliament) over 150 overall reports. At plenary sessions of the *Sejm*, President of NIK presents the key documents related to the activity of NIK, as well as opinions on critical issues identified during audits. Annually, NIK representatives attend hundreds of meetings of parliamentary committees and subcommittees. They present results of NIK audits, provide relevant explanations, and express their opinions on legislative initiatives of MPs. NIK representatives may also, using audit findings and conclusions, make comments on the reports and explanations submitted to a given committee by representatives of the government. As a result of the discussions held at parliamentary committees meetings, MPs may come up with proposals for changes in the law, which adds to NIK's impact on the state's operations.

### **Strengthen Independence**

There are several prerequisites for the functioning of Supreme Audit Institutions, in accordance with the international audit environment. SAIs must have financial and organisational independence, also the independence of the SAI Head must be ensured, including security of tenure and legal immunity in the discharge of their duties. A SAI should be free from direction or interference from the legislature or the executive in the discharge of its functions, including obtaining information and reporting on its work. Mechanisms for execution of these functions may vary according to a SAI model or country context. The aspects of SAIs' independence have been laid down in the United Nations Resolutions<sup>14</sup>

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<sup>14</sup> A/66/209, A/69/228 and A/69/327.

and in the fundamental principles for SAIs<sup>15</sup>. The Romanian Constitution lacks direct reference to the Court's independence as an institution. The Constitution, however, sets forth independence of the Members of the Plenum only, but not of the audit staff<sup>16</sup>.

In fulfilling its role, the Court enjoys functional autonomy, essentially comprising the following aspects:

- the competence recognised by the law to decide autonomously on its own activity programme<sup>17</sup>;
- the power to draft and approve its own budget, which is submitted to the Government for inclusion in the draft state budget, subject to Parliament's approval<sup>18</sup>;
- the power to adopt the regulation for the organisation and carrying out specific activities, which shall be adopted by the Plenum of the RCoA and published in the Official Gazette<sup>19</sup>;
- operating in compliance with the standards developed in accordance with national legal provisions and international audit standards<sup>20</sup>.

At the same time, there are several inconsistencies in the law governing the Court. The Magna Carta of Supreme Audit Institutions, i.e. the Lima Declaration<sup>21</sup>, underlines that Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. According to the national regulations, the RCoA is obliged to conduct audits at the request of the Parliament of Romania<sup>22</sup>. This option is rarely used – between 2011 and 2020 nine audit requests were made, concerning financial audits at county councils, municipalities and a city hall, the state budget, as well as the management of public resources in the context of COVID-19. Nevertheless, it may be regarded as a threat to the Court's independence. While observations and suggestions from the Parliament can be very useful in the process of planning, they should not, however, be obligatory for the Court as an independent institution – the Court should have the final decision on the construction of its work plan. Requests by Parliament should be subject to legally enshrined limitations to maintain the Court's independence.

The Peer Review Team observe that the territorial structure of the Court is obligatorily organised at the county level based on the current territorial division of Romania. Thus the Court is forced to establish regional branches and infrastructure, thus limiting, to a certain extent, its organisational and functional independence stated in international principles and standards for Supreme Audit Institutions<sup>23</sup>, which read that a SAI should be free from direction or interference from the legislature or the executive in the organisation and management of its office.

According to Article 6 of Law No 94/1992, the Romanian Court of Accounts shall draft and approve its own budget, which it shall submit to the Government, to be included in the draft state budget which the Parliament shall approve. Therefore the Court's budget is approved in the same form as if it was

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<sup>15</sup> <https://www.issai.org/professional-pronouncements/?n=0-1000000000>

<sup>16</sup> Constitution, Article 140(4).

<sup>17</sup> Law No 94/1992 on the organisation and functioning of the Court, Article 3(1).

<sup>18</sup> Law No 94/1992, Article 6.

<sup>19</sup> Law No 94/1992, Article 11.

<sup>20</sup> Law No 94/1992, Article 1(2).

<sup>21</sup> INTOSAI P-1: *Lima Declaration of Guidelines on Auditing Precepts*.

<sup>22</sup> Article 140(3) of the Constitution and Law No 94/1992: "Upon request by the Chamber of Deputies or by the Senate, the Court of Accounts shall examine the public resources management and shall report on the findings".

<sup>23</sup> INTOSAI P-10: *Mexico Declaration on SAI Independence*.

sent to the Government. In practice, however, it does not always correspond to the latter, and may have negative consequences on the operations of the Court. For instance, in 2017 the Government decreased the budgets of central public authorities, including that of the Court of Accounts. The Peer Review Team note that possibility of subjecting the Court's budget to rectification over the year is a threat to its independence, as it may seriously affect its operations, unless appropriate measures have been provided in the law.

Although the RCoA is a Supreme Audit Institution without corresponding jurisdictional powers, appeals against the RCoA's findings are legally allowed<sup>24</sup>. Disputes resulting from the activity of the RCoA should be resolved by specialised administrative-fiscal tribunals<sup>25</sup>, which have never been established, though. Their functions are executed by administrative and fiscal litigation departments of regular tribunals and courts, courts of appeal and the High Court of Cassation and Justice.

In the opinion of the Peers, the appeals procedure, which stems from the former jurisdictional function of the Court, presents a multi-layered challenge for the RCoA. The position of a Supreme Audit Institution should ensure that its reports are final, and do not fall under courts' jurisdiction. In Romania, auditees may appeal to the judiciary regarding RCoA's findings, which, apart from causing insecurity of those audited, significantly prolongs the audit process. As a result, audit reports become out of date, and consequently they fail to meet the needs of society. Independent Supreme Audit Institutions in democratic states should have the right to give opinions that are final and cannot be questioned. When other bodies (e.g. specialised courts) decide on the validity of the RCoA's statements, these are still not final, and hence cannot be published. A common practice is for SAIs to inform the auditees and other competent bodies (that supervise the auditees) of their findings and recommendations, give the auditees an opportunity to respond – and then publish the final report, which includes the response (possibly with a rebuttal – the final word – from a SAI). Moreover, in the case when a suspected misdemeanour has been identified by a SAI, the responsible law enforcement bodies should take appropriate steps. An independent Supreme Audit Institution has a right – and an obligation – to make final opinions and decisions.

### Reinterpret Provisions

The RCoA considers that it should grant discharge to authorising officers annually, and report on this activity in detail – on the basis of Law No 94/1992 (Article 4, 26, 27 and 38). The Peer Reviewers, reiterating the observation made by SIGMA in its report of 2006, are of the opinion that Article 22 provides that the RCoA *must* verify the annual execution of the accounts, but *not* verify them annually, or give discharge to *all* authorising officers<sup>26</sup>. Therefore, the Court's verification of as many accounts as possible seems to be the choice made by the Court, rather than a strict legal obligation. Instead of extensive efforts to cover all the entities with its audits, the RCoA could apply sampling, e.g. based on risk analysis, which may show that some entities, where the risk level is assessed as low, do not need to be audited annually. The Peers believe that if auditors can focus more on high risk accounts, it will benefit the rigor, depth and quality of audits and audit reporting, and therefore have more impact.

### **Recommendation 3**

<sup>24</sup> Article 140(1) of the Constitution.

<sup>25</sup> Comparable regulations can be found in Law No 94/1992 and Law No 554/2004.

<sup>26</sup> SIGMA, *Assistance and Evaluation of Court of Accounts of Romania*, 3 July 2006, paragraph 25.

Work out solutions to allow for alleviating the perceived obligation to verify all accounts (to the same extent) within a legal limitation period towards establishing a planning process based on risk analysis, available resources and strategic goals set forth by the RCoA itself.

### **Audit Entities' Performance**

Over the last decades, the functions and objectives of auditing in Europe and worldwide have changed from verifying balance sheets to evaluation of entities' performance and compliance with the laws. So that the RCoA is able to adjust to this new role, its priorities and approach need fundamental rethinking.

### **Recommendation 4**

In order to improve the added value to society, increase investing in the development of performance and compliance audits that focus on the services provided by the auditees and the problems of high importance to citizens.

More observations on the RCoA's performance and compliance audits have been presented in the later parts of the report, dedicated to these two types of auditing.

### **Improve Communication**

The Court developed a communication strategy for the years 2016–2020, which comprised a vision and a mission, as well as the goal to optimise the external communication with the national and international environment, and several core principles, such as transparency. To facilitate the citizens' access to the work of the Court activity reports, Annual Public Reports, as well as report-follow-up actions carried out at the request of the Romanian Parliament, have been posted on the Court's website. Moreover, in 2019 the Court invited citizens to submit proposals for audit topics to be included in the activity programme for 2020<sup>27</sup>.

Information on audit results can be requested individually from the Court, based on the Law on freedom of information<sup>28</sup>. Between 2018 and 2020, the number of requests for public information was approximately 200 per year, and an increasing tendency can be observed. The Court estimated the number of audit documents communicated annually to be from 350 to 400 per year. In the opinion of the Peer Review Team, this proves constantly increasing interest in the work of the Court.

The Court, however, does not publish its audit findings in a comprehensive manner. While some individual reports based on Parliament's requests or Plenum's decision have been published, the Annual Public Report contains summaries and syntheses of audit reports only. The Court's regulations do not set a requirement to report on unimplemented recommendations; results of follow-up missions are – contrary to international principles – not published either<sup>29</sup>. The Peer Review Team also note that the Court has not published the reports on the previous peer review exercises carried out in 2000 and 2006<sup>30</sup>.

<sup>27</sup> For example through [propuneri.program2020@rcc.ro](mailto:propuneri.program2020@rcc.ro).

<sup>28</sup> Law No 544/2001.

<sup>29</sup> INTOSAI P-10: *Mexico Declaration on SAI-Independence* (10:7): Submit follow-up reports to the Legislature, one of its commissions, or the auditee's governing board, as appropriate, for consideration and action.

<sup>30</sup> Good practice in INTOSAI GUID 1900: *Peer Review Guidelines*.



There is a noticeable delay in publications since the Court works under a rigid schedule: within six months as of the receipt of the accounts, the Court is obliged to draft its annual public report and to submit it to Parliament<sup>31</sup>. Each year, the Ministry of Finance submits to the Court the consolidated accounts in June or July, and financial audits are normally completed by the end of September. Consequently, the Annual Public Report is issued by the end of the current year – within the six-month term, yet concerning the previous year. For example, the Annual Public Report for 2017 was published in February 2019, the report for 2018 – in January 2020, and for 2019 – in January 2021.

During their exercise, the Peer Review Team had interviews with representatives of the media and non-governmental organisations who emphasised the need for all Court's individual audit reports to be timely and understandable, and – in the first place – to be publicly available.

The Peer Review Team acknowledge the Court's communication strategy and highlight that the Court is free, within its mandate, to decide on the content and timing of reports publication, following the international auditing standards.

#### ***Recommendation 5***

Strive for timely publication of all reports, as well as for a continued strategy of openness and dissemination, partnering with the stakeholders, the media and civil society, in order to increase the level of awareness of the Court's work.

#### ***Practices of the Peer Reviewer SAIs***

##### **Austrian Court of Audit:**

All reports submitted to Parliament are published. For each report, press releases and information graphics are published on the ACA website and via social media. The ACA also proactively approaches citizens and asks them to send suggestions for audit topic (via e-mail, social media, or by post). Usually, about approximately 20% of planned audits are based on suggestions of citizens.

##### **Netherlands Court of Audit:**

Impact of reports is considered already at the audit planning stage. Time of publication may depend on the agenda of Parliament, important policy decisions taken during the year, or materials related to the given topic published by other organisations. Results of audit work are comprised in various types of products: reports, letters to Parliament, fact sheets, or, occasionally, thematic websites. Performance audit reports focus on key overarching messages (so not all audit questions and findings are necessarily incorporated in the final report).

Various ways of disseminating key audit messages are used, such as articles, presentations (e.g. at conferences), interviews – depending on the audience that the NCA wants to reach. At the same time, it must be remembered that impact is not always visible – the very conduct of an audit and exchange of information with the auditee may foster a change in the views and performance of public sector officials.

##### **Supreme Audit Office of Poland:**

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<sup>31</sup> Articles 26 and 38 of Law No 94/1992.

All NIK overall reports (problem-oriented reports that draw systemic conclusions from [individual] reports from audits at individual entities) are sent to Parliament. In addition, every year in June the President of NIK submits to Parliament the annual activity report, where the summaries of all audit reports developed in the given year are included. NIK starts audits (of state budget execution) in December, and they are completed in April or at the beginning of May of the following year – NIK auditors work parallel with financial year closing. In July, a vote of discharge is granted to the Government for the previous year.

### **Ensure High Quality Reports**

Supreme Audit Institutions are supposed to report on audit results, in this way enabling the public to hold government and public sector entities accountable<sup>32</sup>. To this end, SAIs should report objective information in a simple and clear manner, i.e. using language that is understood by the stakeholders, they should make reports publicly available in a timely manner, and use modern tools to facilitate access to reports.

