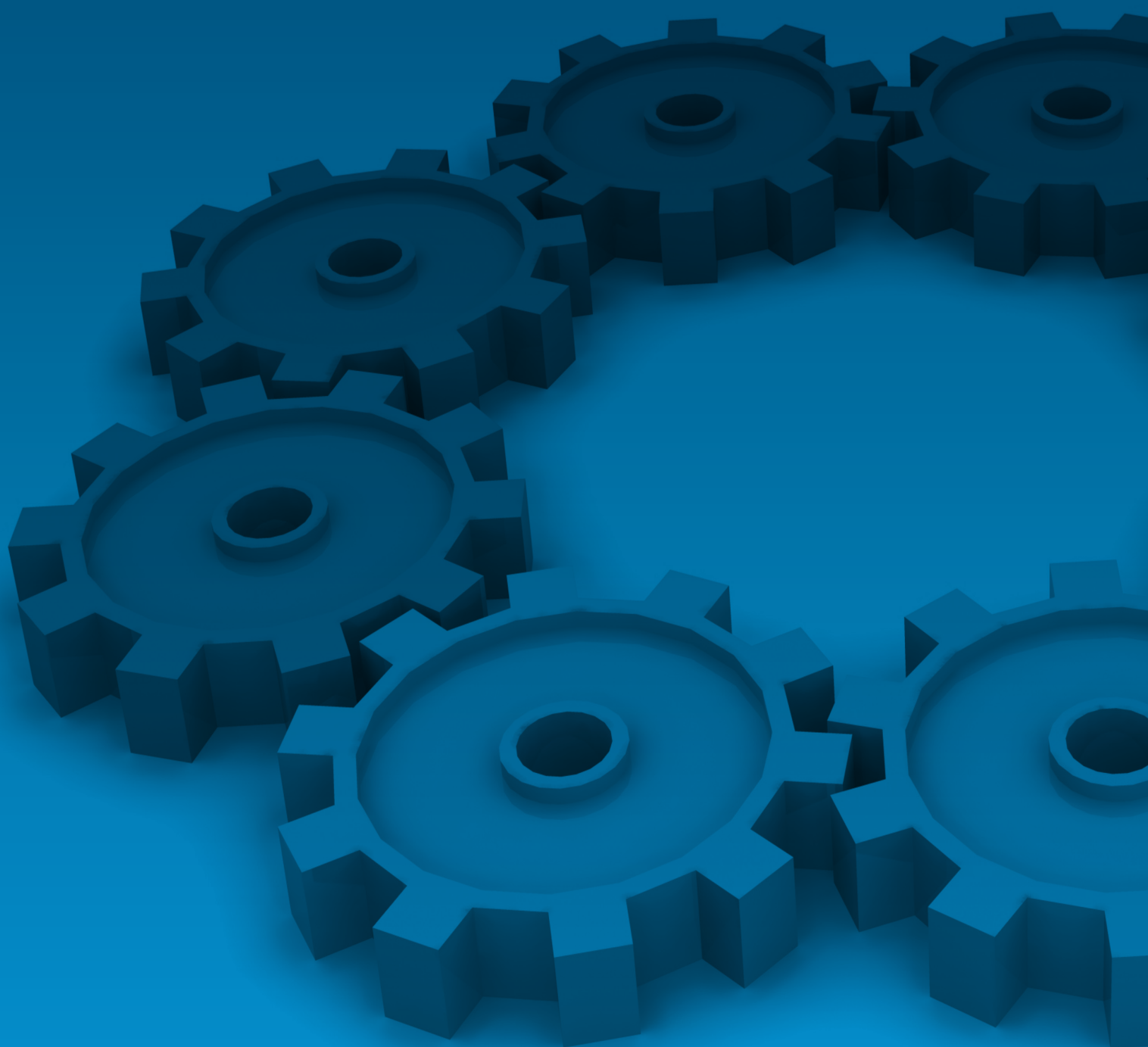# OECD

Good Practices in Supporting Supreme Audit Institutions

Foreword

In today's uncertain global economic and financial environment, more than ever, governments are called upon by their citizens to account for how public funds are spent and are helping to deliver results and better public services. Supreme audit institutions (SAIs), as the lead public sector audit organisations focusing on accountability and transparency of public funds, are uniquely placed to contribute to building and sustaining stronger and more effective accountability mechanisms between governments and their citizens.

In developing countries, SAIs play an important role in strengthening public sector institutions by confirming that controls are operating effectively, identifying waste and suggesting ways in which government organisations can operate better. In countries receiving a high percentage of foreign aid, SAIs also play a role in mitigating donor risk (both fiduciary and developmental) - particularly when development funds are channelled through partner government systems.

Despite the recognised importance of SAIs for development effectiveness, evidence shows that public sector auditing in a number of countries is the weakest component of Public Financial Management. Donor agencies and SAIs (through the INTOSAI-Donor Cooperation agreement) have come together to better understand why this is the case and to build a roadmap towards dealing with some of the main challenges.

This Good Practice Guide on Support to Supreme Audit Institutions aims to contribute to strengthening these key public sector institutions and provide guidance on how donors can best support this effort.

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Executive Summary

Supreme audit institutions (SAIs) are the lead public sector audit organisation in a country. Their principle task is to examine whether public funds are spent economically, efficiently and effectively in compliance with existing rules and regulations. Well-functioning SAIs can play an important role in confirming that controls are operating effectively, identifying waste and suggesting ways in which government organisations can operate better. By ensuring that money is well spent, they can contribute to national development and the fight to reduce poverty. As such they are natural allies for development partners looking to put the principles set out in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action into practice. They have a crucial role in wanting to ensure that aid is used effectively. But in many countries, SAIs lack the independence, the resources and the technical skills to carry out the rigorous high quality audit needed by governments, parliaments, citizens, the media and development partners[1].

This guide has been written to help staff in development partner agencies - namely bilateral and multilateral providers of development co-operation - understand SAIs and how to help them play a more effective oversight role. To increase the usefulness of this guide, checklists are provided throughout the text. Development partner co-ordinating committees are encouraged to use these checklists when engaging with, and considering supporting, SAIs. However, they are checklists not strait-jackets. Their purpose is to promote discussion and reflection and encourage the development of local solution not the imposition of external templates.

This guide:

- describes the SAI community and how SAIs are currently working together internationally to help strengthen the capacity of members of this community;

- provides a checklist for development partners in considering ways in which to support SAIs; and

- highlights ways development partners can contribute to the process of strengthening SAIs. In particular by working together to:

  - ✓ Develop and support long-term capacity development projects for SAIs based on detailed assessments of political context and well developed strategic plans;

  - ✓ Engage SAIs to audit development partner-supported projects – providing coaching and training support where needed;

  - ✓ Advocate on behalf of SAIs with developing country governments, parliaments, civil society organisations and others – helping raise the profile of SAIs and encouraging use of their findings to achieve beneficial change in the use of public resources; and

  - ✓ Utilise the results of SAI audits in discussions with ministries of finance and spending ministries – particularly in key poverty alleviation areas such as education and health but also in ministries that impact on wealth creation such as public works and customs – to help ensure that an SAI's work is used to achieve beneficial change.

The guide also highlights the need for development partners to build stronger links to SAIs and their key stakeholders so that they can understand better what is needed. Where development partners lack the expertise to critically engage with SAIs and the resources to assist with project design, tendering and subsequent monitoring then it suggests engaging other experts to support this role – possibly from other SAIs or the private sector.

References

Organisation for Economic Co-operation and Development (2010), DAC Statistical Reporting Directives. Available at *www.oecd.org/dac/stats/dacdirective*. OECD, Paris

Notes

1. In this guide, 'development partner' refers to donors. A donor is an official agency that provides Official Development Assistance (OECD-DAC Statistical Directives para. 35). Under this definition, non-governmental organisations (NGOs) and private companies do not qualify as donors. Official Development Assistance includes official transactions that are administered with the promotion of the economic development and welfare of developing countries as its main objective; and are concessional in character and convey a grant element of at least 25 %.

Introduction

Supreme audit institutions (SAIs) are the lead public sector audit organisation in a country. Their principle task is to examine whether public funds are spent economically, efficiently and effectively in compliance with existing rules and regulations and in line with national priorities. Well-functioning SAIs can play an important role in confirming that controls are operating effectively, identifying waste and suggesting ways in which government organisations can operate better. They do this through producing objective and rigorous audit reports aimed at bringing about beneficial change in the way governments manage public resources. By ensuring that money is well spent they can contribute to sustainable national development, reduce fraud and contribute to poverty reduction. An effective SAI can make the work of development partners easier by providing assurance that development partner funds are being used for their intended purposes and that agreed objectives and outputs are being achieved. They are a key part of the public financial management system in a country providing reassurance to parliaments, citizens, development partners and others that governments are managing their monies well.

The reality in many countries is that SAIs are not functioning as they ought. In too many cases, SAIs lack the authority, skills and resources to carry out thorough audits and to report the results freely and without fear. Yet if development partners are to act in accordance with the Paris Declaration on Aid Effectiveness and the Busan Partnership for Effective Development Co-operation and place greater reliance on developing countries own systems of management, control and oversight then SAIs need to become more effective.

This guide seeks to highlight some ways development partners, namely bilateral and multilateral providers of development co-operation, can help strengthen the capacity of SAIs. Chapter one of the report provides an overview of the SAI world and how it links to other key public financial management reforms. The remaining parts of the guide look at:

- Agreeing a strategy (Chapter two);

- Delivering strong projects (Chapter three);

- Using and promoting an SAI's work (Chapter four); and

- Leveraging change (Chapter five).

In producing this guide, we:

- Reviewed the literature on capacity development and technical co-operation and policies and guidance produced by development partners and SAIs (see Annexes B and Bibliography);

- Conducted an electronic survey of:

  o leading development partners;

o beneficiary SAIs;

o SAIs providing capacity development assistance, including the International Organisation of Supreme Audit Institutions (INTOSAI) International Development Initiative; and

o private sector firms engaged in supporting capacity development in SAIs;

- visited three countries with strong partnerships among development partners and the SAI in order to identify practical experiences (see Annex A); and

- received advice and support from an advisory panel drawn from development partners and SAIs.

A more detailed methodology can be found in Annex C.

The conceptual framework for capacity development used in this guide draws heavily from the framework used by the INTOSAI in: *Building Capacity in Supreme Audit Institutions: A guide.* It recognises the need for SAIs to strengthen not only their professional audit capabilities but also their organisational capability and their capacity to deal effectively with the external environment including parliaments, the administration, civil society organisations and the media.

Figure 0.1: Key aspects of SAI capacity development
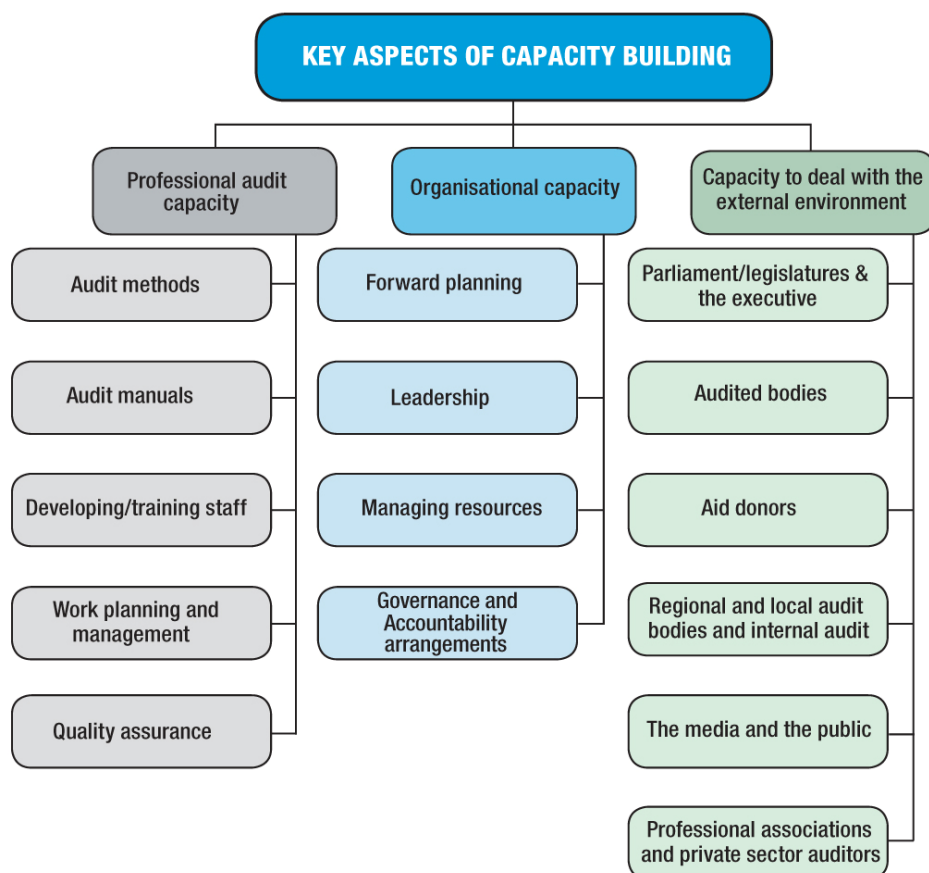
Source: INTOSAI 2007

The guide focuses primarily on how development partners can better support SAIs. But it can also be applied when considering how to better support sub-national audit institutions where they exist, for example, audit institutions attached to regional or provincial government. Indeed in such contexts, an important decision for development partners is whether to focus solely on the SAI or to attempt to provide support which embraces the needs of different levels of audit at the same time.

This guide suggests ways that development partners can work more effectively with SAIs. However, it is important to recognise that a developing country's capacity in terms of supreme audit and oversight does not depend only on the institutional and individual capacities of the SAIs themselves but also on the broader context as well as societal capacities as a whole, and the capacities of other actors, for example, civil society, parliament, and the executive. It is a necessary condition to have a well-functioning SAI, but the benefits will be limited if the external environment within which it operates does not have the capacity to interact with it, engage with its work and enact appropriate reforms. As Figure 0.2 shows, SAIs can audit what is done with public monies, but they are reliant on governments preparing sound budgets, parliaments scrutinising and subsequently approving such budgets and then parliaments and governments actively using the SAI's audit findings to achieve beneficial change.

Figure 0.2: The accountability process
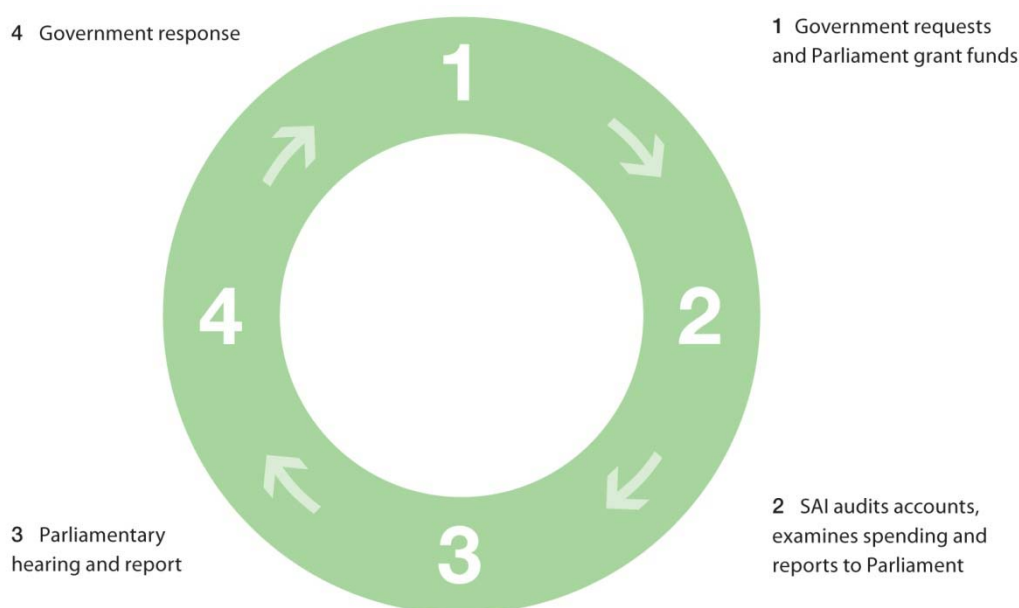
Source: National Audit Office, United Kingdom

In this guide we focus on how development partners can help SAIs obtain external capacity development assistance and support. But, it should never be forgotten that most of the capacity development occurring across the globe in SAIs is being led and managed by their own staff. It is the work of these individuals in owning and shaping their organisations which will achieve the longer-term changes that are needed to improve transparency and accountability. The role of the international development community, the external SAIs and private sector consultants is to ensure that what they do helps and

does not hinder the evolution of nationally responsive, internally led, high quality, public audit institutions.

