

FEBRUARY 2018

Audit Office of the Republic of Cyprus

Peer review of the Audit Office of the Republic of Cyprus

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.

Scope of the peer review

2 In 2016, the Auditor General of the Republic of Cyprus invited the UK National Audit Office (NAO) to conduct a peer review of the AORC in accordance with *ISSAI 5600 - Peer review guidance*. 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 the peer review was determined on the basis of the needs and wishes of the AORC, which requested that the review team consider:

- What is needed to ensure that the AORC 's financial, compliance and performance audit work is compliant with the International Auditing Standards for SAIs (ISSAIs) (**Part 1**); and
- Considering national legislation, international standards and internal regulation, is the AORC's audit quality control system appropriate, well-functioning and well managed, creating the prerequisites for high quality audits (**Part 2**).

3 The AORC defined the scope of this peer review based on the findings of its own organisational self-assessment of ISSAI compliance undertaken in 2015, using the INTOSAI Performance Management Framework (SAI PMF). The NAO peer review team was not asked to validate the results of the self-assessment, or to re-perform the exercise to judge the current status of ISSAI compliance. The review team was asked to provide insights, advice and practical guidance on how the AORC might respond to the priority areas of concern found during the peer review.

4 The findings and recommendations in this report are the views of the peer review team based on information presented by the AORC during two visits in November 2016 and January 2017. The findings and recommendations were discussed with the Auditor-General and senior management in April 2017, 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 of the assessment.

5 The Memorandum of Understanding outlining the objectives and conduct of the peer review can be found in **Appendix Two**. **Appendix Three** sets out the methodology followed by the review team, and **Appendix Four** details the UK NAO documentation shared with the AORC during the review process. These documents remain the property of the UK NAO, and are not to be shared further without the express permission of the UK NAO.

6 The review team would like to thank the Auditor General of Cyprus, Dr Odysseas Michaelides, and his staff for their cooperation and assistance in undertaking this review.

Findings and recommendations

1 It is clear to the review team that the Auditor General is committed to improving public audit in the Republic of Cyprus. The 2015 self-assessment helped identify areas the AORC needed to address to bring its audits in line with international standards (ISSAIs). Senior management acknowledge that although progress is being made, there is still more to do to deliver on the ambitions set out in the AORC's 2016-18 strategic plan.

2 In accordance with the scope of this peer review, the review team encourages the Auditor General to consider the following six recommendations when planning how to invest further time and resources in improving the AORC's capability to deliver ISSAI compliant audits.

In order to ensure the delivery of ISSAI compliant audits, the review team recommends the AORC consider:

- a Embedding an ISSAI compliant financial audit approach by; (i) establishing a central team to provide quality assurance, advice, training and methodology; (ii) updating audit guidelines, tools and templates to be ISSAI compliant; and (iii) providing training on key ISSAI audit concepts.** The review team recognises this is a major undertaking, and that some of these activities are already underway. The 2015 self-assessment, this peer review (and shared UK NAO documentation), the INTOSAI guide on *Implementing the ISSAIs*, and the ISSAIs themselves, all provide guidance which can help the AORC establish a consolidated, defensible, ISSAI compliant financial audit approach.
- b Ensuring the AORC's financial audit methodology requires consideration of materiality and risk during the audit planning stage.** AORC financial audits are currently not based on the principles of materiality and risk as required by ISSAIs 200 1315 and 1320. In addition to being fundamental to performing ISSAI compliant audits, considering materiality and risk during the planning stage is essential to allow the allocation of resources to priority areas of audit focus and delivering a reasonable assurance opinion in a cost-effective manner.

In order to create the prerequisites for high quality audits, the review team recommends the AORC consider:

- c Presenting to Parliament the AORC's case for financial and organisational independence based on international standards (ISSAI 10).** Independence is fundamental to an SAI's ability to fulfil its oversight role and deliver impact for citizens. The AORC does not currently operate in conditions consistent with the INTOSAI Mexico Declaration on Independence (ISSAI 10). The AORC has limited control over its budget (determined in part by the Ministry of Finance) and human resources (determined in part by the Public Administration and Personnel Department). The ability of executive government to exercise a degree of control over the AORC reduces its independence, and its credibility could suffer if accusations of interference are brought against it.
- d Increasing the accountability of the Auditor General and the AORC.** Formal mechanisms to hold the Auditor General publicly accountable are unclear. The AORC could enhance its institutional credibility and demonstrate leadership in public accountability and transparency by, for example, publishing its strategy, annual report and accounts, code of conduct and senior management remuneration.
- e Ensuring the AORC's strategic plan drives operational delivery and resourcing decisions.** The AORC has a strategic plan for 2016-18, which details the organisation's vision, mission, values, strategic objectives, and actions/activities. However, this strategic plan is not being used to drive delivery. An organisation without an up to date strategy can suffer from ambiguity of goals and objectives, with resources not being allocated in the most effective way.
- f Considering using a wider range of assurance products to increase the accessibility of audit findings to stakeholders.** The AORC currently prepares and publishes a comprehensive annual

report, and has recently started to publish other stand-alone outputs. Although the annual report is a comprehensive compendium of all issues identified, it may not be user-friendly and risks being ignored by all except those obliged to engage with it. Product diversification allows for more flexibility in audit approaches, reporting styles and timing.