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Purpose of the Peer Review

The Mongolian National Audit Office (MNAO) has requested that an external review be carried out of its institutional set-up and performance audit practice.

The main goal of the Peer Review was to assess whether the MNAO's performance auditing practice is in line with good international practice and whether it provides the Parliament with independent, objective, reliable and useful information on government performance that adds value for society.

The Peer Review has examined the following aspects:

- Independence and mandate
- Management, competence and planning

- Audit process, quality control and external relations
- Serving the Parliament and adding value for society

A list of questions addressed by the Peer Review is included in the appendix.

The scope of this Peer Review is limited to examining the organisation and performance of the MNAO as regards performance auditing. It does not cover the audit offices of the aimags (provinces) or the capital city.

The Peer Review has been timed so that it will provide input to the MNAO's next strategic plan, which will take effect from 2011.

2. The Peer Review Process

The Peer Review of the MNAO was carried out as part of the MNAO 'Management development' project implemented with the assistance of the Office of the Auditor General of Norway. The lead reviewer has been the Swedish National Audit Office, assisted by the Office of the Auditor General of Norway.

In conducting its review, the team has drawn upon INTOSAI's Peer Review Guide¹. The team has reviewed documents provided by the MNAO and interviewed the MNAO's management and staff in addition to representatives of Parliament, audited entities and academia.

When examining how performance auditing is conducted at the MNAO, the following three audits from 2009 and 2010 have been selected as cases:

- Compliance of laws and regulations on the forest
- Spending on budget fund for regular election campaigns for the President of Mongolia, State Great Khural (national assembly) and local Citizen's representative Khurals

 Effectiveness of budget planning and funding for educational sector.

The three audits are taken as indications of the current standard of performance auditing. They are not commented on individually, but used as a basis for assessment together with information from the interviews.

The Peer Review Team (PRT) has had to work in English, and a number of documents have been translated from Mongolian specifically for the purpose of the Peer Review. Most of the interviews were conducted using an external interpreter who translated from Mongolian into English and vice versa. This has proved challenging and it entails a risk of misinterpretation and misunderstanding. To minimise this risk, the report has undergone a clearance process, and this final version has been verified by and agreed between the MNAO and the PRT.

The peer review process started in summer 2010. The PRT had one week of fieldwork in Ulaanbaatar in September 2010, and this report concludes the work.

Endorsement version as of May 2010



What is performance auditing?2

Performance auditing is an independent and objective examination of government undertakings, programmes or organisations relating to one or more of the three aspects of economy, efficiency and effectiveness, with the aim of leading to improvements. The key principles guiding performance auditing can be described in brief as follows:

- The principle of ECONOMY is about keeping costs low. It requires that the resources
 used by the audited entity on its activities shall be made available in due time, in
 appropriate quantity and quality, and at the best price.
- The principle of EFFICIENCY is about getting the most out of available resources. It
 is concerned with achieving the best possible relationship between the resources
 employed, the conditions set and the results achieved, in terms of the quantity, quality
 and timing of outputs and/or achievements.
- The principle of **EFFECTIVENESS** is about achieving the stipulated objectives. It is concerned with attaining the specific aims or objectives set and/or achieving the intended results.

Performance auditing is about analysing and assessing the performance of government programmes or public services. It is an information-based activity that requires analytical and creative skills. In contrast to financial auditing, it focuses on the activity rather than on the accounts. And, in contrast to compliance auditing, it mainly relates to the intentions behind government interventions and to the concepts of economy, efficiency and effectiveness. Fundamental questions in performance auditing are:

- Are the right things being done?
- If so, are things being done in the right way?
- If not, what are the causes?

The perspectives and the entities to be audited vary, i.e. individual departments may be audited, as well as government programmes and undertakings. Some of the main differences between performance and financial auditing are summarised below.