Therefore reports should be treated as the final product of audit work and approached accordingly from the very beginning of an audit engagement. During their interviews, the Peers got the impression that some RCoA auditors may be reluctant to have reports published, because they have doubts as for their quality. The Reviewers are of the opinion that auditors should from the very beginning be aware of the role that their reports fulfil, and of the fact that reports are to be published, and therefore widely accessible. At this point it may be beneficial to help auditors realise that audit reports are aimed to indicate the difference between the desired ideal state of affairs and the actual state depicted at an entity, rather than to enumerate irregularities.

#### **Recommendation 6**

Make reports more readable, with a more constructive and solution-oriented approach to recommendations. Audit reports, apart from stating legal violations, should help define and explore the root causes for deficiencies and irregularities, and thus contribute to organisational improvements. Make the language of reports easier and more accessible, so that they are understandable to the RCoA's stakeholders and wider public.

After their interviews with RCoA auditors, the Reviewers note that – as laid down in the audit manuals – preliminary results of audits are discussed with audited entities, and the results of discussions are recorded in writing. However, differences of opinions and counterstatements are not included in audit reports.

#### **Recommendation 7**

To create added value with a report, take into account the differences of opinions between auditors and auditees, and include them in the final report. If necessary – especially if auditors do not agree with auditees – their counterstatements should also be comprised in the report.

Moreover, the Reviewers note that audit reports, addressed to auditees, are issued by individual auditors, while consequent decisions and measures are issued by supervising managers on behalf of

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<sup>32</sup> INTOSAI-P 12.

the Court. Simultaneously, only report summaries that are sent to the Romanian Parliament are authorised by the Court's Plenum.

#### **Recommendation 8**

So as to emphasise a homogenous and comprehensive audit report practice, all Court's products should present the opinion of the institution itself, rather than that of an individual auditor or audit team.

#### **Practices of the Peer Reviewer SAIs**

##### **Austrian Court of Audit:**

All ACA reports are published in unabridged versions, and all are approved by the ACA President. Reports contain summary information on audit objectives, key recommendations and an overview of the underlying facts and figures. This introductory block is followed by the report proper, which contains findings and recommendations, but also statements of the audited entity and potential final statements of the ACA on them.

##### **Netherlands Court of Audit:**

All NCA final audit products are approved by the NCA Board and made public. When sending a draft of the final product, the NCA asks the auditee to comment on conclusions and recommendations. A summary of the auditee's response is included in the final product (full response is published on the website, next to the report), together with the NCA's afterword.

##### **Supreme Audit Office of Poland:**

A draft audit report is reviewed and commented on by all those involved in the audit – departments, regional branches, the Legal Department, the Methodology Department, and the Strategy Department. Only after all such comments are considered, discussed and agreed on, a draft report can be submitted to the responsible Vice-President. Then a briefing with the President of NIK follows. The President approves the report or suggests modifications.

Such a broad commenting process is viewed as a common collegiate work and joint responsibility. It ensures that reports contain opinions of NIK as an institution, and strengthens internal cooperation.

#### **Integrate Headquarters and Chambers**

Due to the size of the central structures of the Court and the large number of territorial Chambers, the Peer Review Team believe that individual structures should work together in a connected and agile manner. Cooperation should be based on common values and, above all, common goals. This challenge was also pointed out in the previous Peer Reviews of 2000 and 2006, which paid attention to the high number of local offices in comparison to other similar SAIs, which poses a heavy burden to the Court in terms of general organisation, coordination of audit work, and costs of premises and equipment.

The Peer Review Team acknowledge exchange activities between the Headquarters and the regional Chambers that have been started by the Court management, but have had to be suspended due to the COVID-19 pandemic.

#### **Recommendation 9**

Further develop contacts between the RCoA central Departments and regional Chambers of Accounts, and foster cooperation among them.

### ***Practices of the Peer Reviewer SAIs***

#### **Supreme Audit Office of Poland:**

All organisational units, both central and regional, are involved in NIK's annual planning. In this way, the planning process considers a more "vertical" perspective of central departments, and a more "horizontal" (regionally oriented) perspective of regional branches, which makes the process complete, especially as regards the risk assessment component.

In order to prevent a risk of insufficient coordination between the central departments and regional branches, which is inherent to such an organisational structure, meetings are organised during audit execution stage. Representatives of NIK's central and regional structures hold so called "mid-audit" meetings, where audit results are exchanged, highest risk areas are identified, and positions and opinions are discussed. These meetings also have an additional integrational value – NIK staff have an opportunity to get to know each other. Centrally organised training also helps auditors obtain the same competence and skills, regardless of their work location.

### **Consider Coordinated Audits**

Staff members interviewed by the Peer Review Team frequently pointed out the need for wider cooperation, therefore it seems necessary for the Court to switch from traditional structure-oriented management to project management. Cooperative or coordinated audits, with the involvement of both central Departments and territorial Chambers, would allow the Court to give the public a picture of how things look at the whole-county level, by describing a given problem from both the territorial and central perspectives. This would help the RCoA diagnose whether the state is (or is not) a well-operating system. Apart from strengthening internal cooperation of the RCoA, such an approach would allow for conducting problem-oriented audits of high added value to society. Such a systemic insight into the state's operations would also allow for identifying corruption-prone areas and mechanisms, which is of high importance not only to the state budget execution, but also to sound management of European funds.

The leadership of coordinated projects, e.g. audit engagements related to performance of the health care system during the COVID-19 pandemics, could lie with Vice-Presidents of the Court. Such a form of cooperation could help share ideas – both in and across all the levels of the organisation – and eliminate the functional distance between the central and local structures of the Court.

### ***Recommendation 10***

Explore possibilities for coordinated audits, so as to obtain a comprehensive insight into the performance of the public sector in Romania, in order to increase the added value of the RCoA's work.

### ***Practices of the Peer Reviewer SAIs***

#### **Supreme Audit Office of Poland:**

NIK's coordinated (cooperative) audits are carried out by up to eight central and regional departments simultaneously, according to the same audit programme (the same methodology, audit criteria, materiality thresholds, sample size, etc.), and under joint supervision. Such audits are concluded with

joint reports, and their recommendations refer, in a uniform way, to similar irregularities or deficiencies found across the country. Such audits started being conducted in response to discussions held in the media and Parliament.

It allows NIK to inform Parliament on systemic issues in a comprehensive manner. It also allows for better internal communication (e.g. meetings of audit teams at various stages of the audit process) and better coordination and methodological uniformity. Coordinated audits at NIK are closely linked with the shift to project management. For such audits, entities are selected where a given risk is most probable.

### **Ensure Appropriate Human Resources**

The staffing of the Court is a centralised procedure, with the Court being obliged, in the recruitment process, to observe the Code of Labour and other national legislation applicable. During the Peer Review, both auditors and their superiors indicated the lack of sufficient human resources as a problem. The Peer Review Team have the impression that, also due to restrictions in the central recruitment process during the COVID-19 pandemic, the lack of auditors to perform field audits, particularly at the territorial level, should be given greater consideration in the future.

#### **Recommendation 11**

Explore reasons for the relatively high vacancy rate, so as to be able to continue and enhance efforts to attract and retain high quality staff – to ensure that the Court has at its disposal the skills and capabilities needed for financial, performance and compliance audits. Explore the concept of a cross-organisational ‘pool of auditors’, with a possibility to react effectively to special demands, and foster the understanding and cooperation both at the central and territorial levels.

#### **Practices of the Peer Reviewer SAIs**

##### **Austrian Court of Audit:**

All staff members undergo further education. Each auditor has to complete a basic training course in the form of the certificate programme “Public Auditing”. In the course of their career, staff members can also be admitted to a more in-depth further education (MBA programme “Public Auditing”), which expands and builds upon the basic training course. Both programmes are offered by the Executive Academy of the Vienna University for Economics and Business.

### **Raise Awareness of Common Values**

A critical success factor for an effective and efficient organisation is to have shared values for the organisation’s culture and identity. The core values of the Romanian Court of Accounts are: independence, integrity, professional competency, confidentiality, professional conduct and objectivity. Guiding principles are *i.a.* “serving the citizens” and “acting as a trusted source for the public sector development”.

While interviewing representatives of the central and territorial organisational units of the RCoA, the Peer Review Team got the impression that there was potential to further raise awareness with respect to the common values of the organisation. Shared values and shared understanding help direct the activities more smoothly in the desired direction, and establish a common idea of desired changes. A first step towards improving cooperation has already been taken in the context of the revision of the

Regulation of 29 May 2014 regarding the organisation and development of the specific activities of the RCoA (RODAS) and other manuals, and the territorial Chambers have been invited to participate in this process and to contribute with their views, needs and specificity.

During revision of the RODAS and other manuals, special attention should be paid to adapting the terminology and communication, both internally and externally, to help the RCoA ultimately abolish the remnants of its jurisdictional function, and start performing its tasks on behalf of the Parliament. As a result, it will be more visible in the future that the RCoA has undergone a transformation from ‘a punitive organisation’ to ‘an advocate for taxpayers’ that ensures that public bodies use public money lawfully, economically, efficiently and effectively. In the view of the Peer Review Team, this would also help the RCoA take further steps towards establishing a different external perception.

During various discussions, the Peer Review Team got the impression that RCoA staff were aware of the need for further development at various levels, in order to be perceived as a reliable and future-oriented partner for both the audited entities and the public. These adaptations cover a wide range of areas of the RCoA’s activity, such as working methods, quality of performance, qualifications of auditors and techniques used.

#### **Recommendation 12**

Ensure wider dissemination of the shared values governing the way the RCoA perceives its mission, so as to help auditors change the mind-set from detectors of irregularities to advisors who present auditees with opportunities for improvement.

#### **Start a Change Process**

In the opinion of the Reviewers, one of the main challenges of the RCoA is the culture with focus on procedures. This is due to, among other, the detailed and inconsistent law and – more importantly – the way it has been translated into internal regulations, as complying with detailed procedures may threaten the quality of work. Also, some RCoA Staff may associate changes with more rigid processes and bureaucracy rather than with attempts for improvement.

Nevertheless, the Reviewers observe that the RCoA is ready for introducing significant changes in its approach, as evidenced by its numerous efforts to diagnose the situation and search for solutions, through e.g. this Peer Review exercise, and has a potential for it. In the opinion of the Peers, the RCoA is at the differential phase of an organisation development<sup>33</sup>, which gives prospects for improvement.

So that its improvement efforts are successful, according to the Reviewers, the RCoA should shift focus from complying with procedures to providing better quality of its products – these being audit reports: a good product without a 100 percent compliance with the internal rules and regulations will bring more advantages than hundreds of poor quality products with low range of impact. At the moment when the RCoA is striving to become a modern Supreme Audit Institution, having abandoned its judicial role a long time ago, this seems to be a right direction, and will help use the available resources in a more effective manner. Since the RCoA leaders are aware of the above needs, the Reviewers see potential for change and would like to encourage RCoA to start the change process as soon as possible.

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<sup>33</sup> *Developing a Learning Organisation, Booklet 2: Leadership & Management Handbook – Strengthening Supreme Audit Institutions*, Swedish National Audit Office, 2012.

Already in 2006, SIGMA in its report observed the crucial role of the Plenum in the operation, work programme and budget of the RCoA. Moreover, the Plenum is the body that has powers to initiate changes in the organisation and functioning of the RCoA, within the mandate assigned by the law. The Reviewers would like to reiterate SIGMA's observation that the eighteen Councillors of Accounts, i.e. Plenum Members appointed by Parliament, should work closely for the benefit of the RCoA, and accept a leading role in the process of transforming the RCoA into a modern Supreme Audit Institution<sup>34</sup>.

### **Recommendation 13**

Work on change and innovation, which is bound to be a multi-year project that takes time and energy of the institution as a whole. It should not be a top-down process, yet the entire organisation should be engaged. In the process of changes, the Plenum should play a critical role as an initiator and supporter of transformations, to the benefit of the RCoA itself and the whole public finance sector of Romania.

### **Practices of the Peer Reviewer SAIs**

#### **Netherlands Court of Audit:**

Innovation by doing: this is – loosely translated – the slogan of the innovation and expertise hub at the NCA. Employees with relevant experience are united around specific topics on which the NCA would like to innovate, such as new methods for performance auditing, using data-analyses in audit, or application of design approaches when auditing complex topics. The hub provides room and time to initiate and experiment with new approaches – engaging colleagues from all over the organisation, but without being impeded by the day-to-day agenda of the organisation. Three basic principles govern the hub: (1) Experiment: innovation needs not only theory, but practice as well, so there must be time and means for trying out new approaches; (2) Develop: in order for the organisation to benefit from the hub's activities, successful approaches need to be developed into methods used in standard audit practices. The form of this development can range from documenting tips and tricks to appointing an expertise team – as was the case with both design and data-analysis; (3) Network: you can learn a lot from other SAIs and/or local (research) institutions. To this end, the hub maintains a broad domestic and international network of auditors and researchers from other institutions (universities, other independent agencies, e.g. the ombudsman) who work on similar topics and with similar approaches.