References

INTOSAI Capacity Building Committee, (2007), *Building Capacity in Supreme Audit Institutions: A guide.*

Chapter 1: The World of SAIs

The international SAI architecture

The International Organisation of Supreme Audit Institutions (INTOSAI)[1] operates as an umbrella organisation for the external government audit community. It provides a framework for SAIs to promote development and transfer of knowledge, improve government auditing worldwide, and enhance the professional capacities, standing and influence of member SAIs in their respective countries. Through its committees and working groups, documents and conferences, it provides forums for government auditors from around the world to discuss issues of mutual concern and keep abreast of the latest developments in auditing and other applicable professional standards and best practices. Its day-to-day operations are managed through the INTOSAI secretariat based in Vienna. The key decisions of the organisation are agreed every three years through the International Congress of Supreme Audit Institutions (INCOSAI). The INTOSAI Strategic Plan has four main objectives or work streams:

- professional standards;

- knowledge sharing;

- capacity development; and

- model international organisation.

INTOSAI has produced two key documents which define what is meant by independent SAIs. The first, agreed in 1977 and known as the "Lima Declaration", determines the principle of independence of government auditing in methodological and professional terms. The second known as the "Mexico Declaration" was agreed 30 years later in 2007 and defines these requirements in more concrete terms identifying eight pillars underpinning the independence of external government auditing. In addition, in November 2010 INTOSAI endorsed a package of high-quality standards – the International Standards for Supreme Audit Institutions or ISSAIs which correspond to the private sector auditing standards - the International Standards for Auditing (ISA). Adoption of these is a major challenge to the sector and significant capacity development effort will be required before many SAIs will be able to meet them. However, once implemented they should substantially improve the quality of public sector audit (see *www.issai.org*).

INTOSAI's capacity development work is overseen by the INTOSAI Capacity Building Committee[2]. Key activities of this committee include:

- the production and dissemination of best practice guides for SAIs – available in Arabic, English, French, German, Spanish and Russian, for example:

  o *Building Capacity in SAIs: A guide*;

  o *Introducing Professional Qualifications for Audit Staff*;

  o *Peer Review Guide and Peer Review Checklist: Appendix to peer review guide*;

- *How to Increase the Use and Impact of Audit Reports: A guide*;

- *Human Resource Management in SAIs* (2012);

- *Implementing the ISSAIs (pending); and*

- *Maintenance of a database of capacity development projects[3]*

SAIs are also members of the following regional SAI organisations:

- African Organisation of Supreme Audit Institutions (AFROSAI) – and its English and French regional sub-groups – the African Organisation of English-Speaking Supreme Audit Institutions (AFROSAI-E)[4] and the African Organisation of French Speaking Supreme Audit Institutions (CREFIAF)[5];

- Arab Organisation of Supreme Audit Institutions (ARABOSAI)[6];

- Asian Organisation of Supreme Audit Institutions (ASOSAI)[7];

- Caribbean Organisation of Supreme Audit Institutions (CAROSAI)[8];

- European Organisations of Supreme Audit Institutions (EUROSAI)[9];

- Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS)[10]*; and*

- Pacific Organisation of Supreme Audit Institutions (PASAI)[11].

INTOSAI regions have formed capacity building committees varyingly referred to as training committees or institutional strengthening committees. These committees typically conduct master classes for senior SAI personnel and short training courses for staff drawn across their region. These regional organisations often receive funding and support from individual development partners and some SAIs who have their own funds for capacity development activities. For example AFROSAI-E receives funding from the Dutch and Swedish SAIs along with the World Bank and it has an extensive programme of regional training and support.

In addition, INTOSAI has created the IDI – the INTOSAI International Development Initiative. IDI is the capacity development arm of INTOSAI and aims to enhance the institutional capacity of SAIs in developing countries through needs-based, collaborative and sustainable development programmes. IDI works on a multilateral basis in each of the INTOSAI regions and on a trans-regional basis, in order to deliver effective development programmes[12].

More recently, the development partners and INTOSAI have signed a memorandum of understanding to co-ordinate and to oversee an increase in support to SAIs. A steering committee has been formed and a secretariat set up based in Norway as an integrated part of the IDI. A global stocktake of SAIs' development needs and identified funding gaps has been produced as a key input for future support to SAIs in partner countries.

Types of SAIs

SAIs vary reflecting different legal, financial and political traditions. INTOSAI operates on the basis that there can only be one SAI for each country. If a country has more than one organisation involved in public external audit then it is the responsibility of the country to determine which organisation it wishes to register as the SAI, usually

the body with the strongest constitutional guarantees of independence. The three main models are the following[13]:

- **Westminster model**, also known as the Anglo-Saxon or Parliamentary model found in the United Kingdom and most Commonwealth countries including many in sub-Saharan Africa, a few European countries such as Ireland and Denmark, and Latin American countries such as Peru and Chile – often referred to as national audit offices;

- **Judicial or Napoleonic model,** found in the Latin countries in Europe, Turkey, Francophone countries in Africa and Asia, and several Latin American countries including Brazil and Colombia; - often referred to as courts of audit or courts of accounts. In Francophone Africa, this model may co-exist with general state inspectorates, some of whom may be nominated as the country's SAI. They are usually part of the executive but independent of specific ministries and departments; and

- **Board or Collegiate model,** found in some European countries including Germany and the Netherlands, Argentina, and Asian countries including Indonesia, Japan and the Republic of Korea.

In some countries, the powers of an SAI are enshrined in the country's constitution. However, where its role is written into a constitution, changing this role or powers can be a major task. In addition, there may well be a gap between what the SAI is legally expected to do and what it is allowed to do in practice. There is wide international agreement that to be effective an SAI needs to be independent of the government of the day but this independence is often curtailed in small but crucial ways. For example, the appointment of the head of an SAI may be through an open recruitment process or through the personal appointment of a head of state.

Key areas where these differences are reflected in the work an SAI include the following:

- **Ex-post versus ex-ante** – while SAIs are generally associated with auditing expenditure after it is spent – some SAIs also have a role in approving the commitment of expenditure. Furthermore, others have a role in commenting on national budgets before they are approved.

- **Sanctions** – while many SAIs only have the powers to report on the use of public funds others have the powers to surcharge, and even imprison, individuals found guilty of having used public monies improperly.

- **Legal immunity** – while the heads of some SAIs are covered by parliamentary immunity when they issue their audit reports, others can be sued by auditees unhappy with audit report findings.

- **Reporting to parliaments** – while some SAIs have a clear duty to report audit findings to parliament, others are deemed independent of parliament or are expected only to report to the head of state or ministry of finance.

- **Going public** – while some SAIs can publish their audits as soon as they are completed and parliamentary hearings are open to the public and the media, in others

the veil of secrecy shrouds all steps in the process and it may be years before an audit report reaches the public domain.

- **Coverage** – while some SAIs are required to audit all government entities each year others are only required to produce one overall annual report on the use of the national budget and/or have discretion as to how many individual entities to audit each year. In many countries there are limits on what funds the SAI can audit. In some countries they will not be able to audit para-statals, in others the security services, and still others the central bank and related institutions.

- **Tiers of government** – while some SAIs can audit all tiers of government, including local government, others are limited to central government income and expenditure and regional or provincial audit institutions audit the other tiers.

- **Types of audits** - while many SAIs are free to conduct a wide variety of audits including: regularity audits (encompassing compliance and financial audits); performance or value for money audits; environmental audits, and forensic audits; others have more limited legal mandates.

- **Relationship to ministries of finance** –while in some countries the SAIs are clearly independent of the government, and the ministry of finance, in other countries this is much less clear – with some ministries of finance running their own internal audit services which can often carry out very similar functions to those of an SAI and in others the SAIs acting as a department of the ministry of finance. Even where an SAI may be legally independent it may be beholden to the ministry of finance for funding, accommodation and other services as well as the issuance of audit reports.

- **Staffing –** while some SAIs have extensive control over their staffing resources – being able to recruit, determine remuneration arrangements, promote, discipline and even dismiss staff – others have to work within wider public sector systems and may not even be able to determine who they employ.

External support for SAIs

The community of SAIs has a long history of providing peer support. Some of the key ways the community does this are outlined below:

- **Peer to peer programmes** – some SAIs have their own funds to enter into long term capacity development partnerships with other SAIs.

- **Support through INTOSAI, IDI and the regional organisations** – these bodies and their various working groups and sub-committees set standards, produce guidelines and best practice guides, run a wide variety of capacity development workshops, master classes and conferences, and provide local technical support.

- **Hosting bilateral exchanges** – where auditors from one SAI visit another SAI to learn about its operations and audit approaches – often this will involve the host SAI providing specialised workshops or seminars.

- **Formal training programmes** – several SAIs run training programmes and fellowships which are made available to other SAIs – these may vary in length from one week to several months and include an element of on-the-job training as well as classroom based learning.

- **Secondments or longer-term placements** – some SAIs take on staff from other SAIs to work within their institution for up to a year or more to learn about all aspects of audit work.

- **Peer reviews** – SAIs will often invite one or more other SAI to conduct peer reviews or functional reviews – these may involve high-level organisational reviews or reviews of specific audit activities. For example, in some regions, such as AFROSAI-E, all member countries agreed to participate in a triennial quality assurance review undertaken by regional expert teams.

- **Joint or partnership audits** – from time to time SAIs will combine to carry out joint or parallel audits which help SAIs exchange methods and approaches.

- **Informal contacts –** SAIs will often contact each other to exchange resources or to obtain specific advice on particular issues facing the organisation as well as through participation in international and regional committees and working bodies.

Some SAIs are directly funded by their parliaments, governments and/or development agencies to provide capacity development support to SAIs. This has enabled some SAIs to develop long-term support programmes for specific SAIs and/or specific regions. For example, the Swedish National Audit Office has been provided with funding by the Swedish Parliament which has enabled it to finance, among other projects, a long-term capacity development project with the Tanzanian National Audit Office and staff secondments to AFROSAI-E.

Development partners support SAIs in a variety of different ways – directly through funding for capacity development or by commissioning SAIs to carry out specific audits – and indirectly by advocating on their behalf with the governments and/or parliaments for example to introduce modern legislation giving the SAIs independence.

Capacity development programmes may range from small focused inputs to longer-term twinning or partnership programmes with full-time, international staff being based in the beneficiary institution for several years. Such programmes can embrace all aspects of organisational development including:

- developing the technical and managerial skills of audit staff;

- strengthening the SAI's corporate support structures such as strategic planning, IT systems, human resource management, and resource management; and

- forging stronger links with external stakeholders to increase the impact of audit activities.

They can also include short highly focused inputs to help SAIs:

- audit specific fields, for example, government oversight of the extractive industries or revenue and customs;

- deal with a back-log of unaudited accounts;

- learn to use a new IT audit package;

- produce a new HR or IT strategy; or

- improve their briefings for parliament.

These capacity development activities can be delivered through a variety of different partners including:

- other SAIs – either individually or working in consortia with other SAIs or even private firms;

- INTOSAI regions, often with IDI involvement, providing training and support to individual SAIs and at times other regional bodies;

- provincial or regional public audit institutions, for example, the devolved administrations in the United Kingdom, the provinces in Canada or the landers in Germany;

- private sector consultancy firms – either international firms or partner country firms;

- individual consultants; and

- professional accounting or auditing associations.

With the move by some development partners to provide direct budget support to developing countries, SAIs become a major source of feedback on whether funds are being used for their intended purposes and, in particular, the extent to which such funds are contributing to poverty alleviation. As part of the fiduciary risk assessment which precedes the decision to provide direct budget support, many development partners will seek to assess the reliance which can be placed on the work of the SAI.

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Notes

1. See *www.INTOSAI.org*.

2. See *www.cbc.courdescomptes.ma*.

3. Available at *www.cbcdirectory.org*

4. See *www.afrosai-e*

5. See *www.crefiaf.org*

6. See *www.arabosai.org*;

7. See *www.asosai.org*

8. *www.carosai.org*

9. *www.eurosai.org*

10. *www.olacefs.net*

11. *www.pasai.org*

12. See *www.idi.org.no*.

13. See *www.dfid.gov.uk/aboutDFID/organisation/pfma/pfma-externalaudit-briefing.pdf*.

Chapter 2: Agreeing a strategy

Introduction

Each SAI functions in a unique socio-political context. In helping to provide support to that SAI, a key task for development partners is to understand that context and work with the SAI and other key partners to help the SAI play an increasingly effective oversight role. This is a process of listening, watching, and recording but also one of challenging where the SAI itself is not aware of the gaps between where it is and where it wants to be or where it lacks access to a broader vision of what is possible. Development partners need to invest in understanding the SAI and related institutions, including parliamentary oversight committees, ministries of finance and civil society organisation, and work with them to formulate a strategy for developing the SAI's institutional capacity. It also needs the development partners to work ever more closely together to ensure that they make clear and agreed commitments to the SAI, do not seek to impose their own national solutions, and forge long-term, mutually beneficial partnerships.

At the same time, it is important for development partners to work in ways which ensure that countries and their institutions, including SAIs, lead efforts to design and implement Public Financial Management reforms. The Paris Declaration on Aid Effectiveness and the Busan Partnership for Effective Development Co-operation places great emphasis on the importance of countries exercising effective leadership over their development policies, and strategies and co-ordinating development actions. Development partners agreed to respect partner country leadership and help strengthen their capacity to exercise it. In supporting SAIs, development partners should not lose sight of this important commitment placing the government and SAI priorities at the centre of individual, organisational and head office level decision-making processes to support SAIs (OECD, forthcoming[a]).

Understand your partner SAI

In deciding how to work and support an SAI, it is important that an early investment is made in understanding the SAI, understanding the socio-political context in which it is operating, and understanding what prior efforts have been made internally and externally to help develop capacity. What are the drivers for change which will enable the SAI to improve its effectiveness? Where is the support for improved transparency and accountability and equally what are the forces arrayed against such improvements? How far is the SAI likely to be the driver of change?

Some of the key issues development partners will want to address are:

How independent is the SAI?

- ✓ Is the independence of the SAI guaranteed in the constitution and or other laws, and are these laws enacted?

✓ Is there an open and transparent process for appointing the head of the SAI – ensuring that the person appointed is politically neutral, and once appointed does he or she have secure tenure?

✓ Does the SAI have freedom to determine what and how it audits?

✓ Does the SAI have access to all government spending and revenue raising agencies and other bodies spending public monies?

✓ Does it have freedom to publish its audit findings within a reasonable time after an audit is completed and ensure that these are easily accessible to the media and public?

✓ Does the SAI have legal immunity?

✓ Does it have the powers to carry out all types of audits – for example, regularity (including financial and compliance), and value for money or performance?

✓ How is the SAI's budget determined and approved?

✓ How are staff recruited and pay and remuneration arrangements agreed?

Does it have a reasonable coverage of the entities it needs to audit?

✓ How many audits is it legally required to complete each year, and when do these need to be completed? To what extent are these targets met?

✓ Does it audit regional and local government bodies as well as central bodies? If it does not audit regional or local government bodies does it have a role in setting standards and securing quality?

✓ With what frequency does it audit each entity?

✓ Is there a backlog of unaudited accounts? – and if so how big is the back-log? Does the SAI have the power to outsource audits to other service providers, and to what extent does it do so?