ASPECTS	Performance auditing	Financial auditing
Purpose	Assess whether government interventions or measures have been conducted in accordance with the principles of economy, efficiency and effectiveness.	Assess whether financial operations have been carried out in accordance with legislation and regulations and whether accounts and financial statements are true and fair, i.e. reliable.
Focus	Policy, programmes, organisation, activities and management systems.	Financial transactions, accounting, financial statements, and key control procedures.
Academic background and relevant experience	Economics, political science, sociology etc. Experience of professional investigations or evaluations and familiarity with methods applied in the social sciences, as well as other relevant methods/skills.	Accountancy and law. Professional auditing skills.
Methods	Vary from audit to audit.	Standardised format.
Audit criteria	More open to the auditors' judge- ment. Unique criteria for each individual audit.	Less open to the auditors' judge- ment. Standardised criteria set out in legislation and regulations for all audits.
Reports	Special report published on an ad hoc basis. Vary in terms of structure and content, depending on objectives.	Annual opinion and/or report. More or less standardised.

² Adapted from Appendix to ISSAI 3100

3. Background

History

State inspection and control has a history dating back 90 years in Mongolia. The MNAO was established in January 2003, when Parliament passed the Law of Mongolia on State Audit. The MNAO continued the work performed by the State Inspection Committee since 1995, mainly using the same staff.

Since 2003, the MNAO has had a legal mandate to carry out performance audits. Before this law was introduced, inspections and audits were carried out with little regard to materiality, and there were few standards or guidelines.

There has been steady progress since 2003. The MNAO has translated a number of international standards and guidelines into Mongolian, and it has developed manuals and guidelines and conducted training in performance auditing.

The MNAO has received input on its development from various organisations. The German GTZ assisted in connection with economic audits and efficiency audits and provided equipment and training in Mongolia and Germany. Help was provided by the NAO UK in connection with the development of a performance auditing manual, in the form of training courses and coaching in actual audits. The US GAO has hosted employees on fellowship programmes. The MNAO cooperates with IDI, and employees are sent for training whenever it is organised. More recently, the Office of the Auditor General of Norway has assisted in connection with a seminar on the management of performance audits.

Legal position

The Law of Mongolia on State Audit defines the whole State Audit Organisation. The MNAO is the supreme audit institution of Mongolia. The National Audit Office provides professional and methodological guidance for the Audit Offices of Aimags and the capital city. The MNAO is entrusted with performing financial audits and performance audits of state organisations, except the State Great Khural, irrespective of their source of funding. According to the law, 'Performance audits include audits of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its function, and providing conclusions and recommendations.'3

Mission

In the Strategic Plan for the MNAO for the years 2007-2010, the mission of the organisation is described as 'To help the State Great Khural in implementing their legislative, supreme responsibility, and to help the Government in improving the responsibility, efficiency and effectiveness of its actions for the faith of the country and the public'.

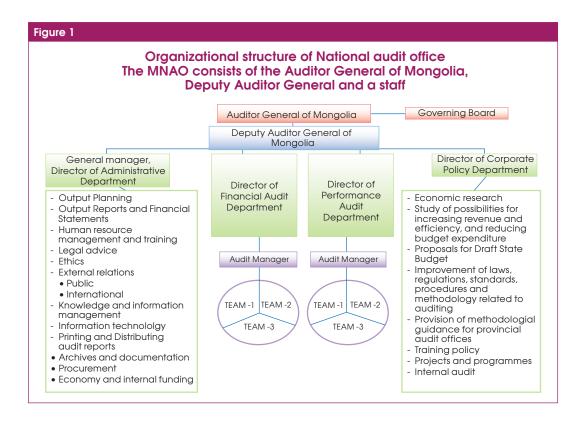
Organisation and personnel

The MNAO's organisational structure as of 1 July, 2009 is shown in Figure 1. The structure whereby separate departments are in charge of financial and performance audits was established in autumn 2009. Until then, there were two audit departments that conducted both financial and performance audits, with the same auditors working on both kinds of audits during separate periods.

