

U4 Expert Answer



Auditing the auditors - International Standards to hold Supreme Audit Institutions to account

Query

Are there internationally agreed-upon standards or guidelines with respect to external audits on SAIs? If external audits are not allowed by law, how are SAIs held to account?

Purpose

Donor support - for example through core funding - to government institutions, including Supreme Audit Institutions (SAIs), often requires that external financial audits are conducted periodically to ensure sound financial management by the institution in question. In some cases, external audits of SAIs may not be permitted by law. We are currently supporting a SAI in a developing country. There is a need to ensure that this SAI has sound financial management, but applicable laws do not allow for external audits.

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Summary

There are no internationally agreed guidelines for the external audit of SAIs. The possibility and scope for external audits are determined by the constitutional and legislative frameworks of each country and vary from case to case. The International Organisation of Supreme Audit Institutions (INTOSAI) provides international guidelines on key principles for SAIs, although these guidelines do not address the process of external audit. In addition, INTOSAI encourages peer reviews of SAIs and a sub-committee of the organisation is currently drawing up guidelines to standardise this process.

The existence and strength of wider accountability mechanisms for SAIs need to be examined on a case-by-case basis since these mechanisms are tied to the particular legislative frameworks and organisational set-up that apply in a given country. There are three broad models of organising SAIs: the Westminster model, the Board or Collegiate model, and the Judicial model, each with different implications for the applicable accountability structures. Irrespective of specific characteristics, however, SAIs are usually held to account either by the legislature or the judiciary

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1 Formal Mechanisms for the External Audit of Supreme Audit Institutions (SAIs)

Supreme Audit Institutions (SAIs) are charged with helping to ensure the financial integrity and accountability of government bodies. They play a watchdog role in auditing state accounts, in order to ensure that government bodies and administrations use state funds responsibly and in accordance with parliamentary decisions. It is not unusual for SAIs to go further than reviewing the use of state funds to assess the performance of the resources used. As a key institution in country integrity systems they need to be held to account for their own actions as guardians of integrity. One such mechanism for this could be external audits of SAIs. However, the author of this paper has found very limited evidence for the use of internationally agreed standards with respect to external audits of SAIs. In addition, there is little evidence that external auditing of SAIs is common practice or indeed a requisite feature of accountability for many countries.

The role of audits to ensure the efficiency and effectiveness of SAIs is dependent on a country's institutional set-up. The responsibility of oversight is tied to the mandate of the SAI in question, its constitutional responsibilities and the legal requirements that apply. Consequently, the scope that countries have to initiate or carry out an external audit of its SAI depends on its relationship to parliament, government and the public administration.

Examples of External Auditing

There are relatively few examples of external audits of SAIs. One exception is the periodic use of external auditing in Denmark to ensure the accountability of its SAI. The Danish SAI is audited in accordance with the Standing Order of the Folketing (Parliament), 2009: Section 58. The Standing Order calls for the auditing of all parliamentary accounts according to the standards laid down in Section 50(1). The auditing of the Supreme Audit Institution is then undertaken in accordance with the Auditor General's Act, 2006: Section 6 to ensure that 'the funds have been spent according to the given provisions and that the funds have been administered observing sound economic management'.

Other Systems of External Auditing: Peer Reviews

Although the audit of SAIs is determined by the constitutional and legal framework of a country the International Organisation of Supreme Audit Institutions (INTOSAI) encourages its member organisations to participate in voluntary peer reviews of SAIs between countries as a means of ensuring the international standards laid out by INTOSAI are met. This is the case between Canada and the US audit institutions which carry out a peer review every three years. These reviews monitor organisational performance through a review of audit documentation, testing of functional areas, as well as through a series of staff interviews to assess each institution according to international standards (for further details please see <http://www.gao.gov/about/review.html>).