What is the current capability of the SAI?

✓ How many staff does the SAI have?; how are they organised and managed?; what proportion have professionally relevant qualifications?; what proportion are computer literate?; and does the SAI operate inclusive staffing policies?

✓ What auditing standards does it use?; how do these relate to the accounting standards in use across the public sector?; to what extent has the SAI adopted or is in the process of adopting the International Standards of Supreme Audit Institutions (ISSAIs)?

✓ What IT infrastructure does the SAI have?; what is the ratio of computers to staff?; where are they located?; are regional offices networked?

✓ Does the SAI have access to professional trained staff in key support functions such as human resources, IT, finance, procurement and communications?

✓ Are staff co-located in serviceable buildings or are they spread out around the auditees' premises?

✓ Does the SAI have the means, (transport, travel budgets, etc) to reach auditees regularly and easily?

How is the SAI itself managed and controlled?

- ✓ Does the SAI have a current strategic plan and development action plans and how is this approved?

- ✓ Does the SAI have a management board/leadership committee which meets regularly, and produces records of proceedings – who are on these bodies?

- ✓ Does the SAI have an internal audit function and to whom does this function report?

- ✓ How frequently is the SAI externally audited? Who appoints the external auditor and is this process open and transparent? Who considers and acts upon the external audit report?

- ✓ Do staff sign at least annually a code of conduct and declaration of interests forms?

- ✓ Is there an internally independent audit quality review system?

- ✓ Is there a formal and implemented system for rotating staff among audits?

- ✓ Does the SAI have a rigorous and transparent system for following up past audit findings and recommendations, including reporting to parliament on the results of past audits?

Has the SAI formed effective partnerships with key external stakeholders?

- ✓ How effective are the SAI's links with parliament – what committee(s) does it work with? Do these committees hold regular public hearings on the SAI's reports? Are the committees operating effectively and supported with trained staff? Are transcripts of hearings promptly available to the public; and is there a clear functioning process for committee findings to be given to the government? How long does this process take and what evidence exists of government or executive branch responsiveness? What happens when parliament is dissolved? Is there a desire within parliament to exercise greater oversight? Where is this emanating from and why? Do parliamentarians and staff understand how to use the SAIs work to hold the government to account?

- ✓ In monarchical or presidential style administrations, where power may not fully reside in parliaments, what support exists for strengthening the SAI? Does the head of the SAI have easy access to the president and chief advisers? Do they have a clear understanding of the role of the SAI?

- ✓ What other public bodies are involved in inspection and/or audit? How does the SAI work with these bodies? Are there clear protocols defining the different roles of these bodies? Are there areas of unnecessary duplication and are these being addressed? Is there evidence of co-operation among these bodies?

- ✓ How well does the SAI work with the ministry of finance and line ministries – is it perceived as doing rigorous, hard hitting work which adds value? Is there evidence that the ministry of finance and other line ministries take the audit process seriously? Do ministry of finance staff have a clear understanding of the role of the SAI – do they see it as aiding their work or competing with them?

- ✓ What is the relationship between the SAI and internal audit in the ministries? Are their different roles clear? Where there are overlaps have they been identified and mechanisms put in place to avoid duplication? Has the SAI carried out an

assessment of internal audit and the extent to which it can rely on their conclusions? What is the SAI doing to support and strengthen internal audit?

✓ What relationships exist between the SAI and development partners? To what extent is this based on trust? Are there informal as well as formal contacts? Are development partners committed to increasing reliance on the SAI in exchange for reforms and improvements in capacity and delivery and does this manifest itself? In countries where development partner aid is a major part of the public budget, and without encroaching on the SAI's independence, are development partners informed on forward audit programmes and plans?

✓ Does the SAI have an external communications strategy aimed at keeping the public aware of major audit findings? – is there an up-to-date website? Does the SAI issue press releases, run press conferences or use other ways of informing the public?

✓ Does the SAI have strong links to key professional bodies and civil society organisations?

✓ Does the media report regularly and fairly on the work of the SAI?

✓ How well linked in is the SAI to the regional network of SAIs? What training and support does it access?

What is the political space for reform?

✓ Is the SAI leadership looking for change, in what areas, and what is holding it back? Do they think beyond the delivery of individual audit reports and focus on achieving beneficial change?

✓ What is happening in the public financial management landscape that will impact upon the SAI's ways of working – expansion of internal audit, creation of audit committees, introduction of computerised national finance systems, adoption of international accounting standards, move to accrual accounting, decentralisation of spending?

✓ What is happening in the judicial/anti-corruption arena – if the SAI needs legal support is the judiciary independent and effective? Is police corruption wide-spread? Does the SAI work closely with other accountability agencies in the country including anti-corruption bureaus and/or integrity bodies? In Francophone Africa are the roles of the general state inspectorates and courts of account clear? Is there a consensus on who needs what capacity strengthening assistance, and to do what?

✓ What groups are likely to support or frustrate change?

✓ What are the risks to the SAI of moving beyond the country's political economy comfort zone? – physical threats or violence directed against staff, forced re-location of key people to other jobs, use of legal blocking devices *e.g.* threats of being sued, non-release of key documents or reports?

What is being, or has been done to support the SAI?

✓ What support has the SAI had from development partners, other SAIs, regional organisations – what has been the evidence of impacts, what evaluations were carried out?, how have the results of such evaluations been used to change future programmes?, has management action been adequate?, and what further evaluations or assessment are planned?

✓ How are development partners co-ordinating their efforts – is there a strategic planning document in place - what development partners operate outside the partnership? Do development partners plan to or are they currently using SAI reports for their own reporting needs?

How to develop the knowledge

Most SAIs have been either assessed by development partners or another SAI or have been involved in some other form of national assessment. A lot of the information can be obtained from already existing sources – although one needs to be careful to check that information in these assessments is not out of date and whether what has been reported has been or can be independently validated. Some particularly useful information is likely to be found by checking the following sources:

- Public Expenditure and Financial Accountability Assessments[1];

- Country Financial Accountability Assessments (CFAAs)[2];

- IMF Reports on the Observance of Standards and Codes of Fiscal Transparency (ROSCs)[3];

- Country strategies of key development partners operating in a country;

- The INTOSAI Capacity Building Committee directory of past and ongoing projects[4] and information drawn from the relevant development partner or SAI for final project reports or external evaluations;

- Regional organisations of SAIs – may have SAI assessment or peer reviews which they would be willing to share (may need approval of relevant SAI) and their annual reports on activities can also provide insight into the development levels of their members; and

- INTOSAI: the development partner secretariat has extensive information from the recent stocktake on SAIs past projects and future needs[5].

This information needs then to be supplemented with meetings with the SAI and its senior management – they may have other more recent reviews, strategic plans and other documents to help better understand their work and the difficulties they face. It is important to build up a rapport with this team and to demonstrate that as outsiders development partners are not coming in with preconceived notions of what external support the SAI needs but are open to listening and to constructive dialogue. As well as gathering information to understand the SAI such meetings are also about forming an opinion about whether the SAI's leadership:

- is committed to improving the quality of public audit and their organisation;

- is capable of being objective about the position of their organisation;

- has a reasonably accurate appreciation of the gap between where they are and where they need to be to modernise their institution; and

- has the managerial and organisational capacity to drive through sustained change.

Where SAI staff have been sent overseas to participate in fellowships offered, for example, by the Office of the Auditor General of Canada or the Government

Accountability Office in the USA – or staff who are IDI certified training specialists - then it can be useful to interview these staff from time to time – to discuss what they have learned, see what they think should change in their own organisation and how development partners may be able to help. One challenge returnees can sometimes face is that their own organisations do not plan for their return, do not know how best to use their newly acquired skills and can lose them as a result. Judicious encouragement by the development partner may make the re-entry more effective.

An honest dialogue should also be carried out with key personnel in presidential or prime ministerial administrations, parliaments, ministries of finance, professional associations, other development partners, civil society organisations, regional or local government; media organisations, etc. If there are independent regional audit institutions, then a dialogue will need to be carried out with them. Such information exchanges should aim to:

- better understand the context in which the SAI is operating;

- obtain stakeholder impressions of the strengths and weaknesses of the SAI and how they would like the SAI to improve – particularly perceptions of the capacity and integrity of the leadership team; and

- understand emerging opportunities for the SAI to forge stronger partnerships and to increase its impact.

If development partners are not convinced the SAI's leadership team are committed then it may be unwise to commit to any major capacity development initiative until this can be demonstrated. It may also require further work to identify who, or which organisations, may be able to encourage the SAI leadership to commit to reform. If they lack the capacity or willingness to be objective then using external trusted experts to work with the SAI's leadership team through participative planning workshops may help. To develop an appreciation of the gap may warrant well chosen study tours not just to advanced SAIs but also to peer SAIs where sustained change has been achieved – to help the SAI leadership develop a clearer vision but also to see the possibilities of change. And if managerial or organisational skills seem weak, project management training should be part of the programme of support, clear and short-term milestones should be embedded in project design and external expertise could be used to monitor progress and provide coaching as needed.

Where development partners and the SAI consider that an independent assessment needs to be undertaken then ways should be sought to develop one assessment which meets the needs of all interested partners. Reviews of this kind are expensive, particularly, when calling on senior SAI management time, and care needs to be taken in getting the review right, in gathering only what is needed, and in utilising pre-existing material where-ever possible.

Formulating a strategy: an iterative process

Ideally, an SAI ought to be able to conduct its own internal review, develop its own corporate plan and present development partners with a cogent and costed analysis of its needs for any external support. The reality is often different. There is invariably an asymmetry of knowledge and information with SAIs tending to want what they know and not seek what they do not know. Many SAIs have inherited and maintained overly compliance-focused and/or inspectorial systems that are very different from the modern

risk-based audit systems now being adopted by leading SAIs. In addition, all too often such SAIs are operating in environments where the role of external audit bodies sits uncomfortably within a country/political economy context where criticism is seen as politically or ethnically disloyal or where exposure of financial waste or corruption is seen as challenging powerful individuals or elites. In such a context it is a brave SAI which feels secure enough and empowered to push for extensive powers and to rush to release hard-hitting audit findings.

In such situations, development partners need to acquire and validate information on the SAI and its environment, and use this to formulate their own strategy of what they can do to help – mindful of requests from the SAI but not afraid to challenge such requests.

Box 2.1. Example: Key areas examined by the Inter-American Development Bank before deciding to support an SAI

Political and institutional stability and independence; the strategic vision of the institution; its annual operating plans; quality control processes; its monitoring capabilities; any indication of evaluation of results (quality of work); its capacity to co-ordinate with other government agencies within the country, particularly with the executive, legislative, and judicial branches; our prior experience with the SAI; and the tenure and reputation of the Auditor General.

(Inter-American Development Bank electronic survey response).

In developing a strategy for supporting an SAI, a development partner should ask the following fundamental questions:

✓ Does the SAI need assistance – is it managing sufficiently well without external development assistance – does it have the resources to commission its own assistance without calling on development partner funds?

✓ Does that assistance need to be targeted at the SAI or other key organisations or both in parallel? For example, if one of the key issues is putting the audit reports in the public domain it may be that the focus of support needs to be targeted at the government, parliament, media or others. If the weaknesses lie in internal control in the line ministries it may be that the main efforts need to be targeted at them.

✓ If assistance were to be provided is there a reasonable prospect of success? What has been achieved with prior inputs? If substantive change has not occurred or there is no evidence that systems or changes introduced in the past have been maintained, what suggests that this time round things might be different? If an auditor general is nearing the end of his/her term might it be best to wait until a new leader is in post?

✓ Which development partner is best placed to provide assistance – is the field already too crowded and will involvement just add to the opportunity cost for the SAI and slow down the SAI's development? Which organisations have the expertise to engage with the SAI? Do development partners have to be involved as a result of their own national political priorities – in which case can they work with or through others to at least make sure the support is harmonised and co-ordinated?

The answers to these questions are not likely to be yes or no but they will help development partners flesh out a deeper understanding of the SAI and its context and the kind of strategies which might bring about lasting change.

Depending on the answers to these questions, this should make it easier to consider whether the focus should be on:

- enhancing the skills, knowledge, norms and processes of the SAI – possibly involving a third party organisation to help and/or provide funds to purchase plant and equipment;

- influencing key stakeholders outside the SAI – including members of parliament, senior public administration figures or others to support beneficial change in the SAI;

- commissioning the SAI to carry out audits of development partner projects;

- supporting the development of capacities for oversight and engagement with the work of SAIs among parliaments, civil society organisations, the media and other key stakeholders; or

- a combination of the above.

A key first step in providing support to an SAI is ensuring that the organisation has a robust strategic plan and/or institutional development plan. Such a plan helps show where the organisation is heading and helps to identify how external support can contribute to this process. Where a plan is not in place then a major focus of initial development partner assistance should be on supporting the production of such a plan. At times small ad hoc inputs may be useful in helping encourage an SAI to start thinking strategically or to start building a degree of trust with outside organisations able to help build capacity. However any substantial assistance must be based on and respond to a soundly structured planning process.

To help produce strategic plans and/or institutional development plans, INTOSAI has created two main platforms:

- the INTOSAI Capacity Building Committee has produced a series of guides. The first, *A Guide on Building Capacity In SAIs* – describes key issues which SAIs ought to consider when developing plans – in particular the need to build the technical skills of staff, to build modern support services in areas such as human resources and IT; and to focus on ensuring the SAIs' work has impact by forging strong links with parliaments, auditees, the media, civil society organisations and other partners. The aim is to complement the guides with a rolling programme of regional workshops so that SAIs have a chance to reflect on what the guides mean for their own institution and, therefore, what should they be seeking from development partners and others; and

- IDI has developed and conducted capacity development programmes for SAIs on how to carry out needs assessments and develop strategic plans in conjunction with the INTOSAI regions. *A Guide on Capacity Building Needs Assessment for SAIs* and a *Handbook on Strategic Planning* have also been developed and are available from IDI. These provide step by step practical guidance on developing institutional needs assessments and strategic plans.

There is no widely available internationally accepted tool for assessing SAIs. Some SAIs or regional organisations of SAIs have developed their own tools – but many of these are based on self-reporting and have not been tested for reliability and their capacity to measure change over time. Some of the tools commonly used include:

- AFROSAI-E *Institutional Capacity Building Framework Guideline*[6];

- INTOSAI *Peer Review Guide and Checklist*[7];

- NAO Maturity model[8]; and

- DFID's *How to Note 2: Working with SAI*s – especially Technical Annex 1: Key Areas and Excellence Factors for Evaluating the Effectiveness of an SAI.

Also many SAI strategic plans are on the websites of the relevant SAI[9].

In some cases an SAI will have the confidence and capacity to develop its corporate or strategic development plan, cost that plan, identify milestones, and establish measurable outputs and outcomes to assess progress in implementing that plan. However, in others the SAI will require external help. In general SAIs find it helpful to have access to critical but constructive debates during this planning process. This can be particularly useful in helping an SAI develop a realistic assessment of its staffing and other resource needs. While there are no agreed benchmarks across INTOSAI which indicate, for example, the numbers of staff needed to carry out audits or the numbers of human resource or IT specialists which should be employed, comparisons with other peers can be helpful in setting realistic staffing levels capable of withstanding challenges from external sources. Development partners might support the SAI's planning and needs assessment process by:

- **Providing technical assistance to support the SAI in the development of its plan** – preferably from a team with a proven record in helping develop strategic plans with SAIs and current knowledge of developments in SAIs. Prior to doing this it is important to check with the INTOSAI regional organisation whether any related activities are underway. If there is nothing applicable, time will need to be allowed for:

✓ the formation and training of a team within the SAI;

✓ a proper assessments of the SAIs current capability and the creation of agreed baselines to facilitate future monitoring;

✓ consultation with key internal and external stakeholders;

✓ workshops with key staff to develop the plan and ensure ownership;

✓ an iterative process of producing, costing, reviewing and revising the plans – making it clear what the SAI can do with its own resources and where external assistance may be needed;

✓ further consultation with key external stakeholders – including development partners, civil society, and parliamentarians - on the main features of the plan; and

✓ a formal launch of the plan and sign off by the head of the SAI and/or the board of audit.