In connection with the staffing of the separate departments, most of the employees who were CPAs went to the Financial Audit Department. The MNAO has a total of 50 employees, 18 of whom work in the Performance Audit Department. The management and staff of the Performance Audit Department all have a background in auditing, accounting, economics or finance; none of them has a social science background. The three team leaders are CPAs.

³ Law of Mongolia on State Audit 2003, Article 5.1





4. Overall assessment

Independence and mandate

With its legal status as an independent organisation with a mandate to perform all kinds of audits of all state organisations regardless of their source of funding, the institutional set-up is basically sound. A few issues remain to be solved in order to fully comply with international standards: the status of the office is not guaranteed in the constitution, and the MNAO is not ensured full independence from the government in the budget process.

Management, competence and planning

In assessing the practice of the MNAO, one has to keep in mind that it is less than ten years since the MNAO was legally mandated to carry out performance audits and less than a year since performance auditing was organised in a separate department. It is clear to the PRT that the organisation of performance auditing in a separate department has already made a difference. It has improved the conditions for the MNAO developing a professional and sustainable performance audit function.

The MNAO is receptive and open to support and guidance from the international

community of supreme audit institutions. It is clear that the office is eager to develop further. Its management is actively involved in the audit work and in the efforts to improve performance auditing. The MNAO has done impressive work on creating an institutional framework of policies and guidelines. The challenge now is to put less emphasis on guidelines and more effort into developing practices and professionalism.

The competence of the present management and staff is largely in the fields of accounting and financial auditing, and not performance auditing. This is reflected in the way the performance audits are conducted. They are still heavily influenced by financial and compliance auditing. This is an issue that needs to be addressed, and it will be a challenge for the MNAO to recruit and develop the specific competence required for performance auditing. The MNAO will have to review its staffing policy and recruitment processes in order to be able to recruit personnel with the required academic qualifications in various subjects, the right personal and intellectual profile and experience of relevant research work.

The strategic plan is an important instrument in the MNAO's future development. The current strategic plan has played an important role in the development of performance auditing, even though the office has not been able to carry out all planned activities. This can to some extent be explained by the rather detailed character of the plan, the analytical orientation underlying the plan and the separation of duties between the Corporate Policy Department and the Audit Departments.

Audit process, quality control and external relations

The MNAO has developed a full set of standards and guidelines for performance auditing that has only partly been implemented. In the PRT's assessment, the reasons for this include a lack of capacity for targeted in-house training and practical coaching, insufficient competence among managers and staff, and ingrained habits and attitudes.

The audits conducted over the years have mainly focused on minor issues. The short time devoted to conducting audits has not allowed wider issues to be addressed or an analytical approach to be taken that could explain the problems or put them in a wider context. This can largely be explained by institutional factors and lack of experience in performance auditing.

Similar problems can be seen when it comes to the audit reports. To an outside reader, the reports are rather difficult to follow and understand, and they are not very reader-friendly and clearly structured. They are often overloaded with detailed and unfocused information that is not always explained or put in context. The scope is often limited, and the reports do not always reflect the complexity of the issues addressed.

In the PRT's view, the texts in the reports are not presented in a sufficiently reasoned form. In-depth analyses and balanced argumentation are not the norm. In many cases, information is not seen in a wider context. The opinions of stakeholders and other affected persons on complicated rules, lack of transparency and service etc. or about what needs to be done to improve efficiency and goal attainment are rarely elaborated on in the reports. This can make it difficult to carry out good

analyses and see connections in a wider perspective. Highlighting connections can make it easier for auditees to understand what needs to be done. This in turn can result in the learning effect not being optimal for the auditee.

Through interviews, the PRT has understood that auditees' views and arguments, which are stated orally but not in writing during work on the audit, are not consistently given consideration, explained and commented on in the reports.

The MNAO has not established close cooperation with the academic community or other knowledge-producing institutions. There are no institutional arrangements for training, assistance in quality control or other expert support. The PRT believes that this has had an impact on the quality of findings, analyses and conclusions in audit reports.

