

INTOSAI



INTOSAI

EXPERIENTIA MUTUA
OMNIBUS PRODEST

**Strengthening
External Public Auditing
in INTOSAI Regions**

Contributions and Results of the
INTOSAI Conference
26 – 27 May 2010, Vienna

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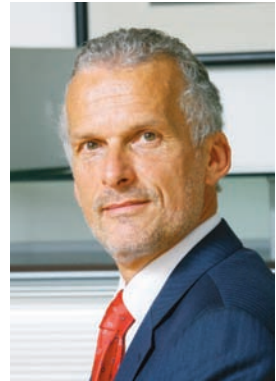
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**Foreword by Josef Moser
Secretary General of INTOSAI**



The promotion of strong, independent and inter-disciplinary government audit institutions, their capacity building and knowledge exchange are major concerns of the International Organization of Supreme Audit Institutions (INTOSAI) to strengthen the position of external government auditing worldwide. INTOSAI has also always attempted to find effective ways of persuasion and encouragement to convince the competent bodies of the ensuing benefits resulting from such independence.

Accordingly, INTOSAI held a conference on strengthening external public auditing at the Austrian Parliament in May 2010. About 100 representatives from Supreme Audit Institutions (SAIs) of all seven Regional Working Groups of INTOSAI, the United Nations, the World Bank, the Interparliamentary Union (IPU), the Donor Community and renowned external experts focussed on the significance of SAIs within the democratic system of checks and balances. They emphasized the added value of external government auditing and identified concrete measures to strengthen SAIs in all seven INTOSAI regions.

The present publication contains the numerous conference papers as well as the conclusions and recommendations for all relevant fields of action in order to strengthen external government auditing. The papers have been published as delivered or reviewed by the authors, in the English original or in English translation. Focal points of discussion concerned the input of government auditing to all aspects of Good Governance, especially to fighting corruption and achieving the United Nations Millennium Development Goals (MDGs). They address effective ways of presenting the values and benefits of independent SAIs – including the effective presentation of their audit findings, as well as the specific role of government



auditing in the current financial and economic crisis, in which SAIs are perceived as guarantors of credibility and public trust, and are gaining importance and influence in the international community. This publication is also devoted to the cooperation of INTOSAI and the Donor Community to enhance capacity building in SAIs of developing and emerging countries, specifically the current activities of the INTOSAI Development Initiative (IDI) and the World Bank.

The specific needs and challenges identified by the SAIs represented at the conference are reflected in their joint conclusions and focus on the following core issues: SAIs within the constitutional framework, SAI independence, values and benefits of SAIs, capacity building to strengthen SAIs.

In keeping with INTOSAI's motto "experientia mutua omnibus prodest" the success of the conference - including the present booklet - must be attributed to the support and fruitful cooperation of all participants. I should like to take this opportunity to express my sincere appreciation of you all who, on the basis of a common understanding of the current challenges have contributed to developing a common approach to achieve an independent, effective external government auditing function. Next to the President of the Austrian Parliament and our hostess at that conference, Mag.^a Barbara Prammer, I especially wish to thank all our colleagues from the Regional Working Groups of INTOSAI, the representatives of the United Nations, the IPU, the World Bank, and the Donor Community. I would also like to thank the renowned experts of government auditing and all participants for their outstanding contributions which have enabled the fruitful exchange of experiences and ideas at this conference. Last, but not least my thanks are also due to the staff of the General Secretariat for the excellent organisation of the conference.

I sincerely hope that this publication contributes effectively to communicating the concerns of external government auditing worldwide so as to strengthen the position of SAIs in order to enhance transparency, accountability and public trust in government, fight corruption and promote Good Governance.

Josef Moser

President of the Austrian Court of Audit
and Secretary General of INTOSAI

October 2010



Participants of the Conference on Strengthening External Public Auditing in INTOSAI Regions
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1 WELCOME ADDRESS

Barbara Prammer

President of the Austrian Parliament

It is my distinguished pleasure to welcome you to the Austrian Parliament. As some of you may remember, it is not the first time that we have the privilege to host the INTOSAI in this venue.

We do so not only because the Austrian Court of Audit is an integral part of our parliamentary system. We moreover do so because I believe in general that Parliaments should play a decisive role in international dialogue.

Ever since international relations have existed, they were exclusively dominated by governments. It is due to the fact that Parliaments embody a wider representation of societal interests that their taking part in the debates has become an important innovation. It is a challenge that more and more Parliaments have accepted with great commitment.

The institution of Parliament itself is probably as close as one can get to a full picture of all the different interests within society. Interconnected Parliaments are therefore per se a network of the people.

Also, Parliaments on the national level act as the only institution to provide full insight into the political debates. Transparency is a major democratic principle that both Parliaments and INTOSAI are fully committed to.

Another important aspect concerning the role of Parliaments is sovereignty in budgetary matters. In most democracies it is self-evident that Parliaments decide on the expenditures and revenues of the state. Many national constitutions however do not allow for Parliaments to exercise this power that is crucial to their full capacity to act.

The IPU has noted and criticized this deficiency. I do believe this is an objective that the IPU and INTOSAI have in common.

For authority over the budget is the main precondition for Parliaments to control the execution of the laws they pass. Hence audit institutions themselves will automatically benefit from a legislative to which this power is vested in.

And thirdly, let me point out the importance of an independent external financial control for the entire field of development aid. The Paris Declaration on Aid Effectiveness of 2005 and the Agenda for Action signed in Accra in 2008 both stress the importance of the state and its institutions



in guaranteeing the efficient use of donated money. With the growing trend towards direct budget support for recipient countries, these accords have become all the more relevant.

Only Parliaments in cooperation with audit institutions can sufficiently monitor the effectiveness and predictability of aid flows. The creation and support of strong and independent institutions are key factors for international development. Hence, the closer the cooperation between the Parliaments of donor and recipient countries, the more effective their control function. After all it is in the interest of governments themselves to live up to their pledges of full compliance with these principles.

Your conference here in Vienna addresses the issue of strengthening external public financial control – an issue of great relevance with regard to many of today's challenges.

As we are heading into the third year of the international economic crisis we have seen that in addition to stimulus packages, states also need to undertake serious efforts in budget reform.

The way this issue is dealt with remains of course a highly political question and must be debated as such. But the issue itself should be addressed with due commitment to responsible handling of our budgets.

Politicians all over Europe and the rest of the world have much work ahead of themselves. It is unthinkable that this work could ever be done without the guidance of SAIs. You provide the facts and the sensitivity that are needed.

I believe this is not only a question of a solid financial basis for all political action. But it is moreover an indicator of the trustworthiness of the democratic system as a whole.

After all, your work is an important contribution to the every-day decisions we parliamentarians have to make. In making the laws but also in monitoring their execution by the governments.

Let me once again welcome you to Vienna as a city with great tradition of international dialogue. I wish you the best of success for your conference and look forward to welcoming you again in the Austrian Parliament.



2 KEYNOTE SPEECHES

2.1 Strengthening External Public Auditing in INTOSAI Regions

Josef Moser

President of the Austrian Court of Audit

Secretary General of INTOSAI

The ideal of external public audit

“Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent - or at least render more difficult - such breaches.”

This ideal of external public audit is laid down in the Lima Declaration. It is illustrated and fleshed out in concrete terms in INTOSAI’s Mission Statement and Strategic Plan. Undisputedly, external public audit is tasked with promoting Good Governance, enhancing transparency, guaranteeing accountability, maintaining credibility, fighting corruption, strengthening public trust, and ensuring the efficient and effective use of public funds for the benefit of the citizens.

Each individual SAI must ensure that all government operations are audited in an impartial manner and that there is objective reporting on the use of public funds, giving due consideration to the need for sustainability in the way government delivers its tasks.

In this context it is appropriate to highlight the role SAIs play in reaching international goals. Growing interest on the part of international development organisations in cooperation with external public audit clearly shows the standing of SAIs which, through their work, ensure public accountability and hence create the framework which is indispensable for achieving international goals, in particular the United Nations Millennium Development Goals. With their transparent, independent and objective work, SAIs contribute to alleviating poverty and hunger, improving education, strengthening gender equality and the role of women, reducing infant



mortality, raising the quality of health care, combating serious diseases, promoting sustainability, and lastly reinforcing global development cooperation.

Unsurprisingly, international development organisations are interested in cooperating with external public audit, in other words with INTOSAI and its member SAIs, to ensure better accountability. The United Nations Millennium Development Goals will only be reached if all players, including effective external public audit, join forces.

Requirements for external public audit to achieve an “ideal” delivery of tasks

Effective external public audit hinges on the fulfilment of certain requirements and demands. This means ensuring independence, providing sufficient material and staff resources, developing and applying professional audit standards and methods, targeted training and development, effective sharing of knowledge and experience and communicating the value and benefits of external public audit.

Independence

SAI independence is a cornerstone and laid down in the Lima Declaration, the Magna Charta of government audit, as well as in the Mexico Declaration. Independence requires the realization of the following eight fundamental principles:

- An adequate legal basis which clearly defines the scope of independence;
- Independence of SAI heads as well as their non-dismissability and immunity before the law in the normal exercise of their functions;
- A sufficiently broad audit mandate and full discretion in delivering the tasks entrusted to the SAI;
- Unlimited access to information;
- The right and duty to report;
- Freedom to decide on the content and timing of audit reports and on their publication;
- Effective follow-up mechanisms to assess to what extent SAI recommendations have been implemented, and lastly



- The provision of sufficient human, material and financial resources as well as financial and economic independence.

No SAI is in a situation which would fully satisfy all of those principles. Therefore, all SAIs must make a contribution towards reaching the described ideal of external public auditing.

Capacity Building

Independence also requires SAIs to have the required material and staff resources and hence qualified staff of moral integrity. SAIs must therefore devote their full attention to capacity building. Activities in this area are carried out under Goal 2 (institutional capacity building). In order to optimise skill building for the INTOSAI members, bilateral, regional and multilateral cooperation as well as partnering with international development organisations must be strengthened in line with INTOSAI's independence requirements.

It can be rated a success that these efforts have led to the establishment of cooperation between INTOSAI and the Donor Community. This initiative for the global strengthening of institutional and material capacities of SAIs will mark a leap ahead.

In this context, we must also make sure that the INTOSAI Code of Ethics is being applied and practically implemented:

- Auditors have a duty to conduct themselves in a professional manner and to apply high professional standards in conducting their work;
- Auditors should know and follow applicable standards, principles, procedures and practices;
- Auditors have a continuous obligation to update and improve the professional skills required.

Professional Audit Standards

As mentioned, independence requires sound and well-founded knowledge, as well as professional audit standards and methods that meet international quality standards. In recent years, INTOSAI has been increasingly accomplishing this task under Goal 1 (professional standards) and has become a standard-setting body of external public audit. A wealth of International Standards of Supreme Audit Institutions (ISSAIs) and



INTOSAI Guidance for Good Governance (INTOSAI GOVs) constitute the current set of rules of our professional standards.

Again it is for all INTOSAI member institutions to make sure that these standards are being increasingly applied. It is necessary to accord special weight to cooperation with other international organisations, in particular with the International Federation of Accountants (IFAC) and the Institute of Internal Auditors (IIA), mindful of the respective tasks and target groups as well as independence.

Training and Development

In order to work effectively, SAIs need independence, need to realize the eight fundamental principles outlined, need audit standards and methods and their increased practical application, and they need sufficient material and staff resources. In this context it is evident that competent staff, as well as training and development, are vital for the effective delivery of government auditing tasks.

The IDI plays a leading role in this arena. It trains auditors to become training specialists, defines training needs, contributes its international knowledge network and helps develop strategies and procedures to assure the quality of training in the Regional Working Groups.

Let us all place ourselves at the service of knowledge sharing, let us all serve our motto “*experientia mutua omnibus prodest*” to help one another and to make a contribution from which we all stand to gain. Training and development is an opportunity for mutual learning.

Knowledge Sharing

Learning from one another implies comparison and benchmarking. In this area as well, INTOSAI excels under Goal 3 (knowledge sharing/knowledge services). The on-going further development of international knowledge management, best-practice studies and benchmarks requires substantial commitment by every single SAI as well as a willingness to make this knowledge accessible to all stakeholders and to allow self-improvement. It requires internal as well as external communication. It requires raising the level of knowledge of INTOSAI members with the aid of existing communication tools to a uniform level and promoting convergence. It requires awareness raising through external communication among decision-makers, notably representatives of legislative bodies and opinion-



leaders, that efficient external public audit which lives up to its tasks creates transparency, fights corruption, promotes accountability, enhances public trust in the way in which government delivers its tasks, and ultimately contributes significantly towards the credibility and existence of the state as a whole.

Value and Benefits of SAIs

Effective, credible and sustainable external public audit presupposes that we make the value and benefits of our work visible, perceptible and understandable. This is the only way to make others recognize and appreciate our role. It is also a prerequisite for others, in particular decision-makers and the major partners of SAIs, the citizens, to endorse the cause of government auditing in the interest of a credible, transparent and efficient delivery of tasks.

External audit – Partner for transparency, accountability and Good Governance

The work of SAIs leaves nobody unaffected, neither directly or indirectly, since it is instrumental for safeguarding public interests. It is therefore crucial that in the future, we implement our motto of “*experientia mutua omnibus prodest*” even more decisively, both internally and externally.

This conference is a good example of how this can be achieved. The presence of leading representatives of INTOSAI and major representatives and decision-makers of legislative bodies, international institutions and non-governmental organizations (NGOs) impressively demonstrates the interest in strengthening audit in all regions of the world in order to ultimately live up to the demands of transparency and accountability, fight against corruption, public trust in the way government delivers its tasks, the credibility of state institutions, and to make an effective contribution to ensuring Good Governance.

Meeting requirements in terms of an “ideal” delivery of external public auditing tasks

A number of examples for concrete measures have been identified to meet the resulting requirements:

To attain SAI independence it is necessary to increase awareness so as to elicit the broadest possible support for the enforcement of independence.



Embedding the Lima and Mexico Declarations in a United Nations document and, as appropriate, their incorporation in international law, will also assist SAIs in attaining their proper independence.

Identifying the needs and challenges that SAIs are facing is a fundamental prerequisite of institutional capacity building and of developing material and staff capacities of SAIs. Effective capacity building programmes can be developed and implemented on that basis.

It is also necessary to adopt effective measures for the practical application of the ISSAIs and INTOSAI GOVs, as well as a proper framework for developing new and for updating existing ISSAIs und INTOSAI GOVs.

Targeted training and development require the design and organisation of specific training programmes to raise awareness of the importance of SAI independence, apply professional audit standards and methods, train auditors to become training specialists and develop quality assurance strategies and procedures (such as peer reviews, best practice studies, etc.). The joint UN/INTOSAI Symposium should also be continued, and cooperation with the United Nations should be stepped up within the framework of the UN/INTOSAI Platform as well as with the Donor Community and other international organisations.

And finally, it is necessary to present the value and benefits of independent SAIs in an appropriate manner. For this purpose, key and performance indicators should be developed which allow SAIs to assess the value and benefit of their performance through self-evaluation so as to raise awareness for the value added that SAIs generate for the state and society at large.

Conclusion

This conference on strengthening public audit has achieved its goal and purpose if it is possible to reach joint commitment in the areas mentioned – independence, capacity building, audit standards and methods, training and development, knowledge transfer, as well as value and benefits – and to develop realistic, forward-looking and productive solutions for all SAIs, whilst respecting the autonomy of all INTOSAI Regional Working Groups.



2.2 Importance of independent SAIs for the implementation of the UN Millennium Development Goals

Thomas Stelzer

Assistant Secretary-General for Policy Coordination and Inter-Agency Affairs, United Nations Department of Economic and Social Affairs (UNDESA)

Introduction

I would like to start by congratulating INTOSAI for organizing this international conference and bringing much needed attention to the role of external public auditing in government operations. I would also like to extend greetings to all of you on behalf of Mr. Sha Zukang, Under-Secretary-General of Economic and Social Affairs (UNDESA), who pays special attention to this important subject.

It is well known that external public auditing contributes significantly to combating corruption by reinforcing legal, financial, and institutional frameworks and improving overall financial accountability. Corruption in government is not merely a development challenge for poor countries. Nor can it be ignored as a possible cause of occasional scandal in developed regions. To quote the United Nations Convention against Corruption, it is rather “*a transnational phenomenon that affects all societies and economies, making international cooperation to prevent and control it essential.*”

For this reason, I applaud INTOSAI’s efforts to promote universal acceptance of the fundamental principles of public auditing set out in the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence. I am pleased to add the voice of DESA to those recognizing the inherent value of these campaigns, particularly because of the important contribution of external public auditing to development, with the view of accelerated progress towards the internationally agreed development agenda, including the Millennium Development Goals.

Public audit of development commitments

How external public auditing contributes to development goals is self-evident. First, it fights corruption and fraud at national and local levels of government to improve public financial management. Second, it invests the savings gained



in strengthening institutions and improving public services. The result is enhanced trust in government by citizens and businesses and a better quality of life.

Yes, sound financial management is critical to effective governance. When public funds are squandered or stolen, the state's capacity to deliver public services can be seriously impaired and the prospects of achieving good development – consistent with internationally-agreed development goals including the MDGs – are much reduced.

I recall that INSTOSAI and UNDESA had a conversation about auditing for social change in 2005, during the 6th Global Forum on Reinventing Government: Towards Participatory and Transparent Governance. In our discussions we stressed the merit of incorporating a results orientation in external audit in order to assess whether public institutions were achieving their desired ends and a set of measures and benchmarks for assessing progress towards MDGs was deliberated. The aim of this was to encourage SAIs to incorporate MDGs and other international development objectives in audit frameworks, not at the exclusion of national policies and practices, but as a complement to them.

Standards and expectations of today's public service

Another matter I would like to bring to your attention relates to the standards and expectations of today's public service. INTOSAI will have a lot to share with us on its outstanding work in promoting a better understanding of the different roles and tasks of SAIs in society, namely high degrees of transparency and accountability for effective public administration. Without them the quality of public services suffers, spending decisions are compromised and the citizen's trust in government is undermined.

And there is more. Public institutions in today's information age are expected to be responsive, inclusive, accessible, and connected. These are the measures citizens have in mind when judging government programmes today.

Modernization along these lines is occurring rapidly in some countries and gradually in others, yet the trend in all regions is clear. Given the evolution of government, external auditors might ask whether public institutions have the capacity to perform well and deliver results that citizens expect in the modern age, and what this means in practice. We in UNDESA are asking the same questions.



One important answer was provided by UN Member states in 2003 at the World Summit on the Information Society. Countries agreed that governments should have a leading role in developing and implementing comprehensive, forward looking and sustainable national e-strategies. They also agreed that international institutions should have a key role in promoting the use of information and communications technology (ICTs) for development and for the evaluation of progress made.

This is an unambiguous message for INTOSAI, and it begins to answer the question about what modernity means in practice. In fact, the call to action by UN Member states was even more explicit – there was a specific request for governments to formulate national strategies, including e-government strategies, and to make public administration more efficient, effective, transparent and accountable.

Given the task of SAIs to examine the performance, economy, efficiency and effectiveness of public administration, it seems incumbent on SAIs to consider the application of e-government techniques to all areas of public service as a matter of course. The information society permeates all functions of government, from parliamentary to executive and legal functions, and countries at all levels of development, from the richest to the poorest. Indeed the poorest and most vulnerable should be given particular attention.

Citizen engagement in public auditing

Finally, let us not forget to engage citizens in the scrutiny of public institutions. According to the Lima Declaration, *“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.”*

Audits are important to development. But auditors do not necessarily know more than those they are auditing. Sometimes they may even be less knowledgeable than the institutions whose performance they are evaluating. Certainly an auditing team cannot be more knowledgeable than an entire nation.

INTOSAI’s motto is “mutual experience benefits all”. While respecting the need for independence, and welcoming the role of the external auditor in helping to improve public performance, SAIs may consider how they



can engage citizens within their particular national context. Indeed, inclusiveness in the whole-of-government is the essence of ‘development for all’, and external auditing, though independent, is not something beyond the reach of citizens or separate from government itself.

Here I return to the potential of technology, which has created opportunities for wider public participation throughout government. In Oman an open budget and strict monitoring by citizens through ICT seems to have contributed to stringent public accountability. The same has proven to be true at local level in Brazil where participatory budgeting has been linked to increased transparency, the innovative delivery of public services and a reduction of tax delinquency. Similar experiences have been reported in Argentina, India, Germany, New Zealand, and Singapore – just to name a few.

Conclusion

In conclusion, I would like to invite you to consider how better to integrate the development dimensions of public audit into the work of SAIs. I would also encourage you to consider whether all SAIs are truly reflecting contemporary norms in audit of institutional methods and performance. Finally, I hope you will have some time to ponder the potential for new forms of citizen engagement in public audit functions in the modern age.

We each have a role to play. You are the audit experts and UNDESA has expertise in public sector transformation and accountability. Let us join efforts and fight corruption to improve public performance, for the sake of development in which we all have a stake.



3 SAIS WITHIN THE CONSTITUTIONAL FRAMEWORK

3.1 Introduction

Juan Manuel Portal Martinez

Auditor Superior, Mexico

Chairman of the INTOSAI Governing Board

The external public audit function entrusted to SAIs is a key component of Good Governance. Any act which undermines their independence, attempts to subordinate them to the authority of the state, deprives them of resources needed for their work or restricts the impact of their findings is detrimental to transparency, state accountability and the public's right to efficient and effective government.

Governments wishing to show themselves to society and their peers as trustworthy will find in external auditing an important tool for improving performance, avoiding waste, effectively planning state programmes and policies, correcting deviations in the attainment of objectives and goals and punishing those who commit unlawful acts in public service.

Most countries' constitutional design seeks a balance between the executive and the legislature so that actions taken by the former are overseen by the latter, which represents the public interest. The technical difficulty of conducting such oversight requires Parliaments to have a specialized technical body responsible for auditing government: the SAI.

In constitutional structures, the predominance of the executive over the legislature and the judiciary is usually indicative of a low level of democratic and institutional development. An executive with no restrictions on its activities will be able to use public resources and funds indiscriminately and wastefully since it is not accountable for its actions. The political cost of such actions will be nil and the incentive to exploit state assets very high.

Without the checks operated by public audit, the standards of transparency, effectiveness and efficiency in public spending will necessarily give way to favouritism, political gain, personal and group interests, where corruption becomes a catalyst of government action. It should be noted that this phenomenon is not exclusive to developing countries but affects all states.



However, as countries equip themselves with sound SAIs, those effects can be controlled and reversed.

The importance of public auditing is universally recognized. Virtually all countries across the world have external audit bodies, which may take different forms according to legal tradition and the administrative structure of government. Also, the SAIs of some states are among their oldest and most prestigious and time-honoured institutions.

Institutions with very different structures and levels of development come together within INTOSAI. While, in some cases, public audit and accountability are deeply rooted in government practice, SAIs in a large majority of nations are still developing. One shared aim is a greater presence and real influence in the working of government, the recently issued Mexico Declaration on SAI Independence being an illustration of this.

It is thus not sufficient simply to have administrative structures in place for carrying out external audits; it is necessary to create conditions to enable their work to be conducted in timely fashion and for the results of their examinations to be converted into concrete measures that will contribute to improving government administration.

Among the main features of public audit, the following can be singled out: reviewing spending efficiency and effectiveness; overseeing compliance with rules regulating government action; checking the proper accounting of the use of public funds; evaluating audited entities' performance and the attainment of targets and objectives of public programmes and policies; promoting best administrative practices; providing objective parameters for appraising government activities and furnishing the citizenry with clear and timely information on the application of public resources.

A further feature of public audit which is of great importance for developing countries is that of defining budget management indicators, which makes it possible to identify areas of opportunity in the use of public funds and offer objective parameters for government performance measurement. The outcome will be higher-quality spending through improved assessment, controls and accountability to the public, within government and to the legislature itself, with an input-centred approach to budgeting being transformed into a results-oriented strategy.

In addition, the sanctioning powers of some SAIs discourage irregular practices by public servants, with a resulting decrease in the moral risk borne



by society in entrusting public resource management to them. The dissuasive effect of external audit, while not its main attribute, helps reduce opaque areas where situations conducive to the emergence of corruption are created.

Public audit is a corrective process which states can employ to enhance their quality of administration, rationally manage resources at their disposal and define strategies and policies capable of improvement through objective analysis and evaluation of audit findings. The punitive aspect of public audit is perhaps its least effective and forceful element, since sanctions are limited to single cases or individuals, whereas detecting areas of opportunity and promoting best government practices have an impact on public administration as a whole.

Society also achieves a net gain because it will benefit from more and better goods and services; it will have evidence by which to decide whether to show its support for the government in election voting and it will participate more fully in the public life of the country. Also, efficient public resource management has an impact on citizens' attitude to taxation and observance of fiscal regulations.

External audit, although highly beneficial, must necessarily be coordinated with internal audit operations conducted by audited entities' own control bodies and local oversight agencies.

Establishing a comprehensive system of controls covering the entire process of state administration would lead to increased public trust in government management and its inspection, rationalized use of resources earmarked for auditing work, avoidance of duplication of functions through complementary action and information exchange and also increased scope of audit and review operations.

INTOSAI's work of defining international auditing standards, producing documents such as the Lima and Mexico Declarations, training less advanced SAIs, organizing technical debates at its congresses and conducting research on specific issues through its Subcommittees, Working Groups and Task Forces is thus of great importance in enhancing its members' professional development and growth.

SAIs must increase their efforts in their respective countries so that the public audit function occupies its due place within the constitutional framework and audited entities appreciate its importance as a positive tool in their operation.



Public auditing also has to be based on key values such as autonomy, independence, impartiality and clarity of findings.

To function adequately, an SAI needs to maintain its autonomy and independence vis-à-vis audited entities and in the face of group interests or influence. The power derived from such principles can afford SAIs considerable influence both in decision-making and in public administration.

However, to balance that power, autonomy has to be accompanied by a commitment to impartiality so that, in the exercise of such authority, SAIs act disinterestedly and not in obedience to orders. As the basis for credibility in audit findings, the auditing process must not follow any criteria other than those of investigative procedures that are responsible, professional and founded on documentary evidence.

Furthermore, it is necessary to narrow the gap between SAIs and the general public. The former generally present reports in highly technical language and formats which the latter may have difficulty in fully understanding.

It is very important to take this into consideration in the design and execution of media policies aimed at publicizing the results of their work, bearing in mind the knowledge profile of the general public in regard to government audit.

It is also important to raise society's awareness of specific issues such as accountability and the powers, functions, duties, objectives, sphere of responsibility and limits of SAIs with a view to improving knowledge and communication of these aspects.

As regards the scope of audits in relation to issues such as corruption, it should be pointed out that SAIs form an integral part of a state's institutional framework and therefore have to contribute to resolving its problems. Combating corruption in public administration must figure on our SAIs' agendas.

In the identification of areas where public audit can have a favourable impact, one very useful tool is the conduct of public surveys and polls to ascertain precisely where corruption has a prominent role in order to determine the audit approach to be adopted in addressing and overcoming it.

To sum up, external audit is a core mechanism in the creation of a modern, transparent and effective administration that will lead to improved standards of living for society and thus to its greater democratic participation in our countries.



3.2 Fundamental constitutional principles of effective public audit

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Control and accountability in legal, political and - above all - financial terms, are fundamental principles that govern a parliamentary democracy.

A complement to accountability, external public audit is an essential feature of any democratic state that is governed by the rule of law. It puts a stop to the abuse of power, reduces susceptibility to corruption, and stringently requires factually sound decisions and dispositions concerning public resources, i.e. rationality, which is one of the bases of legitimacy of a democratic constitutional state.

With the tasks of the state and public households multiplying, and a diversity of general-interest services being provided, the role of external public audit has expanded significantly.

In the light of these developments, fiscal policy has become a major policy instrument in its own right, beyond its merely economic dimension.

With the accumulation of fiscal power, external public audit has become crucial for democracy and the rule-of-law.

The audit of public financial management must satisfy specific requirements in order to be able to effectively fulfil this key role in a democratic state that is governed by the rule of law. It is not only the mere existence, but also the status, organisation and staffing, as well as the functions and mandates of SAIs – institutions which embody external public audit – which must be enshrined in the Constitution and therefore shielded from the politics of the day and from intervention by a simple majority of government.

In a democratic state governed by the rule of law, SAIs, when auditing the use of public funds entrusted to the state by the taxpayers, primarily act at the service of elected Parliaments as bodies representing the people. Represented by Parliament, the sovereign (i.e. the electorate) makes available financial means to the executive for given purposes by virtue of budget laws. The parliamentary control prerogative regarding the budget and financial management that is exercised through the SAI is the reverse



side of the parliamentary appropriation prerogative, which - given the political identity of the parliamentary majority and the government who form a community of interests - is essential in particular for the opposition as constitutional counterpart and watchdog of government, as well as for the public at large.

Lastly, external public audit serves the citizens and taxpayers, i.e. the public at large, who have a keen interest in the sound and economic use of public funds.

As regards the status of external public audit in a system of checks and balances, one should bear in mind that SAIs do not exclusively work as agents of Parliament, but are regularly mandated by governments or individual ministers to carry out specific audits and to submit a report to the requesting entity.

By its very nature, external public audit is undisputedly neither a part of the legislative nor of the judiciary, since SAIs neither enact norms nor render legally binding judgments, but draft expert findings, submit proposals, and offer advice.

Audits performed by SAIs do not materially qualify as acts of government administration which - by definition - consist in actively delivering public sector tasks to meet given purposes, notably by appropriate decision-making.

SAIs are pure-bred controlling entities with no decision-making powers. They are neither endowed with executive authority, nor with independent powers of intervention, sanctioning or decision-making.

In a multi-party parliamentary system of government, the system of checks and balances, in particular the control of the executive by the legislative and of the government by the parliamentary opposition, serves the separation of powers and their mutual control.

Independence of audit entities, both materially and in terms of human resources, vis-à-vis all three state powers, not only the entities subject to audits, is a prerequisite for external public audit to be effective.

