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**Audit Office of the Republic of Cyprus**

# Peer review of the Audit Office of the Republic of Cyprus: Technical Audit Division

*The Audit Office of the Republic of Cyprus invited the United Kingdom National Audit Office to conduct a peer review. This report contains the findings and recommendations from that exercise and are the views of the review team based on the evidence presented. This report has been prepared as document for internal use by the Audit Office of the Republic of Cyprus and has not been produced for disclosure to any other person or organisation.*

# Summary

**1** The Auditor General of the Republic of Cyprus is an independent officer, responsible for the audit of central government, public organisations, local authorities and other public bodies and funds of the Republic of Cyprus. Supported by the Audit Office of the Republic of Cyprus (AORC), the Auditor General submits an annual report to the President of the Republic who, under article 116(4) of the Constitution, causes it to be laid before the House of Representatives. **Appendix one** sets out the role and remit of the AORC.

## The Technical Audit Division

**2** The Technical Audit Division (TAD) has a wide range of responsibilities which include external audit duties and internal management functions, including:

### *Internal*

- *IT support to the wider AORC.*
- *Overseeing facilities management for the AORC.*

### *External*

- *Preparing special audit reports on technical subjects.*
- *Computer Audit Service: providing IT audit specialist support to audit teams.*
- *Audit of rented building contracts for the government estate.*
- *Assistance / technical assistance in police investigations / criminal cases.*
- *Audit of Information Technology/Electronic Data Processing Systems.*
- *Answering complex correspondence and complaints from the public.*

**3** The TAD's most prominent responsibility is the ex-ante audit of works, supplies and services through the procurement process at; (i) the pre-award stage: inspection/audit of tender documents, (ii) the award stage: inspection/audit of tender evaluations and participation in meetings of Evaluation Committees and Tender Boards who are the decisive bodies to award tenders (iii) the execution stage: inspection/audit of the execution of the contracts in terms of time, quality and budget. This can include on site audits or reviews of any changes and variance to contracts via the relevant executive committee. Audits of the execution of contracts are also performed by audit teams in the wider AORC

## Scope of the peer review

4 In 2016, the Auditor General of the Republic of Cyprus invited the UK National Audit Office (UK NAO) to conduct a peer review of the AORC in accordance with *ISSAI 5600 - Peer review guidance*. The resulting report was finalised in 2017 and contained six key recommendations intended to help the AORC continue its journey to deliver a public audit service in line with the International Standards of Supreme Audit Institutions (ISSAIs).

5 ISSAI 5600 states that, *'a peer review is not an audit, but an assessment and advice provided voluntarily by peers'*. In accordance with ISSAI 5600, the scope of a peer review is determined based on the needs and wishes of the AORC. In 2018 the Auditor General invited the UK NAO to undertake a smaller exercise to review the TAD which was not included in the scope of the previous review. The AORC requested that the review team consider:

- The TAD's contribution to the AORC's strategic objectives, including particular focus on the role of the TAD in the procurement system (**Part One**); and
- Opportunities to improve operations management in the TAD (**Part Two**).

6 The Memorandum of Understanding outlining the objectives of the peer review can be found in **Appendix Two**. **Appendix Three** sets out the methodology followed, and **Appendix Four** contains examples of stakeholder insights collected during the review process.

7 This report is intended to be considered alongside the 2017 review. The report highlights priority areas for the AORC to consider when improving the TAD's contribution to the AORC. The findings and recommendations are the views of the peer review team based on information presented from 30 April to 4 May 2018. The findings and recommendations were discussed with the Auditor-General and the Acting Head of the TAD on 4 May 2018, and their comments have been taken into account in preparing this report. In accordance with ISSAI 5600, the AORC is not bound to the conclusions and recommendations of the review, and can decide, as appropriate and necessary, how to use the results.

## Methodology and approach

8 In response to the AORC's request, the review team performed a management system audit using the UK NAO's Process Management Maturity Analytic (PMMA). **Figure 1** illustrates how the PMMA enables an assessment of whether the elements of the management system are operating in a coherent and effective manner, through:

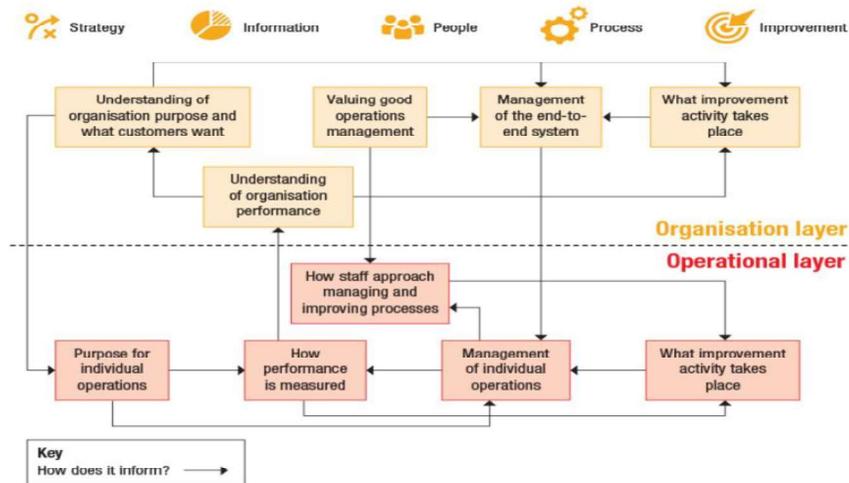
- 40 diagnostic questions testing 270 characteristics;
- Spread over five interrelated areas – Strategy, Information, People, Process,

Improvement; and

- Over two levels - organisational and operational.