Serving the parliament and adding value for society

The MNAO's performance audit objectives are mainly compliance-oriented. The audits do not significantly address the areas of efficiency and effectiveness. Moreover, the scope of the analyses is often rather limited. Real causes of problems are seldom examined and existing regulations are not questioned, even when problems may be due to an inadequate institutional or regulatory set-up and not to poor practice.

Representatives from the Parliament told the PRT that the Parliament would like to see the MNAO becoming more advanced in its performance auditing, by giving higher priority to wider issues of relevance to the Parliament and by putting more emphasis on analysing the causes of problems relating to the outcome of government programmes and public services. This would increase the MNAO's ability to provide the Parliament with information that could be useful in the process of modernising government and making the public administration more efficient and more capable of serving citizens.

The Parliament has a strong interest in the work of the MNAO, and it has signalled a willingness to support performance auditing with more resources. This is a good platform for further development.



5. Suggestions

During its assessment, the PRT identified several areas for improvement. Below follows a number of suggestions for the MNAO to consider in its efforts to improve performance.

Increase the competence of management and staff

In order for the MNAO to ensure sufficient competence to conduct performance auditing and to ensure sustainability, and based on INTOSAI's guidelines to 'Establishing a sustainable performance audit function'4, the PRT recommends:

- reviewing the staffing policy and recruitment procedures
- recruiting staff with analytical skills and experience of qualified research work in subjects such as political science, sociology, statistics and history; a Master's degree should preferably be a condition for employment
- using the upcoming recruitment process to engage staff with a performance audit profile
- allowing personnel in the performance audit department who wish to return to financial auditing to do so
- ensuring that team leaders and managers are competent in performance audit methodology and in coaching the teams
- building capacity for targeted in-house training step-by-step, and engaging the academic community to assist in competence development
- developing an operational programme for long-term sustainability and reviewing and monitoring developments on a regular basis.

Shift the focus of performance auditing to more substantial issues

In order for the MNAO to meet the Parliament's expectations and have a greater societal impact, the PRT recommends:

 developing planning and allowing room for wider issues and more comprehensive analysis in auditing work

- improving the planning processes to ensure that performance audits address the issues that are most important to the Parliament and society as a whole
- ensuring that the whole organisation feels ownership to the plan, and adopting procedures to ensure its implementation.

Improve the audit process and quality control

To further develop the performance audit process at the MNAO, the PRT recommends:

- preparing audits better; study the area in more detail, request information from the academic community working in the field in question, NGOs and from the authorities involved
- enhancing the value of each audit by addressing the most important questions and by pursuing more analytical and less compliance-oriented lines of inquiry
- spending more time and resources on each individual audit. This includes all phases: planning, analysis, reportwriting and quality control
- having personnel dedicated to providing advice on methodology to support the teams
- considering engaging outside experts as consultants or advisors in complicated audits
- improving communication with auditees' operative staff and managers
- using focus group meetings more systematically during the audit process, at which invited stakeholders are given an opportunity to discuss preliminary findings
- improving quality assurance by having a reference group or experts/scientists review each report before it is sent for clearance.

⁴ Annex to ISSAI 3100

⁸ PEER REVIEW REPORT

Make the reports reader-friendly

To make information from the audits accessible, it is important that the reports are reader-friendly. The PRT recommend MNAO to:

- organise training courses or seminars for the staff on how to write well-structured and reader-friendly reports, and emphasise writing skills when recruiting
- avoid overloading the text with detailed information and figures; help the reader to understand the figures by interpreting them and putting them in context, and present numbers and findings in an aggregated manner; move details that are absolutely necessary to an appendix
- present a balanced picture of the area under study and communicate any argument that might explain the findings from the auditees' point of view

Establish close relations with the academic community

To increase the quality of performance auditing, the PRT recommends that the MNAO establishes closer cooperation with the academic community and uses social scientists as:

- sources of information in planning and pre-studies
- consultants or advisers in connection with audits
- reference groups for quality assurance in the audit process
- instructors in various subjects
- sources of information when it comes to recruiting potential candidates to performance auditing.