Apart from specific audit requests, SAIs must not be at the receiving end of any material instructions or mandates concerning the selection of audit objects, the time and organisation of audits, audit methods and intensity, or the design of audit reports.



In terms of human resources, the required independence can be ensured either by granting SAI members a status of independence akin to that of judges through constitutional provisions, or by specifically guaranteeing their personal autonomy in any other form.

Independence of external public audit furthermore presupposes that SAIs are sufficiently endowed with material and human resources which allows them to live up to their comprehensive audit mandate. In this context, not only the number but in particular the grading of posts, i.e. the special professional competence of staff, is all-important.

Wherever the public sector levies money from the citizens in the form of taxes, charges and contributions, the democratic principle inherently forbids that the financial management of these funds be exempted from accountability and control.

Therefore, the state's financial management in its entirety is subject to government audit. In a democratic constitutional state there must not be any areas left unaudited.

External legal entities to which the state has divested administrative tasks are equally subject to government audit to the extent they use public funds. Moving entities off-budget must not lead to their eluding audit.

The general mandate of external public audit equally extends to self-governing bodies such as local governments, chambers, universities and state foundations and institutions, as well as companies in which the public sector has a relevant financial stake.

In federally organised states, government audit of the federal entities can be set up in two different ways. Either, it may be excluded from the competence of the central SAI and assigned to regional SAIs. This dual system respects the federal sovereignty of the constituent states, the downside being that performance audits across regions and local communities which look at the implications on the national economy as a whole are not carried out.

In unitary systems, one central SAI is responsible for auditing governmental financial management in its entirety at federal, regional and local level.

External public auditing focuses on assessing the efficiency of government financial management. Together with regularity (i.e. mathematical correctness) and legality, it is the yardstick for measuring the rationality of government financial management.



Given the interpretative leeway and vagueness of the cost/benefit relations covered by the notion of economic efficiency of government operations, external public audit is faced with particular challenges. Business management postulates such as profit maximisation are applicable only with reservations to government measures which tend to be committed to public welfare, i.e. the general good.

Likewise, the question as to whether and to what extent objectives determined by policy-makers can or should be subject to audit and assessment of efficiency remains open.



3.3 Fundamental constitutional principles of effective public audit from the external public audit perspective

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Public audit: guarantee and contribution to Good Governance

Modern society has little or nothing to do with the one that used to exist fifty years ago; social, political and economic structures have all changed. Public powers cannot now act according to schemes that were valid years ago and which would today be insufficient. States are evolving in order to adapt themselves to changes. They have to be capable of identifying in advance the weak points of the systems and anticipate them, watching over the fundamental balances of the economy, of production and of social wellbeing. The demands of citizens have required them to adopt new management formulas leading to greater efficacy to be obtained along with more efficiency in meeting targets and complying with programmes, plus greater technical accuracy and more economy in actions.

Regularity and clarity in public accounts, responsibility, transparency, efficiency and efficacy have become the key principles for public management systems; systems, which - it has been demonstrated - can no longer remain geographically limited. Globalisation processes require them to have the necessary flexibility for merging with and being open to coordination and cooperation in the downward and upward direction, towards local and regional levels on the one hand, and towards supra-state communities on the other.

In this framework it has been necessary to create more efficacious and efficient structures, to adopt a greater rationality in the distribution of tasks and functions, and to promote a greater acceptance of responsibilities. The aim has been to achieve more precision and coordination in designing public polices and efficacy in the allocation of resources, thereby maximising the value of the performance. It becomes fundamental to evaluate the results of the management and to apply them to the scheduling and execution of future actions, identifying the areas of improvement and optimising allocations.



The external control of the public economic-financial activity constitutes a key task for guaranteeing management that is solid, transparent and efficacious, and for contributing to the promotion of Good Governance. In order to carry out this function properly, there need to be independent audit institutions that are modern and with a high technical qualification. They should act in accordance with strict ethical codes and apply audit standards and follow audit procedures that accord with internationally accepted standards that are state of the art.

Auditing and the bodies that perform it have to evolve with public management itself, meeting the needs and demands of citizens. They must even contribute towards encouraging the actual changes themselves, from the independent exercise of their function, anticipating and guiding them along the paths of good management, ethics, responsibility, transparency, efficacy and a willingness to serve citizens. Doing so on the basis of impartiality, objectivity, accuracy and a high technical level. For this, both the audit function and the institutions performing it have to enjoy the maximum constitutional coverage and legal protection that provide them with the framework that makes their full development and exercise possible.

Constitutional basic principles for an effective public audit

a) Recognition of the audit function, its content and scope

The existence and recognition in the Fundamental Text of states regarding the function of external control over the management of public funds is a basic constitutional principle for efficient auditing. This recognition has to extend to the scope and content of the audit function, which has to be developed heeding the principles of legality and regularity, but also in accordance with parameters of economy, efficacy and efficiency.

This audit function has to be defined by its own identity and idiosyncrasy, which distinguish it from other public functions. It has to be also defined by the independence of its exercise with regard to the powers of the state, without any political, administrative, financial or legal obstacle that would restrict it.

The submission to the principle of legality, objectivity, high technical solvency in its exercise and in the materialisation of its results, and transparency in the processes of decision taking, management and auditing; these must be the essential characters of the control function.



An efficient auditing function does not end with the simple examination of subjection of public management to the said principles of legality, efficacy, efficiency and economy; in obtaining the results of the checks and setting them down in reports that are sent to Parliaments and to governments. The scope of an audit function that were an end in itself and went no further than the detection of irregularities and weaknesses in management, would be very limited. This function has to aspire towards contributing to improving management and to supporting the development of Good Governance.

It corresponds to the audit bodies at the service of Parliaments to make a technical contribution, through their reports and recommendations, to encouraging and providing a feedback for the process of creating the rules for improving the organisation and public management, as well as to discover and eradicate zones of impunity that are open to infringements and to corruption. They must also provide a more precise knowledge for citizens and create in them a spirit of constructive criticism and a culture of good management when it comes to demanding legal, economical, efficient and ethical actions and responsible conduct from governments, institutions and managers.

Moreover, the action of the audit institutions cannot be limited to evaluating what has already been done, to mere *ex post* controls; instead, it must be more synchronised with the present reality. Those institutions have to become more intensely involved in the role of alert that corresponds to them. Not only do they have to check and analyse the suitability of the management, but they also have to evaluate its impact on public finances, anticipate risks, and suggest improvements in the systems, in the organisations and in the activity.

It must likewise be a function of the external control to contribute to the public action being directed at internalising ethics in the regulatory framework, in such a way that principles of social ethics and of management become principles of legality. In this way, as well as in economic efficacy and efficiency, the auditing bodies have to impinge on the ethical behaviour of agents related to the use of public resources, contributing to transparency, democracy and social progress.

The audit institutions have to be aware of this, reinforcing the classical formulas with quality controls and management assessment, in such a way that the actual transformations of the public sector can be based on and encouraged by a feedback process. Of special interest in this regard is the



function of recommendation and proposal granted by regulations to the audit entities for making a more decisive contribution to improving public action, encouraging modernisation and a greater soundness and efficacy in the management of public finances.

b) Regulation of the audit institutions and of their independence

Another major pillar for an efficient audit lies in making sure that the bodies carrying it out are recognised, constituted and that they develop their competences in accordance with the principles that make the audit function possible at its highest technical level.

In this regard, Article 5 of the INTOSAI Lima Declaration can be recalled. It sets down that SAIs must be established in the Fundamental Texts, in the Constitutions of the states, with their independence being laid down and guaranteed in them along with their audit mandates, in such a way that they can perform their functions efficaciously and transparently.

This provision of the Lima Declaration also includes a referral to legislation for setting out the specific details making up the basic guarantees for the audit institutions, in such a way that they become protected against outside influences that could alter their action and the results of their function. The aim of this is to endow these entities with a block of legality that provide them with a suitable setting for developing their function and for obtaining reliable technical results for offering to Parliaments, which will help to improve management and have the confidence and backing of citizens.

Indeed, the Constitutions have to safeguard the independence of SAIs, essential element of their design, which covers the independence of the institution, and it is inseparably linked to the one of its members and of the staff at its service.

The legislation has to contain provisions relating to the procedures for appointing and removing members; the periods for holding their mandates, which will be decoupled from changes in the legislative and executive power; and the status of the members, endowing them with immunity and irremovability in the exercise of their function in order to protect their objectivity and impartiality. Rules must also set down clear and transparent processes and procedures for regulating the action of the managing and governing bodies of the audit institutions in the decision taking and in the development of their activity.



The independence has to extend to organic, functional, budgetary and managerial fields of the audit institutions. The regulating framework must guarantee a rational and efficient organisation; perfectly regulated procedures that allow them to achieve their objectives; availability of high qualified staff with sufficient experience, in a permanent process of training and subject to an ethical code that will provide the maximum quality and soundness in the performance of their activity. The audit institutions must also have the material and financial resources they need for developing their actions, with the capacity to administrate them under their own decision and responsibility. The legal framework must be completed with the necessary measures allowing the compliance of these provisions to be guaranteed.

The regulating provision on independence must also be reinforced with the establishment of the necessary mechanisms and instruments so that the de facto conditions guaranteeing the effectiveness of this framework can be made possible, protecting the audit institutions from internal or external pressures of a political, social or economic nature that could alter it.

c) Definition of the mandate of the audit institutions

The Constitutions must also contain the mandate and scope of the competences that are entrusted to the audit institutions. The mandate has to be sufficiently broad, be clearly defined and provide the entity with powers that are fully discretionary in the performance of its functions.

d) Principles for an efficient execution of public audit: performance requirements and operation

The legal guarantee of independence and effectiveness in the development of the functions of the audit institutions must not just encompass their institutional fabric and their scope of action. The regulating framework must also provide the necessary measures for the effective development of their activity.

On this point, the need has to be highlighted for the control bodies to have the necessary powers for gaining access to all the information and documentation required for the due compliance of their functions, without the auditees being able to limit or obstruct the exercise of their function. Equally, the duty of public sector bodies and the individuals who manage public funds to collaborate with the audit institutions must be defined



in legal terms. The rules likewise have to consider the right and the duty of the supreme audit bodies to report the results of the audits, and to have the mechanisms allowing them to conduct a follow up of their recommendations.

Audit institutions have to be granted the utmost institutional respect and credibility, impact and public consideration of their function and results. For that purpose, their regulating framework has to provide the necessary mechanisms making this possible along with the sanctions attached to any infringement.

This set of constitutional and legal guarantees, which provide the SAIs with the framework they need for developing their functions, implies, as a counterpart, a set of requirements and duties, which have to be observed by them, by their members and their staff in compliance with the commitment to technical qualification, transparency of action and of moral integrity that can be demanded of them.

The acknowledgement and guarantee of their independence and of their mandate demands the full, responsible, transparent, technically qualified and diligent exercise of their function on the part of the audit bodies. So, it is essential that the external control institutions take into account the environment in which they develop their mandate. The efficacy of their action will be greater the closer it accords with the expectations, needs and priorities of the different players involved in the management as players or recipients of that action.

Special attention has to be paid by the audit bodies to reinforcing communications channels and formulas with the players in their environment. Their relations have to be reinforced with Parliaments, as legislative bodies, and therefore creators of frameworks and policies of action, and as bodies of political control over governments. Also, communications procedures have to be reinforced with the executive, as the main subject of the checks and recommendations of the audit institutions, making the monitoring of these latter an important area of their performance.

The audit entities have to be attentive and open to the demands of society, which is becoming more and more involved in public management and more demanding as contributor, demander and receiver of that management. Citizens, professional circles and teachers need to be got closer to and they need to be informed of what the activity of these audit institutions consists



of, and the relevance of their function as guarantors and promoters of good management.

It is only by taking this fabric of relations into account that the audit institutions will be able to adjust to the expectations and respond to the real priorities. All this without losing their independence, which must never be compromised by a greater proximity to the surrounding agents nor by a greater closeness to the decision taking processes.

e) **Quality assessment, efficiency and impact of the performance of the audit function**

As an immediate counterpart of the requirement for due respect, consideration and dignity on the part of the institutions, public powers and citizens, is the high technical quality and efficiency that has to be demanded of the audit institutions in the development of their actions for fulfilling their mandates and attaining their objectives. It is a priority that they act subject to strict systems of quality management, and that they assess the development of their activity.

On occasions, the results of the action of the audit bodies fail to reach their recipients in the desired form or the requests and recommendations are not attended to in the expected manner. It is true that sometimes, the audit institutions are not the main responsible for these gaps, but they cannot shirk their share of the responsibility. On the contrary, they themselves have to take the lead in their modernisation and adaptation to the new demands. To achieve this, they have to develop better training and self-assessment mechanisms for their organisations, their staff, their procedures, actions and results in order to make them more effective and so that they can have a greater impact. In this regard, new technologies offer great opportunities as a tool for facilitating the obtaining of information, the creation and maintenance of databases, the analysis and treatment of data, the design and implementation of software for their assessment and for the carrying out their auditing, and for promoting the dissemination of their works.

With the aim of verifying their efficacy, the audit institutions have to assess the impact, which their activity has in actual terms by contributing to improving the public management, and the added value, which they provide for society. Better formulas have to be sought for maximising the results in this sphere.



An effort needs to be made for providing greater external visibility to the actions of audit bodies, facilitating a greater and better knowledge of their work and contributing to an awareness of their value. This would automatically lead to a greater institutional credibility, impact and public consideration.

Cooperation: a useful instrument for reinforcing efficient public audits

Audit institutions are needed that are solid, with a high technical quality and independent, with constitutional coverage and a legislative development that will guarantee a suitable framework for them for the exercise of their functions, and which will, in turn, demand them to keep the highest technical quality and transparency in the performance of their actions.

Alarm voices have recently been heard in some SAIs as they see their independence threatened by the adoption of legislative measures - which reach as far as the Constitutions themselves - which weaken their organisational or functional autonomy, restrict their budgetary resources, minimise the impact of the results of their actions, or which discredit their actions by means of intentionally orientated campaigns.

This emerging risk has led to concerns in the international community of control, and independence has become established as one of the key topics in national debates, and within the framework of INTOSAI and of its Regional Groups, as well as in other smaller supranational communities. It becomes even more necessary to work together with the aim of achieving sound legal bases in different countries, which will guarantee a diaphanous regulating framework, so that the audit institutions can develop their functions fully and efficiently. It also becomes necessary to support and strengthen the institutional development of those bodies so that they can exercise their mandates under the highest technical and ethical standards. And in this regard, the international community has started to adopt various initiatives along these lines.

In the EUROSAI Secretariat, worrying news has been received in recent times in relation to the independence of its members. The interferences being suffered are the result of legislative initiatives, along with parliamentary or governmental practices or requests, which, with an aim that is markedly political, interfere with the organisation and development of the activity of the audit institutions. These attacks also appear in the form of cutbacks on material or financial resources, and actions by political institutions or the media openly questioning or creating doubts about the soundness and the technical nature of the work of the audit institutions.



EUROSAI has taken on a powerful commitment to support and encourage the promotion and defence of the independence of its members, and guarantee of and respect for the exercise of their functions. These are the basic pillars and the essential requirements for guaranteeing sound institutions, which, through the exercise of their activity, can contribute to transparency and to Good Governance.

EUROSAI is making a special effort to make its members aware of the situation and to promote debate and the exchange of experiences, in such a way that they can mutually benefit from the knowledge of the emerging situations and of national models and practices.

It is evident that the existence of a legal framework guaranteeing the basic principles for an efficient public audit is a concern shared by the entire audit community. And, even though each territorial area has its own specificities and demands, the maximisation of the yields make it advisable to cooperate and work in a coordinated way at all levels, thereby putting into practice the INTOSAI motto “*experientia mutua omnibus prodest*”.



3.4 Fundamental prerequisites of effective public audit from the perspective of a sponsoring organisation – the experience of Technical Cooperation

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Introduction

I am honoured and privileged to share the experiences of Technical Cooperation in building effective external public audit with this gathering. My angle is that of an executive agency of the German Federal Government.

For us, this debate is all the more welcome since Technical Cooperation has come to know and appreciate the function of external public audit in its international cooperation with developing and emerging countries over the past 15 years. However, we also met with considerable challenges at implementation level.

Sharing with you the lessons learnt by GTZ I will focus on four points. After a brief introduction, I will elaborate on each of these points in detail before presenting the conclusions to be drawn for international cooperation.

One, it has meanwhile been established beyond doubt that independent external public audit is a core element of state legitimacy and should be promoted accordingly. When using the word state, I do not wish to restrict myself to the executive, but refer to cooperation between all branches of government, including the legislative and the judiciary.

Two, for external public audit to be effective, the roles of public institutions must be clearly defined within the constitutional set-up. A matter of course in many states, this understanding of the role of the different state powers, and in particular of a control function that is external to the government, is still less pronounced in many partner countries of GTZ. This may have serious adverse consequences for the further building of the state.

Third, we must be clear about how a reliable external public audit affects the building of a state. As an institution, external public audit tends to have an indirect effect, through convincing arguments and cooperation with

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other institutions. SAIs are institutions devoid of any executive function; generally they can ensure only by indirect means that their findings are being applied. Little is still known about how an SAI can support state-building processes, and what would be unrealistic to expect. Being external to the process, we need to develop a better understanding of these issues.

Four, we have learned that supporting the transformation of external public audit must always be context driven, through initiation of a joint learning process. Concurrently, there are no standard solutions on how to develop an effective system of external public audit. Every country must develop the interplay of its democratic institutions on its own, with a view to ensuring transparent and verifiable government operations in keeping with the Lima and Mexico Declarations.

Proposition 1 – External public audit is a core element of state legitimacy also in developing and emerging countries

Development Cooperation primarily aims at eradicating poverty. To this purpose, all stakeholders in business, government and society must be strengthened in their capacity to act. In this process, Development Cooperation is bound to overarching values such as self-determination, human rights, and participation. For the German Federal Government, governance is a fundamental criterion for granting development cooperation.

Development Cooperation with SAIs therefore does not pursue the building of effective and reliable SAIs as a means in itself, but rather for reaching (development policy) objectives. This is true for the promotion of Good Governance; strengthening SAIs is hoped to have a direct effect in terms of more effective development policy contributions.

Strengthening Good Governance is a core mission of Development Cooperation. In the past, the first major focus of development cooperation was to build sufficient administrative capacity within the executive of the recipient countries.

Over the past 10 years, the focus of promoting Good Governance has widened, based on the understanding that better governance alone is insufficient. Legitimate, sustainably acceptable government operations require an institutional balance in the sense of countervailing powers. From this perspective, the establishment of a reliable and effective control function over government operations ensured by Parliament and external



public audit is crucial.

In order to deliver effective external public audit, SAIs must, according to a democratic understanding of the state, be endowed with the following competences:

- A comprehensive right to audit all government revenues and expenditures – to gain an overview of the entire budgetary cycle;
- An audit and consultancy mandate vis-à-vis the entire public administration to ensure regularity and efficiency;
- Close cooperation with Parliament in sharing the tasks of fiscal control, as a complement to the political control of government which is exercised by Parliament;
- Provision of information to public entities and society at large. The fact that audit findings are made accessible to Parliament and/or a wider public adds to the transparency and legitimacy of government operations.

SAIs which are endowed with these competences are in a position to sustainably monitor the responsible use of public funds and, in doing so, promote reliable and verifiable government operations.

From the perspective of Development Cooperation, effective government audit is therefore a central function of Good Governance.

Proposition 2 – Effective government audit rests on a well-functioning system of checks and balances within the state; or: what should be done if these prerequisites are not (yet) given?

In ideal terms, the functions and objectives of SAIs have been amply described, most recently by e.g. Johannes Hengstschläger (2010)². These ideal-type requirements have also been laid down in the Lima and Mexico Declarations as fundamental standards of government audit.

The reality of Development Cooperation has shown that SAIs are facing considerable limitations regarding their mandates and exercise of powers, especially in developing countries and countries undergoing transformation.

² Johannes Hengstschläger (2010): Fundamental constitutional principles of effective government audit, lecture given on 26 May 2010.



Concurrently, the existence or non-existence of basic requirements for government audit has a direct effect on Development Cooperation.

The Lima Declaration sets out from the assumption that a neutral, independent external public audit function is embedded in a democratic state system committed to the rule of law, in which tasks are delivered by competent and efficient state bodies.

However, Development Cooperation often operates in countries where the conceptual understanding of the state is not fully implemented. This concerns many low-income developing countries, in particular states whose existence is fragile and which are finding themselves in a post-war or internal conflict situation, or states which are undergoing a comprehensive transformation of their economic and social systems.

- Development Cooperation helps to establish and strengthen SAIs in order to assert democratic values. Technical Cooperation should concentrate on assisting fledgling SAIs in identifying courses of action, and on ensuring methodology development and training;
- A case in point is corruption. Corruption is a major obstacle to development. For SAIs, involvement in the fight against corruption carries the risk that their active role in anti-corruption activities may taint their institutional independence. From an institutional policy perspective, addressing corruption is always a delicate matter, either in that corruption is not detected at all (calling into question the SAI's professional competence), or that the instruments of government audit reach their limits (with the SAI then being perceived as a toothless tiger);
- To fight corruption more effectively, SAIs have recently started to enter into formal anti-corruption agreements with other government entities involved (the judiciary, law enforcement agencies, public prosecutor). These agreements clearly define the responsibilities and competences in fighting corruption, whilst avoiding institutional frictions;
- Technical Cooperation could contribute by orchestrating such a process and helping solving specific issues based on the experience of other countries.

This example illustrates that effective government audit can be both a means and an end in building a democratic state; this is an ambitious claim



and a contradiction in itself. Development Cooperation must be aware of this contradiction and be able to live with it.

In this process, the cooperation of government audit with development partners can contribute to finding new solutions. Such cooperation should not consist of adopting procedures and tools from successful institutions. Further development should rather be a process that is geared to solutions. The quality of the solution found can only be measured by the effect it has on the interaction of political and administrative decision-makers in the partner country. Here is where the limits of Technical Cooperation become evident.

Proposition 3 – How does reliable external public audit affect the building of a state?

What is the effect of external public audit and of external inputs? This is a pressing concern for development cooperation. For established SAIs, this question traditionally is of little relevance. INTOSAI's new initiative to encourage SAIs to carry out a self-evaluation of their work is a highly welcome and much-promising novel approach.

Newly established SAIs with a short audit record and little practical experience tend to ask about the legitimacy of audit, about acceptance by the newly audited entities, about the use of their findings, and more stringently about who audits the auditor. On the one hand, this is because external audit still needs to earn its rightful place and is being observed critically. On the other hand, these fledgling authorities are often part of a fairly unstable political system which needs to further develop its conflict-solving mechanisms and procedures.

Even within a state and the given legal framework, the influence of the SAIs may at times be larger than at others. The present economic and financial crisis is a valid example of the voice of SAIs being accorded substantive weight in the perception of an unsettled public.

Here we find that external public audit may have a significant positive impact on the public at large, simply by delivering its tasks as defined by the Constitution, the laws, and by practice in general.

In many developing countries, the mandates and instruments available to SAIs are narrowly defined by comparison. They basically concentrate on auditing the accounts for mathematical correctness, regularity and legality.



- Good examples of building new audit institutions have recently emerged in the course of the re-foundation of states following transformation processes, for instance in formerly socialist countries. Here, success was based on cooperation which did not simply adopt those legal bases and audit methods of other SAIs that were amenable to adaptation, but tried to identify new ways of institutionalising an effective control of government operations that was tailored to the specific needs of the country in question;
- This process may be mentored by several established SAIs which contribute their organisational know-how and understanding of processes. Typically, their input is not limited to setting up the organisation and developing audit procedures, but extends also to the legal embedding of the SAI, its reporting procedures, and cooperation with the government and Parliament, in particular the Public Accounts Committee. It is the task of the SAI in a transformation country to devise a strategy for its own development whilst also relying on external input.

In order to be able to feed sound audit results into further reaching change processes, it is indispensable for the SAI to furnish advice to Parliament. As regards the duty to report to Parliament, we find that cooperation between the SAI and Parliament is not accorded high priority in many developing countries. SAIs are denied an opportunity to gain institutional legitimacy in their own right in the eyes of the public. SAIs are hence under increased pressure to deliver high-quality work and prove their effectiveness, a fact on which their legitimacy inherently hinges.

Surveys on the impact of external public audit generally assume that a sound audit and valid findings will prompt behavioural change with the audited government entities. But when and in which circumstances will such change occur? How important is the SAI's customer focus, as a partner of government in the advisory process in any given country, caught between audit at one end and consultancy on the other? Can criticism of government institutions be publicly voiced in the prevailing cultural environment?

To retain a first conclusion: the impact of an SAI or of specific reforms critically depends on the governing framework, the legal traditions, and on the system of government. Development Cooperation must develop a better understanding of how the different standard models of external public audit, their relation to the legislative, the executive and the judiciary, and the role



perception of SAIs (judicial control, advisor to Parliament, focus on legality and regularity) can be developed. We expect the INTOSAI self-evaluation initiative to be a major step forward.

In this context, SAIs must position themselves according to clear principles; their own definition of what impact they have must be context-driven and can only be a response to their very own challenges.

Proposition 4 – Input must always be context-driven; A challenge for Development Cooperation: there are no standard solutions

Let me add some thoughts on SAI independence as a core requirement of effective government audit.

It is postulated in the Lima Declaration that SAIs should enjoy independence in the delivery of their tasks that is safeguarded by law. Independence has many different facets which are all indispensable for the delivery of tasks.

- Independence in terms of staff: this does not only concern the appointment and dismissal of the senior management of SAIs, but SAI staff in its entirety. One practical experience of GTZ is a blatant example. SAI staff generally come into the fold of public servants. In a given case, auditors can only be employed by decision of a bi-ministerial recruitment board. This board, however, has not met for years. Given the lack of staff, the SAI is severely limited in its audit capacity. In violation of the Mexico Declaration, access to human resources depends on the government;
- Here, Technical Cooperation can act as an external, disinterested moderator and prompt decision-making processes, it can direct attention to an existing deficiency, contribute to the formulation of strategies, and initiate change. These change processes may also affect the environment in which external public audit operates;
- Financial independence: practice in many countries has shown that the allocation of funds is not always governed by a spirit of maintaining SAI independence. Even if the legal bases conform with international standards, practice may differ. Especially during the financial and economic crisis, SAIs have fallen victim to generalised recruitment bans, across-the-board budget cuts by the Ministry of Finance amounting to 20% of their initial budget, and are such unable to conduct their audit work as planned;



- Technical Cooperation can support the dialogue with Parliament, it can help ensure that the Ministry of Finance is involved, participate in the development of strategies to reform the legal framework and the assertion of SAI rights, and this can help to better assert the legal framework;
- Institutional independence: the Lima Declaration would ask for statutory rules that precisely spell out the degree of independence. But if, as in a given case, the SAI was a part of Parliament which recently became independent, and Parliament does not (yet) trust the SAI, Parliament will assume new audit tasks – e.g. in the field of budgetary execution by the Ministry of Finance – or retain access to audit planning, so as to be able to effectively control the SAI;
- Technical Cooperation can support the dialogue with Parliament and the Ministry of Finance, and offer alternatives, the example of other countries, or regional exchange; in such scenarios, an exchange between members of Parliament with the Public Accounts Committees of other countries has proven useful; cooperation with external partners also enhances the credibility of the SAI in the eyes of its democratic sovereign.

In all these cases, the democratic institutions of each country are called upon to develop, on the basis of their past experience, legal traditions and administrative frameworks, own solutions which ensure reliable and verifiable government operations in keeping with the Lima and Mexico Declarations. An SAI is an integral part in the overall notion of a state, within which it meaningfully complements the rights and duties of the three powers and uses them to enforce its findings and recommendations.

For independent external public audit to be safeguarded by law and for the practical acceptance of the statutory rules, an effective state with a system of checks and balances is required.

The role of the SAI in a body politic is subject to permanent change and can be re-defined as the political system develops.

Conclusion and lessons learnt: offer solution-driven advice to decision-makers

On the prerequisites: SAIs need a broad measure of independence, a stable democratic state that is governed by the rule of law, a self-confident Parliament, an independent judiciary, an active civil society, and sufficiently



professional work structures to be able to deliver effective government audit.

On the impact of government audit: in developing countries, the fundamental prerequisites, i.e. the implementation of general democratic and political values, become milestones in the building of SAIs.

On the defined targets of Development Cooperation: external public audit can be strengthened by changing the legal framework, the organisation and the design of procedures, as well as by training qualified staff. Effective development cooperation requires smooth cooperation with all stakeholders, harmonised donor interests, the use and adoption of existing competences such as those of the IDI.

What need is there for Technical Cooperation in this process? Technical Cooperation goes beyond a special technical understanding of audit methods and processes; this understanding is perfectly available with the competent experts of government audit – the member organisations of INTOSAI, INTOSAI itself, and its affiliated institutions such as IDI.

Technical Cooperation should rather focus on expanding the scope for additional solutions to current problems by granting long-term support. Technical Cooperation can either contribute an outside view from its external position, or an additional opinion. Alternatively, it can share international experience, by pinpointing education and training needs more accurately, and creating new access to knowledge. Promoting long-term staff exchanges between SAIs can also be a useful approach. Moreover, international exchange, and participation in international bodies, as practiced by INTOSAI for decades, is crucial to the further development of the participating institutions.

For Development Cooperation, the experience gathered in building SAIs can serve as a model for building other state institutions.

In terms of development policy objectives, however, we have also learned that external public audit must not be considered a cure-all for deficient government structures and cannot replace lacking public control and monitoring mechanisms (e.g. environmental protection as an additional task), but needs to be seen in a more complex context.

Emphasising SAI independence is not only important for SAIs themselves. Since independence is always related to institutions, mechanisms and



players vis-à-vis which independence must be ensured, it implies an agreement on the competences of state and – ideally – social (checks and balances, independent media) institutions that needs to be reached.



3.5 Cooperation between Parliaments and SAIs

Anders B. Johnsson

Secretary General, Interparliamentary Union (IPU)

Introduction

I am very grateful for this opportunity to say a few words about cooperation between Parliaments and SAIs. I would like to preface my comments on this subject by stating my belief that Parliaments and the SAIs are indispensable to each other.

