

Improving governance through external audit - Results from the Functional Review of the Accounting Chamber in 2018

Background

The Accounting Chamber (ACU) is the Supreme Audit Institution (SAI) of Ukraine. Established in 1997, the ACU joined the International Organization of Supreme Auditing Institutions (INTOSAI) in 1998, and the European Organization of Supreme Auditing Institutions (EUROSAI) in 1999.

Article 98 of the Constitution of Ukraine states: *'The Accounting Chamber shall execute control over revenues and expenditures of the State Budget of Ukraine on behalf of the Verkhovna Rada of Ukraine'*.

One of the main tasks entrusted to SAIs is to hold governments to account for the use of public money. They do so by examining whether public funds are spent economically, efficiently and effectively in compliance with existing rules and regulations.

The modern and effective ACU can help to achieve: greater transparency in public finances, improved accountability for the government's use of taxpayers' money, reduced levels of corruption and financial mismanagement and improvements in investor confidence – both internal and external investors.

To achieve these improvements, the ACU is undertaking a challenging internal reform programme to modernise approaches how the ACU audits government income and expenditure in line with International Standards.

To deliver on its ambitious mandate in a fast-changing policy environment and to make the most efficient use of available resources, the ACU will need to increase efforts aimed at modernizing its internal processes, both at the central and regional levels.

Implementing reforms requires a number of preconditions, such as commitment from leadership, effective coordination of key actors and reinforcement of institutional capacity.

In March 2018, the Parliament of Ukraine appointed a new Chairman and approved the new membership of the ACU. In May 2018, the Chairman of the ACU and GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) signed the Letter of intent on development of cooperation. In frames of this cooperation and under the support of our international partners, namely German Government, Delegation of the European Union to Ukraine, the decision was taken to conduct a functional review of the ACUs' activities, for the first time of the ACU existence.

The functional review was conducted by the team of international audit experts from September until December 2018. First of all, an assessment of the ACU's current compliance with international standards was conducted. Additionally, an assessment of the ACU's current management system was produced.

The results from the functional review provide an objective baseline against which future progress can be assessed.

Overall conclusions of the ACU Functional Review

- The new leadership of the ACU is visibly committed to improving public audit in Ukraine
- A lot of chances to long-standing issues have already been made under the new board
- Overall conclusion of compliance to the maturity standards, based on the SAI PMF criteria, is that the ACU is currently operating at only partial level of conformity
- All audit areas need strengthening to transform the ACU into a more modern audit institution that works in line with international standards and best practice
- This will take time and sustained investment with many factors needing to just “go right” often including external factors outside of the control
- The current impetus for reform inside the ACU needs to be sustained so that the more effective and efficient ACU becomes a reality

Key findings, challenges and considerations for improvement

1. Quality

Expert`s findings:

- There was no full implementation of ISSAI standards in the audit process at the time of assessment
- Too much time and effort was spent on the development on single solutions during audits

Steps already taken:

- Ongoing exchange with other SAsI regarding standardization of audit procedures
- New cooperation agreements with national entities like (SFS, State Treasury, and the Ministry of Justice) were signed to guarantee informational access to all relevant data bases
- In 2018 the financial audits manual was drafted and is being tested now

Next steps:

- Two pilot audits in 2019 with the support of international experts to develop a new audit approach
- Development of a manual for performance audits
- Elaborate and implement together with Parliament and other stakeholders the new approach of how the results of the financial audits should be used in the budget process

2. Improvement

Expert`s findings:

- ACU didn't have visible strategy for organizational development
- The new ACU law introduced in 2015 shows weaknesses and flaws
- ACU didn't have internal systems to enhance learning and continuous professional trainings

Steps already taken:

- Workshops and consultations with international experts on techniques how to prioritize the content of a realistic reform plan have been undertaken
- Development of the Strategic development plan for 2019-2022 for the ACU including a new vision and mission statement has been started. For this aim working group was established under the Chairman of the ACU

Next steps:

- Identify the results of the Functional Assessment and related recommendations as the baseline for the further development and implementation of the Strategy of the Development of the Accounting Chamber
- Implement a self-assessments at regular intervals (every 2 years) on basis of the PMF SAI Framework and taking the Functional Review as a baseline to measure improvement
- Establish a platform across the organization to share among the auditors best practice examples and ideas for improvement

3. Structure

Expert`s findings:

- Appointment of the new board at ACU in March 2018 became a starting point for necessary reforms
- Resources of the ACU still seemed to be limited to cover by audits of a relevant part of the state budgets

Steps already taken:

- New units were established and existing structures were strengthened to provide the relevant support during audits

Next steps:

- Exchange with other SAIs to understand fully the mandate and the functions of a board as a body
- Workshops for the ACU members and staff to ensure a consistent understanding of the nature and scope of their independence and mandate
- Establish a rotation system for staff to strengthen independence and impartiality of the ACU

4. Communication & cooperation

Expert`s findings:

- Cooperation with the Parliament was weak since the adoption of the new law members of the Parliament have not yet made full use of the ACU as its partner
- Public awareness needs to be increased about the important role of the ACU to ensure transparency and accountability
- “User-friendliness” of the audit reports needs to be increased to attract public interest

Steps already taken:

- Enhanced cooperation with the budget committee of the Verkhovna Rada and all the relevant committees
- Increased number of audit reports and board decisions are made public on the website
- Overall quality of the reports has been improved, new requirements for their formation are established

Next steps:

- Define the capacities needed to support the Parliament in its work
- Clarify the relationship with the Parliament
- Increase awareness on the audit responsibility of the ACU among stakeholders
- Develop together with Parliament a follow-up procedure to ensure the implementation of the ACU's recommendation