> **Box 2.2. Example: The Inter-American Development Bank calls for further access to independent and timely assessments and plans**
>
> We need more independent (not only self-assessments), in-depth assessments, performed on a regular basis. Assessments need to be more focused on the qualitative aspects of the different types of activities (i.e. audits) and done with sufficient time to provide us with adequate, reliable, results to be used for making decisions such as lending or eligibility of the SAI to audit projects which we financed
>
> (Inter-American Development Bank electronic survey response).

- **Providing resources to the SAI to invite external SAI experts to run introductory workshops on key aspects of SAI development** so that the SAI itself can use this information to write its own plan – workshops might be on issues such as building quality into audit, professionalisation of SAI staff, creating a modern human resource management system, or developing IT in an SAI. This approach has been used by the SAI of Vietnam and links to the series of guides produced by the INTOSAI Capacity Building Committee;

- **Supporting strategically targeted study tours** to other SAI peers to help an SAI's senior management begin to expand their vision of what is possible. Clearly such study tours need to be targeted at those who will lead the development and implementation of any plans but they can benefit also from the inclusion of representatives from the ministry of finance and from relevant parliamentarians – so that as the SAI starts developing or strengthening its strategic plan, key stakeholders appreciate the underlying rationale;

- **Critically reviewing the plan**. Some of the areas which should be watched and challenged include the following:

✓ **Absorption capacity –** how much can the SAI realistically manage at any one time? It is important to consolidate changes in modest steps rather than constantly moving on to new goals before current ones are fully met.

✓ **Wanting to run before the SAI can walk** – an SAI's core job is to carry out financial/regulatory audits. Does the plan advocate moving into newer audit areas – environmental or forensic audit - before making sure the core work is undertaken properly?

✓ **Professionalisation of audit staff** – while it is important that SAIs increase the professional skills of their audit staff, how are they planning to do this? Are they seeking funds to send staff for expensive overseas or even national training with the risk that they will lose those staff as soon as they are qualified? Or do they have a more clearly articulated strategy including ensuring the appropriate remuneration is in place for instance; they know how to use the new skills once staff have acquired them; and they are putting in place nationally affordable systems for developing an on-going supply of professionally qualified staff. Given that auditors are professionals and are increasingly obtaining internationally recognised qualifications unless governments address this issue they will continue to risk losing skilled staff to the private sector (see *INTOSAI Introducing Professional Qualifications for Audit Staff*).

✓ **Requests for additional staff or budgets to employ private sector audit staff** – is the SAI certain the existing staff are fully used – are audits being carried out

efficiently? If the law mandates that all audits, no matter how small, are completed every year, have they considered changing the law? Does the SAI have the capacity or systems to employ local private sector auditors including the skills to review their plans, quality assure their work and to rotate them regularly to reduce the risk of collusion? In dealing with resourcing issues of this nature, development partners may need to seek expert input from an SAI or specialised private sector firm with solid roots in external public sector auditing.

✓ **Requests for vehicles and computers** – are existing vehicles effectively used – are they based where the audits are conducted or are they allocated to individual staff, often according to hierarchy? Can public transport be used more easily in some areas? Can the SAI manage the computers? are networks in place? and are auditees computerised? Is there a maintenance and replacement programme for vehicles and equipment or some form of sliding scale agreement with the government progressively taking over maintenance and replacement funding where these costs are initially met by development partners?

✓ **Training versus coaching** – some SAIs have had large volumes of training. Is more training needed or is it on-the-job mentoring or coaching that is needed? How can the costs of training be minimised – *e.g.* less use of expensive hotels or agreement on what constitutes reasonable out-of-pocket expenses to attend training?

✓ **Buildings** – some development partners are not prepared to fund the construction of office facilities. However, others have recognised that housing an SAI in purpose built facilities, which mean that audit staff do not need to be based in an auditee's premises, can do much to improve the efficiency and image of an SAI and assist with motivating and retaining staff. However, the process of designing and procuring such buildings needs to be expertly managed – size needs to reflect longer term plans for the SAI, open-plan or flexible partitioning can expand the lifetime of the building and facilitate changes in working styles, and IT needs have to be clearly and comprehensively identified early on. At the same time, the SAI's plans and staffing models need to recognise the recurrent resource needs associated with managing its own facilities including security staff, maintenance staff and budgets, and insurance issues.

Development partner co-ordination

Increasingly, development partners are seeking to co-ordinate their support to SAIs and to give such co-operation global momentum. INTOSAI and the development partner community signed a co-operation agreement in 2009 in order to foster greater co-ordination. At a country level this co-operation will usually be through the formation of some form of accountability committee – often a sub-committee of a group set up to co-ordinate development partner support for public financial management reform. These committees typically meet formally at least once a quarter and tend to be chaired on a rotating basis or by the development partner contributing the largest funds to the SAI. In some cases, the development partners will pool resources or create a multi-development partner trust fund – where resources can be pooled. In other cases some development partners will, for their own institutional reasons, have to make direct payments – but at least the work they support can and should then be co-ordinated with those who are pooling funds.

Box 2.3. Country level co-ordination needs to be well structured: Examples from Bangladesh, Indonesia, Mozambique, and Ghana

In Bangladesh, development partner support is co-ordinated at the country level. There is a high level consultation group supported by 12 separate Local Consultation Groups (LCGs) by subject matter, for example, environment and climate change, governance, health, etc. The LCGs are co-chaired by a representative of the development partners and a representative of the government. Support to the Office of the Comptroller and Auditor General is provided by the Public Financial Management Sub-Group of the Governance LCG (Bangladesh development partner response).

In Indonesia, there is a unified programme approach, involving several development partner organisations, aimed at delivering a successful public financial management reform agenda. There is strong local ownership- with the government determining the agenda and leading the process. There is an awareness that there is strong buy-in for the reform and that Indonesia will operationalise it (Indonesian development partners and SAI in-country interview responses).

In Mozambique, development partner co-operation operates through the audit group led by the Dutch government and the Tribunal Administrativo receives basket funding from Germany, Sweden, Finland and the Netherlands. These funds have been used to place an international technical adviser in the organisation, and foster regional and international links between the TA and other SAIs. The work has seen a major increase in the number of audits being produced and over 500 officials have been called to account for corrupt practices (GTZ electronic survey response).

In Ghana, in 2010, following support from the OECD-DAC hosted Working Party on Aid Effectiveness, an audit working group was formed, under the Public Financial Management Sector Working Group, to serve as the co-ordinating body to advance agreed upon objectives in the area of auditing. The audit sub-sector group provides a forum for dialogue by bringing together the Ghana Audit Service and development partner representatives engaged in the audit sector. The Ghana Audit Service chairs the working group while USAID was elected the first co-chair. The objective of the group is to identify specific initiatives that could result in greater sharing of assessments and methodologies, a responsible increased use of and reliance on the Ghana Audit Service by development partners, and a more harmonised approach to audits of development partner-funded programmes in Ghana. Implementation of these initiatives is expected to yield benefits to the Government of Ghana, development partners, and Ghana's private sector audit firms

(USAID written submission).

The host country government should participate and lead all or part of the meetings. The SAI will need to participate in the meetings directly affecting its own work and mandate.

In contexts where one or more SAIs are directly funding support to another SAI or considering funding support to that SAI, those SAIs should make sure that their efforts and inputs are co-ordinated with the other development partners and integrated with the SAI's plans.

Box 2.4. Partnerships require commitment by both sides: An example from SIDA and NORAD

The Swedish National Audit Office's long-term partnership projects are based on the assumption that there must be a mutual commitment from the developing SAI as well as the Swedish NAO. An absolute precondition for a successful project is that both parties manage to share common perspectives and common perceptions when it comes to points of departure and goals for the project. It is absolutely essential that both parties are well aware of the SAI's existing strengths and weaknesses, and the challenges it faces, so that realistic project goals can be set.

(Swedish National Audit Office electronic survey response).

A project document developed to support the goals and objectives in the Strategic Plan should also describe the procurement, monitoring mechanism and evaluation process. It is possible to have several development partners supporting different activities in one project document. With the SAI of Malawi and the SAI of Zambia, the three/four parties have agreed on the same project document

(Norwegian Audit Office electronic survey response).

From an SAI's perspective, development partner co-ordination:

✓ makes negotiations over who funds/supports what easier;

✓ helps an SAI access a bigger pool of funding; and

✓ reduces the number of discussions an SAI's senior management needs to have with the development community.

From the development partner's perspective co-ordination:

✓ provides an opportunity to pool intelligence and reduce the risk of duplication;

✓ enables development partners to ensure that what they are supporting fits within a broader programme of change; and

✓ increases the pool of expertise accessible to review an SAI's requests.

At the same time some beneficiary SAIs appear reluctant to share information on what supports they are receiving – fearing that some development partners may withdraw if they know others are involved, uncertain which development partners will deliver on promises and believing that this gives them greater power and autonomy. Also, SAIs sometimes want inputs from different countries so they can hear about the different approaches and see which best fits their own situation. While this is very sensible at the design phase, it should be done openly and as a specific objective, rather than by taking forward parallel development projects with a number of different development partners.

Similarly, some development partners appear to be only interested in bilateral discussions with the SAI and demonstrate a reluctance to share information with other development partners – perceiving negotiations as time consuming or concern over their proposals being critically reviewed by peers.

This reluctance to be open and the lack of trust is corrosive and it is important that all parties seek from the start of negotiations to make sure all key stakeholders know what is going on. There is a huge amount of work needed to build capacity in SAIs and to more generally strengthen accountability and transparency in developing countries. By pooling

ideas and seeking to co-ordinate efforts there is a greater chance that these monies will be used wisely.

Box 2.5. Characteristics of effective co-operation: An example from Tanzania

Development partners, the Ministry of Finance and the Tanzanian National Audit Office consider that the co-ordination of support to the SAI is working well. Key features include:

- a reforming leadership of the SAI;

- the key role played by one major development partner who has been involved for a long period of time;

- regular formal and informal (at least monthly) meetings); and

- the importance that development partners attach to achieving broad congruence of aims.

(Tanzanian SAI and development partner in-country interview responses).

Development partner co-ordination is not easy or always quick. Effective committees work because members of those committees engage in building trust. This rarely happens automatically. Time needs to be spent clarifying how partners want, and need, to work together, how they can put in place common systems which lighten the bureaucratic burden on SAIs; and how to make decisions and manage conflicts.

Box 2.6. Co-ordination is helped if partners can agree common project frameworks

One development partner has found it helpful to work with a common set of project tools and logic models so that all parties can agree what they are trying to achieve, how the elements fit together and how targets and outcomes can be measured.

(CIDA electronic survey response).

Meetings need to be managed professionally and openly. Records need to be kept of meetings and attention placed on ensuring regular prompt sharing of agendas, minutes and other reports with all members of the committee and/or other key stakeholders. Communications and public relations activities need to recognise the collective inputs and the host SAI's leadership/ownership. And time needs to be set aside to examine progress with reforms – setting these in the broader context of host country political, economic and social developments – and to examine how the committee's effectiveness can be improved.

Monitoring frameworks need to be agreed and criteria for success clearly identified with agreed strategies for dealing with failure to meet targets. This is not easy even for projects supported by single agencies – for projects supported by multiple agencies and for multiple projects run by single agencies co-ordination is even more difficult. In addition, and as highlighted by the OECD-DAC Task Force on Public Financial Management, there is further scope to collaborate on the significant number of fiduciary reviews and monitoring exercises (including agreeing on arrangements for sharing findings, data gathering and co-ordinating monitoring missions) to reduce the transaction costs on SAI staff (OECD, forthcoming[c]).

> **Box 2.7. Project identification and formulation is not quick but this should not be an excuse for losing momentum**
>
> Project identification and formulation is a lengthy process taking 18 months or more. To do it well involves lengthy consultations and robust assessments of options. Beneficiaries can become frustrated. It is important that they are involved in all stages – but gradually long-term planning is starting to be accepted.
>
> (A development partner based in Indonesia, in-country interview response).
>
> The project design, procurement and award process should be accelerated. It is not unusual for there to be a two- or three-year gap between initial consultation with the beneficiary institution, and mobilisation of the consultancy team. With gaps of this magnitude beneficiary personnel may well have changed, enthusiasm for the project will have waned, and the project terms of reference may no longer be relevant.
>
> (Private sector electronic survey response).

Direct engagement with the SAI

Many development partners provide support to the SAI as part of basket funding provided to a beneficiary government or more specifically its ministry of finance. In the context where the government and/or ministry of finance are fully supportive of reforms to an SAI and achieving genuine transparency and accountability this may be acceptable. However, as an SAI is responsible for auditing the government, including the ministry of finance, development partners should seek to implement best international auditing practices and find a way of funding the SAI directly. Doing so conforms with the INTOSAI 2007 Mexico Declaration which stresses the importance of SAI independence and makes specific reference to financial independence. If there are legal or other impediments which make this impractical in the immediate term then development partners need to clearly signpost what funding should be received by the SAI and the governance arrangements for doing so. If the SAI is not truly independent then the development partners should raise this issue with governments and parliaments.

At the same time, it is important that there is congruence between developments in the SAI and in the wider public finance arena. To achieve this development partners should consult with other key stakeholders in parliament, government (especially ministries of finance), and civil society (especially relevant professional organisations or non-government organisations with an interest in budget oversight or financial transparency issues). Project advisory panels or steering committees can be helpful as can consulting these stakeholders during project design phases.

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Notes

1. See *www.pefa.org* - particularly questions 26-28

2. See *www1.worldbank.org/publicsector/pe/CFAAGuidelines*

3. See *www.imf.org/external/np/rosc/rosc*

4. See *www.cbcdirectory.org*

5. See *www.idi.no*

6. See *www.afrosai-e.org.za*

7. See *www.cbc.courdescomptes.ma*

8. Available via *international@nao.org.uk*

9. See *www.INTOSAI.org*

Chapter 3: Delivering strong projects

Introduction

What makes for good capacity development projects in support of an SAI is not in many ways different from good capacity development practices targeting other types of institutions. This section will, however, tease out some of the issues which are particularly relevant to SAIs. It will assume that the SAI and development partners will work together on designing such projects – drawing up a logical framework, specifying terms of reference for externally sourced inputs etc. However, as many development partners lack field staff with current expertise on SAIs, it can prove helpful to employ experts to work with both the SAI and development partners to help design robust capacity development projects.

It may be possible to use the same organisation or experts who worked with the SAI to develop the strategic plan, if they, or their organisation, have the relevant expertise. They could be used to support the SAI through the procurement process – including to assist in drawing up expressions of interest, tender documents and bid evaluation criteria, as well as assessing respondents and helping during the contract negotiation phase. The same team could also be used by the SAI to carry out the external monitoring of the project and to provide independent feedback to all parties on progress.

The development of the strategy will have helped establish a broad agreement on what needs to be done to help strengthen the SAI, and helped identify where external assistance could prove helpful. In turning this into specific capacity development projects, there is a need to consider:

- the scale and timing of projects;

- delivery approach;

- management and contracting arrangements;

- managing risks; and

- supportive monitoring.

The scale and timing of the project

In terms of scale and timing, some of the key issues are:

How long should the project be? Too long and the pressure to achieve change is reduced – too short and sustainable change is unlikely. There is a tendency to underestimate the length of time needed for SAIs to develop the capability and confidence to deliver organisation-wide improvements in performance and produce consistent and quality audits. In general, capacity development is a long-term process as change requires time. What is most important is that capacity development projects should be flexible: capacity development is an endogenous process, and development

partners cannot always determine the needs. During the European Union enlargement process many SAIs were provided with funding for two-year projects – some of these projects worked well but many had to receive further tranches of two-year funding for the SAIs to reach the requisite level. And some of these also received further injections of funding to support the strengthening of specific audit areas. In developing countries with more major skill and resource gaps projects have run for up to ten years. For major broad-based capacity development projects, experience in Ghana, Tanzania, Zambia and elsewhere suggests it is best to think in terms of projects lasting for an initial three years, with a potential extension for another two years or so. Even then, in some cases, it has been necessary to run second full-project cycles, although at this stage if the reforms have become institutionalised, the intensity of support can be reduced.