EU accession processes have also included the use of a number of peer reviews as a means of improving SAI performance. The Support for Improvement in Governance Management programme (SIGMA) run by OECD/EU is an example of the peer review process (DFID, 2005). (For all SIGMA publications and reports please see http://www.sigmaweb.org/pages/0,3417,en_33638100_34612958_1_1_1_1_1,00.html)

2 International Standards for SAI Performance and Accountability

International guidelines for the audit of SAIs have so far not been drawn up. However, broader international standards for SAI operating principles, including auditing standards and relationships with government and parliament have been formulated by the International Organisation of Supreme Audit Institutions (INTOSAI). These principles have been documented in the Lima Declaration which was ratified by its member countries in 1977. The Lima Declaration falls short of providing standards for the auditing of SAIs. The declaration entails broad legal requirements to which countries should adhere to facilitate the effective operation of the auditing institution. The declaration sets out a framework for constitutional principles in order to ensure independence and autonomy in conducting audits of public institutions. It also provides broad recommendations on SAI's relationship to parliament, government and the administration, as well

as on powers entrusted to it to allow audits to be effective vehicles for accountability.

In addition to this the declaration goes some way towards setting out principles or standards of auditing methods, staffing guidelines, and knowledge sharing practices between SAIs internationally. Guidelines for reporting to parliament and the general public are provided, as well as guidelines for constitutional and legislative audit powers related to the coverage of all public institutions (including state owned enterprises and institutions with international operations).

In conjunction with this, INTOSAI has formed a sub-committee to promote best practices and quality assurance through voluntary peer reviews. Members include Austria, Bangladesh, Croatia, Estonia, the European Court of Auditors, France, Hungary, Morocco, Poland, and the USA. (INTOSAI, 2006). This sub-committee is scheduled to produce guidelines on best practice for peer reviews, as well as a database of all peer reviews undertaken between SAIs. This is to be made available through the INTOSAI website in due course.

INTOSAI is also working on producing wider International Standards of Supreme Audit Institutions (ISSAI). One of the recommendations that has fallen out of this work is Principle 9 of the Principles of Transparency and Accountability which states that SAIs should 'make use of external and independent advice to enhance the quality and credibility of their work' including the use of external independent assessment of their operations and implementation of standards. Compliance with this principle may not necessarily entail the use of an external audit but may provide a route to engage with some form of external assessment.

Given the work of INTOSAI and the creation of international standards which are largely accepted by the international SAI community, in the absence of formal external audits or peer reviews that can provide information about the performance of SAIs, a thorough review of the commitments that a participating country has made to INTOSAI may serve as a substitute. The commitment to and compliance with principles of independence and professional standards may serve as a first rough proxy of performance and functioning. The potential role of INTOSAI as an effective vehicle to encourage peer reviews among SAIs remains to be seen, but is an area worth further investigation.

3 Broader Accountability of SAIs

Mechanisms to hold SAIs to account can take a variety of forms. External accountability refers to pressures from outside a SAI that can provide oversight on its performance and operation. Internal accountability mechanisms refer to organisational rules and systems within SAIs that have been put in place to provide internal monitoring, checks and balances.

External Accountability of SAIs

Institutional Structures

External mechanisms of accountability largely rely on the institutional set-up of SAIs within a given country context. Three broad organisational categories are commonly distinguished, namely the Westminster model, the board or collegiate model, and the judicial or Napoleonic model:

The Westminster Model: in this model the work of the SAI is very much linked to the system of parliamentary accountability. The SAI is often headed by an Auditor General who acts as an officer of parliament and has the independence and autonomy to work with a Public Accounts Committee to decide which areas of government expenditure to examine. The effectiveness and independence of the audit institution is determined by the strength of the legislature.

With one individual at the top of the SAI, power is considerably centralised. As a result, much of the integrity of the institution rests on the credibility and personal motivations of the Auditor General. However, susceptibility to political influence should generally be low, given that the Auditor General answers to the legislature as a whole, and typically cannot easily be removed from office.

The Board or Collegiate Model: the basic structure of a SAI's relationship with parliament, government and the administration is very similar to the Westminster model. However, the institution is headed by a board made up of several people who make decisions on operations and management by consensus.

A board model of organisation can offer more inclusive management of SAIs, but also poses some risks. Depending on the degree of autonomy of each board member there is a potential for multiple and conflicting interests. This can undermine the consistency of

auditing across different government bodies with difficulties in imposing minimum standards. These risks can be minimised by the use of international standards that may be a point of reference for achieving consensus across the board.

Susceptibility to political capture will depend on the system of appointments to the board and required arrangements for and justifications of dismissal.