Parliaments come in many shapes and forms. In a sense, every Parliament is different, marked by each nation's history, culture, evolution. All Parliaments nonetheless share common responsibilities, which are laid down in the Constitution; they adopt the laws of the country and they hold government to account. Different though they may be, all Parliaments share common characteristics. By a democratic Parliament we mean a Parliament that is representative, both socially and politically, of the people; a Parliament that is transparent, i.e. open to the nation; one that is accessible to the public so that they can contribute to work in Parliament; a Parliament that is itself accountable to the people both for the performance in office and the integrity of its members; and a Parliament that is effective in carrying out its core functions.

Accountability

The notion of holding government to account is as old as Parliament itself. It has been given renewed emphasis of late through discussions surrounding development aid. Greater public scrutiny of aid in donor as well as recipient countries has led to calls for greater effectiveness in the use of these resources. The Paris Declaration and the Accra Agenda for Action – shorthand for agreements reached at the international level to increase aid effectiveness - lay special emphasis on accountability. The Accra Agenda, in particular, stresses that Parliament has responsibilities to ensure national ownership of development policies and accountability in the use of aid.

Accountability has been much in the news of late also in relation to Parliament and the integrity of its members. I need not remind us of the disservices that are made to democracy if the public is led to believe that members of Parliament on whom they have bestowed a public trust are seen to be helping themselves to the state coffers. Accountability therefore lies at the core not only of what Parliaments need to do, but also how they have to do it.



Accountability is increasingly understood as a system of institutions and processes that contribute to the efficient use of limited resources. This entails a shift in emphasis from strengthening of individual institutions to a more holistic approach that addresses the relationships and inter-linkages that exist or should exist between a whole range of institutions that can contribute to accountability. Parliaments and SAIs fall in this category. They have a common agenda in ensuring oversight of government with a view to the proper use of resources, i.e. spending that is in accordance with authorizations given in the budget and that is economical, efficient and effective. I will argue that Parliament is the primary institution entrusted by the people to hold government to account but cannot achieve this without the support of SAIs.

In fact, a recent survey carried out by the IPU indicates that in the vast majority of countries (85%), the report of the SAI constitutes the main source of information for Parliament in its audit work. Parliaments and SAIs are of course not alone; other institutions that need to be factored into the equation include Ombudspersons, human rights commissions, anti-corruption commissions, etc. It is therefore hardly surprising that there is in practice a very strong link between Parliaments and SAIs. The findings of a recent survey carried out by the IPU in 120 parliamentary chambers gave the following result. Almost every one of them (118 out of 120) reported the existence of a body - Supreme Audit Agency – with responsibilities for auditing the government's accounts. 41 of these bodies are appointed by Parliament whereas 45 are appointed by the Head of state. The remainder are appointed by the Head of state or government but are subject to confirmation by Parliament. The tendency is that the SAI is more likely to be appointed by the Head of state in countries with a presidential or semi-presidential system; and more likely to be appointed by Parliament in countries with a parliamentary system. However in both cases, the ratio is only around 60:40, suggesting that the type of political system is not a strong determinant of the method of appointment of the SAI. 92% of these SAIs are obliged to report to Parliament and normally do so once a year. However there are those, like in Vietnam, where reporting takes place on a quarterly basis of every six months.

Although the IPU does not have detailed information on which parliamentary committee receives reports from the SAI, it is believed that in Parliaments based on the Westminster model, the Public Accounts Committee is the most frequent recipient. In many other jurisdictions, the recipient is the committee responsible for approving the budget or, as in Germany, a sub-committee thereof.



Often when one participates in public debates about democracy one is struck by our propensity to confuse theory and facts. We may all agree on the essential role of Parliaments in holding government to account, but we tend to forget that Parliaments face formidable challenges in meeting their responsibilities, and I can imagine that SAIs do as well. Most Parliaments today have a relatively brief history of functioning as institutions that are really trying to legislate and hold government to account. In a very significant number of countries, there have only been three or four terms of Parliament elected under a multiparty system. In these countries, Parliament had only met infrequently before and achieved little more than approve plans prepared by the executive. These Parliaments have limited resources - have little institutional capacity – and have to function in an environment that is extremely complex, highly technical, virtual, fast moving, and where many of the important decisions in society are taken not by government, not by Parliament, but by a variety of other actors.

If we are serious about wanting to ensure accountability we must also address the capacity issue and, ultimately, also the issue of resources. This is not only a question of more resources, but also an issue of better use of existing resources and, to that end, better cooperation. There is then virtue in ensuring much greater cooperation between Parliaments and SAIs, and between INTOSAI and the IPU.

Cooperation between IPU and INTOSAI

In many ways, the IPU is not so different from INTOSAI. We are both international organizations set up to promote cooperation among our members. We are not governmental institutions; nor are we international NGOs. We are international organizations that bring together independent institutions of the state. We are also organizations that provide support to our members and try to help them fulfil their mandates. In the case of the IPU we help develop standards and benchmarks for democratic Parliaments. We assist Parliaments in evaluating what they do well and what they can do better. We help design programs of assistance and we help implement them through technical assistance and capacity building. We integrate gender throughout all our programs in an effort to ensure, amongst other things, a genuine partnership between men and women in public and political life. We pay particular attention to the budget and auditing process and we do so from a gender perspective as well. The budget is the most important economic policy tool of a government and it provides a comprehensive



statement of the priorities of the nation. We try to make sure that this policy also promotes gender equality throughout society.

Most of you work in a sense for Parliament and we, in Parliament, have a strong interest in ensuring that you are able to do a good job. We therefore have a shared interest in ensuring that Parliaments allocate the necessary resources to SAIs and design a legislative framework that enables SAIs to function effectively and independently. Just as you have invited me to this event, I would like to invite you to the IPU where you can address representatives of Parliaments of most countries in the world and raise awareness about your institution and their needs.

Equally, we share an interest in capacity-building programmes for Members of Parliament (MPs) to help them understand the audit process and how it contributes to efficiency and accountability. This must also involve providing a meaningful role for the opposition in Parliament. We need to provide sufficient resources to parliamentary committees that deal with audit reports. Kenya is not alone among countries where there is a considerable backlog of audit reports in Parliament, because of the lack of resources.

It would also make sense for Parliaments and SAIs to work together to develop joint programmes that promote accountability. One such initiative could be in the design of codes of ethics. Another would be for you to integrate gender aspects in your work. This will greatly facilitate the work in Parliaments to ensure that public programmes promote gender equality. To advance such an agenda, I would suggest that IPU and INTOSAI work together to develop a greater understanding of different models for interaction and cooperation between Parliaments and SAIs. We could identify the committees in Parliament, which have a mandate in relation to the national audit. We could also undertake some case studies to identify different models for holding government to account in Parliament through the audit process. This would help us to facilitate networking, sharing of experiences, documenting good examples and identifying capacity building needs.

Conclusion

Let me conclude by reiterating that I am grateful for this opportunity to engage you in a discussion on cooperation between Parliaments and SAIs. Let me emphasise however that I see this as the beginning of a process in which we can hopefully be of greater use to each other and, thus, help ensure greater accountability of government for the common good.



4 SAI INDEPENDENCE

4.1.1 Central elements of and prerequisites for independent SAIs in the light of the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence

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Introduction

Supreme audit functions vary from one country to another as a result of their historical backgrounds as well as their political, legal and cultural climates. The diversity reflects in the names, structures, mandate, powers, and functions of the SAI of different members of the INTOSAI community. Nevertheless, supreme audit as a concept includes some universal elements in its definition, and as an institution incorporates features common to all SAIs. These shared features are the outcome of long historical experiences of the countries.

Independence is the most essential element of SAI effectiveness. Therefore, as early as 1977 Lima Declaration acknowledged that the “*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.*” It states that the establishment of SAIs and necessary degree of their independence shall be laid down in the Constitution and Law. This focus on independence was further highlighted in 2007 when the Mexico Declaration of SAI Independence promulgated eight core principles that flow from the Lima Declaration.

This paper first briefly mentions the basic characteristics of the supreme audit and the SAI, then highlights the central elements of SAIs and prerequisites for independent SAIs in the light of Lima Declaration on Auditing Precepts and the Mexico Declaration on SAI Independence, and finally explores country experiences associated with independence.

Unique characteristics

The SAI is unique from the perspective that it cannot be put under any one of the three traditional sources of powers, namely the legislative, the executive and the judiciary. In fact supreme audit is considered as an activity



sui generis, that is, distinct from other forms of government checks and controls because of its position, aims and also, sometimes for its techniques.

The SAI is independent of the holders of three powers, even when it acts as an agent of the Parliament. It works, more in alignment with the legislature, to ensure the accountability of the executive branch of the government to the Parliament. Although SAI discharges its responsibilities on behalf of the Parliament it needs to maintain adequate distance from the legislature to have a clear and distinct independence in all its supreme audit functions. This feature of SAI places it in a unique position.

Independence

Lima Declaration of Guidelines on Auditing Precepts states that SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. To achieve this objective, it is indispensable for Good Governance that each country needs a SAI whose independence is guaranteed by law. The SAI often runs into the risk of controversy and confrontation in the course of fulfilling its responsibilities. Consequently, every SAI needs the strength and support of independence for objective and effective functioning. Independence is also necessary to retain the confidence of the legislature and the public reposed in the SAI.

The taxpayers have the right to know whether government funds are being handled properly in compliance with the existing laws, regulations and executive orders. Moreover, today, in both the developed and the developing countries, the public is interested in the information whether the government programs are being implemented efficiently and effectively and are generating the expected results. But this information is accepted mostly when an institution provides it, which is objective and independent of the executive. This necessitates an independent SAI, which can be impartial in its opinions, judgments and recommendations.

The principles of independence were first codified in the Lima Declaration, and have been developed since then by various INTOSAI Congresses. INTOSAI Auditing Standards are considered as important documents, which address the issue of independence in a very detailed manner. The Mexico Declaration on SAI Independence (2007) defines independence more concretely by recognizing eight pillars as the essential requirements for government auditing.



a) **Independence vis-à-vis Parliament**

Most SAIs work on behalf of the Parliament. The legislature is one of the main users of SAI's services. This does not mean that they should be attached to the legislature in any way. To ensure its independence fully, SAIs should be organisationally separate not only from the executive branch of the government but also from the legislature.

On one hand the SAI is expected to work closely with the legislature, however, on the other hand, adequate independence requires that it should not be subject to any directions by the legislature in the programming, planning and conducting of its audits. Freedom should be given to the SAI to set priorities in programming its work in accordance with its mandate.

As regards organisational and functional independence, the Office of the Comptroller and Auditor General of Bangladesh (OCAG) is equipped with some guarantees. The CAG in carrying out his audit functions shall not be subjected to the direction or control of any other person or authority.

b) **Independence of SAI heads and members**

INTOSAI Auditing Standards addresses, the issue of independence of SAI heads and members, keeping in view the structural difference between the monocratic and collegiate SAIs. It states that *“Conditions of tenure for the head of the SAI can contribute to the SAI's independence from the executive, for instance through appointment for a lengthy fixed term or until a specified retirement age. Conversely, tenure conditions, which put an SAI under pressure to please the executive would have an erosive influence on independence. For this reason it is in principle desirable that provisions relating to the termination of appointment or removal from office should be exercisable only by special process akin to that relating to the holders of judicial or like office.”*

The independence of SAIs is closely linked to the degree of the independence of the head of its administration and staff. The procedure for appointment and removal from office is of vital importance, not only for the functional independence of these officials, but also for the organisational independence. It is always desirable that appointment or removal from office should be stipulated by legislation.

The Comptroller and Auditor General of Bangladesh is appointed by the Head of the State (Hon'ble President) of the Republic for a period of five years from the date he entered upon his office, or until he attains the age of 65 years,



whichever is earlier. The CAG shall not be removed from his office except in like manner and on the like ground as a Justice of the Supreme Court.

c) Independence from the executive

Independence from the executive is strongly emphasised in INTOSAI's documents. It is stated that the SAI should not be obliged to carry out, modify or refrain from conducting an audit or suppress or modify audit findings, conclusions and recommendations because of any kind of influence from the administration. The rationale behind this rigid rule is rather obvious: the SAI should maintain its credibility with Parliament and the Public.

In the instance of Bangladesh, the independence of CAG is rooted in the Constitution, where the CAG's responsibilities and powers have been clearly stated.

d) Mandate and discretion in discharging SAI functions

SAIs should be empowered to audit the use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature; collection of revenues owed to the government or public entities; legality and regularity of government or public entities accounts; quality of financial management and reporting; and economy, efficiency, and effectiveness of government or public entities operations.

While respecting the laws enacted by the legislature that apply to them, SAIs are free from direction or interference by the legislature or the executive in the selection of audit issues; planning, programming, conduct, reporting, and follow-up of their audits; organization and management of their office; and enforcement of their decisions where the application of sanctions is part of their mandate.

SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit. SAIs should ensure that their personnel do not develop too close a relationship with the entities they audit, so they remain objective and appear objective. SAI should have full discretion in the discharge of their responsibilities, they should cooperate with governments or public entities that strive to improve the use and management of public funds. SAI should use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognized standard setting bodies. SAIs should submit an annual activity report to



the legislature and to other state bodies – as required by the constitution, statutes, or legislation – which they should make available to the public.

e) Free access to information

Auditors are entitled to be granted free, timely and unrestricted access to all documents and information they might need for the proper discharge of their responsibilities. As stated in INTOSAI Auditing Standards, *“the legal mandate should provide for full and free access by the SAI to all premises and records relevant to audited entities and their operations and should provide adequate powers for the SAI to obtain relevant information from persons and entities possessing it.”*

The Constitution of Bangladesh has given the CAG power to have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the republic.

f) Reporting independence

Reporting, in broad sense, is submitting audit findings together with auditors’ evaluations to the relevant authorities, usually in a written form. It is an important component of the audit function. Freedom of reporting would mean freedom to decide what to include in the report, how to put audit findings into words and when to submit them. Publishing audit reports may also be considered within the boundaries of this freedom. However, reports on programs and projects in such high-profile areas as defence, education and health bring the SAI face-to-face with matters of major public interest and concern.

It is stated in INTOSAI Auditing Standards that SAIs’ reporting to the legislature without restriction on content and timing of reports would support the maintenance of independence.

CAG Bangladesh submits audit reports to the President of the Republic, who then causes them to be laid before Parliament. The timing, format and content of these reports are determined by the OCAJ itself

g) Follow-up mechanism on SAI recommendations

SAIs should submit their reports to the legislature or to an auditee’s governing board, as appropriate, for review and follow-up on specific recommendations for corrective action. SAIs should have their own internal follow-up mechanism to ensure that the audited entities properly address



their observations and recommendations as well as those made by the legislature or the auditee's governing board, as appropriate. SAIs should submit their follow-up reports to the legislature or to the auditee's governing board, as appropriate, for consideration and action, even when SAIs have their own statutory power for follow-up and sanctions.

The Auditor General Bangladesh's reports to the Parliament are discussed by the Committee on Public Accounts (PAC). By tradition and administrative practice the recommendations of the PAC are to be complied with by the Executive Agencies. Subsequently OCAg monitors the progress of implementation of PAC's recommendations.

h) Financial independence

Financial independence requires that the administration should not impose any undue limitations on both preparation and implementation phases of the SAI's budget. SAIs should be able to determine the size of their budget and allocate it appropriately. Any limitation on the SAI's budget is a constraint upon its work and its independence. In reality however absolute budgetary freedom may not be possible, as it depends on the budgetary and economic environment of each country.

SAI of Bangladesh enjoys limited financial independence:

- In one hand, CAG prepares his own budget, but it requires the approval of the Ministry of Finance;
- On the other hand, the budget allocation of the OCAg, Bangladesh is treated by the constitution as a 'charged expenditure'- not subject to the vote of the Parliament.

i) Managerial/administrative independence

SAIs should have necessary human and material resources - the executive should not control or direct the access to these resources. The legislature is responsible for ensuring that SAIs have the proper resources to fulfil their mandate. SAIs should have the right of direct appeal to the legislature if the resources provided are insufficient to allow them to fulfil their mandate.

Personnel and general administrative matters such as appointments, promotions, financial benefits, training, procurement etc. in the OCAg Bangladesh require the approval of the Ministry of Establishment as also of Ministry of Finance. The CAG's staff is subject to the Rules of Business of



the Government according to which the CAG office is treated as an attached department of the Ministry of Finance.

Challenges and responsibilities of SAIs

a) **Absolute freedom is not feasible**

As it is underlined by the Lima Declaration absolute freedom is impossible in the context of political, legislative and administrative constraints prevailing in different SAIs. In fact the SAI cannot be absolutely independent, because it is a part of the state, after all. It will be adequate if the SAI is given the functional and organisational independence required to fulfil its responsibilities and obligations. Some modifications may be acceptable as long as the core concepts are recognised and practiced.

b) **Only rules cannot guarantee independence**

It needs to be recognized that independence is not a matter to be ensured merely by enacting laws, rules or standards. Rules may provide independence in theory but cannot guarantee it, as independence is rather a state of mind not a collection of written rules and procedures.

The SAI itself needs to appreciate the value of its independence and should be determined to make best use of it in fulfilling its responsibilities. The quality of work produced by the SAI should clearly reflect that it enjoys enough freedom to serve only the public interests and the needs of proper accountability for public funds. The recognition and support, which the supreme audit wins by its activities is the greatest safeguard of its independence.

c) **The SAI needs allies**

Furthermore, the SAI needs allies in order to secure and retain its independence. Especially support from Parliament, parliamentary committees, members of Parliament and the public is almost indispensable. The SAI may also win support from the departments, agencies and other entities it audits. The support of latter should not be considered as a negligible matter.

As stated in the INTOSAI standards, the SAI should not only exercise its function independently of the executive but it should also be seen to do so. It is important that its mandate and its independent status are well understood and appreciated in the community.



d) Refrain from exaggerated perception of independence

Independence of supreme audit should not isolate it from the outside world, in particular from the auditee. It is to be emphasised that independence does not mean an adversary relationship between the SAI and the auditees. Collaborative spirit must be the governing rule. Good relations can help the SAI to obtain better results.

e) Sensitivity to special issues

Unfettered access to information requires that the SAI should show care and confidentiality in handling the information obtained.

SAI's reports, especially the published ones, should present the facts and their assessment in an objective, clear manner and should not deviate from the essentials. Audit reports must be understandable and reader friendly. Otherwise however effective and thorough the auditing may be, it will not contribute much unless the message of the audit report registers in the minds of the stakeholders including the auditees.

Conclusion

The issue of independence is quite different from other SAI requirements in that it is determined by factors external to the SAIs, such as the legal framework established for the SAIs to work and perform. SAIs are established to provide highly credible and impartial auditing of public funds. This requires special guarantees to shield them against improper political influence and ensure that the interests of taxpayers and citizens remain in focus. This means that each individual country has the responsibility to ensure that a framework for its SAI's independence is in place.

However, at the same time, SAIs are under an obligation to call attention to actions and factors that jeopardize their independence. INTOSAI's current efforts to have the Lima and Mexico Declarations adopted as United Nations resolutions represent an important step toward providing the best possible basis for SAI independence.

We should consider our independence together with our own accountability to the public. We must be sure that the funds entrusted to us are not only used adhering to existing regulatory regime, but also with economy, efficiency, effectiveness. Independence is not only a privilege - it also entails obligations and should not be viewed separately from other SAI values, such as transparency, accountability, ethics, and quality.



4.1.2 Central elements of and prerequisites for independent SAIs in the light of the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence

Guilherme d'Oliveira Martins

President of Tribunal de Contas, Portugal

Introduction

Although there has been widespread debate and in-depth reflection on SAI independence, this issue is always stimulating, either due to the evolution that the concept itself has gone through, or due to the almost permanent changes occurred in the States' constitutional and legislative fields.

In every state based on the 'Rule of Law' principle, it is important that SAIs exist in order to independently inform citizens and their representatives in the Parliaments about how public money is spent by the government and the administration.

In fact, only with independence can this task be accomplished. If a SAI is not independent, within the structure of the state, it will be, in principle, an internal control body, which cannot be considered as a SAI.

SAI independence

SAI independence is therefore a constituent element that must be part of the identity card of a SAI.

At this point in time, we should stress that external public auditing has been going through significant progress over the past five decades due to the conclusions and recommendations that came out of INTOSAI and of some other documents approved by our organization.

The Lima Declaration of 1977 should be particularly emphasized, which somehow represents the summary of the criteria that must prevail in an institution of this type, in the new context of public finances, and in which it is expressly referred:

- *“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;*



- *Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organizational independence required to accomplish their tasks;*
- *The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.”*

The Lima Declaration also sets out the independence of the members and employees of SAIs, the financial independence of the institution, in that SAIs are provided with the financial instruments deemed necessary to accomplish their tasks, and are vested with the power, if necessary, to request the financial means that are deemed indispensable directly from the body entrusted with the elaboration of the state budget.

It also sets down that the independence granted to a SAI by the Constitution and the law in force, provides it with maximum initiative and responsibility even if it acts like a Parliament body and perform its tasks under its scope.

Finally, the activity of the government, the subordinate administrative authorities and other dependent institutions, are subject to SAI's control.

The 9th INTOSAI Congress, which was held in Lima, also concluded that “*a SAI can only accomplish effectively its tasks if it is independent of the controlled institution and protected from external influences*”.

The need for independence and objectivity is crucial, whatever government form it may take. An adequate degree of independence – in view of the legislative and executive power - is necessary to adequately conduct an audit and to make its outcomes credible.

It is also worthwhile mentioning the Code of Ethics of INTOSAI, which provides that: “*It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key words Integrity, Independence and Objectivity, Confidentiality and Professional Competence.*”



The Auditing Standards approved in Seoul in 2001 can also be referred, which reaffirmed the independence as one of the fundamental principles that must always guide the overall action of SAIs.

By the way, setting out independence as one of the essential features in the pursuit of SAIs functions, has remained a permanent concern of the recommendations that came out of the several INTOSAI Congresses.

At the INTOSAI Congress held in Cuba in 1953, it was recommended that *“the entities that audit the use of public money and assets should be given legal and institutional independence before the activities under the scope of their intervention.”*

Then, in 1956, the Congress held in Belgium thought it was necessary to approve the principles that follow: *“The existence of Supreme Audit Institutions, their general structure and the nature of their mission must be laid down in the Constitution and the latter must set out their independence and immovability of their members”*.

In turn, the 8th INTOSAI Congress, which was held in Spain in 1974, decided to reinforce again the recommendations of previous Congresses, particularly in terms of the constitutional hierarchy and institutional legal independence of SAIs, and to provide them with the adequate means, in a specific budget, to guarantee their independence.

Likewise, the 13th INTOSAI Congress, which was held in Berlin in 1989, recommended that the responsibilities, powers and functions of SAIs should be guaranteed and defined preferably by the Constitution or by specific legislation. The independence and the lack of any form of interference are essential for the effective pursuit of SAIs role. Their budgets and resources must not be object of arbitrary restrictions, concluding that SAIs must be totally independent when they establish their own working programmes.

Based on the Lima Declaration of 1977 and on the Code of Ethics of INTOSAI, the 17th INCOSAI Congress, held in Seoul, in 2001, approved, on a proposal of a Working Group created for the purpose, in which the Tribunal Contas of Portugal fortunately participated, the basic principles of SAIs, in terms of independence, which fully summarize the previously expressed doctrine and the led to the Mexico Declaration, approved in the 19th INCOSAI 2007, on a proposal of the Subcommittee on the SAI Independence.



Eight basic principles of SAI independence

- The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework;
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties;
- A sufficiently broad mandate and full discretion, in the discharge of SAI functions;
- Unrestricted access to information;
- The right and obligation to report on their work;
- The freedom to decide the content and timing of audit reports and to publish and disseminate them;
- The existence of effective follow-up mechanisms on SAI recommendations;
- Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

Conclusion

It is this code that should guide the independence of our institutions or they will lose their identity, as we previously said.

SAI independence is an asset that must be kept and gained day by day and this asset will be stronger if we improve our activity in terms of quality and credibility, which must also be guided by pedagogical and accountability principles.

Given the recent financial and economic crisis, SAIs gained greater importance – as they are factors of credibility and confidence to the citizens and to the international community.

Only independent and rigorous SAIs analysis and scrutiny of public accounts may help to overcome the distrust of markets and enhance the tools to fight the crisis through the consolidation of public finances and equity between generations.



Therefore, it is so important to mention the cooperation between us and the excellent role INTOSAI has been playing.

As far as the Tribunal de Contas of Portugal is concerned, fortunately we have no problem that affects our independence, as the Constitution and the Law consider the Tribunal de Contas as a sovereignty body, enjoying the same statute as the Members of the Supreme Court of Justice, is provided with self-government and has the power to audit any public assets, property or money.

I am deeply convinced that our motto “*experientia mutua omnibus prodest*” will continue to guide us so that we improve our Institutions on a daily basis.



4.2 Professional standards to support SAI independence

Henrik Otbo

Auditor General, Denmark

Chairman of the INTOSAI Professional Standards Committee

“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” (ISSAI I/II).

According to the Lima Declaration, independence is a prerequisite for SAIs’ performance of their tasks and in this sense it is also a prerequisite for the INTOSAI Professional Standards Committee’s (PSC’s) work with ISSAIs and INTOSAI GOVs. As Chairman of the PSC, I am therefore very engaged in the subject of independence. The importance of SAI independence is also emphasized in the Strategic Plan of INTOSAI and it is clearly stated in the overall objective of Goal 1 that reads: *“to promote strong, independent and multidisciplinary SAIs”*. The different aspects of SAI independence are illustrated in various ISSAIs.

The fundamental importance of independence was recognized when the Mexico Declaration (ISSAI 10) on SAI Independence was approved during the INCOSAI 2007. Under the leadership of the Canadian SAI, the PSC Subcommittee on SAI Independence worked out eight principles that are flowing from the Lima Declaration and decisions made at the XVII Congress of INTOSAI (in Seoul, Korea). These eight principles are considered essential for proper public sector auditing:

- The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework;
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties;
- A sufficiently broad mandate and full discretion, in the discharge of SAI functions;
- Unrestricted access to information;
- The right and obligation to report on their work;



- The freedom to decide the content and timing of audit reports and to publish and disseminate them;
- The existence of effective follow-up mechanisms on SAI recommendations;
- Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

Independence, however, is not just a question of SAIs flashing ISSAI 10 and ISSAI 11 and declaring themselves independent. The issue of independence is quite different from the other requirements to SAIs in that it is determined by factors external to the SAIs, such as the legal framework established for the work to be pursued by the SAI. SAIs are established to meet the need for a highly credible and impartial auditing of public funds. This requires special guarantees to shield against improper political influence and ensure that the interest of taxpayers and citizens remain in focus. This means that it is the duty of each individual country to ensure that a framework for the independence of its SAI is in place. But at the same time we, the SAIs, are under an obligation to call attention to actions that are jeopardizing our independence.

But independence is not only a privilege. It also entails obligations and should not be viewed separately from other SAI values such as transparency, accountability, ethics and quality. ISSAI 10 should therefore be viewed in connection with the other ISSAIs on level 2 – prerequisites for the functioning of SAIs - in the framework of International Standards of Supreme Audit Institutions. A main objective under Goal 1 of INTOSAI's Strategic Plan has therefore been to develop principles on transparency and accountability for SAIs. This goal has now been achieved. Under the strong and committed chairmanship of the SAI of France, the new ISSAI 20 – Principles of Transparency and Accountability has been developed:

- SAIs perform their duties under a legal framework that provides for accountability and transparency;
- SAIs make public their mandate, responsibilities, mission and strategy;
- SAIs adopt audit standards, processes and methods that are objective and transparent;
- SAIs apply high standards of integrity and ethics for staff of all levels;



- SAIs ensure that these accountability and transparency principles are not compromised when they outsource their activities;
- SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters;
- SAIs report publicly on the results of their audits and on their conclusions regarding overall government activities;
- SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means;
- SAIs make use of external and independent advice to enhance the quality and credibility of their work.

Further prerequisites for the functioning of SAIs are established by ISSAI 30 - The Code of Ethics, and especially the new ISSAI 40 on Audit Quality Control, developed under the chairmanship of the SAI of New Zealand. All of these ISSAIs complement each other in relation to the basic requirements that must be met by SAIs if they are to conduct objective and effective audits.

That being said, we should not forget that the real test and importance of independence lies in the conduct of our day-to-day work. I am sure that all SAIs have at some point been under pressure by the media or others.

The lesson to be learned from such cases, is that our documentation and the quality of our work, our objectives and our values require constant attention and development, if we want to be in a position where we can confidently rely on the quality and correctness of our audits, when we find ourselves at the heart of e.g. a media storm.

As SAIs we have to nurture independence, take a stand on it, and protect it. After all, the independence of SAIs is the prerequisite for being able to perform our tasks objectively and effectively. Being focused on quality, ethics, etc. will help us stand up to the pressure from media and politicians that we all face now and then. It is exactly in situations like these we have the strongest need for the International Standards of Supreme Audit Institutions, the ISSAIs.



4.3.1 SAI independence in practice – experiences from INTOSAI Regional Working Groups

Ghaidaa A. AlModhaf

Chief Auditor of the State Audit Bureau, Kuwait

Member of ARABOSAI

General

In different countries, the constitutional regulations require an independent institution aiming mainly to:

- Supervise the state revenues collection, and supply them to the public treasury;
- Insure their disbursement as recommended by the Parliament;
- Maintain an effective control over the entire public funds.

In Kuwait

- Kuwait constitution stipulates: *“There shall be established by law a commission for financial control, and its independence shall be safeguarded by the law and it shall be attached to the National Assembly. It shall assist both the government and the National Assembly in the collection of the State revenues and expenditure of funds ... The State Audit Bureau shall submit to both the government and the National Assembly an annual report on its activities and findings”*;
- In compliance with the said constitutional provision, law no. (30) of the year 1964 was issued to establish the State Audit Bureau (SAB) and with its articles, the independency of the commission shall be secured.