The change process should comprise functional changes, i.e. the approach to the provisions and procedures that have been governing the RCoA's work to date. RCoA auditors should be aware that they can compromise compliance with procedures for the sake of the overall product quality. Simultaneously, changes to auditors' mind-set can be triggered by raising their awareness of the importance and value of audit reports to society.

### **Recommendation 14**

Amend internal regulations in order to make them less stringent, especially with regard to the number of mandatory audits, which is due to the RCoA's own interpretation of the binding provisions rather than to their actual requirements. Advocate focusing on the quality of reports instead of compliance with the procedures in their current interpretation. As a further step, consider opportunities for

<sup>34</sup> Compare: SIGMA, *Assistance and Evaluation of Court of Accounts of Romania*, 3 July 2006, paragraphs 80-82.

introducing changes to the regulations at the national level, taking advantage of the existing contacts with parliamentarians and their willingness to take steps to increase the role of the RCoA in the Romanian society, in accordance with international standards and good practices.



## IV. Quality Management

### RCoA Quality Management System

The quality of work performed by Supreme Audit Institutions is fundamental to their reputation and credibility, and ultimately for their ability to fulfil their mandate<sup>35</sup>, and to be relevant to citizens, parliaments and other stakeholders. Therefore a major challenge for a SAI is to consistently deliver high quality audits and other work. A Quality Management System can assist a SAI in facing this challenge, since it promotes an effective and efficient way of working, thus leading to relevant and reliable products.

At the RCoA, the responsibility for the overall quality control system lies with the institution as a whole, and in accordance with Law No 94/1992, the Court's collective management is exercised by the Plenum.

The Court has invested in introducing measures to ensure the quality of Staff who conduct audits:

- The RCoA employs experienced and knowledgeable financial and compliance auditors;
- Auditors sign declarations of independence for each audit;
- The Court provides support to financial and compliance auditors on how to develop an audit plan, and to developing necessary skills to perform audit engagements;
- Auditors follow training courses of at least 40 hours a year;
- Training for newly employed auditors is available through introductory courses of at least six weeks, when they are exempt from everyday work;
- Applicable quality control policies and procedures are communicated to audit Staff, and easy to find in the intranet.

Nevertheless, the Reviewers find several aspects of the quality management system that, in their opinion, do not function properly at the RCoA:

- Auditors are not periodically relocated, although it is prescribed by the regulations<sup>36</sup>. In the Departments and in regional Chambers there is a risk to independence, as auditors have been auditing the same entity for many years;
- In the case of performance audit, the RCoA does not have a proper system to ensure that audit teams have necessary professional competence. Most auditors at the RCoA are experienced financial and/or compliance auditors, with very few experienced performance auditors. Also, among newly employed staff, persons with financial or legal background prevail. In general, at the Court financial and compliance auditors carry out performance audits. As a result, the RCoA does not provide for a specialist performance audit capacity in a structured manner. In the opinion of the Peer Review Team, if the RCoA wants to further expand its performance audit portfolio, this may become a problem;
- The vast amount of internal regulations causes an extra burden to the already very high workload due the significant number of mandatory audits. As a result, audit teams do not have enough time for audit planning (developing an audit programme). This is especially vital in the case of performance audit and may be one of the reasons for this type of audit to have an

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<sup>35</sup> ISSAI 140.

<sup>36</sup> Law No 94/1992, Article 52.

unclear and too broad focus, which, consequently, poses a risk of lower quality at every audit stage;

- The Court offers professional planned training programmes and training procedures in the pre-audit phase. The Court has been following the Peer Reviews of 2000 and 2006, which recommended analysing training needs and drafting training plans. However, during the discussions that this Peer Review Team had with the Court's Staff, the need for further training for auditors was raised, especially in the context of different levels of territorial and central administration, as well as the need for individual competence levels.

### Quality Control of Audit Work

The Court has introduced several internal procedures, standards and manuals for its Staff. The most important for auditors' daily work is Regulation of 29 May 2014 regarding the organisation and development of the specific activities of the RCoA, i.e. the RODAS. The RODAS is an extensive manual comprising, among other, detailed instructions for: conducting three types of audit, execution of quality control and quality assurance, and evaluation of internal control and internal audit activities of auditees, which, according to the law, is an obligation of the RCoA. The RODAS also contains a list of 36 mandatory annexes to be used at subsequent stages of the audit process.

At the RCoA, several quality control measures have been introduced to help provide reasonable assurance that audits comply with the Court's internal standards and are of sufficient quality. These include:

- Training of audit staff to follow the RODAS;
- A training meeting at the start of an audit – the manager holds a meeting with a designated audit team, during which the aspects of the audit and its specific elements are discussed, analysed and documented in the form of a training note signed by audit team members. Such a training note comprises a list of mandatory elements that the audit team has to respect during the audit;
- Supervision and review of the audit process: audit teams are supposed to meet regularly with managers to discuss preliminary findings, potential issues and solutions to them. During such meetings, the team manager may e.g. decide to conduct extra audit work when results obtained are unclear or insufficient. Such team meetings are recorded in the form of minutes, to provide an audit trail on the discussed issues;
- The stages of the audit process followed by auditors are in general in compliance with the RODAS. It does result in audit reports that comply with the RODAS, these reports are, however, not convincing nor reader friendly;
- During audit missions, audit teams are supposed to present auditees with draft results related to the specific objectives of the audit, in order to make, in advance, auditees aware of the contents and results of the reports they are to receive. This offers the team an opportunity to receive feedback and to make necessary adjustments at an early stage, which contributes to the efficiency of the audit process, as well as adds to communication with the auditee who can get acquainted with the auditors' stance yet before receiving the draft report;
- Draft reports should be presented to the auditees prior to their finalisation, so that the auditees have an opportunity to point out mistakes, unclear observations and findings, as well as recommendations that are hardly feasible to implement. Auditees have two up to five days to study draft reports and submit their comments. However, from the interviews that the

Reviewers had with representatives of auditees it transpires that this is not enough, especially considering the length of the Court's audit reports.

Detailed descriptions of all procedures and steps to be taken in an audit comprised in the RODAS may be very helpful, and the Reviewers observe that the Court's Staff generally work in a consistent manner. The audit files that were analysed during this Peer Review were structured in accordance with the instructions, and the documents produced were fairly consistent and adhered to the templates recommended. At the same time, however, in the practice of the RCoA the Reviewers observed a detrimental side effect of too many and too detailed procedures. The main focus – both in the audit practice and in quality control – is on *compliance* with the RODAS and other regulations, rather than on the delivery of *quality audit reports*. Therefore, as previously mentioned, the quality of the Court's work is a significant concern. Nevertheless, the Reviewers are impressed with the immense amount of work delivered by the Court's auditors, especially given the tight timeframes, and the precision and rigor with which the regulations are followed, as evidenced by the audit sample analysed by the Reviewers.

Apart from the RODAS, other regulations exist that, having been approved by the Plenum, are binding for the Court's auditors, such as e.g. the guide on quality assurance and control of October 2017, as well as manuals for financial audit (2017), for performance audit (2013), and for compliance audit (2014). Some elements of the manuals seem to be supplementary, yet many overlap with the RODAS. Moreover, the Reviewers find out that the status of these regulations is not always clear to the Court's Staff, and therefore they are not sure whether to apply them or not. Apart from that, for an auditor it is not feasible to take into account all the available documents during an audit.

Another undesirable effect of the detailed procedures and the need to comply with them is that each audit team request a great deal of information from each auditee at the start of an audit (in accordance with annex 26 of the RODAS), regardless of whether or not this information is really necessary for the proper conduct of the audit. As a result, auditees must provide huge amounts of unnecessary information, which incurs costs both in terms of time and public money.

***Recommendation 15***

Harmonise and simplify, as soon as possible, all regulations in order to achieve a uniform and concise set of regulations and manuals. Give special attention to making this set easily accessible in a centralised location, so that future updates automatically replace older versions, e.g. on the SALVATOR intranet platform.

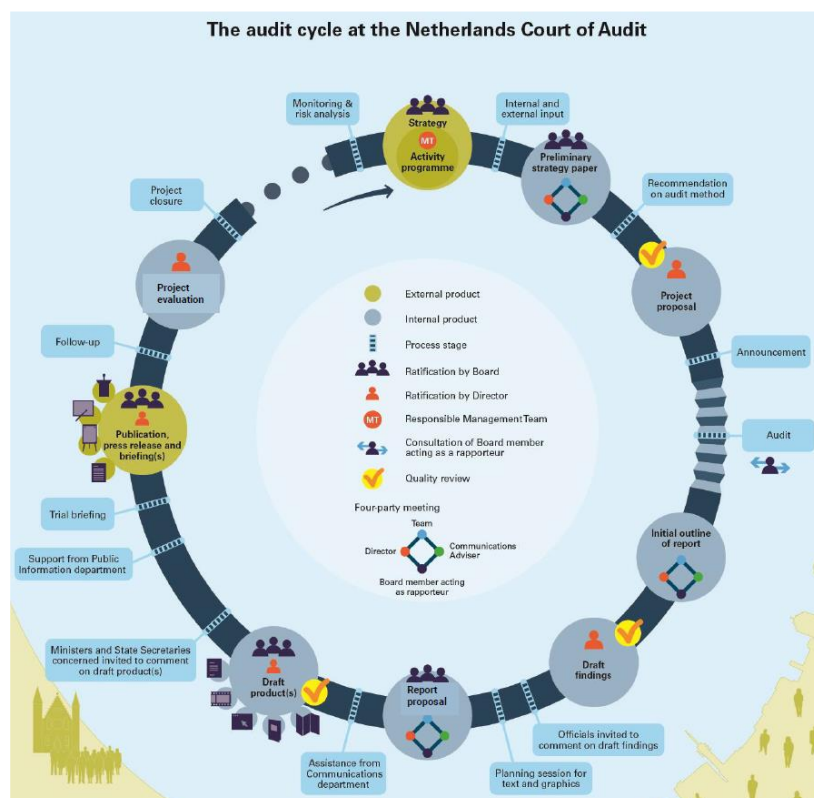
## Practices of the Peer Reviewer SAIs

### Austrian Court of Audit:

All steps of the audit process are laid down in the ACA's audit cycle<sup>37</sup>. Every audit starts with the (1) audit planning. During the selection of audit topics special attention is paid to risk potentials, levels of expenditure, changes of key parameters, current events, special public interest<sup>38</sup> as well as preventive effects. In the next step, (2) the preparation starts, which is followed by the so called (3) *on-the-spot inspection*. Based on audit findings, (4) audit results are compiled, including an evaluation of the *status quo*, and recommendations for improvement. (5) A draft report is submitted to the audited entity for a statement. Once the ACA receives the statement, a statement of reply is developed, if necessary. All statements are included in (6) the final report, which is submitted to the National Council or to provincial parliaments and, if necessary, presented to the municipal councils. After that, (7) the report is published on the ACA website, and (8) discussed in the Court of Audit Committee. In order to boost its effectiveness, (9) the ACA queries the audited entities about the state of recommendations implementation, a year after report publication. Based on replies, (10) the ACA may decide to conduct a follow-up audit. Follow-up audits are published as separate reports.

### Netherlands Court of Audit:

All steps of the audit process are laid down in the NCA's audit cycle (see figure below), available from the NCA intranet.



<sup>37</sup> [https://www.rechnungshof.gv.at/rh/home/was-wir-tun/was-wir-tun/Pruefen\\_und\\_Empfehlen.html](https://www.rechnungshof.gv.at/rh/home/was-wir-tun/was-wir-tun/Pruefen_und_Empfehlen.html).

<sup>38</sup> Since 2017, the ACA has called upon citizens to submit their suggestions for audits in the framework of its audit planning process. Furthermore, the members of the National Council and provincial parliaments may address the ACA with an audit request.

The audit cycle consists of six stages: (1) strategic stage; (2) project proposal stage; (3) execution stage; (4) reporting stage; (5) publication stage; (6) project evaluation stage.

Each stage of the audit cycle is explained on one intranet page, and consists of a small number of steps. These steps have their own internal guidelines and checklists where necessary, and can be identified via hyperlinks. Therefore, there are no lengthy manuals for each audit phase. Manuals for financial and performance audit and practical guidance for these audit types<sup>39</sup> are easily accessible through a custom build WIKI (based on the free and open source XWIKI).

Furthermore, the Peer Review Team observe that the four-eyes principle does not consistently function within the RCoA. The principle requires draft parts of audit reports to be reviewed and double checked by another competent person, whereas at the RCoA audits are sometimes conducted by one auditor only. According to RCoA Staff, it is due to significant understaffing of the Court and the huge workload of auditors.