6. Major areas

Independence and mandate

The Law of Mongolia on State Audit provides the legal mandate for the powers and organisation of the MNAO. In addition, the Public Sector Management and Financing Law and other statutes provide the legal foundation for the organisation.

The Law of Mongolia on State Audit establishes a statutory mandate for the MNAO to carry out its functions. The MNAO is the supreme audit institution of Mongolia. The Auditor General approves the structure and the staffing of the organisation, and decides the recruitment, promotion and dismissal of personnel.5

Pursuant to the law, only the State Great Khural and the Chairman of the National Security Council (the president) can give assignments to the MNAO.6 The Auditor General of Mongolia has full freedom to decide how assignments shall be carried out.7

Pursuant to the law,8 the system of remuneration and bonuses for staff of the state audit organisation shall be consistent with the legislation relating to the civil service and be suited to the specific nature of the organisation.

The MNAO's budget proposal is sent to the Ministry of Finance, which can suggest changes before it is submitted to Parliament. This compromises the independence of the MNAO and is in breach of international recommendations. It can also compromise the independent performance of the audit of the Ministry, which is the responsibility of the MNAO. The independence of the MNAO is not secured by the constitution.

Today, the remuneration system for MNAO staff is not at the discretion of the Auditor General.

Good practice

The MNAO has full discretion when it comes to what to audit, how to audit and how to report on the audits performed. Access to all the required information and documentation from government authorities is ensured.

⁵ Law of Mongolia on State Audit 2003, Article 14.1

⁶ Law of Mongolia on State Audit 2003, Article 7.2

⁷ Law of Mongolia on State Audit 2003, Articles 13.4.2 and 13.6

⁸ Law of Mongolia on State Audit 2003, Article 14.4



Areas for improvement

To fully comply with international standards, the MNAO should have full independence from the government in the budget process and on issues concerning the remuneration of its staff.

Management and competence

Since 2009, employees working on performance audits have had this as their main function. They are organised in a separate department with three permanent audit teams performing one audit at a time. Responsibility for the development of regulations, standards, procedures and methodology for auditing rests with the Corporate Policy Department. There are no dedicated personnel in the Performance Audit Department responsible for providing methodological advice.

When the two separate audit departments were established, the auditors were assigned new jobs by management without a formal selection process. None of the management or staff of the Performance Audit Department has a social science background. The function of team leaders in performance auditing was given to employees with a CPA.

The MNAO hopes to recruit 15 new staff members in 2011. So far, recruitment has been carried out by 'headhunting' candidates from auditees and other sources. At present, the office has 50 employees and no vacancies.

According to the employees, moving into performance auditing proved very difficult to begin with and for several years afterwards. Attitudes have now changed, and today, most of the auditors believe that they have a good understanding of what performance auditing requires. But there are still some who find financial auditing more in line with their competence and interests

The interviewed auditees have informed the PRT that the audits have not added sufficient value - they have not helped them to perform better. Limited scope and a lack of communication and analysis are the three main explanations for this, according to the auditees and also others

with whom the PRT has spoken during fieldwork.

Good practice

The top management at the MNAO is dedicated to making performance auditing a success. It is a step in the right direction that the MNAO has organised financial auditing and performance auditing in separate departments, and that it has given priority to work on policies and guidelines. It is also positive that the management plays an active part in the ongoing quality assurance of performance audits.

The MNAO's management wishes to develop the organisation, learn more about advanced performance auditing and implement it in the organisation. This is very important and demonstrates good management practice. Given this management approach, positive development is very likely.

Areas for improvement

It is important that teams' and managers' competence in performance auditing is further developed. In this respect, it is essential to follow the development of the teams, and, in particular, how and whether each member of the team has the competence required of a performance auditor.