Legislative independence of SAB

- The appointment of SAB president is by Amiri decree upon the nomination of the National Assembly speaker in a confidential session. Also the President may not be dismissed except with the approval of the majority of the National Assembly members;
- The President of the SAB shall assume technical and administrative supervision of the work and personnel of the SAB. He shall issue the by-laws and orders necessary for the organization and management of



the SAB in accordance with its functions;

- An annual report is prepared by SAB President that includes the final accounts, remarks, and disagreements rise between SAB and entities subject to its control, and presented to the Amir, the National Assembly, the Council of Ministers and the Minister of Finance at the beginning of each National Assembly session term;
- SAB selects the appropriate location to perform its mission properly, whether in SAB premises or where the entities keep the records and documents;
- SAB has the authority to contact directly the account supervisors, managers or whoever represents them at all entities, and has access to correspondences and may perform sudden inspections;
- SAB has the authority to discipline those who committed financial breaches discovered by SAB.

Administrative independence of SAB

- SAB President performs the technical and administrative supervision on SAB missions and staff, and issues the regulations and provisions to organize SAB work according to its missions;
- The nomination for all SAB jobs and the selection of the professionals and the experts, are considered as SAB President duty;
- The President of the SAB while holding office may not assume any other public office or, even indirectly, profession or carry on in an industrial, commercial or financial business. He may not participate in any contract concluded by the government or public institutions or bodies. He may not hold simultaneously his post (as President) and membership of a board of directors of any company;
- In order to guarantee the stability of the technical staff to perform their duties as desired, and protect them against all the attractions and influences, a committee was established to consider the staff affairs.

Financial independence of SAB

- SAB President shall prepare SAB budget project with agreement of the National Assembly Speaker.



4.3.2 SAI independence in practice – experiences from INTOSAI Regional Working Groups

Walter Barth

Deputy Auditor General, Office of the Auditor-General,
Namibia
Member of AFROSAI

Introduction

The Office of the Auditor-General of Namibia forms part of AFROSAI-E, a subregional group of English speaking AFROSAI countries, which consists of 23 countries. AFROSAI-E has developed criteria according to which SAIs are graded into five category levels of independence. Levels of the various countries are determined through a questionnaire and evaluations.

The Office carries out audits at all government offices/ministries and agencies, regional councils, municipalities, town councils and village councils as well as a number of statutory bodies.

When compared with the principles of the Mexico Declaration on SAI Independence, the Office performs as follows:

Principle 1 – Legislation

- The appointment of the Auditor-General is enshrined in the Constitution of the Republic of Namibia;
- The powers and duties of the Auditor-General are included in the State Finance Act, 1991, - clearly defined. A draft bill has been prepared for the Office of the Auditor-General and a separate State Finance Act is in the making;
- Other legislation specifically mandates the Auditor-General to audit the books of a specific body;
- The President may also appoint the Auditor-General in terms of the State Finance Act to audit the books of other statutory bodies, which do not fall within his mandate, if he is of the opinion that this would be in the public interest.



Principle 2 – Independence of the heads of institutions and legal immunity

- The Auditor General is appointed by the President on the recommendation of the Public Service Commission and with the approval of the National Assembly. The Auditor-General holds Office for a five-year renewable term;
- He can only be removed from his position if a two-third majority of all members of the National Assembly vote for such removal on the ground of mental incapacity or gross misconduct, or if he resigns;
- He can only be removed by a two third majority vote or due to mental incapacity or reasons of gross misconduct;
- This is enshrined in Article 127 of the Constitution of the Republic of Namibia.

Principle 3 – Mandate and discretion

- The Constitution of the Republic of Namibia states that the Auditor-General shall audit the State Revenue Fund and shall perform all other functions assigned to him or her by the government or by Act of Parliament and shall report annually to the National Assembly thereon;
- The duties and powers of the Auditor-General as stipulated in the current State Finance Act of 1991 are very much in line with the details laid down in this principle. Audits are being carried out in line with the principles and no political interference is experienced;
- He can also enter into agreements with private audit firms to assist him in carrying out his duties. These firms then have the same rights and powers as if they were staff members of his Office.

Principle 4 - Unrestricted access to information

- No restrictions of access are evident in any of the assigned institutions;
- When auditing confidential funds, the President can, in consultation with the Auditor-General, determine the extent of the audit and which vouchers are to be made available. Currently the audit of such accounts is carried out by the Auditor-General personally on instruction of the President and he reports directly to him.



Principle 5 – Reporting

- Most current laws require the Auditor-General to report his findings to the National Assembly within 12 months after the closure of a financial year. The content and format is left to his discretion. The State Finance Act requires of him to report any unauthorised and wasteful expenditure, misuse of property and any other issue, which he deems necessary to be reported if it is in the public interest. Special reports may also be compiled by the Auditor-General in his own discretion;
- At times when the Auditor-General is requested by a client to audit certain issues of a confidential nature, such reports would be shared with the client on a personal basis.

Principle 6 – Content and timing of reports

- Except for special reports, all other reports must be submitted in the time frame mentioned above. Performance audit reports are not bound to a legal requirement and are submitted according to the internally approved timetable. The content of these reports is sent to the client for comments. Discussions on any disagreements are held;
- All the other stipulations in this principle apply to the Office.

Principle 7 – Follow-up mechanisms on SAI recommendations

- Follow-up of its recommendations relating to financial/regularity audits is done by the Office during the next ensuing audit;
- Follow-up audits on performance audit reports are decided on by the Office and such reports are submitted to the National Assembly;
- The National Assembly refers all reports of the Auditor-General to the Standing Committee on Public Accounts, once tabled. This Committee scrutinises the reports, holds public hearings and reports its findings and recommendations back to the National Assembly. The follow-up procedures relating to the implementation of recommendations made by the Committee have not yet been formalised. Follow-ups are currently done by sending letters to the clients by the Committee's secretariat. The Committee is also doing on site visits to familiarise themselves with the situation on the ground.



Principle 8 – Financial and managerial/administrative autonomy

- The budget is prepared by the Office and sent to the Ministry of Finance for incorporation in the National Budget. When budget cuts are experienced, the Office needs to adjust its proposed budget to fit into the approved amount and then manages the budget itself. The operations of the Office were up to now not negatively influenced by any budget cuts. Should the budget become insufficient, the Minister of Finance can be approached for additional funding through the contingency fund. The budget administration is subject the rules and regulations set by government, Treasury Instructions and Tender Board regulations;
- The staffing structure and human resources needs are determined by the Office but need to be evaluated and approved by the Public Service Commission;
- The proposed remuneration is also determined with approval of the Public Service Commission. Promotions are dealt with internally;
- Vacant posts are advertised by the Office, interviews are held, candidates are selected and recommended to the Public Service Commission. The Public Service Commission then advises the Office on the choices where after the appointment is made by the Office.



4.3.3 SAI independence in practice – experiences from INTOSAI Regional Working Groups

Abdulrahman Al Harthy

Director General for Audit of Financial affairs, Economics, and Energy Sector, State Audit Institution, Oman
Member of ARABOSAI

Introduction

One of the major objectives of public audit is to provide an independent assurance to the stakeholders that public investments are being managed economically, efficiently and effectively with a view to contributing towards improved delivery of services and quality of governance. The assurance should also extend to expressing an opinion on the government financial statements as well as ensuring that the transactions of government are in compliance with laws, rules and regulations. Increasing need is being felt to meet the expectations of various stakeholders of audit, and hence it is essential to enhance and maintain independent and high quality audit.

According to Lima Declaration of 1977, independence is a prerequisite for SAIs performing their tasks. The declaration put it so eloquently “*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*”. INTOSAI’s Strategic Plan also emphasizes the importance of SAI independence - the overall objective of Goal 1 is “*to promote strong, independent and multidisciplinary SAIs.*”

The fundamental importance of independence was further recognized when the 2007 International Congress of Supreme Audit Institutions (INCOSAI) approved the Mexico Declaration on SAI Independence (ISSAI 10).

INTOSAI’s statements on independence are found in the following ISSAIs:

- ISSAI 1: The Lima Declaration;
- ISSAI 10: The Mexico Declaration on SAI Independence;
- ISSAI 11: Guidelines and Good Practices Related to SAI Independence.

Independence is not only a privilege - it also entails obligations and should not be viewed separately from other SAI values, such as transparency,



accountability, ethics, and quality. A main objective under Goal 1 of INTOSAI's Strategic Plan has, therefore, been to develop principles on SAI transparency and accountability.

The Mexico Declaration on SAI Independence (2007) recognizes eight core principles of independence of SAIs - based on the Lima Declaration and decisions reached at the XVII INCOSAI held in Seoul, Korea, in 2001 - as essential requirements of proper public sector auditing. The principles are:

- The existence of an appropriate and effective constitutional/statutory/legal framework;
- The independence of SAI heads and members, including security of tenure and legal immunity in the normal discharge of their duties;
- A sufficiently broad mandate and full discretion in the discharge of SAI functions;
- Unrestricted access to information;
- The right and obligation to report on the SAI's work;
- The freedom to decide the content and timing of audit reports;
- The existence of effective follow-up mechanisms on SAI recommendations;
- Financial and managerial/administrative autonomy.

SAI Oman – an independent institution

The position of the SAI Oman as a pre-eminent accountability organization is well established by law. Oman's Basic Law of 1996 that underpins the country's legal system states that "*public property is inviolable: the State shall protect it and citizens and all other persons shall preserve it*". The State Audit Institution Oman is an autonomous legal entity that enjoys financial, administrative and operational independence. The State Audit Law of 2000 allows the SAI Oman to function with complete independence. The law provides a legal framework to achieve the objectives of regularity and performance audits. The objectives of the SAI Oman are to protect the state public funds, expose cases of financial irregularities, draw attention to deficiencies in the financial and personnel laws and to evaluate the performance of entities subject to its audit. The law enjoins the SAI to carry



out audits of government entities, public authorities, government companies, pension funds, concessions for a public utility or a natural resource and even private bodies guaranteed or subsidized by the government.

The SAI Oman is an autonomous legal entity that enjoys financial, administrative and operational independence. These are described below:

a) Financial independence

Independent budget is incorporated as one sum in state general budget. The President of the SAI approves the detailed budget and the SAI has full discretion and freedom to operate the budget and the SAI also audits its own accounts.

b) Administrative independence

A sign of its pre-eminent status as an independent oversight institution lies in the fact that the Chairman who heads the SAI has the rank of a Minister while the Deputy Chairman has the rank of an Under Secretary to the government, both appointed by a Royal Decree.

c) Operational independence

The SAI has full authority, discretion and complete independence to decide about:

- Entities to be audited;
- Issues and subjects to be audited;
- Audit plan and scope.

As a part of its operational independence, the SAI has free and full access to any document, register or any minutes of meeting during the audit and the SAI has full discretion to decide about the timing and periodicity of the audit.

d) Independence in reporting

The SAI has full independence in finalization of reports and their submission to auditees at periodic intervals, and an annual report to His Majesty, the Sultan. The contents of the annual report, i.a., are:

- Observations on state annual accounts;
- General evaluation of development projects;



- Contraventions discovered during audit; opinion on action taken regarding contraventions.

Reports are also sent to the Council of Ministers if there is lack of responses to SAI reports. There is a provision in the State Audit Law about the annual report being sent to the council of ministers about obstacles encountered by the SAI in discharging its mandate, if any.

e) **Follow-up of Audit Reports**

The SAI has complete independence in follow-up of reports mandated through State Audit Law. An effective follow-up system exists in the SAI to track the actions taken on the audit findings through regular interactions with the auditees. The State Audit Law has a provision for government taking appropriate action on the observations included in the annual report submitted by the Chairman of the SAI. An important safeguard to ensure implementation of audit recommendations is a provision in the SAI Law to report to His Majesty on issues of special significance which the entities subject to audit by the SAI fail to implement. However, there is scope for further improvement in ensuring effective follow-up of the reports.

f) **SAI Code of Ethics**

Linked to the independence of SAIs is the concept of code of ethics for SAI audit staff. SAI auditors have a duty to adhere to high standards of ethical behavior in the course of their work and their relationships with the staff of the audited entities. In the SAI Oman very strict policies exist governing the official conduct of auditors. The SAI Law enunciates strict adherence to ethical conduct for all SAI staff and these are very rigorously implemented. The principles which govern the conduct of all employees are: professionalism, integrity, honesty, objectivity, independence and impartiality.



4.3.4 SAI independence in practice – experiences from INTOSAI Regional Working Groups

Jacek Jeziarski

President of the Supreme Audit Office, Poland

Chairman of EUROSAI

Introduction

To continue on what my colleagues have just said, I would like to discuss threats to the independence of SAIs. It is worth discussing this topic for several reasons. During our meetings, we often present positive situations. We can hardly ever find out that there are certain difficulties. Yet, it is worth to know the problems that other countries have to face because their experiences can be useful for us. The Polish SAI has wide international contacts, especially now when we are holding the presidency of the EUROSAI. And I have received information on threats of limiting SAIs' independence in European countries.

Potential threats to SAI independence

Eleven areas where threats may appear:

- Political/governmental initiatives aiming at significant amendments to SAI-related regulations, without consultations with the SAI or opinions of independent experts;
- Passing amendments that introduce (or facilitate) political dependence of the SAI's top management;
- Introducing external audit of the SAI's whole activity (for example enabling external auditors to assess the relevance of audit subjects chosen by the SAI, its audit methods or costs of individual audits);
- Delaying the nomination of the SAI head (prolonged vacancy);
- Rejecting (for political reasons) by the Parliament (and/or other bodies) the candidates for SAI members proposed by the SAI;
- Politically engaged media that may attack the SAI in order to destroy its reputation;
- Questioning the SAI's political neutrality;



- Trying to influence the results of the SAI's audits or rejecting/questioning them by the Parliament (and/or other bodies);
- The Parliament's (and/or other bodies') very frequent orders or requests for the SAI to carry out specific audits (thus diminishing the SAI's capability to do audits in other areas);
- Cutting the SAI's budget planned for specific tasks;
- Imposing new tasks on the SAI without allocating additional resources.

The first group of problems are initiatives aiming at amendments to SAI-related laws. Obviously, politicians are entitled to propose amendments to laws. But these should not violate audit principles, which, unfortunately, sometimes happens. For example, the Constitution of the Czech Republic contains the following sentence: "*The Supreme Audit Office is an independent body.*" Last November, a group of Members Parliament prepared a draft amendment to the Constitution, which proposed, among others, to remove this sentence.

The legal status of courts of audit is universally recognised, yet here doubtful situations also happen. For example, in 2001 the French Parliament adopted the Organic Law relative to finances acts. It could oblige the Court of Accounts to submit the annual audit programmes to parliamentary committees for opinion. The Constitutional Council found the provision incompatible with the constitution and it did not come into effect.

There is also a problem with introducing external audit of the SAIs. Basically, it is a good idea, however it is important to limit such audit to the execution of the SAI's budget, especially to such matters as public procurement or investments. Yet, the processes of planning and carrying out audits should not be subject to external auditing. Poland is now facing this problem. The Committee of State Audit of the Sejm (that is the lower chamber of our Parliament) has elaborated draft amendments to the Act on our SAI. It was partly based on our suggestions. However, the governing majority initiated additional substantial changes. The paragraph to be added was brief: "*At least every 3 years the Sejm commissions external audit of the SAI. Details should be regulated by the Speaker.*" It could allow for external auditing of our whole activity, including assessment of audit methodology, annual audit plans, audit task programmes and even audit results. I am happy to say that after a real battle during the further legislative process,



especially in the Senate, that is the upper chamber of our Parliament, the scope of external audit has been limited to the budget execution and financial management of our SAI.

The second group of problems related to threats to SAI independence is connected with nomination of the SAI heads or members. In several European countries it happened that the SAI head was nominated long after the term of office of the previous head was over (after a year or so). Sometimes it was so because of the complicated decision-making procedure, like when the president proposes a candidate and the Parliament approves them. And sometimes, it resulted from problems with agreeing on one candidate by political parties. The effects of long vacancies are usually sad because acting SAI heads usually limit themselves to current matters only. Moreover, in some countries acting SAI heads are not authorised to contacts with the Parliament.

Another threat to SAI independence may occur when the SAI head submits motions on the nomination of SAI members and they are rejected for political reasons. In one country, the motions to nominate persons with professional experience were rejected by the Parliament that suggested that the SAI head should propose 'suitable' candidates. 'Suitable' candidates meant persons selected by political parties from among present or former members of Parliament.

The third group of problems covers attempts to influence or question the audit results. This happened in Denmark. In June 2009, Rigsrevisionen published a report on rates, quality and access to treatment at private hospitals. One of the audit objectives was to assess whether the Ministry of Health and the regions responsible for healthcare had taken into account the price and quality when they organised the purchase of private hospital services. The SAI concluded that the services could have been acquired at a better price. The Minister of Health, however, became the Prime Minister, so the critical remarks turn out to be addressed to the Prime Minister. There was a lot of media attention and the SAI was accused of 'politicising' its work, which had never happened before. There were also critical comments on the report, although no concrete arguments were given.

Conclusion

These were specific examples of threats to SAI independence. I would like to finish with a general remark that these threats are usually connected



with ‘external factors’, such as pressures from politicians or other sources. However, there are also ‘internal’ factors, which can limit our independence. These are, for example, the quality of our work, our internal organisation and functioning, and, what is the most important, the knowledge and skills of our staff. These factors need to be constantly improved to ensure that the independence of the SAI is not threatened.



5 VALUES AND BENEFITS OF INDEPENDENT SAIS

5.1 Introduction

Terence Nombembe

Auditor General, South Africa

First Vice-Chairman of the INTOSAI Governing Board and
Chair of the INTOSAI Working Group on Value
and Benefits of SAIs

Background

The role that SAIs play in the strengthening of public finance management and performance by enabling oversight, accountability and governance has increased and SAIs have gained much recognition for what they do to add value to the lives of citizens. For this to happen in a manner that is effective, SAIs must show a level of independence and trustworthiness in their core functions.

It is only through an in-depth understanding of this (ensuring good public accountability), coupled with a regular process of self-assessment, that SAIs can maintain and build their important role of adding credibility to the management of public funds and practices of Good Governance.

INTOSAI, the global professional organisation of SAIs, recognised that there was a need for a framework on the value and benefits of SAIs. INTOSAI, therefore formed a Working Group, made up of 14 members from its regional groupings, on “the Value and Benefits of SAIs”, which was established in 2008, to be chaired by the South African SAI.

The Working Group then drew up a draft principal paper to stimulate thinking on the value and benefits of SAIs which will enable all SAIs to share their views in a consistent format. This was done primarily through INTOSAI member SAIs who commented on the content of the paper. The inputs from this process translated into a discussion paper that will drive the discussions at XX INCOSAI, the Congress for INTOSAI, to be held in South Africa in November 2010.



Significance of work done on value and benefits of SAIs

The Working Group considers that the value and benefits of SAIs emanate from two primary objectives. The two objectives are (1) to be recognised as an independent model organisation, by setting the example as leaders in public finance management, governance and performance management to the public sector. The second objective is (2) to be recognised as an institution that makes a difference to the lives of citizens, to engender trust by contributing to efficiency and effectiveness.

In the draft principal paper, the two aforementioned categories are then further broken down into thirteen fundamental requirements overall. These requirements are mostly supported by either the current body of INTOSAI standards and documentation or the work done by its Subcommittees or Working Groups. At the same time, however, it would appear that the first objective – to be recognised as an independent model organisation – received more attention than the second objective – to be recognised as an institution that makes a difference to the lives of citizens. This is because, as history has shown, being successful as a SAI can only be built on the foundations of a healthy organisation. It is also this strong inward reflection that has stood INTOSAI in good stead in the current very difficult economic climate.

The fundamental requirements in support of being recognised as a model institution include the independence of SAIs; transparency and accountability; a code of ethics that guide the entire staff of a SAI; the focus on service excellence and quality to retain confidence and credibility; Good Governance – a fundamental requirement for any successful organisation; learning and knowledge sharing in support of INTOSAI’s motto of “mutual experience benefits all”; and effective communication to increase the visibility, credibility and reputation of the SAI.

To be recognised as an institution that makes a difference to its citizens, a SAI should be responsive to the changing environments and stakeholder expectations, without compromising its independence. It should ensure that government is held accountable for using resources legally and responsibly as intended and that resources are applied in an economical, efficient and effective manner, to provide the assurance and credible information in the interest of the public. A SAI should be a credible source of independent and objective insight and guidance to facilitate foresight and continuous improvements in government. It should also empower the public to hold its government accountable and responsive by providing objective information



explained in simple and relevant language. A SAI should be an enabler to those charged with governance to effectively respond to audit findings and recommendations. The follow-up on audit findings and the implementation of recommendations strengthen accountability as it enables auditees and governments to take appropriate action. It further demonstrates the impact of the findings and facilitates learning and improvement within both parties.

Understandably, SAIs operate under different mandates and models. The fundamental requirements and related guiding principles are intended to serve as a basis for SAI self-assessment and improvement, as well as enabling SAIs to communicate and promote the value and benefits that a SAI can bring to the democracy in a country.

The gaps that do exist can be addressed by the future work of INTOSAI through reflection on the good practices of many SAIs in these areas. The discussion at XX INCOSAI will hopefully highlight these areas and make proposals on how the gaps can be addressed efficiently and effectively.

The fundamental requirements that the paper highlights not only give structure to all INTOSAI work, past and present, but will also lay the foundation for thinking about the future of the public sector external auditing profession. The Working Group on the value and benefits of SAIs considers that the principal paper, on which the presentation is based, already has the makings of a framework, for which all SAIs should strive in order for their work to be of value and benefit to all stakeholders.



5.2 Values and benefits of independent SAIs for public administration

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Introduction

The financial and economic crisis has shown, once again, the constraints of limited approaches to public administration, such as the so-called New Public Management, inspired by the private sector's process of products and services. In the light of recent developments, the role of governments calls for a more comprehensive approach, based on a concept of public value and on the mission for public administrations to implement long-term strategies, which rely on cooperation with domestic and international stakeholders.

The full implementation of the principles of transparency and accountability and the role of sound and well-equipped institutions, which guarantee the good functioning of the different circuits of democracy, are key features of this new approach – the “*open government, participatory model*” – where citizens, institutions and civil society are deeply connected and interact also through ICT tools and e-government (L. Aguilar Villanueva 2006, Organisation for Economic Co-operation and Development (OECD) 2009, Transparency International 2009, V. Termini 2010)⁴.

Within this framework, this contribution examines the role of SAIs, addresses key features related to their independence for the good functioning of governance systems and considers their evolution to tackle a changing environment.

Far from mining the fundamental principle of representative democracy, where sovereignty lies within democratically elected bodies and therefore

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⁴ Luis F. Aguilar Villanueva, *Gobernanza, Fondo de Cultura. Económica*, México, 2009. V. Termini, *Transparency and responsive accountability*, Committee of Experts on Public Administration CEPA – 9th session, United Nations, New York, 19 - 23 April 2010, <http://unpan1.un.org/intradoc/groups/public/documents/un-dpadm/unpan038687.pdf>, Transparency International 2010, <http://www.transparency.org/>, OECD (2009), *Studies on Public Engagement Focus on Citizens: Public Engagement for better policy and services* http://www.oecd.org/document/3/0,3343,en_2649_33735_43714657_1_1_1_1,00.html.



political decisions are a prerogative of governments, this approach, based on the so-called ‘open government model’, welcomes the participation of citizens and stakeholders in the different phases of the decision-making process, so as to sustain policy effectiveness, acceptance and, last but not least, to restore trust. From UN programmes on participatory governance to President Obama’s campaign for the transparent allocation of economic stimulus packages, this seems to be the guiding thread for improving governance systems, worldwide, today.

In this framework, SAIs play a role in ensuring transparency of government’s action, effective accountability in financial and economic fields and making independent performance information available. The role of measurement and the use and dissemination of financial and performance information are the condition for participatory governance and citizen’s trust in government and lead to a reflection on integrity in public administration and on the role of institutions.

The experience of the Italian SAI (Corte dei Conti) is a case in point to show the uneven evolutionary process of these institutions; it highlights how SAIs have evolved towards a convergent model, in the last twenty years, and how their independence and full endowment are instrumental to achieving the goals of transparency and accountability.

SAIs in an open government

Over the past decade, policy-makers, researchers and practitioners alike have been focusing on the issues of transparency and accountability of public sector organizations. Research shows that “*the percentage of countries identifying transparency as a core public service value almost doubled over the past decade, (reaching) 90%*”⁵. International organizations such as UN and OECD have been providing guidance in this respect and, in Europe, the recently adopted Treaty of Lisbon amending the Treaty on European Union provides⁶ that the institutions “*maintain an open, transparent and regular dialogue with representative associations and civil society*” and aims at ensuring that “*the Union’s actions are coherent and transparent*”.

The concept of transparency suggests that, when examined closely,

⁵ OECD, Government at a glance. This report can be accessed from the OECD website at: http://www.oecd.org/document/3/0,3343,en_2649_33735_43714657_1_1_1_1,00.html, Paris, 2009.

⁶ EU, Article 8B of the Treaty on European Union.



public administration can be ‘seen through’ for the purpose of scrutiny and supervision. More specifically, transparency refers to the availability and accessibility to the public of relevant and timely information on both decisions and performance of public sector organizations⁷.

Accountability means that a person or organization must explain and justify his/her/its actions to another. Moreover, to ensure accountability “*any administrative body should be answerable for its actions to other administrative, legislative or judicial authorities. Accountability also requires that no authority should be exempt from scrutiny or review by others. It can be effected through many different mechanisms, including review by the courts, appeal to a superior administrative body, investigation by an ombudsman, inspection by a special board or commission, and scrutiny by a parliamentary committee, among many others*”⁸. Therefore, from the standpoint of administrative law, accountability is a key instrument to show whether principles such as the rule of law, openness, transparency, impartiality and equality before the law are respected.

Beside an open government, the institutions allowing this circuit to be effective and continuous include SAIs, National Statistical Offices and Ombudsmen; all of them need to have a certain degree of independence from government and to be properly endowed financially and in terms of human and technical resources. These institutions perform the control function in its various perspectives and contribute to a healthy system of checks and balances; they respond to Parliaments, thus respecting the basic principles of representative democracy. They all are responsible for a certain aspect of the circuit of transparency and accountability, which forms the core of the open government model. SAIs provide for the first and more general audit of government’s action and deliver report and information to the Parliament and to the public for further scrutiny; National Statistical Offices must be the first and most reliable source of data and information on public administration action; Ombudsmen make sure that the right of access to information by the public is legally protected and actionable.

⁷ For more in-depth discussions on the meaning of transparency, see for example, Gerring, J. and Thacker, S. C. (2004), Political institutions and corruption: the role of unitarism and parliamentarism, *British Journal of Political Science*, Vol. 34, No. 2, pp. 295-330; Hood, C. (2007). What happens when transparency meets blame-avoidance?, *Public Management Review*, Vol. 9, No. 2, pp. 191-210; and V.Termini (2010), *Transparency and Responsive Accountability*, United Nations Committee of Experts on Public Administration, CEPA, 9th session, N.Y. April 19-23.

⁸ OECD, *European principles for public administration*, Paris, 1998.



The case of the financial crisis in Greece in 2010 is an example of this key role, and of the lack of credibility due to unreliable statistics and data provided to policy-makers and markets by the National Statistical Institution⁹. Restoring trust requires disclosure and accountability of financial flows, first of all in public finance. In particular, SAIs' role in auditing government's action, and their independence in doing so, are fundamental for the functioning of representative democracy.

SAIs are part of the democratic system of checks and balances in the allocation and use of collective resources, according to the principles of democracy and responsibility. Through the adoption of the budget law, Parliaments decide on the allocation of national financial resources for the year to come (objectives and amounts) in compliance with the principle of democracy; governments execute the budget: according to the principle of responsibility, they implement plans and spend complying with the objectives set by the Parliament – public administrations have different degrees of autonomy, according to the different national settings. The Treasury (the Minister of Finance) oversees the implementation of the budget and is responsible for the final reporting. According to the principle of control, SAIs audit and report on how resources have been used, guarantee the trustworthiness of data, the compliance of final documents with accounting books (by checking samples) and the achievement of parliamentary goals, with appropriate follow-up mechanisms connected to their decisions and findings. Finally, reporting to Parliaments, SAIs close the democratic circle: this should guarantee the financial accountability towards tax payers, i.e. that money collected from citizen tax-payers has been properly spent.

The international scenario

As far as the SAIs are concerned, the importance of their role and independence has long been a key issue in the international debate on Good Governance, starting from the adoption of the Lima Declaration of Guidelines on Auditing Precepts by INTOSAI in 1977. In recent years, the issue of SAI

⁹ Crédit Suisse, 2010. The Commission has pointed out that there is not guarantee of “*the independence, integrity and accountability of the national statistical authorities*”, which, according to the Commission, “*Particularly, there is a lack of independence of the Greek statistical institute (NSSG) and the General Accounting Office (GAO) from the Ministry of Finance which has allowed the reporting of EDP data to be influenced by factors other than the regulatory and legally binding principles for the production of high quality European statistics*”, Bill Cash's European Journal: Eurostat set to gain auditing power, 10/6/2010.



independence has emerged, in particular with the 2007 INTOSAI Mexico Declaration. In synthesis, these two declarations, state that SAIs implement audits, both internal and external, on legality, regularity and performance of government's action so to provide Parliaments, governments and the public with independent and reliable information; for this purpose, SAIs must have powers of investigation and enforcement of their findings. Of course, SAIs should be independent and receive a legal mandate to investigate and report on government's performance: their independence should be both institutional and financial and include the freedom to publish and disseminate the results of the audit reports.