Decisions and letters of recommendations are signed by responsible managers, while auditors themselves sign audit reports. In the view of the Peer Review Team this gives an incorrect image externally. In accordance with international standards, reports should provide an opinion of a SAI rather than of an individual auditor, and the current practice of the RCoA does not allow its reports to voice the RCoA's opinions and recommendations. This reveals a yet bigger problem at the RCoA: individual audit reports are not signed by the Plenum, since the Plenum does not review draft reports nor approves them. Such a situation may give rise to several risks: the risk that an opinion of an individual auditor is presented in a report, the risk of not safeguarding consistency across all opinions of the Court, i.e. the risk of not speaking with one voice and not judging similarly in similar situations. This might adversely affect the impact that the RCoA should have on improving the government.

#### **Recommendation 16**

From the perspective of what contributes to the quality of an audit, reconsider all requirements that are currently mandatory within the RCoA. For instance, the provision that an audit may take up maximum 90 days and the auditee has two up to five days to respond to the draft report, the provisions on the content of reports of the Quality Assurance Directorate, and the provisions to review every unit every five to six years would be more effective if set forth as a recommendation rather than as a requirement – to be decided upon with due consideration to an individual audit project.

#### **Engagement Quality Control Reviews**

An important part of quality control within a SAI are engagement quality control reviews, or 'hot reviews'<sup>40</sup>. Hot reviews must be performed by colleagues independent from the audit during the execution phase, and they allow a SAI to determine, during an audit, whether there are concerns about the quality of work. Such concerns can then still be remedied before issuing a report. At the time when the Peer Review was conducted, the RCoA did not have a system for hot reviews. The RCoA only performed cold reviews – after audit reports were completed. If such a review shows errors, or shows that conclusions, decisions and/or recommendations are unclear, or that the logic of the report is unclear, errors cannot be corrected. The Reviewers observe that this is not merely a theoretical risk: both from the analysis of the Court's audit sample, and from the interviews with stakeholders, the Reviewers can conclude that the reports that have been published contain errors and are not

<sup>39</sup> The NCA does not perform separate compliance audits.

<sup>40</sup> ISSAI 140.

convincing. The Reviewers were, however, informed that the Quality Assurance Directorate had started (in March 2021, i.e. during the Peer Review) a pilot exercise to experiment with hot reviews at regional Chambers of the RCoA.

#### **Recommendation 17**

Introduce a system of hot reviews, based on the experience of the current pilot launched by the Quality Assurance Directorate. Hot reviews should be performed by colleagues independent of the audit to be reviewed, and not by the Quality Assurance Directorate. Set up a system of ex-post evaluations, capture lessons from these evaluations and use them to share good practices among the whole organisation, with a view to improve the processes.

#### **Practices of the Peer Reviewer SAIs**

##### **Netherlands Court of Audit:**

Hot reviews are performed to help audit teams and audit directors in their work, and to improve the quality of draft audit products. Hot reviews are mandatory at three stages of the audit process: (1) draft project proposal; (2) draft findings; (3) draft report or other type of external product.

Hot reviews take place before a draft product is sent to the responsible director, so the audit team and the responsible director have an opportunity to remedy any problems or discrepancies. A review note is prepared by the reviewers. Findings are discussed with the audit team before the review note is made final. The audit team and responsible director decide whether or not to follow the reviewers' recommendations, and their response is included in the review note. The final review note is comprised in the documents submitted to the Board. There are internal pools of reviewers for different audit types. The reviewers are experienced auditors from all audit directorates, and they perform reviews next to their regular audit work.

#### **Quality Assurance Reviews**

At the RCoA, a system for quality assurance has been introduced, whose objectives are to continuously increase the quality of work and to provide reasonable assurance to the management that the Court's internal rules are not only complied with but are appropriate, applicable, functional and effective, and able to provide necessary conditions for improving audit quality and for increasing audit impact. The RODAS, the guide for quality assurance and control (2017), and the methodological norms regarding quality control (2013) describe in detail the activities of quality assurance that need to be developed in order to meet the above objectives.

The eight staff members of the Quality Assurance Directorate are experienced auditors, although they lack necessary specialist expertise to review performance audits quality. They are independent, i.e. do not take part in the audit work, nor in quality control (review) of this work. However, the Directorate has not been provided with an independent position in the organisational structure of the Court, as is prescribed in ISSAI 140. The Quality Assurance Directorate is part of the General Directorate for Methodology, Training, Quality Control, Programming, Reporting, Synthesis, Information Technology and Digitisation. This means that there is a multiple hierarchical subordination instead of a direct subordination to the executive management or the President. This gives rise to the risk that problems revealed by the Quality Assurance Directorate may get stuck in the hierarchy, and will not be properly addressed.

The Quality Assurance Directorate performs its activities in accordance with the internal regulations. The Directorate develops an annual plan, which lists organisational units to be reviewed in the coming year. Every unit should be subject to a quality assurance review every five to six years. The RODAS foresees up to 50 working days for a review in regional Chambers, and 30 working days for a review in central Departments. The internal regulations also prescribe the contents of a quality assurance report. As a result, the available quality assurance capacity may be used inefficiently – while engaging in producing lengthy and detailed quality assurance reports that focus on compliance with the internal regulations, the Staff of the Directorate may not have enough capacity to deal with the actual quality of audit reports.

At the RCoA, a procedure has been established for handling draft reports of the Quality Assurance Directorate: reports are sent to a special committee composed of two Vice-Presidents, the management of the reviewed unit, the General Director of the General Directorate of Methodology, Professional Training, Evaluation of Audit and Control, Programming, Reporting, Synthesis and IT, the director of the Quality Assurance Directorate, and the quality assurance officers who performed the given review. During a committee meeting, a draft report is discussed, and the meeting is concluded with minutes signed by all participants. The measures to be taken by the management of the reviewed unit in order to improve its performance – resulting both from the draft quality assurance report and from the debates during the committee meeting – are sent to the management of the reviewed unit, and a summary of the quality assurance report is submitted to the Plenum.

In practice the work of the Quality Assurance Directorate mainly consists of a review of a sample of completed work across the range of work carried out by RCoA (cold reviews), as is prescribed by the internal regulations. In addition, the Directorate also carries out *ad-hoc* reviews requested by the Plenum, and analyses requested by the President of the Court, e.g. in response to problems with the quality of individual audits, signalled both internally and externally. The Directorate, however, does not perform ongoing evaluations of the RCoA's quality control system.

**Recommendation 18**

Ensure an independent position of the Quality Assurance Directorate, and ensure that reviews of the Directorate focus not only on the compliance of the units with the internal regulations, but rather on technical and strategic quality of their reports. When adjusting the RODAS and other internal regulations, ensure that the job description of the Quality Assurance Directorate is principle based and is described in general terms rather than, as now, prescribed in detail. This can ensure that the Quality Assurance Directorate will set annual priorities based on its own risk analysis. These priorities may, in addition to a review of a sample of work, consist of reviews of parts of the system, such as e.g. the quality of reports, training programmes, communication with the auditee, etc.

In the opinion of the Reviewers, the 2020 activity report of the Quality Assurance Directorate, issued in January 2021, can serve as a good practice example, although it is not foreseen in the RCoA's regulations. The report is based on the findings of the Directorate's works in 2020, and reveals, among other, insufficient communication during audits between audit teams and the management of audited entities regarding the irregularities found. Moreover, the report indicates that audit findings have been based on misinterpretations and/or excessive interpretations of the legislative framework, that the description of the organisation and operations of auditees have been too detailed, and that recommendations in audit reports – which subsequently have become measures in decisions – have

been excessively generalised. The activity report also contains concrete plans for the Quality Assurance Directorate for 2021, aimed to improve its effectiveness. These include the intention to conduct quality control reviews (hot reviews) and to focus on substantive aspects of auditing, such as e.g. substantiation of audit findings.

### ***Practices of the Peer Reviewer SAIs***

#### **Netherlands Court of Audit:**

The two Quality Assurance Officers have an independent status within the organisation, and are positioned directly under the Secretary-General (highest official of the NCA). Annual work programmes of the Quality Assurance Officers mainly focus on identified risks regarding the NCA's audit process, and the technical and strategic quality of audit products. Quality assurance activities are focused on identifying and disseminating lessons for improvement, mostly: (1) monitoring and evaluation of the design and functioning of the NCA's quality management system, mainly by various types of post-audit thematic cold reviews; (2) arranging and assisting with external reviews: periodical external reviews of publications by scientists, and peer reviews by other SAIs (latest in 2019–2020); (3) advice and/or reviews on the Officers' initiative, or at the request of the NCA's Board and/or Secretary-General.

### **Learning and Improvement**

In the opinion of the Peer Review Team, the Court does not ensure a systematic and effective approach to capturing lessons from experience and reviews, or to sharing opportunities for improvement within the organisation as a whole. Lessons could be learned, e.g. from *ex post* evaluations of audits by audit teams. The RCoA has not established a robust system for evaluating audits during the audit process – only just after audit completion. At the same time, the RODAS does not include rules or procedures for evaluating the quality of audits internally, i.e. by audit teams, nor for evaluating audits by audit teams with auditees. Nevertheless, within the audit sample analysed by the Reviewers, several examples can be found of teams that performed such evaluations, those did not, however, cover all relevant aspects, such as strategic and technical quality of audit reports, quality of the audit process, or added value of audits. Moreover, as it has been already stated, at the Court there is no system for gathering results of evaluations performed by audit teams and for sharing them internally.

A good practice of the Court is collecting feedback from audited entities. The Ethics Committee of the RCoA sends a questionnaire to the management of entities that have been audited, where they voice their opinion on the quality of the audit performed, its impact on the auditee, and information on the observance of ethical values and principles by the auditors. The Ethics Committee reports on the results of the analysis of questionnaires, and sends the results to the Plenum for approval.

Quality assurance reports also contain valuable lessons, yet the Reviewers note that audit teams themselves are hardly ever, or not at all, involved in quality reviews or in drafting quality assurance reports. Also, not all audit teams are provided with review results. In the opinion of the Reviewers, the Court's procedures do not stimulate learning and improvement, either. The RCoA has not ensured that the results of quality assurance activities are reported to the President or to the Plenum, so that they could take appropriate measures. Moreover, only summaries of reports are sent to the Plenum. Similarly, lists of measures sent to the management of the reviewed unit, recommended by the specialised committee, do not promote a culture of learning. Insights derived from the collective observations regarding quality assurance are not systematically used to incorporate improvements



into the quality of the work conducted at the RCoA as a whole. Yet, the 2020 activity report of the Quality Assurance Directorate, in the opinion of the Reviewer, is an important step forward.

**Recommendation 19**

Improve sharing of knowledge and lessons learned throughout the organisation – from the Plenum to individual auditors. Promote a culture where the quality of work is discussed, both during audits and afterwards, and involve all Staff, from top to bottom, in evaluating the work performed. Ensure that lessons are drawn from quality control and assurance measures available, and that these are shared within the organisation, so that they lead to concrete improvements in the processes and products.

**Practices of the Peer Reviewer SAIs**

**Austrian Court of Audit:**

Quality assurance measures are an integral part of the self-assessment process and comprise two phases: (1) Quality Assurance Conference, and (2) annual self-review of samples. After concluding the audit, the audit team drafts a report “ready for conference”. On the occasion of a meeting with the audit manager, the audit team, the editorial staff, a representative of the Office of the President as well as a Peer Reader (from another directorate or department, not involved in the audit), the draft audit report is reviewed (i.e. Quality Assurance Conference) and transformed in the final version. The report is then approved by the ACA President. During the second step, an annual self-review of samples of completed audits is conducted by a group of internal experts.

**Netherlands Court of Audit:**

Every audit is evaluated within three months of publication. The aim of these *ex post* evaluations is to learn lessons at the individual, team and organisational level. Evaluation is focused on technical and strategic quality of audit products and communication with auditees. Evaluation consists of a self-evaluation by audit teams and other internal stakeholders, and post audit interviews with auditees. Evaluation reports are discussed with the responsible director. The Quality Assurance Officers issue an annual report with lessons learned from all the evaluations carried out during the year, which is discussed with the management and disseminated within the organisation.

**Supreme Audit Office of Poland:**

Each audit is supervised by a member of NIK’s top management. At the operational level, audits are coordinated by the directors of organisational audit units and designated auditors. Direct supervision of an audit lies with experienced auditors. At each audit stage, auditors and designated supervisors and coordinators can use support of legal advisors and IT support tools, if needed.

During individual audits, NIK is supported by persons who have expert knowledge or practice in the given area. Such expertise may be used through participation or an opinion of an expert in the audited activity, or through expert panels organised by NIK. Expert panels are aimed at developing the most current approach and conclusions, both at the stage of audit programme development and during developing an ‘overall’ audit report. NIK also makes use of questionnaires, while analyses of questionnaire results can be outsourced to professional entities, e.g. universities.