**Figure 1**

The Process Management Maturity Analytic



Source: UK National Audit Office

**9** Fundamental to a successful review is the engagement and cooperation of the organisation under review. The review team would like to thank the Auditor General of Cyprus, Dr Odysseas Michaelides and his staff for their cooperation in undertaking this review; we hope the report is of value. The review team received:

- Full engagement and buy-in of the senior management team;
- A clear articulation of the objectives of the work and the desired outcome;
- A commitment to using the findings to making positive change to the organisation; and
- Openness and honesty throughout the assessment process.

## Overall conclusion

**10** It is clear the Auditor General is committed to improving public audit in the Republic of Cyprus. Action is already being taken to implement the six recommendations contained in the UK NAO's 2017 review, recommendations that are also highly relevant to the TAD.

**11** The TAD has acquired an unusually high degree of independence over time; in

some ways becoming partially separated from the rest of the AORC, absorbing 'orphan' functions which do not have a home elsewhere. It is vital that AORC senior management acknowledge their collective responsibility to change this paradigm, and work to reintegrate the TAD into the wider audit service the AORC provides. In developing the 2019-21 strategy, AORC senior management should also consider if some of the functions currently performed by the TAD's highly qualified staff could be reduced, stopped or delivered by another part of the AORC.

**12** External stakeholders value the TAD's involvement in the procurement system of the Republic of Cyprus, with TAD experts perceived as an integral part of the process. However, although the ex-ante audits are permissible under the International Standards of Supreme Audit Institutions, the Auditor General needs to continue to carefully manage any perceived risk to his independence as the TAD is undertaking a role that in other public procurement systems might be fulfilled by the Executive.

**13** Overall, the TAD makes a direct and valuable contribution to the AORC's strategic objectives, and there are many examples of when the TAD's work has led to positive impacts. There are also clear opportunities to enhance this contribution, for example, by designing standards ways of working across the division. More strategically, the TAD could make better use of its insights of procurement to produce different types of audits, improving the level of assurance the AORC provides the citizens of the Republic of Cyprus on the use of public funds.

## Key recommendations

1.1 In accordance with the scope of this peer review (ISSAI 5600), the review team has included advice in the main body of the report based on experience working on similar issues with other organisations. In addition, the review team encourages the Auditor General to consider the following five recommendations when planning how to invest time and resources in improving the work of the TAD. The recommendations in this report are intended to compliment the six recommendations contained in our 2017 review.

*In order to improve the TAD's contribution to the AORC's strategic objectives, the review team recommends the AORC consider:*

- a** **Using the new 2019-21 AORC strategy period as an opportunity to update the TAD's role, objectives and contribution to the AORC's overall strategic objectives.** Recommendation (e) from our previous report encouraged the AORC to ensure the strategic plan drives operational delivery and resourcing decisions. An agreed, explicit set of objectives would help TAD management to; prioritise what work needs to be done; define how the work of TAD and other audit directorates fits together as an end to end system; and, decide on the level and type of resources required. The new strategy is also an opportunity to develop a more systematic understanding of the TAD's stakeholders and what they value.

- b Exploiting the TAD's unique insight into public procurement to increase the division's strategic contribution through a series of performance audits which seek to address systemic issues.** Recommendation (f) of our previous report encouraged the AORC to develop a wider range of assurance products to enable more flexibility in audit approaches, reporting styles and timing. The TAD undertakes procurement audits on an individual basis, that is, tender by tender, project by project. By exploiting the TAD's unique insight into public procurement, the AORC could produce a series of performance audits on procurement and project delivery on, for example; the performance of an individual projects or contracts, trend analysis by categories (such as infrastructure or IT), of individual suppliers, or of individual departments. The AORC could also audit the procurement system itself by assessing the internal procurement processes of government organisations.

*Confirming the purpose and strategic fit of the TAD as recommended above is the primary means of enhancing the work of the TAD. For more tactical opportunities to improve operations management, the review team recommends the AORC consider:*

- c Developing better performance information to help prioritise the TAD's work.** TAD management do not currently have access to the type of information normally required to manage and improve business performance. The work of the TAD is demand led with the division reacting to requests for input, sometimes at very short notice, and staff feel the TAD is under resourced. However, until the level and type of demand, and the amount of time and effort required to satisfy demand is tracked, it is not possible to judge if this is true. In the review teams experience, other SAIs track their performance using a more balanced set of measures including, effort / cost, duration, timeliness and quality.
- d Establishing standard ways of working across each end to end process.** There is limited evidence of standardised ways of working across the division. Roles and responsibilities for each process step have not been formally documented, and there is limited guidance on how each activity needs to be completed. Standard ways of working reduce the reliance on key individuals, be a basis to train new staff or cross-train existing staff and form a more consistent basis for quality assurance of key audit products. Clarifying the end-to-end process for all audit and accountability streams, including developing process maps which include roles and responsibilities and the skills required, would be a good basis to develop a capability plan for the TAD. Relying on experience alone is a risky approach if the TAD is to meet new challenges.
- e Developing an improvement plan to guide changes to the TAD.** The TAD is already making changes, and progress is being made in the right direction. The Auditor General, the acting head of the TAD and staff in the division are committed to modernization. Improvement rarely happens by accident and will require careful planning, prioritising and an investment in skills and time if it is to be effective.