Box 3.1. Timetables need to be realistic: An example from Indonesia

The more successful development partnerships will communicate realistically with beneficiaries about the time that it takes to establish a programme and deliver results. At the same time, they will have recognised the need to secure 'quick wins' in order to give momentum to the programme. In one example, following a major constitutional change the SAI increased from seven regional offices to 33 and staff numbers increased from 2 500 to 5 600. This rapid growth has occurred since 2006 – change in such complex environments cannot be immediate.

(Indonesian SAI in-country interview response).

Are external experts needed? Many SAIs know what they need and have the management capacity to run their own institutional development projects. For these SAIs they may look to the development partners for the resources to help them procure their own training and advice – perhaps within country, perhaps within the region. Similarly they may be looking for help in procuring IT systems or other equipment and not need external expert input.

Should full-time resident advisers or short-term experts be used? Basing international expatriate staff full-time in another country for several years is very expensive and risks fostering a dependency relationship. What scope exists to recruit national experts: those with private sector experience or who have themselves worked in related fields overseas?. However, for large-scale projects, with SAIs in need of major external advice/inputs, the recruitment of external international expertise is often the only realistic option. If the SAI has the skills to maintain the momentum for reform and change between expert visits then the peripatetic expert option may work – if they cannot maintain this momentum then full-time staff are a more practical option. To reduce the risk of becoming dependent on the international expert, it is important that it is clear to all participants that their role is to advise not to implement. This focus should permeate the project and feature in regular reports to the project advisory committee and the development partner co-ordinating committee. The external adviser's accountability to the beneficiary institution can also be emphasised if the project contract is with the SAI and the reporting chains are through senior managers in the beneficiary institution. As the SAI grows in confidence then there may be scope to carry out a phased withdrawal of the international expert

When should projects start? Inputs should be timed carefully so that they fit the SAI's audit cycle and so that training and other supports are ready at the time the SAI plans to use these skills.

> **Box 3.2. Project support needs to be integrated with the SAI's annual audit cycle**
>
> Training in financial audit, IT audit or performance audit needs to be integrated with planning, implementation and reporting according to the SAI's annual work plan. That means that the support and training should be fully integrated in the SAIs normal management structure (even if this structure of course can be changed), be linked to support to management supervision and review and – ideally – support to the public accounts committee to receive and deal with submitted reports and all this needs the full ownership of the SAI and its senior management.
>
> (Private sector electronic survey response).

How should projects be phased? Sequencing needs to be thought through so that skills, systems and resources are available at the right time.

o   Audit manuals and guidance materials need to be produced and piloted with a small cohort of trained staff and revised after their use – before training is rolled out across entire organisations.

o   As the initial cohort of staff develop confidence in their use of new techniques, they can form the basis of a quality assurance and advisory unit as others start to learn and apply the skills.

o   Managers who may not have to apply the new skills need to understand what their staff are learning and how best to support them –so that they do not feel cut off from the change process and disempowered.

o   If legal changes are needed, the urge to provide staff with new skills needs to be tempered with the need to ensure that they are not training in skills they cannot use.

o   If the SAI is seeking to ensure that staff, or a proportion of staff, have professional accounting, auditing or legal skills, then this requires a long-term investment. It may be necessary to strengthen national professional associations and/or universities and develop a response which encompasses other public sector bodies, for instance ministries of finance, who are employing people with similar sets of skills. Any attempt to professionalise staff cannot be separated from attempts to ensure that the SAI's reward structures facilitate retention of professionally qualified staff and do not serve to promote an exit to the private sector of the majority of newly qualified staff.

> **Box 3.3. Acquiring professional auditing skills cannot be done cheaply or quickly**
>
> A critical issue facing SAIs is that few staff hold recognised professional accounting or audit qualifications. Despite this, according to local requirements, they are often being required to work in accordance with complex international standards. This of course is not possible without significant structured professional training. Additionally, budgets are often not available for required levels of training or for the payment of salaries required to attract or retain appropriately qualified persons.
>
> (Asian Development Bank electronic survey response).

How to maintain support in the short term? While building capacity takes time, quick wins are likely to maintain support of both SAI staff and key external stakeholders. Some options include:

- helping audit teams in the SAI carry out audits under the supervision of an external expert in areas of interest to key stake-holders, for example:
  - o audits of the speed and efficiency with which ports handle imports and exports or audits of procurement systems may appeal to leading business figures;
  - o audits of how well internal audit is starting to function may appeal to ministries of finance;
  - o audits of key poverty alleviation programmes in education or health programmes may appeal to development partners – and their national governments; and
  - o audits of how oil and gas contracts are being negotiated and how the resulting state revenues are being managed may appeal to parliaments and the media.
- Improving the way the SAI communicates with the media, for example:
  - o helping the SAI develop a communications policy and strategy;
  - o providing senior managers with training in presenting to the media;
  - o improving the quality of press releases; and
  - o making sure the website is presentable and kept up to date.
- Improving the way audit reports are presented and recommendations written, for example:
  - o laying out reports more clearly – providing summaries highlighting key cross government issues;
  - o reducing the length of reports, agreeing a standard proforma, and relegating to appendices the less central findings of audits; and
  - o making more use of graphics to bring out key messages.
- Improving support for parliament, for example:
  - o appointing a designated parliamentary liaison officer; and
  - o standardising and shortening briefs on key audit findings.

Box 3.4. Speaking the right language: an example from Bangladesh

A prior project had produced audit checklists but these had never been translated into the national language. We updated the checklists, translated them, and trained people how to use them.

A World Bank project produced a good ethics policy but this is only available in English. We are translating the ethics policy and will use it as part of the ethics course.

(Private sector in-country interview response Bangladesh)

Delivery approach

In terms of delivery approach, for major capacity development projects, some of the key issues include:

- ✓ **How to keep audit staff and administrative support staff moving forward at a consistent speed?** To deploy audit staff effectively, the SAI needs to develop and professionalise its support systems including, human resource management;

information technology, financial and business management, and knowledge management.

✓ **What language to use?** While many SAIs will have staff fluent in several languages, the language of the capacity development project should as much as possible be the partner county's language. Key documents, meetings, training events should be translated and a body of work left behind which can be accessible to all the SAI's staff – not just those fluent in French or English.

✓ **How should participants for training be selected?** Who gets trained is vital for the long-term credibility and success of capacity development projects. It is usually effective if the process of selection of trainees is transparent and that both the SAI and those providing the training are involved. It is also important that, at least initially, those being trained have the power, status, and influence to drive through organisational change.

✓ **What training approach is best to use?** Trainees bring their own experience and knowledge to training events and workshops. Development partners need to ensure that they capitalise on this. In particular by ensuring that training and other events use a variety of learning modes and encourage participants to reflect on international experiences but challenge and adapt them to their own circumstances. In some cases, staff will be familiar with only very didactic forms of training – but with sensitivity – most can be persuaded to use more participative approaches and will see the benefits.

✓ **Would it be more cost-effective to deliver some of the training regionally?** For small countries – especially the island nations of the Caribbean or Pacific – training at the national level may not be the most efficient or economic. Running projects with a mix of regional training backed up with specific short country level interventions has proved helpful. More generally, the development of specific skills for small numbers of staff may be more appropriately done at regional or sub-regional levels.

✓ **How to ensure new skills are applied?** Providing training in isolation is not likely to lead to sustainable improvements. Training needs to be embedded with supervised options to apply newly learned knowledge and skills – staff rarely feel confident that they can apply new skills without on-the-job coaching and access to trouble-shooting advice when they encounter problems. Managers need to understand the skills staff have acquired and how to use these skills – failing to involve line managers results at best in a failure to properly use staff audit skills properly – at worst such staff will sabotage the reform process perceiving it as a threat to their power and seniority.

Box 3.5. Care needs to be taken not to overwhelm an SAI

Interventions and support projects that go beyond the capacity of the SAI have not worked well, because the SAI becomes overwhelmed. Similarly it is important for an SAI to not take on too much, too quick.

(Private sector electronic survey response).

Management and contracting

In terms of management and contracting, some of the key issues include:

✓ **Who does the SAI want as its key partners?** Good practice suggests that there needs to be a process of selecting partners for all major projects which reflects the wishes of the SAI but is also consistent with good procurement practices. SAIs also need to be encouraged to think in terms of the full range of providing organisations – possibly looking at the scope for mixing provider types when large multi-year projects are being envisaged. Such a mixture might include the local private sector, regional bodies, other SAIs, and/or international private sector bodies. If the SAI wants a partnership with an SAI as the lead, there may be scope to use an EU-twinning approach with more than one SAI offering its services. Twinning is a vehicle which enables public sector bodies in the European Union to partner public sector bodies outside the EU. The EU provides funds and creates a framework through which countries can choose with which member state public bodies they wish to partner. This has proved effective in encouraging SAIs who would not normally be able to bid for international work to offer their services while at the same time creating a competitive tension and allowing the beneficiary SAI to exercise choice. A key requirement of any lead providing organisation is its demonstrable ability to expose beneficiaries to a variety of models which can be adapted and not slavishly copied.

Box 3.6. Getting the right partner

Past concerns have related to finding the right consultancy – one with enough staff and with the right competencies. We feel at times there is nothing we can do – we get stuck with the problem. (Indonesia SAI in-country interview response).

Make sure that the consultancies they use to deliver the aid employ contractors that have contemporary knowledge rather than those who travel the world from assignment to assignment without keeping up to date. Also make sure that they come from countries that have strong audit offices so that good lessons are passed on.

(Pacific Organisation of SAIs electronic survey response).

✓ **How to maintain flexibility?** At the design stage, the focus should be on outcomes and/or impacts so that potential project partners have scope to be creative in what they propose and can be flexible during the delivery phase in responding to unanticipated events or in changing directions if something is not working.

✓ **How will the project link to key external stakeholders?** How is it proposed that parliament, the government, the ministry of finance and others will be involved?

Box 3.7. External stakeholders also need to feel ownership

The development partners know that good design and implementation help, but the key has been, and is, the leadership and willingness of the beneficiaries. The government and the parliament have driven the state audit reform process during the period 2005-10. A spokesperson for the SAI spoke positively about the development partner/ parliamentary relationship in that the audit approach with respect to external and internal audit has been clarified and there is positive political support and recognition of the value of the audit work.

(Indonesian development partners and SAI in-country interview responses).

✓ **How to maintain local ownership?** It is vital that the beneficiary SAI and other key stakeholders own the project and proposed changes. They should be in the lead at every opportunity – including having substantive inputs to and signing off on all major documents and fronting all major events relating to the project. Consistent with the Paris and Accra principles as well as the commitments made in the Busan Partnership for Effective Development Co-operation, inputs and expertise should be selected and procured by the host SAI where this is appropriate and feasible, using to the extent possible its own procedures for contracting. Where the SAI does not have prior experience of the scale of procurement needed, or its own systems may need strengthening, then development partner assistance in this field can be helpful;

✓ **Where development partners procure inputs, are their current contracting rules cost effective?** Development partner rules need to be kept under review to ensure they do not encourage inefficient practices. Some development partners will only pay the costs of work undertaken in a partner country – even if this means experts flying into a country and only to stay in a hotel to draft an audit manual. Others may limit eligibility to firms from a restricted set of countries, reducing value for money. With modern communications, and environmental concerns – the use of video conferences, teleconferences, e-learning and emails can be much more cost effective ways of delivering some parts of projects and these facilities are becoming increasingly available in developing countries.

✓ **Are governance arrangements clear?** If consultants are employed to provide advice to the SAI it needs to be clear to whom they are accountable to and from whom they can take instructions. To build up trust they need to demonstrate impartiality and loyalty to the SAI – at the same time the ground rules need to be clear about when they can deal directly with the development partner as funding body and on what issues. Equally, requests or instructions from the development partner to the consultants ought to go through the SAI to ensure that they are administratively and managerially responsible for the project.

✓ **How to ensure that tenders are properly and quickly managed?** Months, even years, can be lost if bids are not properly managed and teams bidding for projects will have lost staff in that process. SAIs and their development partners need to manage this process as assiduously as other parts of the project process. Many SAIs have limited expertise in this process and will either need direct support from the development partner at every step in the process or will need help from an experienced project manager familiar with the relevant tendering and the host country and development partner contracting procedures.

Box 3.8. Involving the SAI in the contracting process

By and large, the implementing entity (normally the SAI in SAI-related projects) is fully responsible for the process of preparing requests for proposals, short-listing, evaluating proposals, selection of providers, contracting, and contract monitoring. We provide advice on (and, when necessary, object to) the design and release of tenders.

(World Bank electronic survey response).

> **Box 3.9 Making sure that timelines are realistic and then following through**
>
> One development partner launched a tender process, went through the expressions of interest, short list and call for bids stage. Then bidders heard nothing for 18 months. Out of the blue a request was made to the successful applicant - can the project start in a month? The bidding provider worked rapidly to resurrect the bid, re-programmed staff and budgets only to receive another email a week later cancelling the project.
>
> (Providing organisation written response).

Managing risks

In designing projects with SAIs, partners should consider the risks they will need to manage and which controls will need to be in place to lessen the chances that these risks will eventuate. Some of the key risk areas are likely to include:

Political risks:

- National elections are often unstable times for SAIs with business frozen, decision-making processes held in abeyance and potential changes in senior personnel in the SAI and more particularly in key parliamentary committees. In this context it be best to start a project immediately after an election;

- The loss of political engagement as an SAI starts to produce hard-hitting audit reports. To manage the SAI and project partners need to help government and key stakeholders prepare in advance how to handle adverse audit findings. Development partners can praise governments when they respond positively to criticism. In discussion with SAI senior management, they can also encourage the SAI to work in ways which build consensus rather than ferment discord;

> **Box 3.10. Support cannot be guaranteed and needs to be consistently worked at**
>
> A key risk is related to the need for consistent, sustained, enthusiastic moral support within and outside the SAI for reform at the SAI and for the role of the SAI as an independent, professional oversight institution. The challenges are to work to maintain support, to survive variations in support and occasionally to realise that there is a fundamental lack of such support.
>
> (SIDA electronic survey response)

Organisational risks

- The change of head of the SAI can signal a shift in the orientation of the SAI. When this happens, partners need to quickly initiate contact with the new head to ensure continued support for any change programme and/or that periods between appointments do not results in inactivity.

- If senior management are unwilling or unable to guide the change process, there may be a need for special training in change management for the project team and senior management and agreement on ways to ensure senior managers are regularly briefed and involved in the change process.

- Project partners need to guard against a "cargo cult" mentality whereby some SAIs look to development partners to fund extensive and expensive lists of equipment and staffing. All such requests need to be rigorously reviewed and excessive requests turned down.

> **Box 3.11. Development partners need to be very clear about what are legitimate project costs**
>
> The public service personnel manual for one country makes it quite explicit that one way staff can be rewarded for good service is by being rewarded by overseas trips. At times such trips are provided to staff on the brink of retirement. Development partners need to be vigilant that those being sent on funded overseas study visits are those who will be able to bring back the experience and knowledge to the benefit of their organisation or country.
>
> (Providing SAI electronic survey response)

- Weak or cumbersome procurement procedures may slow down a project or leave it vulnerable to fraud. Part of project planning needs to recognise how procurement functions either in the SAI or in the wider government and if necessary ensure that the SAI is provided with specific help on procurement.

 Project partner risks:

- Development partners can often take months even years to process bids. By the time a decision is made, key staff in the bid may have moved on or not be available quickly. If development partners want well-planned projects staffed by quality teams then project partners need to be given a reasonable period of time to mobilise and plan – for larger projects this can be anything between three and six months.

- Once a project has started the loss of key staff can destabilise a project. As part of project negotiations, the SAI and development partners need to check how the project partners can manage this and have done so in the past.