## V. Audit Process

The RCoA currently carries out mainly financial and compliance audits: in 2020 out of the total of about 3,000 audits, almost 52% were financial audits, almost 48% – compliance audits<sup>41</sup>, and 1% – performance audits. For the last four years it was 66%, 33% and 1% respectively.

	2018	2019	2020
Financial audit missions	1,670	1,620	1,546
Compliance audit missions	572	525	1,425
Performance audit topics	30	18	18

Source: RCoA & Activity Reports 2017–2020

### 1. Financial Audit

#### Financial Audit Standards

The RCoA's internal regulations for financial audit consist predominantly of the Regulation on the organisation and development of the specific activities of the Court of Accounts, i.e. the RODAS, as well as the Financial Audit Handbook of 2017<sup>42</sup>. The Peer Review Team acknowledge that the handbook was elaborated in response to the recommendations of the previous Peer Reviews of 2000 and 2006. The RODAS itself was approved by the RCoA Plenum, published in the bulletin and therefore it is directly binding for auditors, while the handbook provides supplementary guidance. The two documents describe the financial audit procedures in an adequate manner, albeit with varying level of technical details. The RODAS can be linked with several duplicated elements in the audit files analysed by the Reviewer, where especially objectives<sup>43</sup> are repeated on several pages in the audit training notes, plans and strategies.

The RODAS contains a single reference to compliance with the International Auditing Standards of Supreme Audit Institutions, whereas the handbook makes references to ISSAI 200 for financial auditing<sup>44</sup>. Other audit documents, such as training notes, audit plans, and reports contain extensive references to various legal frameworks, but make no direct reference to ISSAIs.

The Peer Review Team note that the RODAS is a very detailed and extensive document if compared to those used in other SAIs. There are also some differences between the RODAS and the Court's Financial Audit Planning Manual, related to such elements as threshold, documentation and risk. The Peer Review Team acknowledge that the Court is aware of these inconsistencies and has started the process of reviewing the documents with a view to eliminating them.

The Peer Review Team would like to encourage the RCoA to continue the process of harmonisation and simplification of its handbooks and manuals. The Reviewers are also of the opinion that several financial audit documents, such as training notes, audit plans and reports, might benefit from references to the relevant auditing standards, providing both auditors and auditees with a common comprehensible perspective of the audit work.

#### **Recommendation 20**

<sup>41</sup> Relatively high percentage of compliance audits in 2020 was due to the COVID-19 pandemics.

<sup>42</sup> Approved on 15 June 2017.

<sup>43</sup> RODAS, item 40.

<sup>44</sup> RODAS, item 19.

Continue the process of harmonisation and simplification of the handbooks and manuals, so as to eliminate the existing discrepancies between the Financial Audit Manual and the RODAS, with regard to such elements as e.g. threshold, documentation and risk.

### **Planning and Selection of Financial Audit Topics**

The financial audits analysed by the Reviewers follow the audit strategy and plan, including scope, timing and direction of audits, have defined audit objectives, criteria, and design. Materiality and thresholds as well as risk assessments were provided for all audits.

The Court's risk-based selection process and individual audit planning, in the opinion of the Reviewers, is to some extent limited, though. Articles 26 and 27 of Law No 94/1992 – in the Court's interpretation – require that all accounts of central administration entities are audited annually, as well as about a third of the accounts of the entities administering local budgets of territorial units in Romania<sup>45</sup>. While the law obliges the Court to verify execution of accounts annually, it is the Court's own choice to verify as many accounts as possible to be able to discharge authorising officers. These challenges were pointed out already during the previous Peer Review exercises conducted at the Court in 2000 and 2006, which recommended that the Court should aim to provide necessary flexibility to define the exact scope of its audits. The current situation still leads to a significantly high number of financial audit missions and consequently reduces the RCoA's capacity to conduct other types of audit, as well as an opportunity to balance the number of different audit types.

The Peer Review Team would like to acknowledge that the procedures in the reviewed financial audit files are generally compliant with the international standards and regulations. The Reviewers, however, note that the current workload limits the Court's ability to use its capacity for auditing areas entailing the highest risks. The Reviewers also observe the lack of a comprehensive system for prioritising audits in annual activity programmes based on risk analysis or other independent selection methods.

In accordance with the international standards, a SAI should be equipped with organisational and functional independence, and should be free from direction or interference from the legislature or the executive in the selection of audit topics, as well as in planning, programming, conducting, reporting, and follow-up on audit results<sup>46</sup>. The Peer Review Team would like to highlight this observation and encourage the Court and the legislature to work out a solution that would reduce the burden of audits that are considered mandatory.

### **Financial Audit in Practice**

The Reviewers, on the basis of the financial audit files analysed, assess the financial audit control environment and procedures as plausible. Several misstatements have been identified during audits and within financial audit plans, it was, however, beyond the scope and the possibility of the Peer Review, which was carried out remotely, to fully verify the audit evidence gathered.

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<sup>45</sup> The RCoA has to audit execution accounts, as stated in Article 26 of Law No 94/1992, and is obliged to annually report to Parliament (Article 38), which approves the law on the accounts execution (Law No 500/2020). The RCoA has the competence to establish minimum value limits to annually audit accounts, so that, within a legal limitation period, the verification of all accounts is ensured (Article 27). These values are established by the Plenum of the RCoA before the approval of the annual activity programme. The RCoA decides that the annual state budget, social security budget and the main budget holders must be financially audited every year. This approach has been extended to other central state budgets as well, such as the treasury and public debt.

<sup>46</sup> INTOSAI P-10.

The sampled audits analysed by the Reviewers were conducted and completed in accordance with the time schedule set out in the RCoA's methodology, with only few days extension in 2020. The methodology of the Court defines a maximum number of days for certain activities and entities. The Peer Review Team observe that the work is conducted under a rigid time schedule: time limits for financial audits range from 30 to 90 working days, with 90 days being reserved for the state's public debt and the national health insurance fund.

All reviewed financial audit files are complete, including accompanying documents (such as training notes, audit plans, reports, conciliation notes, etc.), and follow the RCoA's internal regulations. However, the Peer Review Team would like to pay attention to examples of several repetitive and superfluous elements and information, which should be attributed to the Court's internal regulations (e.g. instruction notes containing obligations and prohibitions of external public auditors that could be included in the general regulations and handbooks, balance sheet tables and budgets accounts from several years presented repeatedly in full in audit plans and reports, several pages of objectives repeated in audit plans, reports as well as quotes from the RODAS), which frequently make audit files voluminous and containing information that is not necessarily essential and not always easy to read.

**Recommendation 21**

Streamline and simplify the information comprised in financial audit documentation, especially with regard to elements that are repeated in various documents. Slimmed audit files and reports would allow the actual findings and recommendations to be more prominent and visible.

In financial audits, calculations and materiality are established and documented. Most calculations in the financial audit samples reviewed are, in principle, considered plausible to conclude the findings and to reach an opinion on financial statements. In at least one case, transactions were chosen only from the central entity, whilst the corresponding audit plan and objectives foresaw subordinated credit officers, and secondary or tertiary budget holders as well. The Reviewers point out that such findings and decisions may be of a limited value and that they cannot be extrapolated to a different population of transactions, or the planned full scope of the audit.

In the reviewed financial audit files, evidence is provided for communication between auditors and auditees, even though in some cases objections and information from the auditee have not been fully reflected in the opinions and decisions. The Peer Review Team also note that the documented communication does not always provide an insight into the actual quality of communication, and seems not to prevent lengthy court proceedings after completion of an audit – as for legality of certain audit aspects – these being elements that might well have been discussed at the beginning or opening phase of the audit.

In the standardised formats and questionnaires used by RCoA auditors, available from the reviewed sample, the Peers find many conclusions and findings which were formulated already in audit plans – on the basis of the results of questionnaires, or the work of other audit units. In the opinion of the Peer Review Team this may lead to premature conclusions, before actual audit findings are formulated, if not approached with due caution.

**Recommendation 22**

Use a comprehensive approach when calculating materiality thresholds, engage in open and foresighted communication with auditees, and formulate high quality findings and recommendations.

In the financial audit sample, the Reviewers found a relatively small financial audit that had been conducted by one auditor only. This was due to the Court’s internal organisation and staff shortages. The Peer Review Team acknowledge that the RCoA is aware of the necessity to deploy a sufficient number of auditors to each mission, and underlines the need to ensure an appropriate number of auditors and managers.

The sample analysed by the Peer Review Team also contains a performance audit conducted as a distinct exercise from the financial audit carried out simultaneously at the same auditee.

**Recommendation 23**  
 Introduce a combined audit approach that would comprise e.g. financial and performance elements, with an integrated audit plan, to possibly improve staff deployment, if appropriate.

**Financial Audit Reporting**

The findings of the financial audits analysed by the Reviewers allow for concluding that reports are comprehensively formulated and in a standardised format. Audit opinions provide the basis for indicating whether financial statements give a true and fair view, in accordance with the Court’s financial audit regulations and international standards. In the eight financial audit files reviewed, there are five adverse opinions and two modified opinions with reservations. Also, activity reports of the RCoA prove that adverse opinions prevail, while unmodified opinions, which lead to issuing a certificate of conformity, constitute only five percent of all audit opinions in the period subject to this Peer Review.

	2017	2018	2019	2020
Number of decisions	1,649	1,513	1,615	1,736
Percentage of adverse opinions	79%	65.10%	69.4%	67.6%
Percentage of unmodified opinions	5.99%	9.99%	4.6%	5.6%

*Source: RCoA & Activity Reports 2017–2020*

The Peer Review Team would like to point out that the majority of the financial statements audited by the Court over the last years contain adverse opinions, so they indicate that the audited statements were misrepresented, misstated, or did not accurately illustrate the auditees’ performance. However, it does not appear to be a sufficient deterrent for the auditees. It does not seem, either, to lead to significant changes over the years, or improvements in the auditees’ operations.

In general, the deficiencies found and recorded in the reviewed financial audit files were considered when the respective decisions were issued, comprising measures to eliminate the deficiencies. There is, however, no unified approach in terms of formulating recommendations at the RCoA. Some recommendations in the analysed financial audits mainly relate to remedies or mitigation of damages. They fail, however, to provide strategic advice on how to avoid similar deficiencies in the future, or potential solutions on how to improve.

Standardised report formats also allow for very different statements, such as concluding in one report section that “no deficiencies, inaccuracies or imperfections of legislative framework governing the activity of the audited entity have been identified”, whereas the actual audit identifies several millions of Lei in deviations, numerous litigations and the lack of an appropriate internal control system.

Therefore, the Reviewers identify the need for comprehensive and qualitative conclusions and formulations.

The Peer Review Team also note that in half of the analysed sample the findings and decisions resulted in appeals and objections that were not resolved by the Court's appeals commission, which led to further legal procedures. The Reviewers advise to formulate them with a sufficient quality, so that they are not easily challenged at court. A recommendation in this area, concerning the general quality of reporting, irrespectively of audit type, has been formulated earlier in this report.

### **Financial Audit Follow-up**

The RCoA has established a system to monitor the implementation of its decisions and measures, to set and, potentially, extend deadlines, to verify the implementation of measures in accordance with the Court's internal regulations, and to plan follow-up missions accordingly. Follow-up missions continue until measures have been implemented. Normally, follow-up engagements are conducted within 30 days from the expiration of the date set for measures implementation. The reviewed audit files show that not in all cases the deadlines have been met, due to the lack of time, and due to ongoing appeal proceedings.

Within the reviewed financial audits, it is quite common to define implementation of previous decisions as an audit objective, with some decisions reaching back until 2014 – for audits conducted in 2019 or 2020. For the Reviewers it is not clear how these differ from follow-up audits or verification missions, which are also conducted by the RCoA. During the interviews with financial auditors and their supervisors, the Peer Review Team were informed about substantial lack of time for audit preparation and completion, in the face of additional monitoring tasks related to several hundred measures that had not been implemented for various reasons.

The Court's system for comprehensive monitoring and follow-up of its decisions and measures resulting from financial audits, consequent appeals and legal disputes, and the high number of unresolved cases (frequently dating several years back) that have to be processed by auditors leads to high workload at the expense of potential new audits, audit objectives and audit complexity. Among the appeals and court actions filed within the sampled financial audits, some unresolved issues date back to 2018<sup>47</sup>.

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<sup>47</sup> National Energy Regulation Authority, 2018.

#### **Recommendation 24**

Considering its limited time and human resources, the Court may not be fully able to comprehensively follow-up on all its measures, decisions and recommendations, or conduct respective legal proceedings. Alternative options include focus on selected strategic recommendations and decisions only, or setting minimum thresholds, so as to ensure and maintain the impact of auditing, and an operational follow-up of audit recommendations.