When recruiting new staff, it is necessary to broaden the skills base of the MNAO by ensuring that new personnel have strong analytical skills and experience of relevant research work. Individual skills are of special importance in performance auditing.

The cooperation between the Corporate Policy Department and the Performance Audit Department is an area for improvement. One way of doing this is to give the line department greater responsibility for preparing and implementing standards and guidelines. Another way is to involve members of the line department in the work of developing guidelines or holding seminars on various relevant topics in order to enhance competence and practices in performance auditing.

Strategic and annual planning

The MNAO's current strategic planning period ends in 2010. It includes the strategic goals of improving the MNAO's quality management system, audit outcome, internal monitoring, methodology and approaches, as well as its efficiency and effectiveness. It is an impressive and rather detailed plan, although it does not always focus on the most important strategic issues.

In the strategic plan, it was envisaged that the themes or topics to be investigated in performance audits should be identified no less than three years in advance, and a list of rather detailed topics to be audited was provided in the plan. Not all of these themes have been audited, however, and the list has not been revised.

Based on input from Parliament and from staff, the MNAO now prepares an annual plan for the performance audits it plans to carry out. Due to additional requests made during the last year and for other reasons, some of the planned audits may not be carried out. The increased interest in performance auditing may be one explanation why, during the last year, the Parliament has asked the Audit Office to conduct more audits than before in addition to those already planned.

Good practice

Many essential issues have been addressed in the existing strategic plan, and two main objectives are especially important: to further develop the audit quality management system and to constantly improve effectiveness of performance auditing.

The MNAO communicates with Parliament about its annual plan. This is important because the decision-makers need to be aware of the MNAO's priorities. In connection with the annual plan for 2011, the secretariat of Parliament will again play a coordinating role in relation to the proposals for performance audits from the different committees.

Areas for improvement

The next strategic plan provides an opportunity to focus more on audit topics that are of more material relevance to the Parliament and society as a whole. It may also be a good opportunity to analyse needs from the perspective of developing an advanced and sustainable performance audit function.

The organisation might benefit from greater employee participation in the development of the strategic plan. This could lead to more commitment to the strategies and ensure that the plan, and its visions and goals, are well known at all levels in the MNAO.

To ensure that the strategic plan has a continuous impact on the organisation, it might be beneficial to include a formal review of the plan as part of the annual planning process. The list of possible lines of inquiry for performance audits in the next few years could also be revised at the same time.

With respect to the annual planning and relations with the Parliament and potential requests, it is important that the MNAO safeguards its integrity and only accept requests that are in line with its priorities. One area for improvement, therefore, is to sort out these issues with the Parliament and agree on a policy for how to handle such requests.

The audit process

The performance audit reports are completed in three months from the pre-study until the report is finished. This limited period has consequences for the thoroughness of the planning, data collection, analysis and the writing of the report.

Before the teams start the main study, they carry out a pre-study and develop a work plan. To prepare for the main study, the teams use a mix of design matrices and problem trees to try to narrow the scope. The PRT found that the teams did not consistently have extensive contact with researchers and the ministry in order to obtain a better picture of the complexity of the area in question.

Focus groups consisting of representatives from the academic community and experts are not used in every performance audit. Discussions in focus groups highlight different aspects of a question. These kinds of processes can be dynamic and





interactive, and allow room for reflection. If successful, discussions in focus groups contribute to knowledge sharing and development for the participants.

In most cases, the perspectives in the reports were rather narrow in relation to the often much wider audit questions to be answered. It is a matter for discussion whether all the conclusions in the three examined reports are fair or based on a sufficient and comprehensive analysis.

There appears to be good communication between the auditors and the auditees' staff who are responsible for accounting and financial matters. There seems to be less communication with other staff responsible for operational activities or with the top management at the auditees.

Once the fieldwork is completed, the audit teams invite the auditees to discuss findings at an internal 'dinner party'-style meeting. The draft is thereafter sent to the auditee for comments, which are provided within 10 days. The aim is to develop a better common understanding between the auditors and the auditees.