- Under-qualified or under-performing staff are difficult to dismiss. Before signing contracts the SAI and development partners need to check that the staff from providing organisations have had recent experience in carrying out the specific tasks – for example financial audit – and that they have experience as trainers/coaches. As part of these checks, there is a need to verify that the providing organisations have robust quality assurance systems and agree procedures for replacing weak staff.

- There is a need to guard against creating dependency. There is an inevitable tendency for both SAIs and project partners to find reasons for continuing projects. There is always more to be done. It is important to have in place as early as possible a clear exit strategy – including possibly a phased process of withdrawal.

> **Box 3.12. Avoiding dependency**
>
> There have also been problems with contractors implementing projects in the past, as they become professional in the area and want projects to continue indefinitely. They have no incentive to transfer skills that may do them out of their job. Development partners must not micro-manage such projects but they need to take a keen interest to ensure they deliver results.
>
> (SAI electronic survey response)

Corruption risks:

- In highly corrupt societies SAIs may be vulnerable on many fronts. To tackle this risk development partners can encourage an SAI to:

  o create a strong, internally independent internal audit function reporting to the auditor general or president of the audit office;

  o encourage the parliament or other body to appoint an independent, external auditor;

  o in the absence of either internal or external reports, commission an independent audit to ensure that the SAI's control systems are operating effectively;

  o introduce and implement a rigorous rotation policy to ensure that all staff are rotated between audits and locations on a regular basis;

  o introduce and implement a declaration of interest and conflict of interest policies and systems;

  o strengthen the internal procurement systems;

  o look for ways to ensure competitive wages for employees and strengthen disciplinary procedures; and

  o create systems to help auditees and the general public whistle blow if auditors appear to have taken or solicited bribes or in any other way behaved unprofessionally and then publicise successful prosecutions made against staff.

Supportive monitoring

It is important to establish simple, clear monitoring procedures to ensure the projects are delivering as anticipated, that corrective actions are put in place quickly and that emerging risks are considered and management strategies put in place. Many development partners have regular informal meetings with the SAI, project partners and other key stakeholders. However, most find it useful to create a project steering committee of the SAI, the government, and other national partners as well as the lead project partner and development partners. These committees typically meet on a quarterly or six-monthly basis. They work best if there are clear expectations that agendas, minutes of prior meetings and the papers for the current meeting including financial and operational reports are circulated in reasonable time before the meeting. The role of these meetings is to formally record progress but also for the project to access additional expertise to improve projects not just to hold the SAI and project staff to account. Care needs to be taken that such steering committees are well structured and do not duplicate the work of existing management meetings.

As part of this process, the Steering Committee should start to address the issue of sustainability at the earliest possible date. It should have been built into the original project design but will need regular monitoring to ensure that all those involved in the project keep sustainability in mind at all times. Part of achieving sustainability may involve encouraging the SAI to seek additional national funds where necessary to maintain the momentum of reform – such national bids for funding may take several years and so early bidding may help. It may also be useful for the project partners to put in place a phase out mechanism – with much reduced resources – and to produce an exit

strategy to ensure the participants do not just walk away from a project but complete a phased withdrawal.

Larger projects may commission formal independent evaluations. Such evaluations provide a real chance to examine progress since the initial baseline data was collected. While the evaluations themselves may be commissioned by development partners within country they will usually benefit if the terms of reference and evaluation design can be reviewed by an expert with professional evaluation expertise – either in the headquarters of the development partner or an evaluation centre, drawing on local evaluation expertise where this exists.

If the evaluations are done mid-project they can provide a useful point from which to change direction if necessary or at least to affect the design of subsequent interventions or projects. If they are done at the end of the project, then it is important that early thought is given to dissemination of findings across the network of development partners and SAIs – sending copies to the INTSOSAI development partner secretariat for example. One of the issues that is important in terms of the credibility of such evaluations is to provide project partners and SAIs with draft copies so that errors can be corrected or judgements nuanced if necessary. Having a pre-agreed strategy for approving reports, communicating findings, and monitoring implementation of recommendations is important – and ensuring that such evaluations are translated, if necessary, and printed or placed clearly on the internet can help to drive up practices. Final evaluations should be conducted at a reasonable interval after a project has been finalised to assess sustainability and to ensure that exit commitments made by the beneficiary SAI or others have been honoured.

Part of the terms of reference of evaluations should be a review of the development partner's support to a project – seeking beneficiary and delivery body feedback. This can help improve project management but also demonstrate to beneficiaries the willingness of the development partner to receive critical feedback.

Although sustainable reforms and organisation wide improvements in quality take time to achieve, development partners and SAIs should look for and document the short-term impacts of projects. Work with SAIs lends itself to calculating financial impacts. Support for a financial or performance audit of a ministry of customs and revenue may well identify ways in which the taxation returns to a government can be increased. If the audit's recommendations are accepted and implemented then the SAI can monitor the impact and report on increased returns. The scale of these returns can often be far greater than the cost of capacity development projects. Such calculations need to be handled carefully, systems need to be agreed with auditees and even the SAIs own external auditors should be asked to verify the SAI's claims. But done well, such impacts can help lift the profile of the SAI and help provide additional justification for domestic and development partner assistance.

Chapter 4: Using and promoting an SAI's work

Introduction

Support for an SAI need not be only one way. By valuing the services of the SAI and starting to use its work and outputs, this in turn can help act as a pull to improve the quality and professionalism of the SAI's efforts. It is also a very visible way through which development partners can demonstrate their commitment in the Paris Declaration to using country systems. The OECD-DAC Task Force on Public Financial Management has outlined a number of ways in which development partners can increase their use of country PFM systems (OECD, forthcoming[b]), including audit by supporting the strengthening of systems and by reflecting country requests to use specific components of their PFM system.

Engaging with the SAI's reports

Some developing partners have a formal meeting once a year where the head of the SAI takes development partners through his or her annual report. Such meetings appear to be most productive when:

- ✓ **development partners prepare for the meetings in advance**. In Uganda, for example, the development partners share out parts of the report and send comments and queries to the World Bank who create a composite summary of the report and partner queries or issues. This is then shared and fine tuned among the partners. The German development bank, Kreditanstalt für Wiederaufbau (KfW) has produced a tool to help development practioners deal with the findings of SAIs – in particular the annual audit of state accounts;

- ✓ **the head of the SAI prepares for the meeting** – highlighting the major issues and concerns in his reports; and

- ✓ **the meeting is a genuine discussion** – with development partners seeking to understand the key messages and how any weaknesses identified in the audit report can be tackled. In looking at improvements, development partners find it useful to engage with senior staff in the ministry of finance to examine how systemic issues can be dealt with. Where such weaknesses have been identified then development partner support may help the ministry of finance see the SAI not merely as a critic but also a partner helping identify and support reforms.

Box 4.1. Use failings identified in audit reports to engage constructively with governments

One ministry of finance bemoaned the fact that the SAI's reports were identifying problems that they were aware of and development partners were using these reports to criticise the ministry of finance. What they were seeking were concrete suggestions and help to deal with the problems identified in the audit.

(Ministry of Finance, in-country interview response)

Other individual development partners meet with senior ministry officials to discuss specific SAI performance or "value for money" audit where they have an interest in a particular sector *e.g.* public works or health. By doing this they demonstrate support for the SAI but also encourage auditees to take such reports seriously. For example, development partner governance and education specialists can use the SAI's education audits in discussions with the ministry of education to help make sure that the ministry takes the audit reports seriously.

Using SAIs to audit development partner funds

Direct budget support

If a development partner is involved in providing direct budget support to a country, then it will have made an assessment of the competency and capability of the SAI as part of its fiduciary risk assessment. Indeed, one of the ways development partners will be able to take assurance that a country has used budget support appropriately will be through the SAI's audit reports. In one country, direct budget support was frozen because development partners were not able to obtain timely reports from the SAI.

Box 4.2. SAI audits play a vital role in the assessment of direct budget support

The SAI plays a very important role when providing budget support. The timely conduct of yearly audited accounts of government spending and the presentation of conclusions to the parliament as well as the follow-up on outstanding issues is absolutely crucial. There have unfortunately been a few examples within the last couple of years, where we decided to put the provision of budget support to a country on hold, due to the non-production of audited state accounts.

(DANIDA electronic survey response)

In other cases, development partners have built technical assistance funds into the direct budget support agreements so that such funds can be used to support capacity development in the SAI. In some cases, also, there may be scope to build into these funds the requirement that the SAI carries out performance or "value for money" audits in areas of key interest to the development partners. Though care is needed to ensure the development partner requests do not skew national priorities or undermine national ownership of the SAI's audit programme.

Box 4.3. Some development partners make receiving the SAI's annual report a requirement of direct budget support: an example from NORAD

One condition of the provision of budget support is that the embassy should receive and assess, preferably together with other international partners, the audited annual financial statement of accounts from the national audit office or similar authority. In those cases where the national accountability system, *e.g.* the auditing capacity, is weak particular auditing arrangements may be agreed between the development partners and the government.

An annual audit with the objective of verifying the flow of funds from the foreign exchange account to the treasury account may also be relevant. In addition, performance or value for money audits for a sample of activities relevant for poverty reduction might be included in the audit requirements depending on specific country considerations. If additional audits are requested, these should preferably be conducted jointly with other international partners and the government.

(NORAD electronic survey response)

Audits of development partner-supported projects and programmes

Where development partners are directly funding projects or programmes, then most would like to use country systems, in particular the SAI, to audit such activities. However, in this area there is still a wide gap between rhetoric and reality. Where the SAI is prepared to conduct such audits and has the skill base to do so – then the development partners should not just assume that the SAI can carry out such work within existing resources. It may be that the SAI is able to access additional funding but if not then this should be provided to the SAI by the development partners. This may involve agreements with the ministry of finance to ensure that these additional funds do not just get absorbed by the government and do genuinely result in the SAI having additional staff and other resources to conduct the extra audits.

Box 4.4. Development partners can commission beneficiary SAIs to carry out special audits: An example from Ghana

In Ghana, an audit is carried out of selected flows relating to multi-development partner budget support. This complements the statutory audit by the SAI. It is paid for by budget support development partners and carried out by the SAI, so that the report can be presented to parliament.

(UK Department for International Development electronic survey response)

In practice, however, most development partners do not believe that all the SAIs with whom they are working can currently perform such audits to acceptable international standards – and even where they are being used many development partners are not fully satisfied with the quality.

Box 4.5. Clear written agreements signed by all parties are essential

A development partner asked a leading European SAI to work with the national SAI of a beneficiary country to conduct the external audit of a development partner funded sectoral support programme. The audit began only to find that the national SAI had not really signed up to the project and expected staff and travel budgets were not forthcoming making the audit all but impossible to complete to international standards and producing a result which satisfied no-one.

(Providing SAI written response)

Many development partners get round this problem by commissioning private sector auditing firms to carry out these audits, sometimes in consultation with the SAI. However, in doing so this does little to help the SAI acquire the necessary skills nor does it enable the SAI to receive honest feedback on its real level of professional performance. Yet carrying out such audits and carrying them out to international standards can be a great learning opportunity for an SAI and a way of measuring themselves against international best practices.

While over time, capacity development projects may help address this issue, in the short term, development partners and SAIs may need to consider:

✓ **developing a more consistent approach** to assessing whether an SAI can carry out audits to acceptable international standards – this means a combination of assessing an

SAI's past work including examining audit plans, working paper folders and management letters. It also means assessing the professional skills and experience of audit staff and their managers. While there is no one single widely acceptable tool for doing this some development partners have developed guidance notes for this purpose, for example the Inspector General within USAID[1] and the Asian Development Bank[2];

✓ **setting challenging targets** on the proportion of audits which development partners will aim to contract out to SAI.

Box 4.6. The use of targets can focus attention

The Paris Declaration on Aid Effectiveness set the following targets for 2005; a two-thirds reduction in the percentage of aid to the public sector not using partner countries' PFM systems (including audit) for those countries with a score of 5 and above on the quality of their PFM systems (as defined by the CPIA) and a one –third reduction in the percentage of aid to the public sector not using partner countries' PFM systems (for those countries with a score of between 3.5 and 4.5). USAID intends using partner country financial management systems for 20 % of USAID-managed funds by 2015, up from approximately seven percent in 2010.

(USAID electronic response)

Where an SAI is not yet at the required level development partners may consider:

✓ providing specifically targeted capacity development support, including training and coaching. for a small cohort in the SAI to be able to audit to development partner standards;

✓ providing the funds for the audit to the SAI so that it can contract out the audits to the private sector;

✓ engaging a mature SAI to help supervise these audits providing coaching and quality assurance where needed;

✓ encouraging private sector auditors to include SAI auditors in their teams auditing development partners projects;

✓ involving the SAI in meetings with the selected private sector auditors to plan the audits, review their quality, and participate in exit meetings with auditees;

✓ using a private sector firm to coach the SAI team during the audit;

✓ providing opportunities for SAI auditors to shadow external audits conducted in country by other SAIs – for example the teams carrying out internal and/or external audits of development partner or teams carrying out internal or external audits of the World Bank, UN organisations and other multilateral institutions; and

✓ providing the SAI with honest feedback on the quality of its audits.

Box 4.7. A phased approach may be useful

A specific development model could be considered here. A kind of three stage rocket where the SAI first will participate as a "trainee", secondly take over the assignment under coaching from a partner, and thirdly take over the whole responsibility.

(Kosovo SAI electronic survey response)

In some cases an SAI may not wish to carry out audits for development partners – in which case these wishes need to be respected. But in others the SAI may wish to be involved in the audits but there may be legal, financial and capacity reasons inhibiting their involvement. More specifically:

o   the SAI's legal mandate may not allow it to carry out audits of development partner projects;

o   the SAI may not have sufficient funds – and even if the development partner was prepared to pay for the audit the SAI may not be able to retain such funding; and

o   the SAI may not have sufficient staff and national recruitment systems may not allow them to employ extra staff to carry out the additional work.

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Notes

1. See *www.usaid.gov/oig*

2. See *www.adb.org/Documents/Guidelines/Financial/part050000.asp*

Chapter 5: Leveraging change

Introduction

The role of an SAI in holding governments to account is not an easy one and SAIs need allies. Development partners can play a useful role in promoting an SAI's independence in discussions with governments, business and other key national stakeholders. They can also demonstrate the value attached to an SAI's audits by using the work directly through on-going discussions with the SAI and ministry of finance but also less directly through meetings with key ministries such as education and health and by helping to ensure that an SAI's messages receive wider distribution and coverage among the media and civil society organisations.

Acting as advocates

SAIs have a difficult role juggling the expectations and needs of their key stakeholders while at the same time remaining non-partisan and free from political capture. They need to maintain good links with the executive to encourage administrative accountability, with the judiciary to encourage legal enforcement of accountability, and with the legislature to facilitate political oversight and accountability. Development partners are often well placed to collectively act as advocates for the SAI in discussions with such partners – particularly where improvements to an SAI's capacity depend on factors beyond its own direct control. For example, where the SAI wants to be able to place audit reports in the public domain immediately after their tabling in parliament or where they want to have the powers to recruit their own staff and set competitive wage rates.

Box 5.1. Development partners can help promote SAI independence

We are supporting changes to give the SAI full independence, without which they cannot fulfil their mandate and raise this when appropriate with the government. The constitution provides for the SAI to be independent but an audit act is required to give this practical effect. A draft audit act exists in the ministry of finance which we would like to see implemented. The current failure to progress the draft act is a source of tension between the SAI and the ministry of finance.

(Development partner in-country interview response)

Heads of missions and other senior development partner staff have the networks and the freedom to encourage key stakeholders to strengthen the SAIs. In some cases, development partners have been instrumental in encouraging partner country governments to introduce modern legislation granting the audit office independence. Through meetings with parliamentarians and senior government officials, development partners can raise informally their concerns and voice their support for the SAI. At other

times, they can orchestrate meetings between key individuals – arranging for members of a leading court of audit to talk to recipient country ministers – or opening possibilities for senior recipient country politicians and officials to begin to better understand the role an SAI can play in strengthening accountability and transparency.