#### **Practices of the Peer Reviewer SAIs**

##### **Supreme Audit Office of Poland:**

NIK is not legally obliged to follow-up on each audit. According to the Act on NIK, the auditee is required to provide information on the measures taken in response to audit recommendations. This information is recorded and analysed, and provides the basis for a potential decision to conduct a follow-up audit on recommendations implementation. Follow-up audits are conducted as *ad hoc* audits (not included in the annual audit plan), in accordance with the standard audit procedure. Data on the number of recommendations and the level of their implementation are included in the annual activity report of NIK and presented to Parliament.

In case NIK auditors suspect a crime or an offence, they are obliged to notify competent law enforcement bodies, and in some situations NIK is obliged to inform the manager of the entity that the auditee is subordinated to, or the competent state or self-government body, about observations, conclusions and recommendations made during the audit. Responsibility for recommendations implementation lies with the managers of auditees and the entities that supervise them.

## **2. Performance Audit**

### **Performance Audit Practice at the RCoA**

In the period covered with this Peer Review, i.e. 2018–2020, the RCoA conducted 39 performance audits, which in comparison to the other types of audits is very limited, and stands at *circa* 1 percent of the audits carried out by the Court<sup>48</sup> (see table below).

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<sup>48</sup> Introductory presentation, 8 December 2020, slide on product portfolio.

Year	Performance audit missions (number of audit topics)	Ongoing audits at the end of year (audit topics continued in the next year)	Audits missions (audit topics) completed during the reporting year			
			TOTAL	Audits performed exclusively by central Departments	Audits performed exclusively by territorial Chambers of Accounts	Audits performed by Departments and Chambers of Accounts
2018	30	8	22	5	15	2
2019	17	10	7	3	3	1
2020	17	7	10	10	0	0
<b>TOTAL</b>			<b>39</b>	<b>18</b>	<b>18</b>	<b>3</b>

Source: RCoA & Activity Reports 2017–2020

The legal basis for the RCoA to conduct performance audits is provided by the Constitution<sup>49</sup> and Law No 94/1992. The procedures on how to conduct performance audits are operationalised in the Regulations on the organisation and development of activities, i.e. the RODAS, and in the audit performance manual of 2013<sup>50</sup> based on the international standards for performance audit<sup>51</sup>.

The Court defines a performance audit as an audit of whether for an entity, a programme, or a project, sound financial management is ensured by respecting the principles of economy, efficiency and effectiveness, which is a narrower specification of the ISSAI definition of performance audit<sup>52</sup>. The ISSAI definition allows for looking at many more aspects than the role of financial management in performance.

The process of conducting and documenting performance audits is very clear and structured in the manuals. In the reviewed performance audit sample, this process is also followed. Audit files are clearly structured, with separate documents for each audit stage, and often developed on the basis of templates.

Since until very recently (by 2003), the RCoA acted as a jurisdictional court, the very practice of performance audit is relatively ‘young’. In the opinion of the Reviewers, the process of performance audit shows numerous similarities with that of compliance audit. For example, during one of the audits the audit team established that not all performance indicators had been achieved. It would be logical to look for explanations and the way in which the auditee resolves the shortcomings. However, the team independently audited the status of the indicators, and whether a plan is in place, without linking it with the shortcomings.

The Court selects the majority of its performance audit topics based on the multiannual activity programme that is adjusted each year. Due to the large number of mandatory audits in the multiannual programme, there is not much capacity left for performance audits, though. On the other hand, the organisational structure of the RCoA, with central and regional offices, provides substantial room for comprehensive performance audits – with such a structure the Court has the potential for collecting information countrywide.

<sup>49</sup> Article 140.

<sup>50</sup> Annex 25 of the RODAS.

<sup>51</sup> ISSAI 300, 3000 and 3100.

<sup>52</sup> ISSAI 300/1.



The RCoA does not have specialised performance auditors. The background, qualifications and skills of auditors are mainly legal and financial, and the recruitment to the RCoA is based on a general selection process, with the admission criteria stipulated by the law. The RCoA does organise internal training on performance auditing, yet it is limited to a general presentation of the concept, and not very extensive. As a result, audit team members do not have much practical experience in conducting performance audit engagements. The RCoA has been making an effort to combine experienced and more novice auditors in audit teams, which is difficult in practice due to the significant staff shortage. In the opinion of the Reviewers, without specialised skills in performance audit it is difficult to plan and execute performance audits that would successfully look at economy, efficiency and effectiveness of governmental programmes.

Performance audits are concluded with a report and a letter of recommendations. Letters of recommendations are addressed to the audited entity (executive body, local government, or ministry) which also include deadlines. The nature of recommendations and the way in which they are conveyed and expected to be implemented by the auditee is prescriptive and compelling. At the same time, the Court does not have legal measures at its disposal to enforce implementation of recommendations. In the experience of the Peer Review Team this position is not uncommon, but it does imply that alternative methods are needed to ensure that audit recommendations have an impact and result in changes leading to improvements in performance. Since performance audits make up a relatively small part of the Court's engagement, and are underdeveloped, their impact can be snowed under. Therefore, in order to further develop performance audits it is necessary to find methods for creating impact.

### **Performance Audit Topics**

Among the reviewed performance audits, all have as the main objective to examine all the three Es: economy, efficiency and effectiveness. This is usually one of numerous audit questions, the rest of which seem to focus on compliance rather than on performance. And if audit questions mention one of the three Es only, it is done in an indirect manner, e.g.: "whether the management of an institute is taking economy into account". In the opinion of the Reviewer, and considering the performance audit practice, it is very ambitious to focus on all three Es in one audit. Moreover, given the limited time available for engagements, real performance topics frequently do not get the necessary attention or involvement, and are not sufficiently addressed in reports and recommendations, due to the large number of compliance topics being part of the audits analysed by the Reviewers.

Although the RCoA selects relevant societal topics for its performance audits, it is unclear how these topics are strategically chosen. A strategic discussion and decision on why to choose a particular topic at a specific moment seems to be missing. Consequently, for the Peer Review Team it is unclear on what basis a certain topic is selected, and whether or not topics are chosen so as to bring the most added value, respond to important risks, and cover areas of high interest to the public.

### **Performance Audit Planning**

The Reviewers would like to compliment the performance audit teams for the systematic and structured documentation of their audit plans. The teams develop several files that indicate different elements of the planning stage, such as: notification note, training note, delegation note, declaration of independence, introduction/opening note, and the final audit plan. Such a well organised audit file

allows for safeguarding the audit trail, and guides the auditors in all the necessary steps to be taken in audit plan drafting.

The central and/or regional directors have a crucial role in the planning phase: they take the initiative for the audit topic, prepare most of the content of the training note, and allocate resources – both human and time. The Peer Review Team appreciate the commitment of the directors, but, at the same time, would like to emphasise the importance of involvement of the whole audit team at this early stage. The Reviewers observe that auditors are often not aware why a given topic has been selected for a performance audit. Moreover, based on the audit sample analysed, the Reviewers conclude that the knowledge of local specifics, which could be provided by regional Chambers, whose Staff have high potential for approaching national problems, is used to a limited extent only. In order for the Court to conduct successful performance audits, input and support from the audit staff of the regional Chambers seems indispensable.

**Recommendation 25**

In close consultation with the regional Chambers, select performance audit topics during the planning stage that would provide the highest added value possible. Thanks to engagement of the Chambers, the RCoA could benefit from including local problems in the decision-making process.

Performance audit topics selected by the Court are generally relevant for the Romanian taxpayers. However, the main audit objectives are usually formulated in a very general way, targeting all the three Es. As a consequence, it is unclear what the audit exactly aims to examine.

The Peers observe that audit teams strive for completeness and extensiveness. However, in many cases a focus can be missed as a result: there are too many specific objectives and audit questions. Moreover, the link between the main objective and specific objectives is often not specified. Consequently, not all objectives can be met, and not all questions can be answered in a sufficient manner, and – when attempting to fulfil all objectives – audit reports ultimately become lengthy, and it may be difficult to find their main conclusions. For example, one of the reviewed performance audit reports contained 19 specific objectives and 53 audit questions, with the three Es comprised in the main audit objective, but absent from the specific objectives. This audit report consists of 156 pages.

In their audit plans, performance audit teams cover many relevant questions, which are mostly descriptive<sup>53</sup>. They usually aim to obtain a better understanding of compliance with certain laws and regulations. Although descriptive questions are helpful in understanding a new or complex policy area, for performance audit additional normative audit questions are also necessary – in order to judge whether the government has implemented policies or programmes in an effective and efficient manner. A normative audit question is a question used to test against a predetermined criterion, to examine to what extent a certain situation meets this criterion.

The Reviewers would like to emphasise that descriptions of audit criteria and methodology need special attention in an audit plan and audit report. All the audit plans analysed by the Reviewers comprise the sources of audit criteria, such as laws, regulations and government policies, they fail, however, to indicate specific criteria. This may, at least partly, be related to the audit questions in the

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<sup>53</sup> In one audit file, most questions are formulated in descriptive terms such as “Are there procedures, systems, protocols...” or “What are the indicators for...”. In another audit from the sample, there are also more normative audit questions, such as “Has... been established according to... needs/regulation/number of.../degree of... (criteria)”.

sample, which are mostly descriptive, rather than explanatory or evaluative. Audit criteria are necessary to direct an audit and to determine whether expectations have been met. Although some reports comprise audit criteria, having them specified in the audit plan helps focus the audit and obtain support from auditees at an early stage. The Reviewers observe that audit teams give a rather general description of the methodology to be used during their audits, and from a rather theoretical perspective only – they do not explain, though, why those methods are relevant for this particular audit, or how they will be used. Also, similarly to audit criteria, methods are not tailored to audit questions.

**Recommendation 26**

Improve performance audits by focusing on aspects that may strengthen an auditee’s performance in delivering its services to the public. Assign fewer objectives, audit questions that test against a predetermined criterion (i.e. normative questions, instead of descriptive ones), clear audit criteria and specific methodology per objective/question, and sufficient time to perform an audit. Pay attention to recommendations – in consultation with the auditee – so that these have an added value and are feasible.

In the planning phase, auditors pay a lot of attention to risks of the auditee and/or risks in relation to audit objectives. In the opinion of the Reviewers, this reveals similarities with a financial and compliance audit. However, for a performance audit it is especially relevant to look at audit risks<sup>54</sup>, while the audit plans reviewed do not identify potential or known audit risks, nor ways to manage them. The Reviewers would like to emphasise that small audit teams and time pressure – which is frequently the case at the RCoA – make audits especially vulnerable, so risks should be appropriately addressed in audit plans.

**Recommendation 27**

Take audit risks into account, and formulate contingency approaches when planning and designing performance audit missions. This is of high importance to take into account that performance audits are more unpredictable than financial and compliance audits.

Having reviewed time planning, the Peers are impressed by the high productivity of the Court’s performance audit teams. At the same time, the Reviewers are preoccupied with the extensive workload of RCoA auditors, as well as with the fact that the timing of performance audit reports publication, considering their potential impact, is not analysed. Whereas, if respective (policy) developments are taken into account, simultaneous publication of the RCoA’s reports may significantly increase the impact of its audits. According to the methodology for elaborating, modifying and monitoring the implementation of the Programme of the Court of Accounts, the standard time interval for a performance audit is 90 days. Additional 10 days can be requested without the Plenum’s approval, while for more than 10 days the Plenum’s approval is required. Audit missions can be extended by more than 10 days if the request is well substantiated and approved by the Plenum. The Reviewers are of the opinion that keeping within the fixed amount of 90 days may win priority over the content of the audit. Based on the interviews with auditors, the Reviewers assume that the focus is on producing as much as possible by the deadline, which has to be met due to the planned (financial or compliance)

<sup>54</sup> An audit risk is the “risk of obtaining incorrect or incomplete conclusions, providing unbalance information or failing to add value for users” (ISSAI 300/28). Examples of risks include, e.g. lack of quality information, failing to address the most relevant arguments, too limited time or not enough competence.

audits that follow. Such time pressure leads to (too) long working days for auditors, and puts the quality of performance audits at stake. The Reviewers would like to emphasise that a quality performance audit requires more time than the Court's auditors have at their disposal at present. Moreover, a well-considered audit publication date can increase the relevance and impact of the audit.

**Recommendation 28**

When planning performance audits, take into account that the time assigned to a specific project should stem from an audit plan focusing on the time needed to develop a desired content, and consider the timing of publication – so that it adds most to the impact of the audit.

**Performance Audit Execution**

Reliability of information used by audit teams during performance audits may give rise to some concerns. Due to the limited time assigned for an audit engagement, audit teams have approximately one or two days for one audit objective. Therefore, audit teams to a large extent rely on information collected through questionnaires distributed among the auditee’s staff. Moreover, audit teams hardly ever have sufficient time to corroborate questionnaire responses against alternative sources of information, although they are perfectly aware of the risk of not doing so. As a consequence, auditors use information from questionnaires as audit evidence, even if they do not have full confidence in the reliability of this information.