Awareness on the contribution of strong and independent SAIs to the overall well-functioning of governance systems has led major international organizations to pay attention to this issue, starting from the UN, which organized with INTOSAI the 20th Symposium in Vienna in 2009, highlighting SAIs' role in fighting corruption and ensuring transparency and thus promoting poverty reduction. On this occasion, it was noted that *“whilst some SAIs accord fully with the Lima and Mexico Declarations, others still work to lobby their legislatures to argue for the organisational and resource independence that the Declarations require”*¹⁰. More recently, on the occasion of the 9th Session of the UN Committee of Experts on Public Administration - CEPA, held in New York in April 2010, and dedicated to the theme *“Challenges and opportunities for PA in the context of the financial and economic crisis”*, a resolution was drafted for adoption by the Economic and Social Council (ECOSOC) later this year during the July High Level Segment; it contains a passage calling for the introduction into international law of the principles of independence of SAI contained in the Lima and Mexico Declarations:

*“ECOSOC (...) Welcomes the 1977 Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on Supreme Audit Institutions independence which draw on the work of the International Organization of Supreme Audit Institutions (INTOSAI) in promoting greater transparency, accountability, and efficient and effective receipt and use of public resources for the benefit of citizens; and proposes the development of a road map for embedding these principles eventually into international law.”*¹¹

¹⁰ UN/INTOSAI, Report of 20th UN/INTOSAI Symposium on Government Audit, Vienna, 11 - 13 February 2009, p. 9.

¹¹ CEPA, Report of the CEPA 9th Session, New York, 19 - 23 April 2010.



The need for an internationally recognized SAI independence is still clear: the overall goal is that of “*integrating the Lima and Mexico Declarations in a UN resolution, since these texts formally require SAI independence in functional, organisational and staffing terms that is essential for effective government audit*”¹².

The issue of independence, especially from governments, of the institutions that ensure oversight over public administration action is relevant not only for SAIs but also for bodies operating at lower levels. The OECD in its early 2001 report “*Citizens as Partners*” mentioned that the Ombudsmen “*is generally appointed by Parliament and while its decisions are usually non-binding, its reports and recommendations often carry substantial weight with governments. They play an important role in ensuring that administrative procedure laws are respected...*”¹³.

Two more considerations apply, in the light of recent developments: in the financial sphere, rating institutions have been discredited by the crisis and the dangerous effects of a lack of independence were made clear. On the other hand, some criticize the independence of public technical institutions, as the European Central Bank, that would be the result of a discredit of political institutions on the basis of a Pareto-Mosca approach¹⁴; it should be clear, however, that this is not the case of SAIs’ independence, based upon the principle of checks and balances.

The role of sound institutions in restoring trust and promoting integrity in public administration

Research shows that the effectiveness of government actions depends also on its credibility and on public opinion’s trust¹⁵. This was particularly true during the recent crisis (2008-2009), characterized by a lack of confidence among the main economic and financial players and strong (negative) self-fulfilling expectations. At the same time, the size, scale and speed of government intervention might have increased the risk of waste, fraud and corruption. Therefore, strengthening transparency, credibility and accountability (democratic performance) becomes even more crucial,

¹² UN/INTOSAI, Report of 20th UN/INTOSAI Symposium on Government Audit, Vienna, 11 - 13 February 2009, p. 3.

¹³ OECD, *Citizens as Partners*, p. 40, Paris 2001.

¹⁴ M. De Cecco, Inet Conference, Cambridge UK, April 2010.

¹⁵ Bouckaert G. and Halligan J., *Managing performance across levels of government: Lessons learned or reproducing disconnects?*, 2009.



together with the need to improve public sector efficiency and effectiveness (policy performance). The need for quick response has also highlighted the importance of transparent, timely and reliable information for policy-makers and for the public on financial and economic developments, in particular about public finance.

Although transparency and accountability could contribute to tackle these critical issues, at present, most information provided on the implementation of fiscal policies is qualitative, and only a limited number of countries report regularly on their action¹⁶. One way to address this concern is to ensure that National Statistical Offices have adequate resources and capacity and that governments strengthen their independence in order to promote transparency and trust. Only under these circumstances can National Statistical Offices produce accurate and reliable data on government activity and economic trends¹⁷. The second important actor is represented by SAIs, which are in charge of implementing audits, reporting of administrative action and providing the public with information on governments' use of resources. Finally, Ombudsmen (at international, national and local levels) are also important players in the system, as they are in the position to ensure that administrative powers are exercised according to the law and in the public interest. Moreover, they can ensure the protection of citizens' right to transparent procedures and accessible information.

The analysis of the recent financial and economic crisis and of the role played by institutions highlights the need for enhanced institutional capacity and adequate transparency rules (also in the private sector) which could help improve economic policy-making and be accountable to citizens.

The evolution of SAIs and the Italian Corte dei Conti

Beside transparency and accountability, integrity is fundamental if public administrations are to provide quality services. In particular, the effective and concrete implementation of these three principles, through appropriate institutional and technological solutions and measures for training human resources, are essential to adequately fight corruption, which remains the single most significant obstacle to achieving the MDGs¹⁸. In this context, it is

¹⁶ As examples of websites, which provide updated information on economic recovery plans, see: www.recovery.org (US) and <http://english.mosf.go.kr> (South Korea).

¹⁷ See Footnote 9 above.

¹⁸ Elia Armstrong, *Integrity, Transparency and Accountability in Public Administration: recent trends, regional developments and emerging issues*, UNDESA, August 2005.



clear how effective standards and procedures should be enforced as they can support integrity, ensure a level playing field in public policies development and reinforce public trust. A concrete and integrated implementation of these principles provide the foundations for the ethical infrastructure of an integrated governance system¹⁹, composed of institutions, players, legal measures and administrative procedures which ensure good conduct in the public sector and guarantee that civil servants may act in the public interest²⁰. Lack of professionalism and corruption often have to do with institutions: appropriate institutional arrangements, rather than human resources capacities, enable good public performance and, in several countries, policy performance shows the strongest relationship with executive accountability rather than with executive capacity²¹.

A process of converging objectives is ongoing and applied to different SAI models – Westminster, Judicial and Collegiate (board) models. Some samples of SAI statutes recorded by Department of International Development²² (DFID), show a strong focus on this type of intervention – e.g. according to the UK National Audit Office, SAIs’ mission is: *“to help the nation spend wisely”*; the Brazilian Court of Audit’s mission, according to its statute, is: *“to assure the effective and proper management of public resources for the benefit of society”*, while the Audit General of South Africa defines itself as: *“the independent world-class provider of public sector audit and related value-added services”*.

As for the procedures, the ex-ante pre-audit function is narrowing in most SAIs, while in the ex-post audit function sampling approaches are prevailing, i.e. to control the quality of internal control systems, abandoning the impossible effort of checking the regularity of every transaction. This process is on the way, though, sometimes, through an uneven path of reforms. The case of the Italian SAI, the Corte dei Conti, is remarkable in this respect. The deep reforms undergone over the last twenty years have enhanced its role, moving from an ex-ante regime of pervasive controls to one centred on subsequent audits, in line with international recommendations. *“As a result of the reform, the Court audits legality, as*

¹⁹ The concept of National Integrity System – NIS has been developed by Transparency International.

²⁰ OECD, Public Sector Integrity, Paris, 2005.

²¹ Jann Werner, Accountability, Transparency and Citizen Trust in Government, presentation at the 8th session of CEPA, March 2009.

²² DFID, Working with Supreme audit institutions, July 2005.



*well as effectiveness, economy and efficiency of the management of State administration, Regions, Local Authorities and public entities (...) and the reform process seems fundamentally coherent. In particular, it reinforced the mechanisms for evaluating the results of administrative action based on principles of effectiveness, economy and efficiency and reduced the ex-ante audit*²³.

One of the most important audit functions performed by the Italian SAI is the certification of the State financial statement; this is not a fully-fledged certification, but in essence a ‘judgment’ that the budget has been implemented in a legitimate way. The Corte dei Conti is now introducing – on an experimental basis – new methods based on random sampling checks for assuring the regularity and reliability of public accounts and the compliance with sound financial practices, showing convergence towards the international pattern of certification. The Italian SAI has also the remit to carry out performance audits on the activity of Ministries and on a series (about 300) of major public bodies and companies (e.g. State broadcasting company, general insurance institute, electric power supply company, etc.) which are subject to this type of audits.

A feature of the Corte dei Conti is the judicial remit on cases of misuse of public money. In this case, the SAI has the power to ask all those responsible for the use of tax-payer’s money – and in some cases also the private beneficiaries of public money – for the reimbursement of the damage caused to public finances. The prosecutor of the SAI has special powers to act against those responsible for damages and can also ask for the general or the financial police to intervene.

A new step in the evolution of the Italian SAI has been the creation of the SAI Regional Chambers, following the decentralization of administrative functions in Italy at the end of the 20th Century. The Regional Chambers have the remit to audit the territorial bodies (regions, provinces, municipalities or communes), according to economy, efficiency and effectiveness criteria and sound financial practices: the Regional Chambers also verify the compliance by the territorial bodies with the Domestic Stability Pact.

Furthermore, the Italian Constitution explicitly foresees that the SAI refer yearly to the Parliament (in the past it would refer primarily to the

²³ Giuseppe Cogliandro, Reform: the audit system, in *International Journal of Public Administration*, 2000, pp. 383 - 403.



government). Besides, the SAI has also important consultative or advisory functions: it reports on a quarterly basis to the Parliament on the coverage of public expenses and participates in ad-hoc parliamentary hearings in the competent appropriate committees, particularly during the budget session.

As it occurs in most cases, the independence of the Italian SAI is provided for by the Italian Constitution; independence relates to the functions performed, but also to the status of SAI officials who have a status of magistrate. The rationale of the independence of the SAI rests in the topical functions it has to perform: basically, the SAI guarantees citizens that taxpayers money is spent in an efficient and effective way; the function of the SAI is strictly related to maintaining and fostering confidence of people in the management of public finances.

Notwithstanding this long reform path, the Italian SAI, though already independent from the functional viewpoint, has not yet fully achieved financial autonomy, as it is demanded by the Lima and Mexico Declarations of INTOSAI; the rationale of this further step being that the functioning of the SAI should not be determined by the government but by Parliament in order to avoid that controllers depend, for the dimension of their budget, from those they are supposed to control.

The Italian experience of the Corte dei Conti in following the full implementation of the INTOSAI principles laid down in the Lima and Mexico Declarations proves that the process is not always easy and rapid even in developed economies such as the Italian one, with a solid and rooted administrative system. The guiding goals of auditing results, under efficiency and effectiveness criteria, allow for international convergence towards the same model.

However, development is either slowed down by resistance from administrations and governments striving to keep wider degrees of independence or by sporadic reforms such as the recent Law 15/09²⁴, which assigns to the Italian Court the task of assessing all consultancy contracts stipulated by central administrations and of giving its prior consent to enable the implementation of every single act. Clearly, this instrument, reflecting a singular conception of transparency, may infringe the results of the long

²⁴ Law n° 15, 4 March 2009, Delega al Governo finalizzata all'ottimizzazione della produttività del lavoro pubblico e alla efficienza e trasparenza delle pubbliche amministrazioni nonché disposizioni integrative delle funzioni al Consiglio Nazionale dell'Economia e del Lavoro ed alla Corte dei Conti.



process of changing the Court's functions described above, with the risk of weakening its crucial role in auditing public accounts, by overwhelming the Court with merely bureaucratic tasks.

Looking at the future

The institutional setting in which SAIs operate is becoming even more complex. The system described is state-centred, however, a dynamic process is on the way and rules should be adjusted to respond to current new needs. The increasing global dimension of governments' action and the ever more frequent translation of this dimension into internationally agreed goals - such as the MDGs adopted by the UN - or, in a more binding situation, such as in the European Union - the goals of convergence and coordination in the economic and financial fields - require also for SAIs an improved level of international coordination, so to assist governments in pursuing their common and agreed objectives.

Moreover, the institutional setting shows a dynamic structure and a growing complexity, with different levels of government acting in a global dimension, not only at a national level but at local and regional levels, through devolution and decentralization, and at supranational level through international cooperation and commitment. Beside international coordination, enhanced inter-institutional coordination might be envisaged at the national level with other bodies involved in the control function, such as SAI, National Statistical Offices, Treasury and the parliamentary Committees²⁵.

Latest developments in the Eurozone show how far the values of transparency, accountability, responsibility and openness need to be internationally guaranteed with the help of audit institutions. Europe's evolution since the 90s shows the need of institutional innovations; e.g. the imposition of rules on national budget deficits - according to the Maastricht's criteria - includes local deficits, which are estimates, based on different accounting rules, different national rules and require maximum reliability and comparability of data and the need of coordination both, at a national and European level. The recent Greek crisis has raised a number of questions - e.g. how coordination at a supranational level can be implemented to guarantee data reliability and compliance with budget constraints?; even more, the recent

²⁵ The President of the Italian SAI recently made a proposal in this direction Tullio Lazzaro, President of the Italian Court of Auditors (Corte dei Conti), speech to the Treasury Accounting Office (Ragioneria Generale dello Stato), Rome, 29 April 2010.



UE proposal²⁶, which would grant Eurostat more control power and audit functions, to centrally assess member states' national budget deficits, has raised important critical issues, including the following: how far should the democratic principle and state autonomy be preserved? How far the values of transparency, accountability, responsibility, openness may be guaranteed internationally with the help of national SAIs institutions? Some institutional coordination between different independent bodies, such as SAIs, could be foreseen at the national level and the same applies to EU and at international level.

In addition to this, the spreading of public-private partnerships brings into the picture another innovative element. It opens for SAI a further support function to different levels of government subject to audit though autonomous action.²⁷ Furthermore, the agentification and corporatization of mostly executive functions, brought forward by the New Public Management approach and described by several authors²⁸, has broaden the spectrum of SAI's activities; in some cases performance auditing has been added to SAI's core business of financial auditing, enlarging the competencies required to perform audit functions.²⁹

In this respect, INTOSAI might well be an appropriate forum to help disseminate the culture of full disclosure and Good Governance and improve SAI's capacity favouring the development of adequate analytical skills through proper recruitment and training (e.g. auditors should be able

²⁶ EU Finance Ministers have recently agreed (Luxembourg, 8 June) to grant EU's statistical agency, Eurostat, new control powers to audit member states public accounts, having "access to accounts of government entities at central state, local and social security levels". This would require a new Council Regulation, emending Regulation 479/2009 on the application of the Protocol on the excessive deficit procedures, which provides that "Eurostat is responsible for assessing the quality of the data and for providing the data to be used within the context of the excessive deficit procedure". In the new proposal Eurostat would be granted audit power towards member states. A similar proposal was put forward by the Commission in 2004, but met the strong opposition by several member states, including Germany and UK.

²⁷ Stoica Petrica, *External Audit Systems, Studies and scientific researches*, Edition: economics, no. 13, 2008.

²⁸ K. Verhoest, B. Guy Peters, G. Bouckaert, B. Verschuere, *The study of organizational autonomy: a conceptual review*, *Public Administration and Development* 24 (101 - 118), 2004, J. Wiley and Sons Ltd; C. Pollitt and H. Summa, *Reflexive Watchdogs? How Supreme Audit Institutions Account for themselves*, *Public Administration*, vol 75 Summer 1997, pp. 313 - 336.

²⁹ K. Lüder *Tendencies of Public Financial Management in Europe*, 6th Transatlantic Dialogue (TAD) on Rethinking Financial Management in the Public Sector, Siena June 23 2010; S. Troupin, V. Put, K. Weets, G. Bouckaert, *Public Audit Systems: from Trends to Choices*, Public Management Institute, Catholic University of Leuven, Belgium, 2010.



to perform detailed risk analysis³⁰). INTOSAI could also be the point of reference for a better use of international facilities for the exchange of good practices, guidelines and information such as the new Public Administration Knowledge Space – PAKS, being developed by UNDESA, and other ICT-based tools (www.unpan.org).

Finally, scholars and expert practitioners might provide the framework for guidance in the dynamic process of international coordination among independent bodies, which are under the pressure of administrative reforms and often endowed with different legal statutes and mandates in different national systems. The structure and functions of SAI might vary from one country to another according to the administrative culture, systems and traditions; nonetheless, in performing their function of public sector auditing they are internationally moving towards the same goal of assuring a proper use of public funds, good management and governments' accountability.

³⁰ UN/INTOSAI, Report of 20th UN/INTOSAI Symposium on Government Audit, Vienna, 11 - 13 February 2009, p. 10.



5.3 Values and benefits of independent SAIs for civil society

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Introduction

You all know the great emphasis paid by the international SAIs community to the issue of improving its performance. The Auditor General of the South African Republic, Mr. Terence Nombembe, together with the INTOSAI Working Group on Values and Benefits of SAIs is developing under his chairmanship the basic report on this issue to be delivered to the XX INTOSAI Congress in South Africa.

Within the framework of this report preparation we recently held a very significant meeting of this Working Group in Moscow. Now I'd like, as a representative of EUROSAI, to dwell upon the very important aspect of this issue, namely the values and benefits of SAIs' activities for the civil society development.

This topic has many aspects in its nature. For example, recently they've been talking a lot about the necessity to apply a humanistic assessment of economic growth, using the human happiness indicators. In many respects these indicators depend upon the level of the civil society development and upon the governmental efficiency.

As you might know, following the initiative of Nicolas Sarkozy, President of France, the Commission on Economic Efficiency and Social Progress was launched; this Commission is chaired by Joseph Stiglitz, a Nobel prize winner. INTOSAI is also involved in research of this issue. In the framework of the Working Group on Key National Indicators chaired by the Accounts Chamber of Russia, the relevant report is being developed for the XX Congress of INTOSAI.

In this respect I'd like to quote an extract from the report of Joseph Stiglitz's Commission: *"Information is a common weal; the better we are informed on the situation in our society, the more effectively the democratic states will develop."* And it's quite natural that such indicator as 'democracy and accountability' ranks first among the key indicators of the state governance



quality, which is being studied by the World Bank within their project on International Indicators of Management Quality.

So, it's not a mere coincidence that in many countries SAIs are of a double nature. On the one hand, they act as state controlling bodies, on the other hand as a civil society institution aimed at ensuring the control over the public funds spending. Thus, SAIs are not only the bodies for the state audit. The fact of their existence itself is to some extent a very important factor for development of democratic institutions and practical implementation of the authorities separation principles.

Transparency and publicity

In this connection, the role of SAIs in the East European countries being in the process of deep transformation of social and economic relations, simultaneous development of the civil society institutions and market mechanisms, is especially significant. Sometimes SAIs have to ensure cooperation between the civil society institutions, Parliaments and executive authorities in the process of solving the complex issues that require a public consensus. Here the significant role belongs to the practical realization of the transparency principle stipulated by Lima Declaration, as well as provision of the society and state authorities with unbiased and independent information on the issues forming the major conflicts for the public perception.

As an example, I'd like to mention the situation that we had in 2005, after the Accounts Chamber prepared the Report on the Results of Privatization in Russia in the 90s. This was a rather burning issue for the public in Russia at that time. A rather popular point of view was that the change in ownership wasn't legitimate, that it was unfair, and many transactions on privatization of the largest assets were against the then-effective legislation. This gave a feeling of uncertainty to the Russian business, deprived them of the investment incentives and formed a basis for permanent social tension in the country.

That's why, when preparing this report we based ourselves on the assumption that there was a need for a final conclusion on the fact of the property redistribution. The businessmen who came into ownership of the state assets without major violation of law must have secure guarantees of their rights inviolability. At the same time, we needed to get back to the assets where, in our opinion, our audits were not followed by the appropriate corrective measures.



No wonder that the report was a stir among the public. We also communicated the conceptual issues of this report to the President. At the same time, we published it as a separate book and published in the internet, so that any affiliated person could read it.

As a result, we managed to deliver a more or less unbiased view to the public. In its turn this allowed making the legal assessment of the privatization results and to finalize the issue of possible review of the privatization outcomes. After about 18 months since the publication of our report, the Parliament, by the initiative of the President, amended the Civil Code to reduce the period of statute limitation for invalidation of transactions from ten to three years. Since the vast privatization in Russia ended in late 90s, this gave the legal impossibility to challenge the results of major privatization transactions.

Thus, transparency and publicity are the key factors to support the role of a SAI as the critical element in civil society relationship with the state power. That's why this aspect is of top priority for the Accounts Chamber of Russia. As an example, last year the Russian mass media issued over 27.000 articles devoted to the work of the Accounts Chamber; about 440 pieces of news were on TV, and about 465 pieces were broadcasted on radio. There were about 420.000 visits to our website.

Interaction with Parliaments

The second major factor to strengthen the role of SAIs in terms of the civil society institutions is the interaction with Parliaments. In most countries it's the representative agencies that guarantee the functional independence of SAIs. Such active and independent position of the Parliament mostly empowers SAIs to provide really efficient control over funds spent by the executive authorities, since these funds basically belong to the taxpayers. This also allows to prevent the situation when inconsistent decisions made by the state authorities affect the social interests of people at large.

In this respect, I have another very representative example of interaction between the Accounts Chamber of Russia with the lower chamber of Parliament (the State Duma) in the social welfare reform, the so-called benefits monetization. This was about the shift from natural to monetary form of providing the goods and services to disadvantaged population. This reform was not backed by the adequate funding. As a result, certain categories of people, e.g. pensioners, couldn't buy the same amount of



medicines or transport services for the monetary equivalent of the natural benefits they had before the reform. This entailed the waves of social protests in many regions.

Under such circumstances, in close cooperation with the State Duma, we established the dedicated Working Group, and online monitoring of the reform implementation progress was started with involvement of the regional control and accounting bodies. Besides, we studied the results of the opinion polls. Summarizing this work, we sent our comments and suggestions to the legislative bodies in a swift manner in order to amend the corresponding law. Each citizen could be free to choose the form of the benefits provision. In a short period of time our suggestions were brought to life, which allowed cooling down the social tension and prevent the infringement of interests of socially disadvantaged population.

Contacts with independent social and expert organizations

The third, nevertheless very important, element of SAIs influence upon the development of civil society institutions is the broad network of contacts with independent social and expert organizations. E.g. in its work the Accounts Chamber proactively cooperates with such significant public bodies of Russia as the Public Chamber, Association of Lawyers, Taxpayers' Union and many other.

We pay a lot of attention to the expert and analytical activities, to elaboration of suggestions for improvement of legislation influencing the budgeting process. In this respect, the Expert Advisory Board attached to the Accounts Chamber Chairman is active; this Board features the representatives of scientific and business organizations. In the framework of these activities we also maintain active contacts with the public structures that represent the interests of business – the Russian Union of Industrialists and Entrepreneurs, Chamber of Commerce and Industry, Russian Bankers' Association and many other.

The interaction between the Accounts Chamber of Russia and civil society institutions representing business was greatly intensified in the period of the world financial crisis. The permanent meetings on social and economic issues with participation of these structures were launched in the Accounts Chamber. These meetings are a kind of a public forum where state officials, businessmen, scientists and public figures regularly meet. Several times we summoned this meeting to develop some specific recommendations



for implementation of anti-crisis policy, and these recommendations were promptly reported to the political leaders of the country.

Many of the suggestions were brought to life. E.g. the adjustments to the procedure of securing the state guarantees for companies were introduced, the decisions on extra capitalization of certain banks were made, the list of the so-called systemic enterprises entitled to the state aid was extended.

But the main thing is that by doing this we wanted to make our contribution to overcoming the ‘crisis of confidence’, being in our mind a major cause of the economic crunch. E.g. banks have no confidence in financial solvency of business and give no loans, and the business in its turn is unwilling to grow due to lack of confidence in the anti-crisis measures taken by the state. That’s why one of the key priorities in our work during the crisis was the prevention of informational shortage for the state authorities, economic agents and society about the actual situation and the anti-crisis measures under implementation.

For this purpose we held a prompt monitoring of using the state funds aimed at support of the banking system. Besides, our experts with major support by the State Duma held an unprecedented audit of the gold and foreign currency reserves in the country. The results of this audit were very important to cool down the panics in the financial and currency markets, since we managed to show to the economic agents and ordinary people that the state has plenty of resources to ensure macroeconomic stability and stable rate of the national currency exchange.

Interaction with the general public

The fourth element of SAIs influence upon the civil society institutions reinforcement is the growing vast contacts with general public. For this purpose, three years ago the Accounts Chamber of Russia launched the Public Reception Office. Last year only, over 1.700 people came to us with their requests and complaints. As a response, we sent letters to the relevant organizations. Our employees also rendered extensive consultations to the visitors.

Direct links of interaction with the public is very important from the point of view of SAIs struggle with corruption, often being hard to trace. For example, recently we had a case when in the course of consideration of the results of the federal transfers audits in one of the regions, the action



group reported to the Board accusing the city mayor of corruption. The audits confirmed these facts, and the relevant materials were sent to the law enforcement bodies.

Corruption is a very dangerous social blemish, which has a negative impact upon the state governance efficiency and undermines confidence of people to the state authorities, bringing down their striving to develop the civil society institutions. That's why active participation of SAIs in corruption elimination can also be considered as a contribution to the development of civil society.

The Accounts Chamber takes active part in implementation of the National Corruption Elimination Plan adopted by the President of Russia last year. Only last year, we sent 215 audit results to prosecution and law enforcement bodies. 41 criminal cases were started.

The audit of the public medicines procurement system held jointly with the Office of the Prosecutor General was especially significant. This revealed 18.000 violations that entailed 2.500 administrative and 15 criminal cases.

The Chairman of the Accounts Chamber is a member of the President's Board for Corruption Elimination. A number of our suggestions were approved at the recent scheduled meeting of this board. In particular, to develop the public control mechanisms of corruption elimination, the decision was made to launch the public control agents training courses backed by the Accounts Chamber, System Analysis Research Institute and the Moscow State University High School of State Audit. Also, there are the plans of developing the system of measures and indicators to assess the efficiency of the corruption elimination measures taken by the state.

Conclusion

In conclusion I'd like to emphasize that each country has its own particularities. SAIs have different statuses and authorities, and their specific contributions to the development of the civil society may be different. However, there are also common trends. As a rule, participation of a SAI in each particular country in development of the civil society is proportional to the degree of practical observance of the INTOSAI Lima Declaration principles in that country. That's why we fully support INTOSAI in its efforts to secure the status of a UN international legal instrument for this document.



Besides, I'd like to make the following suggestion. As you know, INTOSAI has now introduced a number of standards and practical guidelines regulating many aspects of SAIs activities, including to ensure the independence of SAIs, transparency and accountability principles, audit quality, etc. Now it seems the high time to develop an INTOSAI document to regulate interaction of SAIs with the civil society institutions, and probably, Mr. Chairman, this could be done within your Working Group.



5.4 Communicating the work of independent SAIs in public (media cooperation)

*Kenneth M. Dye*³¹

Former Auditor General, Canada

Introduction

Today we are going to talk about getting your audit messages across effectively to your stakeholders, Parliament, public and media. While my comments apply to regularity audits as well as performance audits, there are more messages associated with performance audits and consequently this paper is more focused on performance audits than regularity audits, but the principles remain the same for both.

Say what you mean

One of the most important aspects of communicating effectively is to say what you really mean. Recently I read a financial audit opinion of an SAI in a developing country where the opinion was qualified because the banks could not be reconciled, many transactions were not presented for audit, and there were errors in postings. If the Auditor General were following INTOSAI standards, the opinion would be denied, or at a minimum adverse. But the Auditor General did not want to upset the government, so the opinion was merely qualified. I don't think we are in the business of keeping governments happy, our responsibility is to assist Parliament to hold the executive government accountable by following INTOSAI standards. We shouldn't allow politics or personal friendships to interfere with our independent personal judgment or audit opinions.

So I want to ask you does it matter if a tree falling in the forest makes a sound or not if there was no one there to hear it? If you are a performance auditor who does very thoughtful work but no one reads your reports, have you really accomplished anything? The answer to that is no. You have been wasting your time and your government's money if your audit reports do not have impact and no one does anything to correct the problems you have identified.

So what I want to do today is convince you to think about the way your stakeholders receive your audit reports. If your Legislative Oversight Committee or other parliamentary committees to whom you report are not

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paying attention and have not been holding hearings on your audit reports, you have a problem. And I am here today to help you to get the attention your audit reports deserve and raise the profile of your office, so that those who are your stakeholders become convinced of the value of your important services.

As public sector auditors you can really make a significant difference to the manner in which your country is governed and administered. Your office can be a very positive constructive agency, and so it should be. However, if your stakeholders have no idea what auditing is all about, the chances of you having any impact, are few. So one of your first challenges is to make sure that your stakeholders know about performance auditing and regulatory auditing.

First challenge

You and I know that it's all about the three or perhaps four 'Es' and fair presentation. But your stakeholders may not have a clue what you're talking about. So you have some educating to do, and not only with the parliamentarians, but with departmental bureaucrats and the media.

Once you have convinced your stakeholders about what you are doing by auditing is adding value, then you can start focusing on delivering a high impact and relevant audit report.

What is a high impact performance audit report

What is a high impact performance audit report? In public sector auditing, the term 'high impact' is used to refer to the process of raising awareness or the improvement of government administration, policies and practices, or it implies that the performance auditor identified areas where the management measures instituted did not result in the economical procurement of resources and the effective and efficient utilisation thereof.

A high impact performance audit report focuses the attention of the reader on issues that need improvement and encourages corrective action. It is a persuasively and objectively written constructive report that displays the value of audit work on a timely basis, by using clear language, supportive graphics and evidentiary photographs. A good performance audit report should offer good value-for-money by changing prevailing attitudes or practices and improving the performance of government entities, thereby contributing to Good Governance and improving your country's society. An executive summary always makes a report more readable.



Impacts

To evaluate the impact that a performance audit report has, it is important to identify the various types of impacts that may exist. Let me give you some examples of types of impacts:

- Improved economy;
- Improved efficiency;
- Improved effectiveness;
- Improved quality of services;
- Improved financial management planning and control;
- Improved accountability.

Be persuasive

In order to report persuasively it is important to:

- Offer factual evidence to support findings;
- Focus on the cause;
- Answer the ‘so what’ question about relevance. So what focuses on important issues, not trivia;
- Show consequences and describe or quantify the impact and effect;
- Avoid overstating or understating the significance. Be transparent and objective in the report;
- Document action plans or areas for improvement that establish accountability and would address the finding;
- Write in a clear and concise manner.

A performance audit report should be written in such a way that it catches the readers’ attention. Emphasis should be placed on the objective of the audit and focus on the delivery of the key messages. This is done by:

- Making the writing objective-driven and value-added;
- Putting the objective in writing at the beginning;



- Stating the objective in concrete and measurable terms;
- Keeping the report brief.