Box 5.2. An SAI might produce good reports but a parliament may not know how to deal with them

In one African country, the SAI is producing good performance audit reports. They are tabled in parliament and are often the subject of good debates in the public accounts committee. But the reports then need to be debated by the full parliament before recommendations can go to the government – and this rarely happens. Development partners could play a role in encouraging reforms which would enable reports to go more rapidly to the government and lead to faster implementation.

(Providing SAI electronic survey response)

Some other ways development partners can act to support SAIs include:

✓ meeting with ministers and senior government officials to seek feedback on what is being done to implement SAI audit findings and recommendations;

✓ offering technical assistance to the government specifically targeted at overcoming shortfalls or weaknesses identified by the SAI;

✓ running press conferences and issuing press releases in support of the SAI's audit reports and, if appropriate, urging action;

✓ meeting with key parliamentary oversight committees to seek their feedback on how they are using SAI audit findings;

✓ helping SAIs, in natural disaster prone regions, to develop emergency management or business continuity plans and ensuring that in the aftermath of an emergency the SAI regains operational capacity quickly;

✓ funding conferences on accountability and audit issues;

Box 5.3. Accountability conferences

In 2007 development partners and the Tanzania National Audit Office started an annual series of accountability conferences. Each year the conference deals with a different theme – the new public audit act, state-owned enterprises, local government audit etc. They run for three days, turn out is large, many senior figures attend, and media coverage is high. The conferences have helped generate closer working between key stakeholders and contributed to tangible outcomes including the passage of the new legislation and the creation of the Public Accounts Committee for State Owned Enterprises.

(Tanzanian development partners and SAI in-country interview responses)

✓ brokering/encouraging meetings between the SAI and key business and civil society organisations; and

✓ providing grants to civil society organisations to ensure that SAI report findings and recommendations are widely disseminated – at local level and that the concerns of such groups are brought to the attention of the SAI.

At the same time, development partners need to be sensitive and recognise being too pro-active in this type of approach may be counter-productive and risk putting the position of the SAI under threat rather than encouraging greater national support and engagement. In some countries, where the SAI has been heavily supported by the development partners, this has antagonised senior officials in the ministry of finance, making them less co-operative rather than more.

Broadening horizons

Development partners have many different projects where useful synergies could exist with the work of the SAI. If visiting experts on procurement are visiting a country – a workshop for the SAI staff involved in auditing procurement can help ensure that they are receiving the same messages and know what to look for when they carry out their audits.

Similarly, if there are major initiatives in the health or education sector, the SAI might be encouraged to boost its audit work in this area. Within the context of the overall SAI capacity development plan it might be possible to provide support for pilot financial or performance audits in the specific sector. Another SAI might be engaged to help the beneficiary SAI design the audit, provide advice and support during field work and review the final report and recommendations.

There are regular exchanges between parliaments in different countries and these offer opportunities for building on capacity development with SAIs. If exchanges are occurring between budget and/or oversight committees, these can provide opportunities to reinforce key messages about SAI independence or how parliamentarians can utilise findings in audit reports. If parliamentarians are going overseas, look for opportunities for them to be given briefings by the SAI of the hosting country or a chance to observe an experienced public accounts committee in action.

Knowing your own weaknesses

Development partners often have huge budgets to manage and few staff to manage these budgets. Very few development partners have staff with detailed knowledge and recent experience of SAIs, either in country or in the central policy teams. While many governance staff in development partners will have built up knowledge of SAIs through in-service training and on-the-job learning, there is an asymmetry of knowledge between these staff and the SAIs with whom they are working.

Initiatives taken by development partners to bridge this gap include:

✓ Creation of a clear organisation-wide policy framework which gives greater organisational visibility to the importance of working with and helping strengthen SAIs;

✓ Appointment centrally of staff with accounting and/or auditing qualifications and SAI experience with a policy responsibility to support field staff in their work with SAIs;

✓ Delivering induction training on public external audit to all new staff appointed as public financial management and/or governance advisers;

✓ Running occasional videoconferencing sessions for field staff to share experiences of working with SAIs;

- ✓ Sharing good practice notes and lessons learned across the agency – targeting governance and public financial management staff;

- ✓ Disseminating material produced by INTOSAI and other relevant partners to country offices; and

- ✓ Provision of workshops to brief heads of country offices and other senior staff on the role of SAIs and how they can best be supported.

Development partner staff should be aware that other sources of advice and help do exist – particularly in leading SAIs. Some strategies which may prove useful include:

- ✓ ensuring that the head of mission and other senior staff from the development partner seek a briefing from their national SAI before taking up a new country post;

- ✓ arranging for governance staff to receive training from an SAIs; and

- ✓ agreeing an arrangement whereby the development partner can seek direct advice from their own national SAI. Common issues which may need to be discussed, include:–

  - ✓ how to deal with requests to help deal with backlogs of audits;

  - ✓ what to do when the ministry of finance is not producing sets of accounts; and

  - ✓ how to support internal audit within ministries.

When there is a change of development partner staff, it is important that proper handover systems are in place. Ideally, key personnel should overlap physically during such a hand-over, but if this is not possible, detailed notes should be on hand and teleconferences or videoconferences set up.

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Annex A: Partnerships in action

Bangladesh

Figure A.1. Bangladesh

BASIC INFORMATION	
Name of the SAI:	**Office of the Comptroller and Auditor General of Bangladesh (OCAG)**
Mandate and governance:	Westminster model –Constitution provides for independence. New Audit Act currently in draft – audits all government activity – central, para-statals and local.
Total staff:	4 000 (as of 2010)

DEVELOPMENT PARTNER SUPPORT FOR CAPACITY DEVELOPMENT

Recent Bilateral projects:

CIDA – Strengthening Control and Oversight of Public Expenditure (SCOPE) project USD 10 million for five years providing wide ranging support to the OCAG around institutional strengthening, human resource development and audit.

USAID Promoting Governance, Accountability, Transparency and Integrity project (PROGATI) – USD 18 million four-year project part of which involves improving the effectiveness of relations between the OCAG and Parliament – particularly the Public Accounts Committee (PAC).

Multilateral project (pipeline)

Strengthening Public Expenditure Management Programme (SPEMP) – one element expected to be worth USD 17 million over four years is to strengthen the OCAG. Development partners involved are World Bank, DFID, DANIDA, the Netherlands, CIDA and the EU.

LESSONS AND GOOD PRACTICES IDENTIFIED

- Need to give **more consideration to sustainability** of projects.
- **Links to INTOSAI and other SAIs greatly valued**.
- Important to link work with SAI to **strengthening parliamentary oversight** and **encouraging demand for good audits** from ministries and other auditees.
- With separately funded projects **important to agree formal co-ordination mechanisms**.
- **Channelling funding directly to SAI seen as essential**.
- SAI needs to be directly **involved in selecting project partner**.
- Work by **development partners to promote the importance of a strong and independent SAI** is appreciated by SAIs.
- **Key documents need to be translated** into the national language(s).

Introduction

The Office of the Comptroller and Auditor General of Bangladesh (OCAG) employs some 4 000 staff across the country and is responsible for the external audit of all government activity at central government, para-statal and local level. The OCAG has independence over what it audits, how it audits and what it recommends but it does not have the full independence consistent with INTOSAI standards. For example, it cannot recruit and reward its own staff, it does not receive its funding directly from parliament nor is it able to ensure that its reports are publicly available soon after the end of a financial year. Over more than a decade, substantial development partner support has been provided to Bangladesh but the OCAG believes it has not seen major benefits from this support. In part because the aid was channelled through the Government of Bangladesh and little reached the OCAG, in part because of weaknesses in the nature of the aid provided, and in part because of the ability of the OCAG, at that time, to use such aid effectively. Prior projects were taken on without sufficient consideration of sustainability. Sometimes the objectives of different projects were over-lapping and expected outcomes not achieved. It was also felt that prior support for the OCAG did not make enough use of other SAIs and INTOSAI, was not sufficiently based on implementing international standards, and did not pay enough attention to encouraging a demand for good audit from parliament and ministries.

Currently there is just one development partner-funded project directly addressing the OCAG's need: the USD 10 million Strengthening Control and Oversight of Public Expenditure (SCOPE) project funded by CIDA. In addition, the OCAG receives some support from the four-year, USD 18 million, USAID Promoting Governance, Accountability, Transparency and Integrity project (PROGATI) around improving the effectiveness of relations between the OCAG and Parliament – particularly the Public Accounts Committee (PAC). There is also a major multi-development partner funded project in the pipeline - the Strengthening Public Expenditure Management Programme (SPEMP). This project will have three strands – deepening the medium-term budget framework and strengthening financial accountability, strengthening the OCAG, and strengthening Parliamentary oversight. The multi-development partner trust fund will be managed by the World Bank on behalf of a number of development partners including DFID, DANIDA, the Netherlands, CIDA and the EU and the element of support for the OCAG is expected to be worth some USD 17 million over four years.

Co-ordination

Development partner support is co-ordinated in Bangladesh at a country level. There is a high-level consultation group supported by 12 separate Local Consultation Groups (LCGs) with a sub-group on Public Financial Management co-ordinating support to the OCAG. The groups are co-chaired by a representative of the development partners and a representative of the government. Co-ordination of work with the OCAG is working well because the Comptroller and Auditor General (C&AG) and his senior staff are seen to be committed and want to ensure their ownership of projects. The OCAG is fully supported in this by an active, committed and experienced PAC and strengthening the OCAG is laid out in the Government of Bangladesh's 2006 Vision and Medium-Term Rolling Action Plan for strengthening PFM.

In addition, there are co-ordination meetings around specific projects – for example the PROGATI and SCOPE project leaders meet as required and there will be a joint steering committee for the SPEMP and SCOPE projects. The deliberations of these committees are shared with the wider LCG.

This co-ordination is not without its tensions – with some development partners wanting to move faster than others – with the result that sometimes some development partners may find that another agency has implemented something which they were planning. However, all parties in Bangladesh believe that co-ordination is getting better.

Capacity development

The SCOPE project is seeking to help strengthen the OCAG in the following key areas: institutional strengthening, human resource development, strengthening alliances, performance audit, IT audit, financial and compliance audit, and environmental and fraud audit. The SPEMP project will focus on strengthening the institutional arrangements for the OCAG (particularly around legislation and internal management), improving the quality of audits and enhancing the institutional capacity of the Financial Management Academy – so that it can provide more professional training for public financial management staff in general, but specifically OCAG staff.

The OCAG feels that more recent projects have much greater chance of success as they are demand rather than supply driven and there is much more discussion between the OCAG and the development partners. The OCAG also stresses that to achieve sustainable capacity building of an SAI, development partners must channel support directly to the OCAG. This process helps establish close and effective co-operation between the OCAG and development partners. In the CIDA funded SCOPE project, the OCAG was fully involved in selecting the project partner including being able to send a representative to Canada for the bid assessment and selection process. The C&AG chairs the project's steering committee which meets three-to-four times a year and includes: three other senior officers from the OCAG; representatives from the ministries of Finance, Planning, and Economic Relationships; and CIDA.

More attention is being paid to ensuring that materials are translated into Bangla and disseminated more widely.

Support for audits

The OCAG through its Foreign-Aided Projects Audit Directorate conducts audit of all development partner funds (loans and grants) channelled through the Government of Bangladesh to the development projects. While conducting audits, auditors of the Foreign-Aided Project Audit Directorate examine both the government's contributions and development partner's funds. These audits are carried out and audit certificates issued in accordance with timetables agreed with the development partners. Sometimes, in addition to these audits, development partners contract private audit firm to audit particular area of activities or functions of their own interest. The OCAG has sufficient staff to carry out the audits required by development partners. Although the OCAG has adopted INTOSAI auditing standards for auditing development partner aided projects and for its reporting/certification, development partners have expressed concerns that the quality of these audits could improve and they are hopeful that this will be addressed through the SPEMP project.

Advocacy

The USAID project is seeking to encourage the Government of Bangladesh to pass a new audit bill to enshrine the independence of the C&AG and the OAG. Similarly DANIDA raise the same issue in their discussions with the government. The constitution provides for the C&AG and OCAG to be independent but an audit act is required to give this practical effect. A draft audit act exists in the ministry of finance but this needs to be progressed.

It is widely recognised that development partners do have a legitimate and valuable role in supporting the OCAG through advocating on its behalf with government, parliament and other key stakeholders. In doing this development partners can have positive role in ensuring that best international practices are implement in Bangladesh. A strengthened, independent, properly resourced OCAG will improve overall accountability and transparency and help make the fight against corruption in Bangladesh more effective.

Indonesia

Figure A.2. Indonesia

BASIC INFORMATION	
Name of the SAI:	Badan Pemeriksa Keuangan (BPK) - Audit Board of the Republic of Indonesia – audits central, regional and local government.
Mandate and governance:	Board model – powers defined under Law No.17 of 2003 on non State Finance, Law No.1 of 2004 on State Treasury, Law No 15 of 2004 on Auditing Management and Accountability of State Finance and Law No. 15 of 2006 which restored BPK's autonomy and independence.
Total staff:	5 600 over 33 provinces(as of 2010)

DEVELOPMENT PARTNER SUPPORT FOR CAPACITY DEVELOPMENT

Bilateral projects:

Asian Development Bank – USD 100 million (phase 1) loan to the government for period 2006-10 (Phase 2 expected). Funds for reform of the state audit sector including BPK.

AusAID – funded the Australian National Audit Office to second a member of staff to the BPK to develop capacity in financial and performance audit and Indonesian auditors on secondments to Australia.

Netherlands Development Agency – provided assistance via the Dutch Audit Office to assist with drafting the 2006 legislation, and developing modern approaches to IT audit.

World Bank support for two projects both 2006-09 – one to strengthen the forensic capacity (USD 94000) and the audit of disaster related aid (USD 210 000).

Various SAIs - Swedish National Audit Office - training on the audit of the Central Bank; Accounts Chamber of the Russian Federation knowledge sharing on the audit of the procurement of military equipment with the and the audit of taxation; National Audit Department of Malaysia on joint or parallel audits on environmental issues.

LESSONS AND GOOD PRACTICES IDENTIFIED

- **Government commitment** vital to achieving sustainable change.

- Exposure to **too many different SAI practices can be confusing**.

- **Twinning projects are particularly helpful** with an SAI entering into a long-term relationship with another SAI providing institutional support, training and advice.

- **Audits of development partners should be carried out more regularly** and shared with partner organisations so that beneficiary institutions can provide feedback.

- **Development partner flexibility important** so projects can adapt to changing circumstances.

Introduction

In the wake of the political and economic crisis in 1998, Indonesia has undergone major reforms in its social, economic and political system which effected its Supreme Audit Institution, the Audit Board of the Republic of Indonesia also known as Badan Pemeriksa Keuangan (BPK). It was recognised that fiscal transparency and accountability were key elements in solving the problems the county faced and and implementing the reforms and thus, the process started with the issuance of a Presidential Decree on Government Financial Accountability in 2000 and the promulgation of the following three laws on state finance in 2003 and 2004:

- Law No.17 of 2003 non State Finance;

- Law No.1 of 2004 on State Treasury;

- Law No 15 of 2004 on Auditing Management and Accountability of State Finance.

These were following in October 2006 with the promulgation of Law No. 15 which restored BPK's autonomy and independence.

Prior to the passage of these laws, the BPK had some 2 500 staff spread over the central office and seven regional offices. It now has more than 5 600 staff working in all 33 provinces. This rapid growth has brought with it a massive challenge to build institutional capacity and train new and inexperienced staff. This challenge is further complicated by the complexity of Indonesia's geography that includes 17 508 islands and a population of around 240 million.

Although development partner aid to Indonesia is considerable, the amounts of money involved are small compared to the overall government budget. Several development partners, including the EU, World Bank and Asian Development Bank have worked with the Ministry of Finance and accountability and internal audit in the public sector have been substantially strengthened.