The Court’s auditees are provided with an opportunity to comment on draft reports, yet the time they have for submitting their stance is very short – two to five days. Given the extensive size of reports – 150 pages is no exception – it is difficult to read reports thoroughly, and auditees claim that more time is needed<sup>55</sup>. In some cases, auditees can require more time for commenting, e.g. when several audits are conducted at the same time. During the closing meeting, auditees have an opportunity to indicate errors and ambiguities in the draft report, and to discuss the conclusions and recommendations, and the discussions are recorded in a conciliation note, signed by both representatives of the RCoA and of the auditee. The reviewed audit sample did not, however, contain any audit trail showing how the auditees’ objections have been considered in the final version of the report. What is more, during the interviews with the Peers, an auditee representative several times emphasised that the auditee’s objections have not been included in the final version of the report.

Designing, planning and executing performance audits requires a different set of expertise and skills than financial or compliance audits. Performance audits are in some aspects more like policy evaluation studies than formal audits. Examples of initiatives to collect and spread specific knowledge on performance audits include initiating a knowledge hub, in which employees are gathered with relevant experience and made responsible for spreading this knowledge around the SAI. Expertise sessions can be also organised to discuss new knowledge and experiences. Another option would be to invite another SAI with a longer tradition in performance auditing to act as a mentor throughout the whole process from topic selection to reporting.

**Recommendation 29**

Introduce initiatives to develop skills internally, and incentives to attract new employees with necessary experience for performance audit, e.g. in research, social sciences, economy and behavioural sciences.

**Practices of the Peer Reviewer SAIs**

<sup>55</sup> During the interviews with the Reviewers, a representative of the Court’s auditee said that ten days would be more appropriate.

**Austrian Court of Audit:**

Auditors from a variety of backgrounds are employed: there are auditors with university degrees in economics, law, variety of technical disciplines, etc. All auditors must have several years of practical experience in the private or public sector before joining the ACA.

**Netherlands Court of Audit:**

Auditors from a variety of backgrounds are employed: economics, history, anthropology, law, political sciences, etc. Experienced auditors come from a wide range of audit or research positions, ranging from policy, financial, legal, journalism to academic positions. This diversity is reflected in, e.g. the wide range of research methods used in NCA audits and in the selection of audit topic.

**Performance Audit Reporting**

The way in which the results of an audit are presented in a report contributes to the impact of the audit and the very report itself. Reports should be comprehensive, convincing, timely, reader-friendly and balanced<sup>56</sup>. On the basis of the analysed performance audit sample, the Reviewers observe that RCoA performance audit reports do not meet all these requirements.

In the opinion of the Reviewer, the analysed performance audit reports are not reader-friendly, they do not look professional, and do not seem to be easily accessible to the readers, with a structure that is hard to follow. Moreover, many reports lack a clear link between the audit objectives, criteria, findings, conclusions and recommendations. Also, none of the reviewed reports presents audit criteria explicitly – as these are often “hidden” in audit questions or audit conclusions. Since audit criteria provide the basis for evaluating audit evidence, developing audit findings and reaching conclusions, their lack prevents the readers from obtaining a clear picture of what aspects or topics have been actually audited.

The Reviewers found examples of reports with the findings and conclusions discussed in chapters dedicated to descriptive information on the audited entity. What is more, all audit reports analysed are overloaded with information that is not necessarily relevant to answer the audit objectives, fail to respond to the overall audit objective, and do not give an overall conclusion. Not all specific audit objectives are clearly answered, either.

In addition, when planning performance audits, the RCoA does not take into account an appropriate moment for publication that would guarantee the best impact possible. This is mainly due to the fact that audits are scheduled when the institution has capacity to conduct them, while disregarding all other factors that may potentially increase their impact.

In some audits, limitations can be observed as for the data used, these have not, however, been indicated in the report. Although the reviewed performance audit reports looked similarly in the way in which they are structured, presentation of tables and figures, etc. vary from report to report. It can be attributed to the fact that reports are signed by auditors, and therefore reports present the output of an audit team, rather than an opinion of the Court as an institution. The majority of reports contain a vast number of recommendations, yet too few of them are focused on solutions to problems – which would actually contribute to public services improvement.

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<sup>56</sup> ISSAI 300.

Performance audit reports are a means to promote transparency – by allowing Parliament, taxpayers and other stakeholders to get an insight into the management and outcomes of various government activities. Yet a precondition to achieve this is availability of reports, so they should be published. Currently, it is not so with all performance audit reports of the RCoA: not all reports are sent to Parliament, or available through the website of the Court. Although publishing of the reports in their current form (overloaded, unfriendly, hard to navigate) is not recommended, this should be a goal for the RCoA to aspire.

The Reviewers observe some positive aspects in performance audit reports, though. Each report contains a table with a summary of observations and conclusions, which is very helpful to the reader. Furthermore, the Reviewers would like to appreciate the RCoA's efforts to present balanced reports by adding positive observations.

**Recommendation 30**

Performance audits offer an opportunity to attract a wide audience. Provide reader friendly and concise performance audit reports, with a clear scope and focus, a general overall conclusion, a clear description of findings, as well as associated conclusions and recommendations. This will help better serve the Romanian taxpayer and citizen.

**Recommendations and Follow-up**

Performance audit recommendations are formulated in a letter of recommendations, and for each recommendation an implementation deadline is set. At the deadline, the RCoA verifies whether recommendations have been successfully implemented through a follow-up mission. At this point the Reviewers would like to appreciate a systematic approach to follow-up – being a central part of the (multi-) annual planning, follow-up is strongly anchored in the work programme of the RCoA.

For each follow-up mission, a separate report is issued with often extended deadlines for the recommendations that have not been implemented yet. Once the deadline is extended, a new follow-up mission is organised – and the process is repeated until all recommendations have been implemented. However, since recommendations usually are *not* implemented, or are implemented partially, a high number of follow-up mission is held – with a continuously increasing burden of recommendations that need to be checked each time. In the opinion of the Reviewers, the Court's follow up process could be further enhanced by attempting to assess the underlying problem that hampers implementation, and to find potential solutions to this problem – rather than by mere monitoring of recommendations implementation. For example, for a recommendation that reads: "Create an up-to-date database on the number of Community nurses and health mediators in order to identify staff shortages", a follow up should not conclude only with stating whether the database has been created or not. Instead, a follow-up engagement should examine how the ministry is responding to staff shortages, and what steps have been taken in order to reduce those shortages. Additionally, the Court's follow-up missions do not check whether recommendations are still relevant, e.g. because the original problem has been solved in another way, or because the auditee deems, for justified reasons, that a given recommendation is not feasible.

**Recommendation 31**

Follow-up for performance audits should be redesigned so that recommendations are considered as implemented, or not implemented, or still relevant, or not relevant anymore. This could be achieved, e.g. by introducing a maximum period (e.g. five years) in which the Court assumes its recommendations as relevant. Close cooperation with auditees is necessary here, as they may explain the reasons for failing to implement recommendations, and arguments for considering them as still applicable or not.

**Practices of the Peer Reviewer SAIs****Austrian Court of Audit:**

A system to follow-up on recommendations has been established: the first step is an annual follow-up inquiry which summarises all recommendations included in the reports of the previous year. The auditees are surveyed as to what extent recommendations have been implemented. The results form the basis for a general public report and for the decision on follow-up audits (in the following year). In this case, the ACA examines the actual status of implementation of the selected recommendations on the spot. The ACA publishes 10 to 15 such follow-up reports annually.

**Netherlands Court of Audit:**

The follow-up level of NCA recommendations is monitored through the so called follow-up monitor. Each recommendation is monitored every two years for a period of five years. Initially, the level of follow-up is assessed through self-reporting: auditees themselves report whether or not they have implemented a recommendation. Secondly, the NCA initiates a limited number of follow-up audits to assess whether previous recommendations have been implemented, and whether thereby the original problems have been solved. The (aggregated) results of self-assessments are reported in the NCA's annual report, and they are used internally for preparing new (follow-up) audits. The decision on whether to start a follow-up audit, or not, is an element of the NCA's regular audit planning procedure, based on the same considerations as for regular audits (such as risk, societal importance, potential for impact).

### 3. Compliance Audit

**Compliance Audit at the RCoA**

The organic law on the RCoA does not provide for a definition of compliance audit, while it defines the term 'control' – as an activity involving examining and overseeing the observance of law on the establishment, management and use of public funds. The law also defines the term 'external public audit' as audit activities performed by the Court of Accounts, which mainly include financial audit and performance audit<sup>57</sup>. Simultaneously, both in the RCoA internal regulations and in documents addressed to external parties, the notions 'control'<sup>58</sup> and 'compliance audit'<sup>59</sup> are used interchangeably. The RODAS defines compliance audit/control as a specific activity performed by the

<sup>57</sup> Law No 94/1992, Article 2.

<sup>58</sup> Romanian: *controlul*.

<sup>59</sup> Romanian: *audit de conformitate*.



Court of Accounts based on the annual activity programme, which verifies and monitors the administration of public and private assets of the state and administrative territorial units, as well as whether budget execution is in accordance with the purpose, objectives and attributions provided in the normative acts, and whether the entity respects the principles of legality, regularity, economy, efficiency and effectiveness. This is to a large extent in accordance with the compliance audit definition provided in the international standards<sup>60</sup>.

The Peer Review Team have the impression that the RCoA's compliance audits often have similar objectives and definitions to those of financial audits. Compliance audits, however, play a different role – they promote transparency, accountability and good governance by providing reliable reports with information on whether audited public entities follow laws, regulations, policies, established codes, etc. and on whether funds have been administered, management exercised and citizens' rights to due process honoured, as required by the applicable authorities<sup>61</sup>.

The basic aspects of compliance audit, such as professional judgement and scepticism, audit risk, materiality, documentation, communication, quality control, skills of audit teams, as well as responsibilities of team members at subsequent stages of the audit (planning, execution, reporting, capitalisation) have been set forth in the RCoA internal regulations. However, having analysed the compliance audit sample and the information obtained during the interviews with auditors, representatives of stakeholders and auditees, the Reviewers conclude that not all these tools are fully used, e.g. risk analysis, materiality and use of external experts.

The Reviewers would like to appreciate the feeling of responsibility – both among the RCoA management and auditors – and the intention to promote the principles of efficiency, accountability, effectiveness and transparency of the public administration, as well as good governance principles. Nevertheless, although the Court has educated and experienced auditors at its disposal, a need for specialist expertise in some areas is sometimes necessary, which may be beyond individual auditors. It is allowed for the RCoA to engage experts if the audit topic requires specialist in-depth knowledge, yet this opportunity is not taken advantage of.

#### **Recommendation 32**

Actively promote the opportunity to use external experts with specialist knowledge to evaluate the auditee's operations in compliance audits.

#### **Compliance Audit Planning**

SAIs should focus on identifying challenges, problematic issues and needs, and on prioritising. This was also emphasised by the RCoA's stakeholders during the interviews they had with the Peer Review Team. On the basis of the analysed compliance audit file, the Peer Review Team can state that the planning practices of the RCoA are generally in accordance with the international standards, still, similarly as in the case of financial audits, the Reviewers observe limited planning based on risk analysis and sampling.

For a compliance audit to be successful, the auditor does not necessarily have to identify all irregularities in an auditee's performance. A well-chosen focus area might have more impact and is more efficient for a SAI. To this end, it is necessary to use commonly accepted solutions, including risk

<sup>60</sup> ISSAI 400/12, ISSAI 400/13, ISSAI 400/42.

<sup>61</sup> ISSAI 400/16-17.

analysis, prioritising and sampling, and to extrapolate audit results to a wider population – with due consideration to materiality, impact and universality of the irregularities identified. Respective recommendations on the need to better employ risk analysis and sampling by the RCoA have been formulated in the earlier parts of this report.

The Peers found that some of the relevant elements for compliance audit were identified by the auditors before performing the audit (e.g. identification of applicable regulations on regularity, specific objectives).

Similarly as in performance auditing, before launching a compliance audit, directors organise meetings with audit teams, in order to debate and analyse audit objectives, applicable legislation in the field, potential risk areas, previous audits conducted at the entity, information available from the media, complaints received, etc. However, on the basis of the analysed compliance audit files, the Reviewers observe that audit criteria are not well defined. This observation was also made during the interviews that the Reviewers had with representatives of auditees at which the RCoA had conducted compliance audit engagements.

Before and during an audit mission, audit teams inform auditees about the audit approach and discuss the findings with the persons involved in the audited activities, as well as with the auditee management. It is evidenced in the audit documentation and audit report. Nevertheless, a representative of the auditee interviewed claimed that they had not been informed about the audit criteria, and that their positions had been recorded, but not fully taken into account by RCoA auditors.