Keep your reader's attention

In order to hold the readers' attention, it is important to:

- Choose a subject considered to be of high risk;
- Start each section with a key point;
- Keep it concrete;
- Convey significance;
- Write in simple business terms;
- Recognize the impact of tone on the effectiveness of your writing;
- Modify tone to achieve the desired effect;
- Choose the right words;
- Write safe, positive statements;
- Use action verbs;
- Know when to use active or passive voice;
- Write concisely, making every word count;
- Use charts, graphs and photos for impact;
- Avoid long boring paragraphs by using bullets;
- Keep paragraphs short, say five to eight lines;
- Keep each page with approximately 50% white space, as busier pages are reader unfriendly.

UK National Audit Office's good recommendations criteria

Making sound and helpful recommendations can be problematic so the UK National Audit Office gave this issue giving considerable thought about how the recommendations in its own performance audit reports could be improved.



The following are five criteria drawn from the views of the UK National Audit Office staff for what makes for a good recommendation. They should be:

- Logically linked to the findings of a study;
- Cost- and time-related;
- Specific in the proposed action and clear in the outcome or benefits;
- Based on sound evidence; and
- Carefully targeted at the appropriate person/people.

How an auditee responds to conclusions and recommendations is likely to depend on whether they see them as reasonable, feasible and cost effective. Therefore, once an audit is completed and tabled in Parliament or the relevant legislature, it is important to do an internal impact assessment after allowing sufficient time for the Public Account Committees and government departments to take action. Impact assessments serve as a warning system for the Auditor General/President, revealing those instances where implementation is outstanding and provides an opportunity to identify root causes for such instances, while enhancing the quality of recommendations.

Stakeholders and their perceptions play an increasingly prominent role in the day-to-day operations of the SAI and it is clear that the SAI needs to produce reader-friendly reports that meet the expectations and requirements for the stakeholders. The SAI needs to continue to identify the need to inform the public of its work as a priority and engage with the media and civil society.

In South Africa many South Africans, including those in positions of leadership, are not fully aware of the important work of the Auditor-General of South Africa and a parliamentary committee found that to be an unacceptable situation. They said there is insufficient public awareness of the Auditor-General's work and that the Auditor-General should continue in its efforts at increasing public awareness of the activities of the Office. So the Auditor General developed a strategic plan, which includes improving the corporate reputation and branding of the SAI in relation to all its stakeholders, internal and external. The strategic plan recognizes the need to optimize key success factors such as effective leadership that inspires stakeholder confidence. And that boils down to communicating audit messages effectively to the stakeholders.



How to get the attention of elected officials

Well how do you go about getting the attention of elected officials? My suggestion is you must triangulate your audit messages through the media to the Parliament. Now that is not showing any disrespect to parliamentarians. They are very busy people and they really don't have much time to read printed reports. However parliamentarians around the world tend to be media junkies, particularly if the item in the media has something to do with their constituencies. So let's recognize the reality that your audit reports probably will not be read thoroughly or completely and let's find a way for your parliamentary stakeholders to become aware of the good work of your office. And the way to do that effectively is to get the media to carry your message for you. You need to become partners with the media, without compromising your independence.

Now many of you will have been burned in the past by media reports that were perhaps untrue or inaccurate, or perhaps emphasizing issues of interest to readers or listeners in order to sell commercials or newspapers, but really missing the point. Your challenge is to find a way to get your message across accurately, objectively, and clearly through the media networks. They are not your foe, they are your partners and you need to help them understand what your Office is doing.

Unfortunately we auditors usually do not have any training in dealing with the media. We don't understand their culture, we have little appreciation of the difficulties of their jobs, and we don't even speak in the same language that their readers, listeners or viewers understand easily when we use 'auditese' or 'accountingese'. So perhaps auditors who speak of the behalf of SAIs need some training in 'media speak'. That is not to say that the auditors should speak down to their listeners, but they should speak and write at the level understandable by a high school student. One should not have to be a Ph.D. or a lawyer to understand the audit message. A continued focus on improving and strengthening media liaison is essential, since the media is a key channel to keep your citizens informed of the SAI's role and contribution to strengthening your country's well being. A properly informed audience will create public pressure on elected representatives, which in turn will lead to greater executive accountability and ultimately to greater transparency and better management of public funds.

My suggestion to you is that you can use triangulation through the media to parliamentarians to get your important messages across. I recommend



to you that you let the media facilitate the flow of tabled audit reports to legislators, and the general public. With some planning you can ensure that the SAI is consistently well positioned and well represented in the media. You can create a well-informed media that can report accurately on audit matters and play a role as the eyes and ears of the public regarding public finances. They will readily raise awareness on the importance of the SAI's role in ensuring public accountability. They will develop for you interest among the general public and relevant professional public and private institutions in the work and efforts of the audit offices. That will enable tax-paying citizens to play appropriate roles to ensure greater accountability of public expenditure through the elected representatives.

In order to get the media onside, a Media Advisory should be prepared and delivered to the parliamentary gallery advising them of the date a report will be tabled, whether or not there will be a news conference and when the Auditor General or his Deputy will be available for interviews. Contents of your audit report should be briefly summarized in each media advisory. Media releases should be developed in advance of tabling for every audit report to be tabled.

You want to ensure that your audit findings are transmitted to the media in a way that minimizes the risk of them being open to different interpretations. Your audit findings play an important role in promoting accountability, transparency and Good Governance in government operations. However, this contribution becomes truly effective when the audit message is communicated well, without modification and alteration.

In order to avoid ambiguity or misrepresentation, auditors and spokespersons should be aware of and be acquainted with the media requirements. It is important for us to develop technical skills in dealing with the media.

The way you will attract interest is for you to become newsworthy.

What is news and what is newsworthy

News is information that has relevance to the audience of a specific news media outlet. To be newsworthy it must meet some of the following criteria:

- Significant;
- Unusual, unexpected, contradictory;
- Important to be aware of;



- Would like to know;
- Impact.

It is the news organization's perception of what is newsworthy that will determine coverage, not the auditors. Therefore it is essential to build effective media relations so the media will pay attention to you, and let you get the audit messages out clearly and make news.

Good Media Relations Principles

In order to build effective media relations you want to understand good Media Relations Principles. They are not complicated. They are:

- Be accessible;
- Be prompt;
- Be honest;
- Know what you are talking about;
- Be helpful;
- Be reliable.

Understanding the media community

I mentioned earlier that you need to understand the culture of the media community. There is:

- Lots of competition;
- Narrow news hole;
- Computer networks;
- Market driven;
- Government control;
- Influential;
- Profit seeking.



Media policy

If you don't already have a media policy, you should have one. A media policy sets out the fundamental principles and procedures for dealing with the media. It clarifies how media relations should be conducted. In this respect, it includes:

- A statement about the importance of media coverage for the SAI;
- A philosophy for the SAI media relations, including:
 - Quick responses;
 - Organized and efficient;
 - Pro-active and re-active media coverage, and
 - Honest and forthright, even when the news is bad or embarrassing;
- A definition of responsibility for media communications. This should include the roles and responsibilities for the SAI's Public Relations Office;
- A description of the subjects that are off limits, such as criticism of government policies or individual persons;
- Assurances for those who follow the media policy in good faith;
- Procedures and suggested time frame for handling media meetings, calls and visits;
- The media tools which are necessary and appropriate sign-offs for their approval;
- Designated spokespersons or subject specialists.

Making the audit offices more media friendly is a building process that starts with a media policy for the entire organization, one which sets out the goals, principles standards, roles and responsibilities of all employees in the organization. After the policy is created, the next step is to develop a coherent media strategy and the ability to anticipate, not merely react to, changing events in the media community.



Media strategy

A media strategy is a means to achieve specific public relations goals through an organized earned media campaign. Its purpose is:

- To support the SAI overall mission statement using a communication strategy;
- To be sure that media relations are no longer an issue of concern;
- To allow the SAI to respond to and generate (earn) media coverage as desired.

A media strategy should:

- Focus on an issue or a set of issues;
- Define the key stakeholders;
- Identify the needs, concerns and issues of those stakeholders;
- Articulate key messages from audit findings and recommendations;
- Outline a program to inform and initiate action;
- Define specific outcomes of a program;
- Identify how other communications initiatives relate to the media strategy;
- Describe how the media strategy can objectively be evaluated;

The SAI can choose from among a number of potential media strategies or combinations thereof depending on the issue, timing or target audience. The preferred strategy option is a proactive strategy that generates or earns news coverage.



5.5 Contributions of independent SAIs to the fight against corruption in the light of the United Nations Convention Against Corruption (UNCAC)

Dennis Thatchaichawalit

Director, Division for Management

United Nations Office on Drugs and Crime (UNODC)

Introduction

The global financial crisis has wiped billions of dollars off of balance sheets, destroyed savings, and bankrupted companies. Most of all, it has destroyed trust in governments and financial systems.

Efforts are now being made to restore integrity. Fortunately, we do not need to start from scratch. The blueprint for one of the tools already exists: the United Nations Convention against Corruption which came into force in December 2005.

The Convention – which is the world’s only universal anti-corruption instrument – contains 71 very specific articles to fight corruption: from prevention, to prosecution, international cooperation, to asset recovery and technical assistance. Let’s look at each section in more detail.

Preventive measures

Corruption can be prosecuted after the fact, but first and foremost it requires prevention. It is crucial that countries have anti-corruption measures and public sector management practices in place, that are based on the rule of law, transparency and accountability.

One of the greatest preventive measures is a culture of integrity. Strong political leadership coupled with public intolerance for corruption and an open media are powerful forces that must be tapped, and turned into action - at all levels of government. Readily accessible audit function is certainly an important element in this context.

As UNODC Executive Director, Antonio Maria Costa, has repeatedly stated, anti-corruption organizations are the watchdogs. As SAIs, your job is to ensure that public officials keep, and not just make, promises to manage public funds efficiently. You ensure that rules to strengthen integrity are in place and applied, for example codes of conduct for public officials.



You also play an educative role – to increase and disseminate knowledge about the prevention of corruption and compliance with ethical norms and standards.

I urge you, in particular, to be vigilant in auditing public procurement as this is an area prone to corruption. Where large amounts of money change hands – particularly between the private and public sectors – it is essential that the process is based on transparency, competition and objective criteria. Please ensure that public procurement officers rotate more frequently than other civil servants, and that they are aware of the rules. You should also ensure that unsuccessful tenders can appeal, and that contracts awarded unfairly are annulled.

In order to carry out your functions effectively and free from any undue influence, you need independence, sufficient resources, skilled staff and professional training. States that are parties to the UN Convention against Corruption have made the commitment to guarantee you this. You should be ‘untouchables’ whose integrity and professionalism will strike fear into the hearts of corrupt officials.

Audit staff may require specialized training. The international anti-corruption academy, which will open its doors in Laxenburg here in Austria this autumn, will be a valuable new resource for strengthening the capacity of public auditors, and other anti-corruption officials. I urge you to take advantage of its expertise, once it is up and running. UNODC is also at your disposal to help build capacity.

Criminalization and law enforcement

Preventive measures alone are not enough. Countries need to make corruption a crime and combat it with effective law enforcement. The UN Convention against Corruption spells out a comprehensive set of offences that all penal laws must include, such as bribery and the embezzlement of public funds. Offences committed in support of corruption, such as money-laundering and obstructing justice, are also dealt with.

Law enforcement officials should be empowered to investigate and prosecute the wrongdoings of public officials in the handling of public resources. Working together with the judiciary, you should have the means to ensure that cases are developed well enough to bring convictions.



International cooperation and asset recovery

The very existence of the Convention is proof of the realization that corruption is no longer a domestic crime. It is a crime that does not respect borders. There is a strong need for international cooperation on extradition and mutual legal assistance, law enforcement cooperation and joint investigations. Borders and safe havens should not obstruct investigations to bring guilty parties to justice.

International cooperation is especially important when stolen assets need to be identified and recovered. This is an area that can bring concrete results and therefore deserves special attention and support. It is possible to obtain the stolen billions back if innovative tools for asset recovery are put in place. This means prevention guidelines, tracking systems and assessment tools. Success also depends on the removal of banking secrecy as an obstacle, and a greater willingness by institutions of receiving states to cooperate for the return of stolen resources.

By ratifying the UN Convention against Corruption, states agree to cooperate with one another in every aspect of the fight against corruption. This includes prevention, investigation and the prosecution of offenders.

The success of the Convention will depend on states' ability to implement its far-reaching measures. As recently as six months ago, at the Conference of the States Parties to the Convention in Doha, states have taken their commitments to the next level. They have reached the political agreement, as significant as the Convention itself, to measure their anti-corruption performance through peer evaluations. From June on, UNODC will facilitate an average of 35 country reviews per year. Every country involved in the review process has been asked to put forward up to 15 government experts to carry out the evaluations. We hope that public auditors will be among them.

A noble profession

In conclusion, public auditors have a key role to play in creating an environment of integrity rather than a culture of corruption. You have the power and the mandate to ensure that impediments are in place to mitigate risks, thus reducing the opportunities of stealing from the public's purse. Ensuring honesty, integrity, accountability and proper management of public affairs and resources is surely one of the most noble professions – particularly in this time of scandal/vulnerability.



6 CAPACITY BUILDING TO STRENGTHEN SAI INDEPENDENCE

6.1 Introduction

Ahmed El Midaoui

First President of the Court of Accounts, Morocco
Chairman of the INTOSAI Capacity Building Committee

Introduction

The independence of SAIs is a prerequisite for the effectiveness of public sector auditing. According to the Lima Declaration of Guidelines on Auditing Precepts, the principle of independence is meant to enable SAIs to objectively fulfil their role and act in an impartial manner. To do so, SAIs must be independent from any external influences, including those of audited entities.

From this perspective, independence is regarded to be not only a guarantee for the effectiveness of external public auditing, but also an indicator of democracy, as it complies with the principle of separation of powers.

As an institutional positioning vis-à-vis audited bodies and other components of the institutional, political and economic environment of each country, the goal of independence can not be achieved only through the adoption of constitutional or legislative norms that grant the functional and financial autonomy of SAIs, but must also derive from an attitude of objectivity and professionalism that has to be constantly cultivated by the SAIs' staff.

It is within this context that the objective of strengthening SAIs' institutional, organizational and professional capacities is inscribed. Building these capacities will enable SAIs to fully and effectively exercise their roles with regard to public auditing. It should be noted that very often and due to the lack of qualified human resources and financial support, the independence of SAIs remains a mere institutional illusion and can have no practical impact.

Taking into account the specific tasks of SAIs in the field of public auditing, it becomes obvious that their institutional and professional capacity building is essential to the enhancement of accountability in public funds' management, in a transparent and legal manner, complying with the rules and standards of good management and achievement of the required performances in an efficient and profitable manner. In addition to the efforts of all the components



of public sector, SAIs contribute to a sound management and a more diffuse and positive returns in the economic, financial and social fields.

The last international financial and economic crisis, which was recently transformed into a debt crisis in some countries, has highlighted the major advantage of a professional, accountable and high quality public auditing. This audit would provide a clear and reliable image of the problems and their origins, and would focus on the appropriate solutions that may redress the situations in time and prevent major and prejudicial risks.

To achieve this in a progressive, professional and efficient manner, SAIs must be endowed with sufficient professional, organizational and institutional skills to meet the challenges imposed by an effective auditing.

This contribution will focus on the two following axes:

- Characteristics and issues of public auditing through its links with SAIs' capacity building;
- The process of capacity building and the conditions of its outcomes.

Characteristics and issues of public auditing and its main interests

SAIs' independence is not only required by the principles of democracy, but also by the specific tasks assigned to them in terms of public auditing. However, this auditing requires bold initiatives and a call into question the already established management systems, mainly in environments that are unaccustomed to criticism. Therefore, public auditing in general and performance auditing in particular can not be effective and credible, unless they are executed by independent institutions in terms of their legal status, financing, organization and the realization of their work.

a) The attributes of public auditing and its objectives

Each state makes the choice of a control system that corresponds to its institutional structure, its culture and its political, economic and social history. The institutional and socio-political contexts of the state, coupled with specificities related to the establishment of SAIs, determine their status, their attributions, their relationship with their environment, as well as the limits of their skills.

It should be noted that, whatever the organization and mode of action of these various institutions are, the purpose remains the same: on the one



hand, the protection of public funds through the control of legality, regularity and compliance of financial and accounting transactions, as well as the verification of the accuracy of the controlled entities' accounts, and on the other, the assessment of their performance, the quality of their management, as well as the sound use of public resources and the constant and regular obligation to monitor accountability.

It is obvious that public auditing is the cornerstone of sound corporate governance in the public sector. By providing an objective and impartial assessment of the effectiveness of public resource management, auditors help public organizations to act responsibly and with integrity, so as to improve the range and quality of their work, with the purpose to meet the expectations and strengthen public confidence of citizens and all the components of society.

The responsibilities of an SAI in terms of audit vary according to its organizational archetype and own mandate. Most of SAIs conduct a financial audit based on the regularity and compliance of financial transactions. Other SAIs may also extend their activities to performance audit and risk management. Some can also perform strategic audit.

Nowadays, public auditing performed by SAIs has several forms:

Traditional auditing (financial, regularity, compliance)

The main interest of traditional auditing (financial, regularity, compliance auditing) is to ensure that public financial transactions have been completed in accordance with the approved standards. It is also to ensure that accounts and financial statements are real and reliable.

This allows giving a reasonable assurance that all financial transactions have been properly accounted for and effectively allocated to the intended destination. This is an undeniably important and valuable contribution to the preservation and control of public finance, however, some important issues such as the choice of programmes and public projects, the cost and quality of their implementation, or the effectiveness of their response to the needs and expectations of the general interest and the economic and social sectors can not be often treated within the frame of traditional auditing, and therefore require a broader vision with regard to the performance of actions undertaken by public authorities.



Performance auditing

Performance auditing aims at analyzing the performance of accomplishments, management, projects execution and results of public institutions' programmes, in terms of conformity with the principles of economy, efficiency and effectiveness.

Performance auditing has also a scope which is far broader than traditional auditing (financial auditing and compliance auditing), since it does not only cover the financial transactions, but all the activities of public institutions, as well as the quality of their achievements.

b) The main interests and benefits of public auditing

The effectiveness and credibility of public auditing, including performance auditing, remain dependent on the degree of independence, professionalization and analytical capacity of SAIs.

This enables these institutions, along with public authorities, to clearly appreciate the reality of public management and provide the necessary support and corrections.

At the level of SAIs, performance auditing improves the diversity of approach, creativity, as well as continuous and specific learning. This form of control encourages auditors to discuss, in an analytical and synthetical manner, issues related to economy, financial management and social aspects that are of interest to the community as a whole.

In addition, performance auditing reinforces the role of SAIs vis-à-vis the Parliament, the government, entities subject to control and society in general. Indeed, this audit is, for the Parliament, a valuable source of reliable and independent information on the government's actions. It allows the government to obtain an independent and neutral assessment of the scope and quality of its achievements, and informs the citizens on the ways public funds are managed and public services are provided. It also contributes to reinforcing the culture of transparency and accountability.

It should be noted that the scope of public auditing is in a constant change, as it is required to adapt to the changing realities of the socio-economic environment in which public entities operate. Its numerous perspectives cover many fields of SAIs' interventions, such as the evaluation of programmes and public policies, as well as risk assessment and even more: strategic auditing.



SAIs capacity building process

If SAIs' independence is required by the nature of public auditing, the challenges faced by SAIs do not only concern the means of implementing a successful and professional auditing, but the whole process of public finance auditing, its related strategies and resources, and the capacities needed for the preservation, the proper use and profitability of public funds. In such a context, capacity building of effective auditing faces a particular difficulty and complexity that can only be overcome through a long-term process, a sustainable, effective and interactive control that has to be constantly improved.

a) **What capacity building and what audits are for SAIs?**

The evolution in technology and public services' management systems makes it necessary to develop work and investigation methodologies, as well as analytical capacities of SAIs. SAIs must be sufficiently equipped to fully play their role, not only in terms of regularity and compliance of financial transactions, but also in terms of an economical, effective and profitable use of public resources.

In fact, for building a solid, accountable, legal and compliant financial auditing, it is essential to establish an audit that allows the assessment and measurement of performance related to operations and projects undertaken by public institutions.

However, it should be emphasized that the development of performance auditing by SAIs should be gradually undertaken and adapted to the level of the institution's development, in particular, and to the economic, social and political development in general.

Thus, SAIs in countries with advanced economies must further improve audits with a broader and more accurate vision of public institution's management results. In this regard, it is also important that the development of performance auditing becomes a major objective for these institutions, and that the opening should be done in an equivalent manner with regard to audit related disciplines, such as risk management and strategic auditing, that are becoming increasingly crucial in a incessantly changing environment.

SAIs of emerging countries should consolidate their achievements and experience in terms of financial auditing of regularity and compliance. These should also improve performance auditing which is more likely to promote a more sound and effective public finance management.



Finally, for SAIs of developing countries, it is obviously important to first develop an effective auditing of regularity and compliance which is a prerequisite for the development of a culture of control and accountability within public institutions. Such an auditing remains essential for the control and traceability of financial flows. It is only in this way that SAIs could proceed gradually towards a more expanded auditing, such as performance auditing.

Furthermore, it should be underlined that the achievement of performance auditing does not necessarily depend on the prior establishment of a well-developed conceptual, procedural and organizational framework. At the beginning, ambitions should be measured, the approach flexible and implementation gradual.

b) Modalities of SAIs capacity building

Capacity building should not be considered as a technical process involving just a simple transfer of knowledge or organizational archetypes, but should consider the context and environment within which the SAI operates.

Chances for capacity building's success are higher when it comes to an endogenous or internal programme to the SAI, because this contributes to its sustainability. However, for certain SAIs, the challenge of capacity building is so great that they may need external support. Yet, such support should not compromise their independence.

It is in this context that the establishment of the Capacity Building Committee at the INTOSAI level is inscribed. Through bilateral, regional and multilateral efforts, this committee works to ensure that each INTOSAI member can, according to its needs, take advantage of capacity building initiatives to strengthen its independence and professionalism.

The implementation of an adequate capacity building depends primarily on the achievement of certain basic conditions, namely:

- Strengthening SAI's independence: an independent SAI must be provided with the necessary assets at both the institutional and professional levels;
- Strengthening SAI's institutional status: it helps clarify the status of the SAI and its relations with the other constitutional institutions, particularly the government and Parliament;



- Recruitment of qualified staff: the quality of the staff that will conduct the audits, particularly performance auditing, is a key element to success. Since this audit covers the areas of intervention of public institutions and the multiple aspects of their management, the profiles and competencies of the SAI's staff should reflect this diversity. The recruitment of qualified staff should be completed through both an initial training in the various aspects of audit and an ongoing training to ensure the constant updating of their skills and competencies;
- The execution of an effective, professional and stable leadership by SAIs, mainly through the development and implementation of strategic plans and comprehensive, realistic and priority-focused action plans. These plans must be compatible with the ongoing reforms in the country, in terms of public financial management and with the best practices (e.g. standards and guidelines developed by INTOSAI);
- Strengthening relationships with stakeholders: to be effective, an SAI should, as its mandate allows it, create close links with stakeholders, but should maintain, at the same time, its independence from the Parliament, the government, audited entities, the media, the public opinion, civil society, etc.

c) **The conditions for completing the capacity building process**

A successful implementation of capacity building requires political support, appropriate regulation, leadership and active involvement from the heads of SAIs. These must work to ensure an adequate funding and seek partners that can help strengthening the capacity of their institutions.

Capacity building should enable SAIs to better use their existing capacities and create new ones at the professional, organizational and institutional levels. This implies an adequate assessment of needs and the establishment of an appropriate schedule of actions to be undertaking for this purpose.

However, it should be noted that the success of this capacity building process requires the commitment of SAIs themselves on one hand, and the international community on the other. This dual commitment has been recently affirmed by two major actions taken by the INTOSAI:

- SAIs' awareness raising on the need for professional and institutional capacity building: capacity building has to be based on an institutional platform. Yet, the achieved capacity level by any SAI depends mainly on



the good achievement of their fixed objectives. Capacities of SAIs can not only be measured by means of legal principles or provisions set forth in absolute terms, but should also be embodied within the good practices, without which these objectives would be mere declaration of intentions. On this basis, the importance of actions aimed at raising the awareness of SAIs on the interest of strengthening institutional capacity becomes obvious; This implies a change in the attitudes and audit culture within SAIs, as well as the staff motivation and the firm commitment of their leaders;

- Global partnership strategy with donors and the promotion of capacity building projects through the involvement of donors in funding SAIs' development and modernization programmes. It is in this context that the Memorandum of Understanding (MoU) signed by the donors and INTOSAI (in October 2009 in Brussels) and the establishment of its governing bodies (February 2010 in Marrakech) are inscribed. This memorandum expects that the financial support of donors should be compatible with the conditions related to the implementation of development and modernization programmes. These may include measures that reinforce SAIs' institutional status, improve their financial and materials means, manage their resources, set up the strategic planning, improve their working methods (audit manuals and information systems) and provide appropriate training for auditors

Conclusion

The development of public audit and SAIs' capacity building must go hand in hand, in a context that fosters the independence of these institutions.

This is certainly a major initiative that is both time and resource consuming. In this respect, it becomes useful for SAIs to adopt a progressive approach that would involve the gradual implementation of a developed audit (performance auditing, risk assessment, etc.). This process must be conducted at a reasonable scale, with specific objectives and in perfect correlation with the resources and workforce available to each SAI.

From the very beginning, SAIs will better identify and define the needs and objectives as well as the necessary means and tools for the success of their missions. They are also called to be prepared to cope with the various ongoing changes in their internal and external environment, and develop a culture of accountability and professional ethics which is a prominent guarantee of their success.



6.2 Principles of cooperation between INTOSAI and the international Donor Community

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President of the General Auditing Bureau, Saudi Arabia
Chairman of the INTOSAI Finance and Administration
Committee

Introduction

The principles of cooperation have always been a key pillar of INTOSAI's structure. Since the early 1950s, some contacts and consultations were initiated among a number of SAIs in an attempt to create a forum that could enable them to share knowledge and strengthen cooperation and coordination in order to pursue their mandate according to the best practices. These efforts resulted in the establishment of INTOSAI in 1953, and the convening of the first Congress, which included 34 SAIs from four continents. Over the past six decades, INTOSAI has grown to its current membership of 189 organizations. This clearly underlines the strong conviction by all members in the importance of mutually beneficial cooperation among its members as well as other relevant institutions, while maintaining its principles and core values of independence, integrity, professionalism, credibility, inclusiveness, cooperation and innovation, leading INTOSAI to adopt as its motto that "mutual experience benefits all".

This strong desire was demonstrated by the first meeting between INTOSAI and ECOSOC in 1962. The main objective was to open a venue for cooperation and to highlight the objectives and principles of this emerging Organization. As a result, INTOSAI was granted the status of an International Non-Governmental Organization in 1970.

At the VII INCOSAI held in Montreal, Canada, in 1971, a joint UN/INTOSAI seminar was proposed. Accordingly, the 1st Seminar on "The General Principles of Auditing and Institutional Difficulties" was organized in Baden, Austria. Since then, twenty seminars were organized in collaboration with the UN Economic and Social Council, during which various important issues of common interest were discussed and elaborated, notably:

- Public Auditing and Internal Management Control Systems in Developing Countries;



- Application of Standards in Public Sector Auditing;
- Accounting and Auditing of Foreign Aid Programs and EDP Audit;
- The Application of Information and Communication Technologies (ICT) in the Audit of e-government: A Strategy for Efficiency, Transparency and Accountability;
- The role of Supreme Audit Institutions in Fighting Corruption and Mismanagement;
- The Independence of Supreme Audit Institutions;
- The Value and Benefits of Government Audit in a Globalised Environment;
- INTOSAI: Active partner in the international anti-corruption network; ensuring transparency to promote social security and poverty reduction.

At the IX INCOSAI in 1977, the Lima Declaration was adopted to lay down the basic principles and concepts of audit and emphasize the importance of SAIs' independence, training, and knowledge sharing. In 2007, the Mexico Declaration was issued to further enhance SAIs' independence and set the basic principles of financial auditing in the public sector, including:

- The existence of an appropriate and effective constitutional/ statutory/ legal framework and de facto application provisions of such framework;
- The independence of SAI heads and members, including security of tenure and legal immunity in the normal discharge of their duties;
- A sufficiently broad mandate and full discretion, in the discharge of SAI functions;
- Unrestricted access to information and documents;
- The right and obligation to report on their work;
- The freedom to decide the content and timing of audit reports and to publish and disseminate them;
- The existence of effective follow-up mechanisms on SAI recommendations;



- Financial and administrative autonomy and the availability of appropriate human, material, and financial resources;

At the 59th Governing Board meeting in 2009, in South Africa, INTOSAI decided that the Declarations of Lima and Mexico should be integrated in the statute governing the international community of nations through a pertinent UN Resolution, as these documents protect SAIs' independence in functional, organizational and staffing terms that are required for effective audit. The INTOSAI General Secretariat was given the mandate to pursue the achievement of this goal. This decision emphasizes once again the importance INTOSAI attaches to cooperation with international institutions in their strife to enhance transparency, ensure accountability, strengthen credibility and fight corruption.

In light of the above, it is evident that INTOSAI is truly a democratic organization that functions through consultation and consensus, gives due consideration to national sovereignty and equality of all members, and encourages constructive dialogue that can result in cooperative arrangements at the technical and professional levels.

Based on those considerations and principles, the INTOSAI Governing Board, Standing Committees, Working Groups and Task Forces have been formulated in a way to ensure a balanced regional representation that reflects the different work methods and practices of its members. In fact, the success and viability of INTOSAI totally depend on the continued financial and professional support provided by its members and partners, as it consists of a voluntary group that relies principally on its own resources. This characteristic of self-reliance is essential to ensuring the continuity of INTOSAI as well as preserving its independence and progress as an international organization.