In its present form, the management board meeting held at the end of each performance audit seems to impact negatively on relations between the MNAO and auditees. And it does not foster openness. Since the media is present, the exchange of opinions and views is limited and often argumentative in form.

Good practice

During the report-writing process, the teams have weekly meetings at which they discuss findings and other aspects of their ongoing work. They take responsibility for different parts of the report writing, hold presentations for the management and discuss the drafts. The Auditor General and the Deputy Auditor General consider whether clarifications are required before the draft is sent to the auditee.

Areas for improvement

One area for improvement is the way planning and pre-studies are conducted. The focus on potential savings is perhaps given too much attention and has caused the MNAO to focus on rather narrow issues. As a result, lower priority is given to issues that might be more important to society in a wider sense. More time ought

to be devoted to better preparation of the audits, at least for some audits each year. Those audits that have been able to devote more time to preparation (studying literature, talking to scientists and experts etc.) have also produced audits of greater value to society.

Another area concerns working methods, both in terms of approaches or study designs and in a more technical sense - how to conduct better interviews, use statistical methods etc. This is an area where the MNAO could consider preparing a development plan.

An important area concerns improving communication with auditees and giving more consideration to their views and arguments. The PRT recommends the MNAO to place greater emphasis on developing communication with heads of auditees and with those responsible for operational activities.

Knowledge-sharing within and between teams is also an area for improvement. The teams, and sometimes even individual team members, seem to work on their own at times. Each team member is responsible for one part of the audit, and, sometimes, little time is set aside for discussion and analysis in the whole team. In addition, little time is devoted to discussing the wider lessons learned afterwards.

Another area for improvement concerns training in how to make the audit reports more reader-friendly. The reports produced today are seldom easy to read. They contain a mixture of topics. Large and unrelated questions are answered in the same report, and the findings consist more of stating the facts than of analysing correlations between findings. A lot of minor findings are reported, and a multitude of figures and tables are presented. The auditors seem to have written down all their findings without sorting or structuring them. Important and less important findings are treated equally.

The MNAO might also consider how to better present their recommendations and the reasons for them. Constructive recommendations are important if the MNAO wants auditees to listen to its arguments. In the three reports that the PRT examined, it is not easy to see a link between findings and recommendations.

Quality assurance and control

The documents produced by each performance auditor are reviewed by the team leader. The manager and director of the Performance Audit Department carry out quality checks before the final quality assurance of products is performed by the Deputy Auditor General and the Auditor General.

An annual internal audit of the quality of performance audits is performed by the internal control function in the Corporate Policy Department. The annual internal audit of performance audits is compliance-oriented. This way of carrying out quality control is not educative for the performance auditors and it is doubtful whether it enhances the quality of performance auditing as a whole.

Good practice

All management levels are involved in the quality assurance process, and this greatly enhances the quality of performance audit projects and reports.

Areas for improvement

The PRT recommends the MNAO to review its quality assurance process. The steps presented in the textbox below can serve as an illustration of what to strive for.

Relations with the academic community

There is no established cooperation between the MNAO and the academic community at present. In the past, there were representatives of the academic community on the Governing Board of the State Inspection Committee.

Areas for improvement

One important area for improvement is cooperation with the academic community in various fields. The PRT recommends the MNAO to find a solution for more permanent cooperation in areas such as training, expert support and quality control

Ten important steps for quality assurance of the audit process (pre-study and main study)9