**Recommendation 33**  
Define audit criteria on the basis of specific regulations already at the planning stage, and ensure that they are communicated to the auditee. Comprehensive communication and greater openness to the arguments of the auditee is beneficial for all participants in the audit process.

The RCoA directors allocate human resources and set deadlines for individual audit stages: planning, realisation and reporting. The Reviewers observe that different number of days are allocated for audits of the same subjects carried out at equivalent local entities (at some entities these are twice as high as in others) – although the scope of these audits is the same. Having discussed this issue with both audit managers and auditors, the Reviewers conclude that this may be due to the fact that regional Chambers have various human resources at their disposal. Moreover, compliance audit at the RCoA is perceived as an additional engagement – to complement its main task, which is financial audit. Considering the scope of the RCoA’s audits and the available resources, engagement in compliance audits may result in work overload, and consequently have a negative impact on the quality of audits, or even lead to an incomplete picture of the audited activity.

The RCoA performs audits at all local entities of the same type, which does not seem to be the most effective and efficient solution. Importantly, the broad scope of audits has been indicated by both the auditors and representatives of stakeholders interviewed by the Peers.

**Recommendation 34**  
Narrow the scope of individual compliance audits. When planning a systemic audit, or parallel audits at equivalent entities (entities of the same type), divide the audit topic into parts, and conduct audits

at some entities only so that to focus on deficiencies in the overall organisation when analysing audit results.

### **Compliance Audit Execution**

In the reviewed compliance audit sample, the auditors established the overall objective of the audit, purpose and scope. There is evidence that they understand the control environment of the audited entity. On the basis of the reviewed compliance audit sample, the Peers conclude that auditors and managers prepare sufficient audit documentation, following the RCoA's internal regulations, including relevant audit evidence for findings and conclusions reached by auditors. Documentation is detailed enough for the Peers to understand its content, although in some cases it unnecessarily repeats parts of information.

The compliance audit manual indicates that external public auditors must consider the significance (materiality) throughout the audit process, from the planning stage, through execution, to the reporting stage. Materiality is important in influencing the decisions, and has an impact on formulating conclusions. However, in the reviewed audit sample, the Peers do not find evidence of taking significance (materiality) into account.

#### ***Recommendation 35***

Consider significance (materiality) comprehensively at all stages of the compliance audit process and provide for respective documentation.

### **Compliance Audit Reporting**

RCoA auditors prepare reports on the basis of principles of completeness, objectivity and a contradictory process (which implies the conciliation of the deviations found). Reports contain information necessary to understand conclusions and recommendations, and to comply with the internal regulations. In the reviewed sample there are no descriptions of any limitations in the audit scope. The reviewed reports were prepared in due time, i.e. not too late after the audit mission<sup>62</sup>. The individual reports, however, are not published and the Reviewers refer to the recommendations on report publication formulated in the previous sections of this report.

Appropriate application of risk analysis and sampling, as well as thoroughly considered and sharply defined audit scope, if applied at the planning stage already, could also have a positive impact on the quality and readability of audit reports and audit results presentation. It does not imply, though, that minor issues should be neglected, nor that dissemination of the irregularities identified, or information about persons responsible for these irregularities, should be resigned from. However, incidental irregularities should not determine the general conclusions on the auditee's operations. Compliance audits are a useful tool here, especially if they cover problem areas. In the opinion of the Reviewer, a more elaborated presentation of findings – other than irregularities – should be comprised in compliance audit reports.

In the compliance audit files that the Peers analysed, there are precise financial data and detailed descriptions of irregularities, while limited information is provided about the auditees' activity and its assessment against suitable criteria.

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<sup>62</sup> ISSAI 400/59.

In the compliance audit reports analysed by the Reviewers there are precise descriptions of irregularities and general conclusions referring to them. These conclusions and other elements of reports, however, do not provide assurance of the condition of the subject matter, nor do they allude to the provided level of assurance (reasonable or limited). This information (in combination with the size and content of selected samples, as well as other elements considered necessary to support conclusions) is included in the working documents only. Since working documents are not available to report readers, it is not possible for them to know the level of assurance. Therefore, the principle of transparent communication of the assessment, as stated in international standards and regulations<sup>63</sup>, is not fulfilled.

***Recommendation 36***

Increase the informative value of compliance audit reports by focusing on the actual audited activities – described against suitable criteria (established on basis of the law and regulations), rather than on providing detailed financial data and exhaustive descriptions of the irregularities identified. Information about the auditees' assurance level will be beneficial for the auditee and public opinion.

The Peer Review Team have the impression that the RCoA system to monitor the implementation of its decisions and measures after compliance audit is similar to that of financial audit. So it brings the same issues and possible solutions.

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<sup>63</sup> For instance ISSAI 400/40.

## **VI. About the Peer Review**

### **Peer Review Team**

The Peer Review was conducted by a team composed of the following experts: Iwona Zyman, Director of the NIK Regional Branch in Opole, Kamila Żyndul, Chief Expert International Relations, Department of Strategy and Rafał Marynowicz, Senior Public Audit Expert – from the Supreme Audit Office of Poland (team leader); Hannes Loimer, Deputy Head of the Unit for Research and Technology Development and Sandra Fuchs, International Relations Specialist, Management and Administration Division – from the Austrian Court of Audit, and Erik Israëel, Quality Assurance Officer, Lisanne Marks, Senior Auditor and Elze G. Ufkes, Data Specialist – from the Netherlands Court of Audit.

### **Method**

The Peer Review was conducted on the basis of the INTOSAI Peer Review Guidelines (GUID 1900), elements of the SAI Performance Measurement Framework (SAI PMF) methodology, and criteria derived from INTOSAI Principles, Standards and Guidance comprised in the INTOSAI Framework of Professional Pronouncements (IFPP). The members of the Peer Review Team also relied on their professional experience, knowledge and practices gained during their employment at the respective SAIs and through participation in international projects. The Reviewers analysed a sample of the RCoA's audit files of three main types of audits (financial, performance and compliance), the legal documents governing the mandate and operations of the RCoA, and gained information from presentations by representatives of RCoA, as well as through interviews (in the form of online conferences) and written correspondence. The Reviewers also interviewed representatives of the RCoA's main stakeholders.

## **Attachment 1: Persons Interviewed**

### *Romanian Court of Accounts:*

Mihai Busuioc, President of the Romanian Court of Accounts

Claudia Boghicevici, Counsellor of Accounts

Simona Comşa, Adviser to the President / Project Manager

Dumitru Nichita, Adviser to the President / Assistant Project Manager

Amanda Bosovcki, Adviser to the President / Coordinator of the Project Component No 1

Corneliu Cornea, Deputy Director, Directorate of Methodology and Training / Internal expert for the Peer Review Component of the Project

Aurelian Vrânceanu, Director, Department XII, Directorate 2/ Internal expert for the Peer Review Component of the Project

Răzvan Mihalache, Head of Service, Prahova Chamber of Accounts / Internal expert for the Peer Review Component of the Project

Maria Florentina Constantinescu, Director, Department I

Costel Tănase, Head of unit, Service for the Audit IT systems, Department X

Svetlana Mureşan, Director, Directorate of Methodology and Training, General Directorate

Marilena Balabuti, Director, HR and Payroll Directorate

Mariana Punguţă, Director, Directorate of Programming, Reporting, Syntheses, General Directorate

Ecaterina Coban, Deputy Director, Directorate of Programming, Reporting, Syntheses, General Directorate

Cristian Neagu, Director, Quality Control Directorate, General Directorate

Vasile Loghin, Head of unit, Quality Control Directorate, General Directorate

Mariana Iagăr, Public auditor, Quality Control Directorate, General Directorate

Nicolae Pelinaru, Public auditor, Quality Control Directorate, General Directorate

Dorin Cojanu, Public auditor, Quality Control Directorate, General Directorate

Aurelian Verdeş, Public auditor, Quality Control Directorate, General Directorate

Carmen Bragadireanu, Director, Department II, Directorate 2

Constanţa Anca Donovici, Director, Department X, Directorate 1

Ramona Maria Moca, Director, Satu Mare Chamber of Accounts

Nicolae Balalia, Director, Prahova Chamber of Accounts

Ioan Ivaniciuc, Director, Botosani Chamber of Accounts

Anca Gheorghe, Public auditor, Department II, Directorate 2

Claudia Mihaela Vizitiu, Public auditor, Department VIII, Directorate 1

Elena Zaharescu, Public auditor, Department X, Directorate 1

Laurențiu Despa, Public auditor, Caraș-Severin Chamber of Accounts  
Vasile Racșan, Public auditor, Satu Mare Chamber of Accounts  
Cornel Enoae, Public auditor, Prahova Chamber of Accounts  
Lidia Ștefănică Bof, Public auditor, Botoșani Chamber of Accounts  
Marius Silviu Culea, Director, Călărași Chamber of Accounts  
Viorica Pop, Director, Maramureș Chamber of Accounts  
Sanda Fulvia Preda, Director, Buzău Chamber of Accounts  
Mirela Ionescu, Director, Department V, Directorate 2  
Silvia Minciună, Deputy director, Department V, Directorate 2  
Nicoleta Niculescu, Public auditor, Departament V, Directorate 2  
Mihaela Milea, Public auditor, Departament V, Directorate 2  
Daciana Roșca, Public auditor, Maramureș Chamber of Accounts  
Mihai Hepcal, Public auditor, Maramureș Chamber of Accounts  
Bogdan Ion, Public auditor, Buzău Chamber of Accounts  
Cristian Teiușanu, Department XII, Directorate 2  
Mihaela Liferie, Director, Department IX, Directorate 1  
Renate Mihaela Baci, Deputy Director, Mureș Chamber of Accounts  
Floarea Panait, Director, Brasov Chamber of Accounts  
Alexandru Costache, Director, Department II, Directorate 1  
Grigoriu Valentin Crasnobaev, Director, Tulcea Chamber of Accounts  
Elena Ghilimei, Director, Vaslui Chamber of Accounts  
Mihaela Tăutu, Public auditor, Department XII, Directorate 2  
Marian Motofeanu, Public auditor, Department XI, Directorate 2  
Alina Bratiloveanu, Public auditor, Department IX, Directorate 1  
Cristian Orha Vasile, Public auditor, Mureș Chamber of Accounts  
Adrian Ion Muntean, Public auditor, Brașov Chamber of Accounts  
Florica Dragomir, Public auditor, Department 2, Directorate 1  
Vlad Cătălin Ciurescu, Public auditor, Vaslui Chamber of Accounts  
Drobotă Radu, Public auditor, Tulcea Chamber of Accounts

***Parliament of Romania:***

Cosette Chichirău

Victor Ilie

Zoltan Miklos

Viorica Sandu

Simina Tulbure

Marius Horia Țuțuianu

Ștefan-Radu Oprea

***Representatives of the Court's Auditees:***

Daniela Orodel, National Investment Company CNI

Victor Vevera, National Institute for Research and Development in Informatics

Nicolai Ferariu, National Institute for Research and Development in Informatics

Luminita Dobrescu, National Institute for Research and Development in Informatics

Cerasela Beja, Romanian Copyright Office

Georgeta Bumbac, Ministry of Health

Amalia Serban, Ministry of Health

***Representatives of the Media:***

Daniel Coman

Adi Moșoianu

George Coman

Cristina Sbirn

Petru Zoltan

***Non-Governmental Organisations***

Mihai Buia

Eduard Petrescu

Marian V. Popa

Laura Ștefan



## **Attachment 2: Audits Analysed**

### ***Financial Audits:***

National Agency for Public Procurement, Department II

National Energy Regulation authority, Department IV

Competition Council, Department VIII

Ministry of Youth and Sport, Department X

Payment and Intervention agency for Agriculture, Caras-Severin Chamber of Accounts

UATM Satu Mare, Satu-Mare Chamber of Accounts

UATO Breaza, Prahova Chamber of Accounts

UATO Bucecea, Botosani Chamber of Accounts

### ***Performance Audits:***

Performance of the employment of the health personnel in the national public health system for the period 2014-2017, Department V and Calarasi, Maramures, Buzau and Timis Chambers of Accounts

Performance of the centralised county waste management system, Sibiu Chamber of Accounts

Performance of the activity on consumer protection, Department IV

Performance of the activity carried out by the National Institute for Research and Development in Informatics, Department XI

### ***Compliance Audits:***

National Investment Company CNI-SA, Department XII

National Institute for Computer Development Research, Department XI

Romanian Copyright Office, Department IX

UATM TG. Mures, Mureş Chamber of Accounts

Battalion 229 Brasov Logistic Support, Brasov Chamber of Accounts

DGRFPB – Administration of Sector 2, General Directorates of County Public Finances and of Bucharest, Department II

Tulcea County Agency for Social Benefits, Tulcea Chamber of Accounts

Vaslui County Public Finance Administrations, Vaslui Chamber of Accounts