In addition, the INTOSAI Committees and Regional Working Groups play a key role in addressing the main issues during intervals between the INTOSAI Governing Board and Congress meetings. This is to ensure constant communications and effective follow-up of activities, and the implementation of decisions. INTOSAI has also sought to establish strategic partnerships with several professional organizations to address issues of common concern in line with its core values. Five years ago, INTOSAI adopted a number of criteria and objective principles to enable regional and international organizations with similar vision and mission to



join as associate members. By this initiative, INTOSAI has demonstrated its willingness to open new horizons for the exchange of ideas, knowledge and experiences with every association that shares its concerns.

INTOSAI's first Strategic Plan and its role in strengthening cooperation with other institutions

In October, 2004, the INTOSAI adopted its first Strategic Plan, which marked a turning point in the history of our Organization, and a great leap forward to cope with the challenges of the 21st century, namely to promote Good Governance, enhance transparency, ensure accountability and fight corruption. The main purpose of adopting this Plan is to organize and guide INTOSAI's efforts and define its strategic goals. Therefore, INTOSAI is keen to contribute to the development of institutional capacities and human resources of its members so that they can acquire complete independence, improve performance, protect and make the most efficient use of public funds, ensure accountability, maintain credibility and promote public trust, in accordance with INTOSAI's:

- Mission: as an autonomous, independent, professional and non-political organization established to provide mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of SAIs within the international community; and promote continuous improvement among diverse member SAIs;
- Vision: of Promoting Good Governance by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their communities;
- Strategic Goals:
 - Goal 1: promoting strong, independent, and multidisciplinary SAIs by (a) encouraging SAIs to lead by example and (b) contributing to the development and adoption of appropriate and effective professional standards;
 - Goal 2: building the capabilities and professional capacities of SAIs through training, technical assistance, and other development activities;



- Goal 3: encouraging SAI cooperation, collaboration, and continuous improvement through knowledge sharing, including providing benchmarks, conducting best practice studies, and performing research on issues of mutual interest and concern;
- Goal 4: organizing and governing INTOSAI in ways which promote economical, efficient, and effective working practices, timely decision making, and effective governance practices while maintaining due regard for regional balance and the different models and approaches of member SAIs.

INTOSAI–Donor Cooperation initiative

Being fully aware of the importance of cooperation and concerted efforts in building institutional capacities of member SAIs, INTOSAI has actively sought to establish working relations and strategic partnerships, based on interdependence, with regional and international organizations to address issues of common interest within the framework of INTOSAI’s core values and member needs.

This initiative came as the INTOSAI Governing Board observed the lack of coordination and the existence of multiple channels for funding and supporting capacity-building programs in some member SAIs, which have resulted in much focus on bilateral cooperation with some of the least developed countries’ SAIs. This situation has led the INTOSAI to take the initiative and engage in a dialogue with the Donor Community with the aim of developing a strategic approach to strengthen the institutional capacities of SAIs within a framework agreement, based on solid foundations to ensure the provision of support in a constant and coordinated manner to INTOSAI, its member SAIs and Regional Working Groups on the one hand, and the International Donor Community on the other.

Based on these principles, the INTOSAI Finance and Administration (F&A), and the Capacity Building Committees started a dialogue with the World Bank and other donor organizations since 2006. As a result, consensus was reached as to the importance of, and benefits to supporting SAIs in achieving common objectives; namely, promoting Good Governance, enhancing transparency, ensuring accountability, maintaining integrity and fighting corruption.



The MoU between INTOSAI and the Donor Community

In light of the outcome of those contacts and discussions, the XIX Congress in Mexico adopted the F&A Committee proposal to establish two Task Forces under its umbrella, namely: (a) the Task Force on Donor Funding and (b) the Task Force to Update the Strategic Plan for 2011 - 2016. The Task Force on Donor Funding, chaired by the US Government Accountability Office, is comprised of the chairs of the four strategic plan goals (Denmark, Morocco, India and Saudi Arabia), in addition to IDI, the General Secretariat, the UK's National Audit Office, the Director of Strategic Planning.

This Task Force on Donor Funding was mandated to develop with the Donor Community an integrated strategic framework that facilitates the provision of financial and technical support on a regular and predictable basis. This aims at attaining the ultimate goal of strengthening the institutional capacities of SAIs in the least developed countries, while maintaining the full independence of INTOSAI and its members.

After intensive contacts and meetings in Washington, Bern and London, 15 donor partners and INTOSAI came together for the signing of the MoU on October 20, 2009, in Brussels. The event was the culmination of months of hard work and commitment by all those involved to bring the two communities together with the possibility for more donors to sign this MoU.

The MoU addressed two key issues: first, a common approach towards increased strategic focus for Donor and the SAI Community in strengthening their capacity in partner developing countries, and second, a variety of mechanisms for facilitating donor funding and support in line with donor mandates and INTOSAI's priorities and requirements.

Underlying principles of the MoU

The signing of the MoU between the Donor Community and INTOSAI clearly reflects their agreement on a number of underlying principles, mainly:

INTOSAI is determined to achieve the strategic goals set out in its Strategic Plans.

- The SAI Community commits to develop individual country-led strategic plans and development action plans that are comprehensive, realistic, and prioritized;



Capacity building to strengthen SAI independence

- The Donor Community declares its commitment to respect SAI country sovereignty, independence and autonomy in developing and implementing SAI strategic plans and development action plans;
- The Donor Community will endeavour to mobilize additional resources in accordance with its respective rules, laws, and procedures, to develop and implement SAI strategic plans and development action plans prepared by SAIs;
- The Donor Community declares its commitment, in accordance with its respective rules, laws, and procedures, to delivering any financial or other support for audit capacity-building programs on external governmental auditing in a harmonized and coordinated manner to avoid unintended duplicative capacity-building efforts.

The implementation of the aforementioned principles will be guided by the following considerations

- The donor support to SAIs and INTOSAI will be provided through a hierarchy of activities and responsibilities, principally at the country level, then at the regional and global levels. Most support will be at the country level to help SAIs design and implement laws and regulations to augment their independence, to build their capacity to perform audits, and to increase their impact on public financial management and accountability;
- Further support will be provided to INTOSAI's regional groups to strengthen peer review and capacity-building functions, since they can be delivered cost effectively at the regional level as compared to the country level;
- Some support will be provided to INTOSAI for the global activities such as the work of committees on professional standards, capacity building, and knowledge sharing, as well as specific projects of the IDI;
- Whatever the funding arrangement is, the donors will recognize the specific position of the SAIs and will value the roles and responsibilities of the partners in this context. In cases where the Donor Community provides general budgetary support, where possible, the Donor Community will underline the importance of adequate SAI funding in the dialogue with the partner country.



The MoU implementation process

On the day following the signing of the MoU, a meeting was held between representatives of both sides. In accordance with the MoU's objectives, a Steering Committee was established to provide strategic guidance and counselling during its implementations, coordinate activities, and monitor the progress. The Steering Committee consists of representatives of INTOSAI and the Donor Community. Furthermore, it was decided that the inaugural Steering Committee meeting will take place in Marrakesh in February 2010.

The outcome of the Inaugural Steering Committee Meeting

The inaugural meeting of INTOSAI-Donor Steering Committee resulted in a number of key decisions to enable the Committee to exercise its functions:

- The Steering Committee is the highest forum and will be led by joint chairs and vice chairs from the Donor and INTOSAI Communities. The chairs are the World Bank and Saudi Arabia's SAI. The vice chairs are the United Kingdom and the SAI of the USA;
- The Steering Committee representation will be open to donor signatories to the MoU, including new donors who may sign on;
- The Steering Committee will meet semi-annually and will be open to observers with no voting rights;
- The IDI was appointed as Secretariat. The mandate and tenure of the Secretariat will be continuously reviewed by the Steering Committee;
- The Steering Committee's interim roles and responsibilities were approved;
- The Norwegian Agency for Development Cooperation (Norad) will provide the required financing to the Secretariat. Austria and Ireland may provide additional funding necessary to complete the stock taking and development of a draft Joint Work Program;
- The second Steering Committee meeting will be hosted by the SAI of South Africa on 18 – 19 November 2010.



Conclusion

As you can see, our Organization is entering a new phase in its professional journey, and will certainly face more challenges. This of course will require more concerted efforts and determination to meet our commitments and fulfil the obligations under the MoU in order to reap the fruits of this initiative. I am confident that through our joint efforts, we will be up to this challenge.

At the upcoming XX INCOSAI in November 2010 in South Africa the INTOSAI second Strategic Plan is due for adoption by the Governing Board. This ambitious Plan requires concerted efforts and hard work to achieve its goals. Moreover, the second Steering Committee meeting will be held in November 2010. These two events will offer broad prospects and opportunities for the INTOSAI and its members to build new bridges for cooperation with the Donor Community in order to accelerate building up institutional capacities, and enhance human resource development of our SAIs. The two events also pose another challenge for all of us, namely, the commitment to act in accordance with a well-designed strategic approach and seek to achieve realistic goals in line with elaborate implementation programs.

In conclusion, I would like to express my profound thanks and gratitude to everyone who contributed to reaching this agreement, especially, Mr. Gene Dodaro, chair of the Task Force, who has played a pivotal role in this initiative. My sincere thanks go as well to the Task Force members.

I wish to register my sincere thanks to Dr. Ahmed El Midaoui, President of the Court of Accounts of Morocco and Chairman of the Capacity Building Committee, Mr. Jørgen Kosmo, head of the IDI, Mr. Tony Hegarty of the World Bank, and all donor representatives.



6.3 Current activities of IDI to strengthen external public auditing in INTOSAI regions

Magnus Borge

Director General, INTOSAI Development Initiative (IDI)

The IDI operations moving forward will be twofold, on the one hand to continue implementing capacity building programmes emanating from the IDI Strategic Plan 2007 - 2012 and on the other hand, to establish and run the INTOSAI-Donor Secretariat to provide the Steering Committee with support in implementing the INTOSAI-Donor Memorandum of Understanding. This presentation focuses on sharing information regarding the IDI's current capacity building programmes.

The following topics are covered by the abstract:

- IDI Strategic Plan 2007 - 2012;
- Characteristics of IDI Operations;
- IDI Focus Areas 2007 - 2012;
- IDI Capacity Building Programme 2010;
- IDI Products (Guides and handbooks) 2010 - 2011.

IDI Strategic Plan 2007 - 2012

The IDI Strategic Plan 2007 - 2012 marks a clear shift from training to broader SAI capacity building. The Strategic Plan provides direction for the IDI and sets out the following mission: *“The IDI is a non-profit organization that aims to enhance the institutional capacity of Supreme Audit Institutions in developing countries through needs-based, collaborative and sustainable development programmes in INTOSAI regions and groups of SAIs to meet existing and emerging needs of stakeholders.”* The IDI Strategic Goals are as follows:

Goal 1: To effectively enhance the professional capacity of SAI staff;

Goal 2: To support institutional strengthening efforts in SAIs;

Goal 3: To contribute to SAIs' knowledge sharing efforts;



Goal 4: To organise and manage the IDI in ways that secure economical, efficient and effective operations while promoting a motivational working environment.

Characteristics of IDI operations

Goal 2 of the INTOSAI Strategic Plan 2005 - 2010, which states: “*Build the capabilities and professional capacities of SAIs through training, technical assistance, and other development activities*”, comprises the work of the IDI as one of the vehicles to obtain stronger, more independent and multidisciplinary SAIs.

In order to contribute actively in the implementation of this goal, in line with its Strategic Plan 2007 - 2012, the IDI designs, develops and delivers its capacity building programmes for SAIs in developing countries through needs-based, collaborative and sustainable development programmes.

The IDI primarily cooperates with the INTOSAI regions both in the planning and implementation of its capacity building programmes. There should be a specific request on capacity building programme from the INTOSAI regions, and the IDI and regions then collaborate closely to design, develop and deliver the programme to ensure that it meets the identified needs.

Whenever possible, the IDI works with regional resource people as subject matter experts (SME), if the right people are available and meet with the IDI criteria for SMEs. Depending on the subject areas, the IDI programmes are also developed and delivered in close consultation and cooperation with the various INTOSAI Committees and Working Groups. This has proven to be a beneficial approach for the impact and sustainability of our programme outputs.

IDI focus areas 2007 - 2012

Extensive needs assessments conducted in 2007 - 2008 gave the IDI a fair overview of the regional capacity building needs, and allowed the identification of several focus areas under the Strategic Plan Goals 2007 - 2012. The following seven focus areas have been identified:

- Carrying out needs assessments;
- Detecting fraud while auditing;
- Evaluation methodology;
- Good practice in learning for impact;



- Management development;
- Quality Assurance of audit processes and products;
- Strategic and operational planning;

Over the last years, the IDI has developed and deployed several programmes to meet needs in these focus areas. The IDI programmes in 2010 are a result of this process. Emphasis is very much on considering two dimensions of organisational development – people and system. This has led to more comprehensive programmes and a delivery period for most programmes that spans across several years.

IDI Capacity Building Programme 2010

In 2010, the IDI are conducting the following capacity building programmes:

- Strategic Planning Programme (in ARABOSAI and in AFROSAI-F/ CREFIAF);
- Management Development Programme (AFROSAI-E);
- Audit Methodology Programme (AFROSA F/CREFIAF);
- Programme on Risk Based Approach to Financial Auditing (CAROSAI);
- Programme on Quality Assurance in Performance Auditing (ASOSAI);
- Cooperative Performance Audit Programme (PASAI);
- Transregional Programme on Public Debt Management Audit;
- Transregional Programme on Cooperative Environmental Audit;
- Blended Train the Trainer Programme (OLACEFS).

Some of the programmes are new and launched this year, while others are on-going programmes which span over years. I would here like to share more detailed information on three of the ongoing IDI programmes.

While the IDI capacity building programmes so far have been regional in nature, a new feature is the inclusion of transregional programmes. Two transregional programmes are currently being delivered, namely the Transregional Public Debt Management Audit Programme and a Transregional Programme on Performance Audit of Environmental Issues in Forestry.



The Transregional Capacity Building Programme on Public Debt Management Audit (TPDMA) is a major programme launched in 2008. The main objective is to enhance professional and organisational capacity of SAIs in public debt management audit. Given the diversity of experience and development in this area, the programme addresses both the Financial/Compliance Audit approach and the Performance Audit approach to public debt audit. The programme, which will run until 2011, includes online training on public debt audit, adoption of INTOSAI guidance at SAI level, and pilot audits on public debt. 31 SAIs from AFROSAI-E, AFROSAI-F/CREFAF, ARABOSAI, ASOSAI, CAROSAI, EUROSAI and PASAI have been selected to take part in this programme, which is delivered in English and French. Three audit planning meetings have been completed by the participating SAIs, and they are now in the process of conducting field audits. The TPDMA is a cooperation with the INTOSAI Working Group on Public Debt (WGPD), Debt Management Programme (DMFAS) of the United Nations Conference on Trade and Development (UNCTAD), the United Nations Institute for Training and Research (UNITAR) and the WGPD. The Ministry of Foreign Affairs of Norway finances the programme, while EUROSAI contributes to cover the expenses related to European participating SAIs. The TPDMA is based on the request and needs of the INTOSAI regions and constitutes one of the INCOSAI 2007 themes. The IDI has worked closely with the WGPD from very beginning of the programme, and the WGPD provides SMEs who officially represent the Working Group. Concerned SAIs for whom the SMEs work (SAIs of USA and Portugal) provide in kind support for the programme. The IDI also involves resource persons from the INTOSAI regions in the TPDMA.

The objective of the Transregional Performance Audit of Environmental Issues in Forestry is to enhance professional and organisational capacity of target SAIs in the Performance Audit of environmental issues in forestry. The programme will run during 2010 and 2011, and involve participants from 12 SAIs in the ASOSAI, AFROSAI-E and CAROSAI regions. The INTOSAI Working Group on environmental Auditing and Project Leader on Forestry Audit Guides have been a cooperating partner in the development and delivery of the programme.

Since SAI leadership has been identified as an important success factor in strengthening SAI capacity, the IDI in cooperation with AFROSAI-E, have launched a Management Development Programme (MDP) that runs from 2009 to 2011. The objectives of the Management Development Programme are:



- To support SAIs capability model by enhancing their leadership and managerial capacities as well as professionalizing the management levels in the region;
- To facilitate the implementation of regional manuals, handbooks guidelines, etc. at all members SAIs.

The MDP targets three levels of leadership in an SAI – heads of SAIs and top management, senior management, and the team leader level. Both strategic management and technical management issues relevant to each level will be covered during this programme. The first phase of this programme, the Top Management Workshop on “Leading an SAI”, was finalised in 2009, while the remaining two levels of management will be targeted during 2010 and 2011.

IDI products (guides and handbooks) 2010 - 2011

Over the last year, the IDI has developed a number of guides and handbooks related to the focus areas 2007 - 2012. This material is freely available to all SAIs and other bodies of the INTOSAI community. The IDI is always involved in close consultation with the concerned INTOSAI Committees and Working Groups before releasing the products. The following guides and handbooks are currently available:

a) Capacity Building Needs Assessment Guide

After conducting needs assessments in many INTOSAI regions, IDI staff have revisited the IDI Needs Assessment Framework and toolkit developed in 2007, and incorporated lessons learned from the Needs Assessment Programmes conducted in the different regions into this guide.

b) Learning for impact – A practice guide for SAIs

This guide was created to help SAIs and INTOSAI bodies implement effective learning strategies that are not restricted to training.

c) IDI/ASOSAI Handbook on Quality Assurance in Financial Auditing

The handbook, created as a part of the IDI/ASOSAI Quality Assurance Programme in 2008/09, provides guidance and tools to assist SAIs in implementing comprehensive quality assurance processes.

A similar handbook will be finalised this in CAROSAI in 2010.



d) Strategic Planning Handbook

This handbook was created to assist SAIs in creating their strategic plans and is based on the strategic planning model developed and piloted by the IDI in cooperation with AFROSAI-E.

In 2010, a Handbook on Quality Assurance in Performance Auditing for the ASOSAI region will also be launched, together with a Risk Based Audit (RBA) Guide developed in cooperation with CAROSAI.



6.4 Contributions of the international Donor Community to strengthen external auditing in INTOSAI regions

*Anthony Hegarty*³²

Chief Financial Management Officer and Head of the Financial Management Sector Board, World Bank

In his presentation entitled “*Partnering for Development Results: Contributions of the international Donor Community to strengthen external public auditing in INTOSAI regions*”, Tony Hegarty, Chief Financial Management Officer of the World Bank (WB), contextualized his institutions’ role in development, and the important contribution of SAIs to the poverty agenda. Tony succinctly summarized the World Bank’s vision - to contribute to an inclusive and sustainable globalization - to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope. To highlight the magnitude of the challenge, Tony provided some daunting statistics on global poverty - 1.4 billion people live on less than the price of a cup of coffee a day, 1 billion people have no access to clean water, and 70% of the world’s poor live in middle-income countries. The global financial crisis has substantially increased poverty levels - with an estimated additional 50 - 60 million people (equivalent to the population of England) having been pushed beyond the poverty line.

These growing challenges call for a solid collaborative response by donors and partner countries. For its part, the World Bank has provided 131 billion US Dollars in resources (July 2008 - July 2010) to partner countries since the global financial crisis began - breaking all previous lending records and helping to finance targeted safety nets, infrastructure investment to boost productivity and create jobs, and promote the private sector.

There has been one positive ripple effect brought on by the global financial crisis - it has highlighted the importance of Financial Management (FM), particularly in terms of oversight.

³² Co-Chair of the OECD-DAC Task Force on Public Financial Management, Co-Chair of the INTOSAI-Donor Steering Committee and Chair of the Multilateral Development Banks Financial Management Working Group on Harmonization; Member of: the Multi-Donor Public Expenditure and Financial Accountability (PEFA) Steering Committee, the Institute of Internal Auditors’ Oversight Council and the World Bank’s Public Sector Governance Board; Founding member of IFAC’s Developing Nations Committee.



In this regard, FM at the World Bank is charged with providing reasonable assurance on the proper use of Bank funds, and has adopted a development approach. It focuses on using and strengthening country FM systems to help partner countries create long-term sustainable FM capacity. This allows the Bank to scale up development impact by helping to improve the efficiency of all government expenditures (not just those financed by the Bank) and the management of all resources (not just those of projects), and to reduce transaction costs through the use of country systems.

In order to support and broaden the knowledge base on country systems, the World Bank has undertaken extensive Public Financial Management (PFM) analytical work, from which the following cross-cutting issues have emerged as substantial challenges faced by partner countries: (a) incomplete public budget information; (b) inadequate accounting systems; (c) obsolete legal framework for accounting and auditing; (d) ineffective internal and external audit systems; (e) poor dissemination of PFM information; (f) shortage of qualified PFM professionals; and (g) barriers to the Integrated Financial Management Information System (IFMIS) implementation.

Linking this up with the subject of the Conference and the presentation, Tony proceeded to elaborate on the specific issues confronting SAIs in developing countries and transition economies, including: (a) limited budgets to implement modern audit practices; (b) lack of strategic plans to help focus and guide their modernization efforts; (c) constraints on the technical training and capacity of staff, and on the ability to provide effective incentives for good performance; (d) limitations on independence, particularly regarding appointment and reporting of the head of the SAI and management of resources; and (e) lack of political will among key national stakeholders to strengthen accountability in the country, including the role and impact of the SAI.

In practice, the identified PFM challenges are being addressed through collaborative efforts among many partners, and include: (a) the Paris Declaration/Accra Agenda for Action, under which donors agreed to use country systems, when circumstances permit; (b) World Bank support for country and regional initiatives, including SAI's (grants, loans and technical assistance; and (c) promoting global strategic partnerships with multilateral and bilateral donors (OECD/Development Assistance Committee (DAC) Task Force on PFM, Public Expenditure and Financial Accountability (PEFA) Partnership Steering Committee, and the INTOSAI-



Donor Partnership Steering Committee, UN/WB Financial Management Framework Agreement, and the UN/WB Fiduciary Principles Accord) as well as with global standard-setting bodies such as IFAC, the International Accounting Standards Board (IASB) and INTOSAI.

To address acknowledged capacity deficiencies of the SAIs in developing and transitional economies, Tony intimated the need for effective partnerships among the major stakeholders, in support of a country owned capacity development action plan. In that regard, he proceeded to share a success story - an MoU, signed in Brussels by INTOSAI and 15 donors in October 2009, was highlighted as an exemplary effort of donor coordination towards enhancing the capacity of SAIs in developing countries so that there is sustained improvement in national accountability, transparency and governance - providing cohesive, effective and strategic support. The MoU is presently being implemented under the auspices of a Joint INTOSA-Donor Steering Committee. In due course, the expectation is that signatories of the MoU will channel their support through a pyramid structure - targeting SAIs at the national level, regional SAI bodies, and INTOSAI for global standard setting - with a graduated level of financial and technical support from donors, including a variety of funding mechanisms.

Going forward, Tony acknowledged that substantially more needs to be done to strengthen capacity and deepen the use of country systems. In particular, collaborative efforts and partnerships need to be leveraged towards enhancing oversight, which is at the core of Good Governance and accountability, and lies at the heart of poverty alleviation. For its part, the World Bank remains fully committed to playing its role as a full collaborating partner in reaching this objective at global, regional and country-levels.



6.5 INTOSAI-Donor Cooperation – Steering Committee, Secretariat and initial tasks

Jørgen Kosmo

Auditor General, Norway

Chairman of the INTOSAI Development Initiative (IDI)

Building on the presentation on the background and goals of the INTOSAI-Donor Cooperation, this presentation endeavours to provide a brief overview of the roles, responsibilities and working modalities of the INTOSAI-Donor Steering Committee and the INTOSAI-Donor Secretariat. This will be followed by an outline of the work programme for the period February to November 2010.

INTOSAI-Donor Steering Committee

The Memorandum of Understanding between INTOSAI and the Donor Community outlines a governance structure that consists of a Steering Committee (SC) as the highest decision making authority assisted by a Secretariat. The SC is addressed in paragraph 20 of the MoU stating: *“In support of the objectives of this Memorandum of Understanding, a Steering Committee will be established to provide strategic guidance and counselling in its implementations, coordinate activities, and monitor the progress of such implementation. The Steering Committee will consist of representatives of INTOSAI and the Donor Community.”*

There is open-ended SC representation for donor signatories to the MoU including any new donors signing up. The current donor signatories to the MoU are the African Development Bank, Austrian Development Agency, Belgium Ministry of Foreign Affairs, Foreign Trade and Development Cooperation, Canada, European Commission, Inter-American Development Bank, International Monetary Fund, Ireland, Netherlands Ministry of Foreign Affairs, Norwegian Agency for Development Cooperation, Switzerland, Sweden, United Kingdom, United States of America, World Bank.

The 59th INTOSAI Governing Board meeting in November 2009 approved the INTOSAI SC representation. It was designed to achieve technical expertise and adequate regional representation. It currently consists of the SAIs of Saudi Arabia, as Chair of the Finance and Administration Committee, Denmark as Chair of the Professional Standards Committee, Morocco as Chair of the Capacity Building Committee, India as Chair of



the Knowledge Sharing Committee, USA as Chair of the Task Force on Donor Funding, Austria as General Secretariat to INTOSAI, the IDI as the capacity building arm of INTOSAI. Regional INTOSAI members to the SC will also be appointed in due course.

The SC is open to observers, will meet semi-annually and make decisions on consensus basis. The Inaugural SC meeting was hosted by the SAI of Morocco on 22 - 23 February 2010, while the next meeting will be hosted by the SAI of South Africa on 18 - 19 November 2010.

In the process of developing the cooperation, both the INTOSAI and Donor Communities have underlined the importance of creating a ‘partnership among equals’. It has subsequently been decided that there should be joint leadership, with Chairs and Vice Chairs appointed from the INTOSAI and Donor Communities respectively. On the donor side, the World Bank has been appointed as Chair and Department of International Development (DFID) as Vice Chair. The SAI of Saudi Arabia has been appointed as INTOSAI Chair and the SAI of USA as INTOSAI Vice Chair, in their capacities as Chair and Vice Chair of the INTOSAI Finance and Administration Committee.

A number of roles and responsibilities for the SC were also decided upon during the inaugural SC meeting. These encompass:

- The MoU states that the SC will “*provide strategic guidance and counselling in its implementation*”. The SC will thus serve as a tool for strategic discussions, coordination and information sharing on SAI capacity building efforts;
- Strategic priorities can in turn be manifested in an annual Joint Work Programme to ensure coordination and strategic focus. While it is at the donor’s discretion to prioritize and select which programmes to finance, the Joint Work Programme could encompass the range of capacity building efforts and funding modalities, and be developed by consolidating and aggregating the individual donors work plans. The development of the Joint Work Programme will serve as a key mechanism for ensuring information sharing on interventions, coordination of capacity building efforts, identification of funding gaps, and an incentive for increased levels of donor funding;
- The MoU also charges the SC with the responsibility for “establishing a Secretariat”, and provide “leadership and direction” with regards to the Secretariat and continuously monitor its performance;



- When funds become available, there will also be a need to develop Operational Guidelines to help select projects for financing, and provide practical guidance to applicants;
- Another role of the SC will be to encourage its members to endeavour to mobilize sufficient financial resources to successfully ensure implementation of the Joint Work Programme and attainment of the goal of increased capacity building of SAIs in partner countries. This role will also entail that the SC explores the use of various funding modalities;
- The SC will monitor the implementation of the MoU. An overall monitoring and evaluation framework will have to be developed. The choice of funding modalities used to channel the support may in due course also necessitate the development of a monitoring and evaluation framework at the project level;
- The SC members will be ambassadors of the cooperation, highlighting the importance of strong, independent and multi-disciplinary SAIs in their dialogue with stakeholders.

INTOSAI-Donor Secretariat

A Secretariat has also been established to provide the SC with administrative support and provide assistance in implementing the MoU. The inaugural SC meeting decided to locate the Secretariat in the IDI, in its role as the capacity building arm of INTOSAI. The role as INTOSAI-Donor Secretariat will be an integrated part of the IDI portfolio, and will be carried out in parallel to the continuation of the IDI programmatic activities.

To ensure oversight and direction of the Secretariat, it was decided during the SC meeting in Morocco that the Chairpersons, Vice-chairpersons and SC Secretariat would have monthly telephone meetings, to facilitate implementation of the MoU.

Recognizing that the roles and responsibilities of the Secretariat may change over time, the SC has agreed on an interim set of tasks to be covered by the Secretariat. These include:

- A core function will be to administer and facilitate SC meetings. This includes planning meetings, preparing and distributing documentation and recording and following up on the decisions of the SC;
- Another task will be to provide the SC with support in drafting the



Joint Work Programme and operational guidelines that were discussed earlier on;

- Effective communication will be a challenge with the inclusion of a substantial number of donors and INTOSAI partners. The Secretariat will seek to ensure open, clear, reliable, effective and timely communication on all aspects of the cooperation to stakeholders;
- The Secretariat function includes information and awareness raising. Activities include development and distribution of information material, the establishment of a website, presentations at global and regional INTOSAI and donor forums, and progress reporting;
- The key function in 2010 will be to undertake a survey that aims to: take stock of: a) country owned strategic and development action plans, b) capacity building projects undertaken with and without donor support, c) identified funding gaps with indications of amounts needed;
- The SC also asked the Secretariat to assemble a collection of examples of good practices of capacity building of the INTOSAI community. This will be done as part of the stocktaking exercise mentioned above.

The Discussion Paper on the Secretariat, presented at the inaugural SC Meeting, also outlined examples of possible future Secretarial roles and responsibilities. It will be up to the SC to allocate such roles in due course, but examples of the potential additional responsibilities include:

- Should SC Working Groups be established, the Secretariat may be called upon to help facilitate their operation;
- Possible additional roles could also include developing into a competence and knowledge centre to support SAI capacity building initiatives being carried out in accordance with best practice and to serve as broker and facilitator of knowledge vis-à-vis stakeholders, as well as serving as a service centre for SAIs in partner countries through facilitating contact with donors and identifying and providing information on funding opportunities;
- It is also possible that the Secretariat could play a future role in terms of facilitating skills development of the SAI capacity building supply side in cooperation with the Capacity Building Committee and support the SC in its monitoring and evaluation duties.