- Thorough preparations by reading up on the area and studying literature, research and websites and by contacting researchers, experts and former employees in the area in question, as well as conversations with the ministries and entities involved.
- 2. Internal discussions among colleagues (including quality control by an experienced colleague outside the team) of proposals for work plans before the proposal is submitted to the management and adopted after adjustment.
- 3. A good run-through of the approved main study with the auditee at which the goals, working methods, processes etc. are explained.
- 4. At an early stage of the main study (or already during the pre-study), engage researchers/experts as resource persons, fact checkers, and reference group in connection with the work of the investigation.
- Hold focus group meetings/seminars with affected stakeholders at the midway stage at which preliminary observations or findings and possible proposals for measures can be discussed under a duty of confidentiality.
- 6. Internal quality control of draft (by an experienced colleague outside the team, a so called second partner), on the basis of given assessment criteria, if desirable.
- Researchers or experts examine the draft report before it is sent to the auditees for clearance.
- Fact checking by the auditee(s) and afterwards an analysis of comments within the team and with the audit manager.
- The draft report is sent to the management for final consideration.
- 10. An exit conference between management at the Audit Office and auditees.



⁹ Based on the experience of the PRT



Relations with the media/public

Pursuant to the law,¹⁰ the MNAO can publish reports on any performance audit. A list of reports shall be published each quarter in the mass media and on the Internet.

Publicising performance audit reports contributes to transparency in public sector management and demonstrates how performance auditing can contribute to improvements in public administration and aovernance.¹¹

There is no focused press strategy aimed at capturing the interest of the general public when a performance audit report is finished, and the MNAO has limited direct contact with journalists to encourage press coverage of performance audit reports. A press release is produced each time an audit report is discussed at the governing board. Quarterly announcements are not published in the mass media at present due to budget constraints. In addition, the printed copies of the performance audit reports are not freely available to the general public.

Good practice

The MNAO makes all performance audit reports available on the Internet.

Areas for improvement

The PRT recommends the MNAO to develop a media policy. The current practice hampers the publicising of the reports and the public's chances of being informed.

It is important to issue short press releases and hold press conferences. They contribute to public attention and are vital tools for promoting transparency and accountability. However, the media should not be given access to information before the audit reports are completed and published.

Serving the parliament and adding value for society

Pursuant to the law,¹² the MNAO shall give due consideration to suggestions made by the State Great Khural and its standing committees when developing long-term and annual plans.

The reports that the Auditor General decides to send to Parliament are either sent to a standing committee or to the speaker, and it is up to them how such reports are debated (in committee or in the whole Parliament) and what actions should be taken in relation to such reports.

The Budget standing committee has expressed a wish that the MNAO's performance auditing capacity should be strengthened. Representatives of Parliament want performance audit reports to focus more on investigating the effect of policies and programmes and less on financial and compliance issues.

Good practice

The parliamentarians expressed an interest in the development of MNAO as a controller and as an office that can contribute to the development of society. They see a potential in the products delivered by the MNAO and are eager to see the office develop.

Areas for improvement

The MNAO might find it useful to further develop its relations with Parliament and to put more emphasis on informing members of the Parliament about what performance auditing involves.

The most important area for improvement, however, is to become more advanced in performance auditing and to address broad issues that are crucial to the Parliament and society as a whole. Presenting examples of efficient programmes and good management will further political decision-making processes.

Appendix

The main questions addressed by the Peer Review Team

- To what extent is the MNAO's performance auditing independent with respect to the right to select what, how and when to audit and to carry out audits free from improper external influence? To what extent is the Performance Audit Department able to select staff and manage the employee appraisal system free from outside influence? Are the budget proposals for performance auditing resources presented to Parliament without being influenced by the Government?
- ii. Does the mandate enable audits to be performed on economy, efficiency and effectiveness?
- iii. To what extent does the MNAO ensure that staff are unbiased and objective in the discharge of their audit duties.
- iv. To what extent has the MNAO developed a quality control system that provides guidance in connection with the quality assurance of work plans and main study proposals, internal monitoring and supervision of all phases of the performance audit process and the use of external expertise?
- v. To what extent is performance auditing at the MNAO carried out in accordance with the guidelines and control systems for performance auditing implemented by the Office?
- vi. To what extent are the performance audit processes conducted properly? And are the performance audit reports reliable and objective?
- vii. To what extent do the performance audit reports from the MNAO provide information that Parliament and the Government find useful?

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