Development partner co-ordination

Development partners are implementing the Paris commitments to respect country ownership and have taken the view that change and improvement should be on the basis of an Indonesian ideal fit rather than a development partner ideal fit, *i.e.* "our values against theirs". They believe strongly that if development partners dictate the agenda, sustainability is much harder to achieve. In contrast, if the beneficiary dictates the agenda, there is ownership and it is their reform and the beneficiary will run with it and make it work. This they believe is happening in Indonesia with the government, and in particular the BKP and its board, assuming greater leadership in determining its priorities. Much support to Indonesia flows through direct budget support but where there are areas of particular weakness or areas which may have been neglected, such as the BPK, then development partners will still use project aid.

There are a number of different development partners supporting the BPK, usually as a part of broader attempts to strengthen public financial managements. The World Bank leads this co-ordination on behalf of the European Union, the Asian Development Bank, and the Swiss and Dutch Development Agencies. Increasingly, the World Bank's approach is to strengthen country systems in tandem with specific projects such as the GFMIS project (Government Financial Management and Information System), of which

the BPK is one part. This project is looking at budget formulation and execution, internal controls, external audit, the single treasury account, as well as other financial management issues.

The BPK views the relationship with development partners as good but there is a concern that some development partner support is overlapping and that the efforts of different SAIs do not necessarily make a best fit in the Indonesian environment. Accessing a plethora of different SAIs is useful in exposing BPK staff to different approaches but it can also lead to confusion with staff finding it hard to decide which international SAI approaches to adopt. What the BPK are looking for are comprehensive twinning arrangements that provide continuity, access to short term expertise and opportunities for staff secondment.

Capacity development

Support to the BPK comes in several different forms. It receives direct development partner support through the World Bank and others, it receives bilateral support from other SAIs, and it can access development loans.

Direct development partner support has been used, for example, to enable the Australian National Audit Office to second a member of staff to the BPK to develop capacity in financial and performance audit. In addition, the BPK has been able to second 17 people to the Australian National Audit Office for periods of 6-to-11 months. The Algemene Rekenkamer – the Dutch Audit Office – has over more than five years provided a range of assistance including helping draft the 2006 legislation, and developing modern approaches to IT audit. The World Bank has supported two projects between 2006-09, one to strengthen the forensic capacity of the BPK (USD 94 000 and the other to provide training and advice on the audit of disaster related aid (USD 210 000).

Bilateral support from other SAIs includes provision of training on the audit of the Central Bank by the Swedish National Audit Office; knowledge sharing on the audit of the procurement of military equipment with the Accounts Chamber of the Russian Federation and the audit of taxation as well as working with the National Audit Department of Malaysia on joint or parallel audits on environmental issues. In total, BPK has signed bilateral co-operation agreements with 13 SAIs around the world.

The BKP also benefits from an Asian Development Bank loan to the government for reform of the state audit sector. Phase 1 from 2006-10 was worth USD 25 million and a Phase 2 has been proposed for a further five-year period. The SAI is expected to develop different types of audit and procedures as well as adopt international auditing standards and make use of IT as part of the package.

Two peer reviews, the first by New Zealand in 2004 and the second by the Algemene Rekenkamer – the Dutch Audit Office in 2009 have shown substantial improvements in the BPK's audit capability. Despite the pressures to cope with the rapid growth, the BPK has produced around 200 performance audit reports in the last four years.

One key challenge for all parties is how to ensure sustainability, in particular how to embed development partner supported initiatives in routine annual government budgets. For example, in 2010, the BKP was provided with training on IT audit by the Algemene Rekenkamer. While this has helped increase the BKP's knowledge and skills, development partners are aware that the BKP will require further budget support for the

IT element of its work as well as the introduction of audit standards if the skills and knowledge are to be institutionalised. Whether the budget is there or not continues to be uncertain.

On the other hand, there are positive indications on some fronts. For example, the SAI reports are being used by the Indonesian Parliament and the SAI staff are benefiting from increased salaries compared to auditors in other organisations.

More support is needed and there are further projects in the pipeline, including work to help the BPK update its strategic plan and institutional development plan. Development partners believe that a focus on sustainable capacity development is key and the relationship with other SAIs vital. They also point out the need for sustained work to improve human resource management and embed international best practices in areas as staff selection and staff appraisal. The World Bank has just approved USD 100 million for the Indonesia Scholarships Programme for Strengthening Reforming Institutions (SPIRIT) project. This project will provide scholarship grants for key institutions. BPK is one of the participating agencies and had prepared a detailed human capacity development plan.

For the BPK it is also important that the development partners provide flexibility so that they are able to influence and tailor approaches according to their own organisational needs.

Auditing development partner projects

Given the demonstrable progress of the BPK, the World Bank admitted that it has been slow in using BPK audit skills. However, it is in the process of using the BPK to carry out four financial audits which should form part of the World Bank Financial Year 2010 audits. The terms of reference for the financial audits have some elements of value for money in them. If the quality of the audits is adequate then the World Bank would like to use the BPK more. The World Bank also use BPKP (the Internal Audit function that reports to the President of Indonesia) to audit development partner funds. However, this was a legacy role and increasingly they expect to the BKP as the SAI.

The BPK also raised the issue of the need for there to be more transparent audits of the development partners so that beneficiaries can provide feedback to the development partners on how they are operating and what are the areas where they need to improve – ideally this should be conducted by independent consultants chosen by both parties.

Advocacy

The BPK has valued the support provided by development partners – not just direct financial support -but also their willingness to raise issues of audit reform at the highest levels of the Indonesian state. While the government and parliament have driven the state audit reform process, all parties recognise the value of external advice and challenges. As the BPK continues to seek to improve its audit of all ministries and agencies as well as some 450 local authorities, it believes it can continue to benefit from external encouragement and support.

Tanzania

Figure A.3. Tanzania

BASIC INFORMATION	
Name of the SAI:	**National Audit Office of Tanzania (NAOT)**
Mandate and governance:	Westminster model. Public Audit Act (2008) provides for independence of NAOT. Audits central and local government (except Zanzibar, which has an autonomous audit office).
Total staff:	650 (as of 2010)

DEVELOPMENT PARTNER SUPPORT FOR CAPACITY DEVELOPMENT
Bilateral projects
SIDA & SNAO (2004-12) USD 15.7 million disbursed. Funds two long-term on-site technical advisers and other activities.
Multilateral project
Public Finance Management Reform Programme (basket fund): World Bank, Canada, Japan, the United Kingdom, Ireland, Sweden, Norway, the United States, the European Community, and Germany **– since 1998** - provides some USD 1.8 million a year to the NAOT directly to assist with procurement of IT and vehicles, construction of regional offices and specialist audit inputs.

LESSONS AND GOOD PRACTICES IDENTIFIED

- Development partners see **reforming leadership** at the NAOT and **broad support from parliament** as important factors influencing successful capacity development.

- **Pooling of funds** and the installation of a **joint development partner group** has facilitated congruence of development partner aims and pooling of development partner expertise, though this has taken time.

- Absence of co-ordination between two support projects may have led to **challenges with absorptive capacity**, though NAOT emphasises **complementarity** of technical inputs provided by SNAO and financial resources provided through PFMRP as a strength.

- **NAOT-led institutional plan** is costed and identifies inputs and assistance from different development partners, facilitating co-ordination and alignment.

- Evidence of positive development partner engagement with NAOT to support it in **auditing development partner-supported projects and programmes in Tanzania**

- Need to **address the issue of longer-term sustainable professional training** and the creation of a ladder of qualifications linked to pay.

- **Annual Accountability Conferences** have helped raise the profile of the NAOT.

Introduction

The National Audit Office of Tanzania (NAOT) has some 650 staff located over some 20 regional and central offices. It audits central government and district councils in Tanzania. In addition there are some 180 audit staff working for the autonomous audit office on Zanzibar.

In recent years, support for the NAOT has been provided via two main vehicles bilateral support from the Swedish National Audit Office (SNAO) and the Swedish International Development Agency (SIDA), and multi-lateral support via the Public Finance Management Reform Programme (PFMRP), a programme supported by a basket of development partners including the World Bank, Canada, Japan, the United Kingdom, Ireland, Sweden, Norway, the United States, the European Community, and Germany. The SNAO has been working in partnership with the NAOT since 2004 and expects to continue to June 2012. The SNAO has based two full-time experts (a project manager/performance audit advisor and a financial audit advisor) at the NAOT to co-ordinate their inputs and to manage other short-term experts who provide additional inputs. This full-time support has been seen by the NAOT and development partners as essential. Over eight years, the SNAO has committed some USD 7.5 million to the project, SIDA USD 8.2 million, and the Tanzanian government a further USD 1.7 million.

The PFMRP started many years ago but in early phases there was less consultation and involvement of the NAOT. This was rectified in the mid-2000s and the NAOT now submits plans via the government to the development partner group. These proposals receive serious consideration and the NAOT welcomes the robust challenges it receives – believing that this results in a more rigorous capacity development programme. The PFMRP provides funds directly to the NAOT to the tune of USD 1.8 million annually.

Development partner co-ordination

Under the leadership of a lead-development partner (currently the EU), the development partner group meet once a month formally, with a smaller group meeting informally more often if necessary. The meetings are minuted and agendas and papers sent out in advance. The government and NAOT attend. The development partner group have worked to achieve broad congruence of aims recognising that different development partners are at different stages in their understanding of the issues being faced by the NAOT and their access to expertise on SAIs. Efforts are seen to be working because of the reforming leadership of the NAOT and the broad political support from the Parliament and government.

Although the SNAO are a major funder they do not attend the development partner co-ordination meetings preferring to see their primary relationship being with the NAOT who inform the development partners about the parts of their plan being funded by SNAO. The SNAO and NAOT manage their work through a steering committee comprising senior representatives from both organisation, a policy co-ordination group which agrees policy issues, and an operational steering group involving the project manager, financial adviser and counterparts which manage day by day issues. Working groups are set up to manage specific projects, for example, IT or performance audit. The management arrangements for this project were clearly described and mutually agreed in *Management Guidelines for the NAOT development project.*

To a large extent the arrangements are now working smoothly with SNAO providing technical inputs and the development partners providing funds which the NAOT uses to procure goods and services. At one stage, the development partners provided a large funding input which had to be spent in a short period of time. This threatened to swamp the NAOT and the SNAO stepped back to allow the absorption of funds. All parties learned the lessons of this and subsequent funding has been more measured with a focus on quality not quantity.

Capacity development

The NAOT has made substantial progress in recent years. With support from development partners, they have facilitated the new Public Audit (2008), adopted international auditing standards, and introduced computerised working papers. They consider that the quality of their work is improving and that this is being recognised by external stakeholders including the parliament. With assistance from the SNAO, SIDA, and PFMRP, they have developed a detailed institutional development plan with clear costings and milestones. Initial work has focused on developing financial/regulatory and performance audit manuals, recruiting and training a small group of staff to use the manuals, testing those manuals in the field and then rolling out training to wider cohorts of staff. In parallel work was undertaken to coach and train managers and to begin development up IT systems and networks and training staff in management of IT systems and in carrying out IT audits. The project has drawn on the work of other regional SAIs and AFROSAI-E where possible. Funding from SIDA, and via the PFMRP, has been particularly important in helping NAOT procure IT equipment, vehicles, construct independent regional offices, and access specialist private sector expertise. The capacity development activities have included the oversight committees of the Tanzanian Parliament.

Evaluations have been conducted at regular intervals to help ensure that the project is meeting objectives, to help fine tune and to decide whether further funding is warranted. Much has been learned over the years about the importance of proper planning. For example, when the modernisation process began the NAOT thought it could perform performance audit through training financial auditors to do this type of audit on a part-time basis. The results were mediocre and the NAOT has been much more successful by creating a dedicated team of some 20 full-time performance auditors drawn from a diverse range of backgrounds including social sciences, engineering and law.

In the future the NAOT is looking for development partner help with capital investment to help secure new central offices and regional offices, and with funds to network the regions. More effort is needed to institutionalise the skills in financial audit and performance audit, provide on-going professional development, strengthen management skills, develop HR management and drive up audit quality. To some extent these further gains will be dependent on the ability to recruit and retain good graduates, provide them with professional and para-professional skills and offer appropriate remuneration. The World Bank considers it vital to address the issue of longer-term sustainable professional training and the creation of a ladder of qualifications linked to pay.

Auditing development partner projects

The NAOT audits many different development partner-funded projects and are happy to take these on when requested. They would like to receive more feedback on their work – particularly where development partners may have queries about quality – and also to have earlier notification of projects where development partners would wish to use their services as external auditors. If development partners are concerned about particular projects in Tanzania they will ask the NAOT to consider doing an audit and at times have produced joint reports. For complex audits or audits where the NAOT may not yet have the relevant skills and expertise, the development partners are considering using a better mix of private and public auditors – so that the private sector inputs can be used to not just complete the audit but also help the NAOT build its expertise and quality.

Advocacy

The development partner group see that they have an important role in supporting the NAOT in external fora. Each year, they meet to discuss the Auditor General's annual report – taking up the issues raised with the Ministry of Finance and individual line ministries when warranted. Since 2007, they have also funded national accountability conferences which seek to garner wide-spread stakeholder support for improved management of public funds. One outcome of these conferences has been the establishment of additional parliamentary accountability oversight committees.

Where the development partners feel that the Tanzania is not doing enough to support transparency and accountability, they have been prepared to place contingencies on wider development partner support to the country. For example, a condition attached to recent development partner support was the passage of a new Public Audit Act granting the NAOT greater independence and encouraging a move to risk-based auditing.

The development partner group have also set funds aside to support key other stakeholders including the Public Accounts Committee – so that they are better able to act on the NAOT's reports – and non-government organisations – so that they can help disseminate NAOT reports in easily understood formats.

To complement the functions of the NAOT, the Ministry of Finance and Economic Affairs (MOFEA) is also seeking to strengthen the internal audit function within Ministries and Local Government Authorities in Tanzania. For this purpose, a Central Internal Audit Unit (CAU) has been established in MOFEA. Following a request from MOFEA, the Japan International Co-operation Agency (JICA) started a three-year, *Capacity Development Programme for Internal Audit,* to support the CAU in November 2009. It is expected that these activities will contribute to strengthening the internal audit function, and consequently, contribute to strengthening the whole audit system in Tanzania.

Annex B: Useful websites

OECD-DAC- *www.oecd.org/dac/effectiveness/pfm*

European Commission – *www.europa.eu/pol/dev/*

INTOSAI – *www.intosai.org*

IDI – *www.idi.no*

OECD Capacity Building - *www.oecd.org/dac/capacitydevelopment*

PEFA Initiative - *www.pefa.org*

World Bank – *www.worldbank.org*

Annex C: Methodology

In producing this guide, we:

- reviewed the key literature (Bibliography) and key web-sites (Annex 2) on capacity development and technical co-operation and policies and guidance produced by development partners and SAIs;

- sent semi-structured questionnaire, via email in April 2010 and followed up regularly until September 2010, to:

  o leading development partners including all those who have signed the MOU with INTOSAI (18 responses);

  o a sample of beneficiary SAIs drawn from those SAIs on the INTOSAI Capacity Building Committee website who had indicated that they had two or more capacity development projects in the preceding five years and stratified to ensure that all regions were covered (16 responses);

  o SAIs providing capacity development assistance, including the INTOSAI International Development Initiative (14 responses) ; and

  o private sector firms engaged in building capacity in SAIs (four responses);

- visited three countries with strong partnerships among development partners and the SAI in order to identify good practices – Tanzania, Bangladesh and Indonesia. In these countries we interviewed senior officials in SAIs, Ministries of Finance and development partners;

- received advice and support from an Advisory Panel comprising:

- World Bank - Tony Hegarty and Manuel Vargas
- OECD - Sara Fyson and Robin Ogilvy
- DFID - Stephen Sharples
- CIDA - Christine Walker and Agathe Frappier
- NORAD - Hakon Mundal
- Malawi - Saulos Nyirenda
- IDI - Einar Gorrissen