Work programme February to November 2010

The SC has agreed on a work programme for the period between the first and second SC meeting, covering February to November 2010. The following highlights some of the tasks that are to be undertaken:

- Awareness raising and spreading information on the cooperation represents a continuous task. A website is being established and there are awareness raising activities planned and being carried out targeting both the INTOSAI and Donor Communities;
- A key activity for this period is to conduct a stocktaking, covering: a) inventory of country owned strategic and development action plans, b) inventory of capacity building projects undertaken with and without donor support, c) identified funding gaps with indications of amounts needed. The stocktaking also aspires to collect examples of good practices of capacity building of the INTOSAI community. To achieve the goals of the of better, more strategic and voluminous support, we need to establish the present status in terms of capacity building support provided and information on needs and funding gaps facing SAIs in partner countries. Assembling and disseminating examples of good practices in terms of SAI capacity building is also an important tool for facilitating more effective support interventions. The survey will also establish an important baseline for support provided to SAIs. Survey population encompasses INTOSAI regions and all SAIs that are members of INTOSAI and/or INTOSAI regions, and the INTOSAI Regional Secretariats will serve as an important cooperating partner in the conduct of the survey;
- The results of the stocktaking and needs assessment will in turn feed into a joint work programme for the SC to be presented at the next meeting.

Further information on the INTOSAI-Donor Cooperation is available at the website of the IDI: www.idi.no



6.6.1 Necessary measures for capacity building from the standpoint of INTOSAI regions

Edward Jacob Ronia

Auditor-General, Solomon Islands

Member of PASAI

The history of the Office of the Auditor General of the Solomon Islands

In the early 1990s the government of the Solomon Islands started to neglect the Office of the Auditor General (OAG). It does not appear to have been a deliberate process but over time its budget was allowed to run down, it completed fewer and fewer audits and both the staff and the expectations of the Office dwindled. By 2003 the Office was down to two staff plus the Auditor-General. Very few audits were done and as a consequence very few financial statements were produced. The reasoning seems to have been if statements were not going to be audited, there was not much point on producing them. From 2000 to 2003 there was ethnic tension and violence in the country that probably made the financial performance of government entities a secondary issue.

In 2003 the then Prime Minister invited the Pacific Forum countries to intervene in the deteriorating security situation. While this mostly focussed on law and order issues, the Regional Assistance Mission to the Solomon Islands (RAMSI) also included the Accountability Program, designed to reinvigorate the three main accountability bodies - the Ombudsman's Office, the Leadership Code Commission and the Office of the Auditor-General.

The Office of the Auditor-General had two main problems at this point – it didn't have the capacity to do any audits and there was no imperative for any audits to be done. Several years without audit had led to a situation where nobody was interested in audit, or even understood its importance.

The lack of staff in the OAG led RAMSI to bring in technical advisers. For the first three years of the program, these advisers came, did audits, and left again. There was very little capacity building, and to be fair the absence of audit office staff meant that there was nothing much to build. But this period did resuscitate audit as a worthwhile thing to do. Because there were still no financial statements to audit, most of the work done ended up being accounts and records type work of government ministries, and the reports highlighted



major and widespread breakdowns in internal control and a significant failure to comply with required procedures. This was an environment which bred corruption and many findings were reported which identified many people in the public sector were enriching themselves at the expense of the national budget and donor funds. These reports got a lot of media coverage and reminded the public and the government of the function of the Auditor-General and the importance of this function in a democratic system of government where the voters have a right to know when the government fails to exert proper control over the expenditure of public funds.

The extent of control breakdown and after many findings indicating that corrupt behaviour was endemic. In 2006 the Auditor-General at the time tabled an omnibus report entitled “*An Auditor-General’s Insight into Corruption in the Solomon Islands*”. Most of the findings reported in the document came from audit work down by Technical Advisers but with the help of these Advisers the Auditor-General had slowly been building up the staff of the Office. Pressure from RAMSI ensured that the government kept funding the regrowth of the Office.

In 2007 the Auditor-General, with an eye on the 2012 deadline for the end of the RAMSI support, decided to turn the full focus of the Office to building the capacity. What the Adviser had been providing up to that point, an audit capability, now needed to be developed within the OAG so that the audit function, now reinvigorated, could be sustained into the future.

At this time in the Solomon Islands there were very few accounting graduates to be found so the Office engaged a number of people who had completed diplomas with a view to training them and assisting them to complete accounting degrees. An adviser was brought in specifically to train the newly engaged local staff on the basics components of auditing.

The Office of the Auditor General of the Solomon Islands today

We are also putting significant resources into ensuring that all of our diploma educated staff are given the best opportunity to undertake and complete their accounting degrees, including the payment of tuition fees and the granting of generous study time. The tertiary scholarship system in the Solomon Islands, funded by international donors, has created a trickle of graduates, including accounting graduates. This will gradually turn into a stream, and we are trying to balance the hiring of qualified but inexperienced graduates with more experienced staff who have been with the Office for some years but still need



to complete degrees. We are expecting the current staff, who will benefit the most from this policy, to work hard at completing their degrees while also completing their audits. Those people who come through this process showing the most maturity and dedication are the future leaders of the Office and we are putting in place measures to train them in those non-audit skills which will be required in this role. Communication, strategic management, managing staff, negotiation etc. The list is a long one and we don't have much time. How long does it take to make a Deputy Auditor-General or a Division Head or a Branch Head? Normally a long-time but we are going to try and see what we can do in three years. We have to do this if the good work done to date is not lost.

Whether by design or accident the Office of the Auditor-General is slowly approaching the point where it will be able to continue to monitoring and reporting on the expenditure of public monies after the RAMSI program has finished. But capacity building is not just about the internal workings of the Audit Office. The steps I have described so far are the measures taken to develop the capability of the OAG to undertake audits. But the long-term capacity of the Auditor-General's Office requires more.

The infrastructure needs to be in place to ensure that the Audit Office can continue to operate even when no one outside of the institution itself is much interested in what it is doing. And over the long-term the environment needs to be developed so that this lack of interest doesn't occur. The public and the Parliament should always regard the work of the audit office as relevant.

There are other things that are being done to ensure that this work is not wasted. We have a new Audit Act drafted that is now with the Attorney-General for finalisation, prior to be introduced into Parliament. This Act will entrench the independent nature of the Audit Office and ensure that never again will its capacity diminish because the government of the day fails to see its importance. To a large degree the future and funding of the Office will be in the hands of the Auditor-General and that component of funding that does come from the government appropriation process will be monitored by a Parliamentary Audit Committee.

This Parliamentary Committee will also assume the role of monitoring the response by the management of Ministries and state-owned enterprises to the reports of the Auditor-General. Currently the Public Accounts Committee, the PAC, has this role but its main focus is on reviewing the annual government budget and Supplementary Appropriation Bills and it has found little time to meet to consider Audit Reports. Certainly part of



the capacity building role in the Office has been to reinvigorate the PAC's interest in these reports but the introduction of a dedicated Audit Committee as a standing committee of the Parliament will, I believe, be a much more effective way of bringing the management of the various public sector entities to account for the findings of audits, and to review the actions they have taken in response to those findings.

Once the Audit Report has reached the Parliament and been considered there, it may have very little impact if there is no public interest in the findings of the report. For the public to be interested, they have to be informed and in the Solomon Islands this means the media need to report on audit reports. The Office has had a policy of engaging the media with the tabling of any audit report. Rather than relying on the Parliament Press Gallery to be aware that a report has been tabled, after a report has been submitted for tabling copies are sent to all of the media outlets. These in turn may publish a story on the report, although sometimes we have to wait for a slow news day to get an airing. We have found whenever the media do publish the details of a critical report it generates a degrees of public interest, which is more likely to motivate politicians and public sector managers to react to the findings and recommendations in the report.

Looking at the future

The sustainability of the excellent capacity building work done in the Solomon Islands Audit Office will depend then one four things:

- The Office must maintain a flow of completed relevant audit reports to ensure that it maintains a presence in the minds of the managers of public entities and the Parliament;
- We must continue to develop the capacity of the staff of the Office to do audits and to manage the audit process, both at a tactical and strategic level;
- The government has to create the infrastructure that will allow the Audit Office to continue to operate effectively and independently, no matter what happens in the public sector environment; and
- We must ensure that the Parliament, the media and the public continue to be interested in the work of the Audit Office because this is what will ultimately motivate the government and its bureaucrats to take note of audit reports and take action in response to the reported findings.



6.6.2 Necessary measures for capacity building from the standpoint of INTOSAI regions

Faiza Kefi

Premier Président de la Cour des Comptes, Tunisia
Secretary General of ARABOSAI

Ways and means of ensuring the development of external audit in Arab countries

The Arab Group has embarked a long time ago on the road traced by INTOSAI towards developing and strengthening external audit structures in dealing with public funds. At its 35th session held in Tunis from 21 – 23 February 2005, the Executive Council of ARABOSAI established a working group and entrusted it with the task of analysing the current situation of SAIs in Arab countries and preparing a comprehensive strategy to guide efforts to advance external audit in Arab countries.

It is noteworthy that in addition to adopting a methodology of participation, consultation and coordination with all concerned audit institutions, this team based its work on the international reference source (INTOSAI) as well as on the Arab reference source that stems from the analysis and comprehension of the status quo in the Arab Group. The team's essential premise lay in the important principle of respecting the right of each institution to exercise its sovereignty in determining appropriate options that are commensurate with its realities and respond to its needs and aspirations.

Diagnostic phase

One of the most important conclusions arising from the analysis of the current status of SAIs in Arab countries, either resulting from the work of the above-mentioned team or on the basis of data available to the Group's General Secretariat, is the existence of clear dissimilarity between SAI's at several levels. This renders it necessary to seek partial or perhaps individual treatments and solutions in addition to the more general proposals. Among the significant differences, one can mention legislations and laws in force in Arab countries, both in regard to form and content, thereby reflecting the diversity of political, social and administrative systems as well as the different nature of regulatory institutions (judicial or non-judicial) and the control methods applied (ex ante, concurrent, ex post audits), let alone considerations imposed by the geography and history of the concerned countries.



This disparity can also be found in the SAIs' level of capacity building in fields determined by INTOSAI, fields which cover independence, audit standards, audit methodology, human and material resources and other available supporting means as well as relations with foreign parties.

With reference to available data, one can identify the main weaknesses of the members of the Group, as follows:

- Difference in the status of the institution as to the elements of independence which they possess;
- Uneven degree in keeping pace with international professional audit standards;
- Insufficient exploitation of available potentialities and experience in all SAIs;
- Poor coordination and communication between Arab institutions;
- Lack of data bases (experts, standards, etc.) in Arab SAIs;
- Limited success of the Group's institutional mechanisms (lack of continuity in committee membership and appropriate expertise required by those committees, etc.);
- Limited means of the General Secretariat in responding to the real needs (more ambitious training and scientific programmes) and the requirements of the relationship with the mother organization and similar institutions.

The diagnosis also revealed several fields where these SAIs do converge and integrate.

Proposed action and mechanisms for development

From the above-mentioned diagnostic results, a number of aspirations have emerged on the level of the Arab Group. These revolve around the following:

- Joint investment of energies and expertise;
- Effective and fruitful coordination;
- Constant and streamlined communication;



- Openness and assimilation.

These aspirations have been translated into objectives and working mechanisms that conform with INTOSAI' Strategic Plan and take into account the reality of Arab SAIs. These objectives are the following:

- Enhancing accountability and developing professional standards;
- Capacity building of Arab SAIs;
- Strengthening cooperation and knowledge sharing;
- A model regional organization.

a) **Enhancing accountability and developing professional standards by consecrating the principles of accountability and transparency, in particular through:**

- Determination of each SAI to exercise its mandate in harmony with the laws that govern it and in conformity with internationally recognized standards;
- Establishment of a committee to monitor, collate, organize and classify professional and audit standards, track their formulation and development – in cooperation with counterparts in INTOSAI – and provide such material to SAIs so that they may benefit according to their needs (Professional Standards Committee);
- In the context of coordination between member SAIs through the General Secretariat and within the framework of burden and responsibility sharing between SAIs and at the same time in the service of the Group and the bodies, direct and effective contribution would be made to INTOSAI's efforts in the field of professional and audit standards and at the same time adjusting such standards to realities obtaining in Arab SAIs whenever necessary. The Group undertook to provide the necessary appropriate means to disseminate these standards and ensure adherence to them while spreading the benefits that can be derived from tackling application problems and from the influence on the level of confidence in financial and non-financial statements;
- Establishing a database containing professional standards to facilitate speedy reference;



- Elaborating or developing audit manuals in all fields (Professional Standards Committee);
- Inviting SAIs to gradually publish their periodic audit reports. Each SAI would launch its own initiatives and appropriate measures to fully or partially publish these reports and set up mechanism for interaction with the media in a bid to highlight the role of the SAI and the added value of its work.

b) Capacity building of Arab SAIs by undertaking various activities and initiatives, especially the following:

- Ensuring the highest possible degree of SAI independence, legally, financially and administratively, while stressing the need for SAIs to exercise great caution in this respect since independence is one of the internationally recognized principles for organizing and running SAIs;
- Each SAI would strive to prepare its own strategy in the field of capacity building while undertaking regular self-assessment of achievements, strengths, weaknesses and difficulties encountered;
- Drawing up and regularly updating a training strategy at the level of the Arab Group (this plan was indeed drafted by an ad hoc team);
- SAIs would establish and develop training units and plans with a view to upgrade skills. They could also rely on other bodies for this purpose;
- Deriving the greatest possible benefit from available training experts in Arab SAIs, especially IDI graduates;
- Establishing relations of cooperation and exchange of experience with national bodies (universities, regulatory and professional bodies);
- Adopting a system and a comprehensive quality methodology in all spheres of SAI activities such as administration, management and performance. SAIs need to exert efforts to prepare and organize programmes to familiarize staff with this system. SAIs would then periodically evaluate its performance, relying as far as possible on their peers;
- Developing and regularly upgrading modern audit methods, especially electronic auditing through formulating a strategic IT plan on the level of the Arab Group;



- Working to achieve harmony between the audit path followed by the SAI and INTOSAI standards as well as best international practices in the audit field while giving due consideration to national specificities;
- Developing the audit process so as to keep pace with evolving audit concepts and methods thereby ensuring the comprehensiveness of the process while paying due attention to the evaluative dimension of SAI work. This in turn largely responds to the need of SAIs and public authorities for information, opinions, impartial and objective proposals concerning quality of action and prospects of improvement. The importance of this orientation is underscored by the attention accorded by the state and organizations to such action in keeping with the system of objective-based budgeting;
- The importance of the role played by SAIs in Arab countries in promoting the benefits of international standards and monitoring the effects of difficulties met in application, difficulties which may hinder the attainment of the optimal degree of confidence in financial statements. These SAIs are called upon to coordinate with all competent professional bodies with a view to realizing consistency and complementarity between accounting and auditing standards thereby ensuring the highest degree of disclosure of financial statements.

c) Enhancing cooperation and knowledge sharing, in particular through the following:

- Identify and study matters of common interest among Arab SAIs in the framework of working groups to be established for that purpose;
- Exchange expertise, visits and field training opportunities between Arab SAIs by virtue of cooperative agreements or otherwise;
- Facilitate direct communication between Arab SAI professionals who work in the same fields;
- Encourage joint studies and research among Arab SAIs;
- Promote exchange of experience and benefit from foreign expertise in different fields of auditing by holding cooperative meetings with foreign SAIs and regional organizations as well as exchanging experts with them;



- Invite each SAIs to create its own site on the internet and to improve the Group's own site;
- Strengthen publication and exchange of information through relying on liaison officers to be appointed in each SAI.

d) A model organization by organizing and managing the Arab Group along modern techniques, developing the ability to draw up clear policies and guidelines, achieving optimal utilization of available competencies and keeping pace with modern technical developments, especially by:

- Constantly striving to improve the performance of structures, committees and working groups stemming from ARABOSAI;
- Developing methods of convening scientific and training meetings at Group level;
- Setting up a data bank at the General Secretariat covering areas relating to professional standards, manuals and available expertise in the field of auditing and training;
- Establishing training and scientific programmes and working mechanisms that fulfil the Group's ambitions in the field of institutional capacity building and mobilizing the requisite funds for that purpose.

Importance of evaluation and follow-up

In order to provide optimum assurances of the accomplishment of its strategic plan, the Group has devised a realistic implementation plan and approved follow-up measures as well as regular evaluations of results obtained.

The implementation plan includes the following:

- Setting targets according to logical sequence and priority. Targets need to be well defined, flexible, quantifiable and achievable within available resources;
- Determining the timeline for reaching targets, either by setting starting or conclusion dates or defining the periods in which each step of the programme is to be completed;



- Composing the participating working group tasked with realizing the target. Consideration must be given to qualifications, competencies and experience of the persons charged with implementing the steps and the ability of each to realize the assigned task;
- Estimating the resources required to realize the target, whether financial resources, structures, working premises, etc.;
- Identifying expected obstacles and alternative scenarios which can be resorted to in case of inability to achieve the target due to reasons beyond the will of the assigned team or officials;
- Clarifying the steps to be taken in each phase of the plan, what has actually been achieved and the percentage of target attainment;
- Mentioning in a comprehensive manner obstacles which hindered the realization of the target and the alternatives approved to remedy shortcomings;
- Presenting regular annual reports during the period of implementation of targets, highlighting work progress and rate of attainment and submitting these to the Executive Council with a view to evaluation and elimination of obstacles.

In fact, the success of follow-up efforts and evaluation activities largely depends on the degree changes in the real needs of SAIs at all levels are assimilated. This places the responsibility for adopting the necessary mechanisms (inquiries, questionnaires, etc.) on the shoulders of Group's structures and especially the General Secretariat and the Capacity Building and Standards committees.

It is worth mentioning that the realization of the Group's directions and plans – as is the case with the other regions – remains dependent on the capability of the countries to develop accounting structures, administrative and information systems which allow laying the appropriate groundwork for the fulfilment by the SAIs of their mandate. Moreover, the responsible government bodies bear the responsibility for providing an appropriate framework for the work of SAIs (human and material resources, headquarters, etc. as these are appropriate tributaries of independence).



7 CONCLUSIONS AND RECOMMENDATIONS

Framework

AWARE that external public audit contributes significantly to sound financial management by examining the regularity, compliance, economy, efficiency and effectiveness of public spending;

ASPIRING to promote Good Governance by supporting governments, improving government performance, enhancing transparency, ensuring accountability, safeguarding credibility and fighting corruption;

SEEKING to strengthen public confidence in government management;

AWARE that external public audit contributes significantly to the attainment of national and international goals, in particular to the MDGs;

RECOGNIZING the role and the contribution of INTOSAI, especially that of the General Secretariats and the chairs of INTOSAI's Regional Working Groups, of the IDI, the International Journal of Government Auditing, the Collaboration Tool, the bodies of the Strategic Goals 1, 2, 3 and 4, and of committed INTOSAI members, to strengthening SAIs on a global level, and

HIGHLY APPRECIATIVE of the draft resolution recently adopted by the Committee of Experts on Public Administration (CEPA), which pays explicit tribute to the Lima and Mexico Declarations and to INTOSAI as paving the way for transparency, accountability and the efficient use of public funds to the benefit of citizens, and proposes the establishment of a roadmap to incorporate the Lima and Mexico Declarations in international law;

CONVINCED that strong partnerships between SAIs and Parliaments on a national and regional level as well as between INTOSAI and IPU on a global level significantly contribute to accountability and transparency;

The participants of this Conference UNANIMOUSLY AGREE that external public audit must meet specific demands to effectively fulfil the tasks it has been entrusted with.



Demands on external public audit as regards capacity building for the effective fulfilment of its tasks

EMPHASIZING the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence, which stress the importance of independent and qualified SAIs as a fundamental prerequisite for effective external public audit;

AWARE that appropriate leadership and professional staff who are qualified, competent and of moral integrity can make a significant contribution to the effective fulfilment of SAI tasks and to enhancing SAI credibility towards achieving sound public governance;

KNOWING that continuous training and development is instrumental for ensuring competent staff as well as the professional use of audit standards and methodologies;

CONVINCED that the use of state-of-the-art audit standards and methodologies contributes significantly to the effective delivery of SAI tasks;

NOTING WITH SATISFACTION the MoU between INTOSAI and the Donor Community to establish the INTOSAI-Donor Cooperation;

CONSIDERING that the Donor Community and INTOSAI are developing a strategic approach to strengthening and maintaining SAI capacity;

RECOGNIZING that, consistent with INTOSAI's motto of "experientia mutua omnibus prodest", extensive and ongoing sharing of knowledge, best practices and benchmarks within INTOSAI as well as with audited entities, stakeholders and partners, significantly contributes to the further development and strengthening of SAIs;

FIRMLY CONVINCED that projecting the value and benefits of independent SAIs, and making their work transparent and measurable, is fundamental to SAI credibility to be recognized by the different public authorities including the audited entities, the public at large, and all other stakeholders as institutions which generate added value for the state and for society at large;

The participants of this Conference ACKNOWLEDGE the numerous activities which INTOSAI has deployed in recent years to meet these requirements and hence to strengthen the capacity of SAIs.



Recommendations

The participants of this conference

- a) **RECOMMEND with a view to attaining SAI independence**
 - Raising greater awareness among all decision-makers and opinion leaders in order to achieve such independence;
 - Embedding the Lima and Mexico Declarations in a United Nations document with the aim of incorporating them in international law;
- b) **CONSIDER it EXPEDIENT for institutional capacity-building as well as for material and staff competences of SAIs that**
 - SAIs adhere to the core values of professional auditing and codes of ethics;
 - SAIs identify their needs and requirements;
 - Effective capacity building programmes are developed and implemented based on these needs and requirements;
- c) **AGREE in view of developing and promoting the implementation of professional audit standards and methodologies that**
 - Existing ISSAIs and INTOSAI GOVs should be regularly updated and that new ISSAIs and INTOSAI GOVs should be developed on an on-going basis in accordance with INTOSAI's Due Process in order to be progressively recognized, nationally and internationally, as a work basis for the effective delivery of audit tasks;
 - Targeted measures are taken for the ISSAIs and INTOSAI GOVs to be used in practice;
- d) **WELCOME effective capacity building and development measures, in particular**
 - The INTOSAI-Donor Cooperation that is to be implemented at the level of individual SAIs, in all seven Regional Working Groups and at the level of INTOSAI;
 - Capacity building measures needed by SAIs will be carried out at their request by the IDI and SAIs or through other forms of cooperation



within the INTOSAI family. These measures include activities carried out in cooperation with the Donor Community, especially for SAIs in developing countries and for SAIs facing structural problems, specifically in the following areas:

- SAI independence and its fundamental principles for the effective delivery of tasks;
 - Strategic and action planning;
 - Use of professional standards;
 - Development of quality assurance strategies and procedures (such as peer reviews);
 - Needs-based, sustainable capacity building programmes for groups of SAIs;
 - Enhancement of regional capacity building capabilities and networks;
 - The continued organisation of UN/INTOSAI Symposia by the INTOSAI General Secretariat in cooperation with the UN on a regular basis;
 - Enhanced cooperation with the UN within the framework of the UN/INTOSAI Platform;
 - Intensified cooperation between Parliaments and SAIs on a national and regional level as well as between INTOSAI and the IPU on a global level for improved possibilities and practices for holding audited entities accountable and providing transparency to the public;
- e) **EMPHASIZE the overriding importance of knowledge-sharing and knowledge services CONSIDERING the following elements INDISPENSABLE**
- On-going communication within INTOSAI by providing current, accurate and understandable information on new INTOSAI products and relevant activities;



- Wider dissemination of best-practice studies within INTOSAI by harnessing INTOSAI's existing means of communication such as the International Journal of Government Auditing, the Collaboration Tool, events or peer reviews;
- Active participation of SAIs in the activities of INTOSAI and building networks with other organisations;

f) FURTHERMORE RECOMMEND to promote the presentation of the value and benefits of independent SAI, by

- Developing key indicators for SAIs which enable them to assess the value and benefits of their performance in an objective, well-founded and quantifiable manner in a process of self-evaluation;
- Developing instruments for interaction of SAIs with civil society, the media and citizens;
- Conveying the added value of the SAI for the state and society to the public at large by pro-active information and by promoting understanding for the mandate and missions of SAIs;

CALL ON all relevant institutions and their decision-makers, as well as those responsible within INTOSAI, in particular on the chairs and General Secretariats of INTOSAI and its Regional Working Groups, as well as on the IDI, to continue making a significant contribution in their respective fields towards meeting the said requirements which SAIs are facing, and

hence CONSIDER it ADVISABLE that the individual SAIs and regions identify their needs in the areas described (independence, capacity building and development, audit standards and methodologies, knowledge sharing as well as value and benefits) by means of strategic plans and development programmes and work towards realistic, forward-looking and productive solutions for respective member SAIs through the Regional Working Groups, while respecting their autonomy.



ANNEXES

Agenda Conference on Strengthening External Public Auditing in INTOSAI Regions			
26 May 2010			
Opening	09:00-09:30	Opening address and presentation on strengthening external public auditing	Josef Moser, INTOSAI General Secretariat
	09:30-09:50	Introductory presentation: importance of independent SAIs for the implementation of the UN Millennium Development Goals	Thomas Stelzer, United Nations Department of Economic and Social Affairs (UNDESA)
SAIs within the constitutional framework	09:50-10:00	1. SAIs within the constitutional framework – Introduction	Juan Manuel Portal Martínez, SAI Mexico
	10:00-10:20	2. Fundamental constitutional principles of effective public audit	Johannes Hengstschlaeger, Johannes Kepler University Linz, Austria
	10:20-10:25	3. Fundamental constitutional principles of effective public audit from the external public audit perspective	María José de la Fuente de la Calle, SAI Spain
	10:25-10:45	4. Fundamental prerequisites of effective public audit from the perspective of a sponsoring organization	Matthias Witt, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
	10:45-11:05	5. Cooperation between Parliament and SAIs	Anders B. Johnsson, Inter-parliamentary Union (IPU)
	11:05-11:25	<i>Group photo, coffee break</i>	



SAI independence	11:25-11:55	6. Central elements of and prerequisites for independent SAIs in the light of the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence	Ahmed Ataul Hakeem, FCMA, SAI Bangladesh; Guilherme d'Oliveira Martins, SAI Portugal
	11:55-12:45	7. SAI independence in practice – experiences from INTOSAI Regional Working Groups	Ghaidaa A. Al Modhaf, S AI Kuwait; Walter Barth, SAI Namibia; Abdulrahman Al-Harthy, SAI Oman; Jacek Jezierski, SAI Poland
	12:45-13:20	8. Discussion	Participants
	13:20-13:30	Welcome speech of the President of the Austrian Parliament	Barbara Prammer, President of the Austrian Parliament
	13:30-14:30	<i>Lunch break</i>	
Values and benefits of independent SAIs	14:30-14:40	9. Values and benefits of independent SAIs - Introduction	Terence Nombembe, SAI South Africa
	14:40-15:00	10. Values and benefits of independent SAIs for public administration	Valeria Termini, United Nations Committee of Experts on Public Administration (UN CEPA)
	15:00-15:20	11. Values and benefits of independent SAIs for civil society	Sergey Vadimovich Stepanin, SAI Russian Federation
	15:20-15:40	12. Communicating the work of independent SAIs in public (media cooperation)	Kenneth Dye, Former Auditor General of Canada
	15:40-16:00	<i>Coffee break</i>	
	16:00-16:20	13. Contributions of independent SAIs to the fight against corruption in the light of the United Nations Convention Against Corruption (UNCAC)	Dennis Thatchaichawalit, United Nations Office on Drugs and Crime (UNODC)
	16:20-17:00	14. Discussion	Participants



27 May 2010			
Capacity building to strengthen SAI independence	09:00-09:10	15. Capacity building of SAIs - Introduction	Ahmed El Midaoui, SAI Morocco
	09:10-09:30	16. Principles of cooperation between INTOSAI and the international Donor Community	Osama Jafar Faqeeh, SAI Saudi Arabia
	09:30-09:50	17. Current activities of IDI to strengthen external public auditing in INTOSAI regions	Magnus Borge, INTOSAI Development Initiative (IDI)
	09:50-10:10	18. Contributions of the international Donor Community to strengthen external public auditing in INTOSAI regions	Anthony Hegarty, World Bank
	10:10-10:30	19. INTOSAI-Donor Cooperation – Steering Committee, Secretariat and initial tasks	Jørgen Kosmo, IDI
	10:30-10:40	20. Professional Standards to support SAI independence	Henrik Otbo, SAI Denmark
	10:40-11:00	<i>Coffee break</i>	
	11:00-12:10	21. Necessary measures for capacity building from the standpoint of INTOSAI regions	Edmund A. Zuniga, SAI Belize; Fuad E. Khoury Zarzar, SAI Peru; Abdou B. Gueye, SAI Senegal; Edward J. Ronia, SAI Solomon Islands; Faiza Kefi, SAI Tunisia; Frank Grogan, SAI United Kingdom
	12:10 -13:00	22. Discussion	Participants
	13:00-14:00	<i>Lunch break</i>	



Conclusions	14:00-15:00	23. Presentation of final document	Secretary General of INTOSAI
	15:00-15:30	24. Discussion	Participants
	15:30-16:00	25. Adoption of conclusions: necessary measures to strengthen external public auditing in INTOSAI regions and useful suggestions	Participants
	16:00	<i>End of conference</i>	



List of Participants

ADA	Laura Leyser
	Brigitte Öppinger-Walchshofer
	Robert Zeiner
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Austria	Barbara Prammer
Austria	Wolfgang Wiklicky
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	Niaz Rahman
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Côte d'Ivoire	Ziriyo Bogui
	Moussa Kone
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	Barbora Zochova
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	Benjamín Fuentes-Castro
Moldova	Ala Popescu
	Sergiu Ivanov
	Valentina Madan
Morocco	Ahmed El Midaoui
Namibia	Walter Barth
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	Jacek Mazur
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	José Tavares
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	Fyodor Eliseevich Shelyuto
	Vadim V. Dubinkin
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