Judicial or Napoleonic Model: this model situates the SAI in the judiciary where it operates as a court of law. According to this set-up, primary public financial accountability lies with public accountants who are responsible for payments and expenditures made. Audited accounts are then passed to the SAI which will then pass judgement as to whether to discharge public funds or whether to press for legal proceedings in the case of mismanagement.

Under judicial models the SAI often has significant independence from parliament. Susceptibility to political influence should be relatively low through this arm's length relationship but depends on the autonomy of the judiciary and the specific terms of tenure for judges. A potential incentive problem can arise in circumstances where financial penalties imposed flow to the court itself rather than back to central government budgets.

For further discussions on different models of SAI institutional arrangements please see (DFID, 2004), (DFID, 2005) and (van Zyl et al, 2009).

Accountability principles in practice

The logic behind the operational principles for SAIs is to ensure its ability to serve as an impartial and non-partisan watchdog over the financial management of the government. However, putting these principles into practice can be challenging since qualities – such as independence – need to be carefully crafted, measured, situated, and embedded in the legal and operational accountability framework.

For example, some observers believe that the South African Draft Audit Bill has misunderstood the need for independence (Gloeck 2003). According to this view, independence has been confused with providing a loose mandate that makes it difficult to construe a degree of accountability for the Office of the Auditor General.

Other even more critical voices argue that SAIs with their focus on managerial accountability should not be

viewed as a substitute for greater political and public scrutiny of government performance (Broadbent and Laughlin, 2003).

Internal Accountability and SAIs

Internal accountability refers to the checks and balances that exist within SAIs to ensure quality and accountability of operations and management. The systems put in place by SAIs vary across institutions. INTOSAI has established various sub-committees to agree on and promote professional standards for SAIs. ISSAI includes guidelines related to four areas: prerequisites for the functioning of SAIs, fundamental auditing principles, auditing guidelines, and guidance for good governance. These are intended not only to cover broad frameworks for institutional effectiveness but also to provide best practice guidelines and tools by topic area in addition to codes of ethics for public officials.

4 Conclusion

Given that the independence of SAIs is carefully defined and closely linked to legal and constitutional frameworks at domestic level, donors may find it difficult to call for external audits of SAIs as a means of assuring that these institutions will operate according to their mandates.

Other resources and mechanisms that can help assess the broader integrity frameworks in which SAIs operate include the SAIs strategic plan, Public Expenditure and Financial Accountability (PEFA) reports and other diagnostic studies, Country Financial Accountability Assessments (CFAAs) of the World Bank, and Reports on the Observance of Standards and Codes of Fiscal Transparency (ROSCs) of the International Monetary Fund. All these can provide relevant information on the integrity context for SAIs in developing countries and help inform donor perspectives and planning.

5 Further reading

The Lima Declaration

INTOSAI (1977). International Organisation of Supreme Audit Institutions

This declaration outlines the founding principles of Supreme Audit Institutions according to the International Organisation of Supreme Audit Institutions (INTOSAI)

http://www.issai.org/media%28622,1033%29/ISSAI_1_E.pdf

Characteristics of different external audit systems

DFID (2004). Department for International Development

This briefing note provides an outline of different external audit models and their implications for functioning and accountability

<http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/aboutDFID/organisation/pfma/pfma-externalaudit-briefing.pdf>

Working with Supreme Audit Institutions

DFID (2005). Department for International Development

Short guide outlining some of the key factors in working with SAI when engaging and designing programmes of support.

http://www.train4dev.net/fileadmin/Resources/General_Documents/DfID_Working%20with%20SAIs.pdf

6 References

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Rigsrevisionen (2007). The Auditor General Act, unofficial translation.

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The Office of the Auditor General of Norway, The Polish Supreme Chamber of Control, The Office of the Auditor General of Canada, The Swedish National Audit Office (2006). Peer Review Report: National Audit Office of Denmark.

http://www.rigsrevisionen.dk/media%28267,1033%29/Peer_review.pdf

Office of the Auditor General of Canada, Australian National Audit Office, Algemene Rekenkamer, National Audit Office UK (2008), International Peer Review of the Performance Audit Practice of the United States Government Accountability Office

<http://www.gao.gov/about/internationalpeerreviewrpt2008.pdf>

INTOSAI (2006). Sub-Committee 3: Promote best practices and quality assurance through peer reviews.

http://www.intosai.org/en/portal/committees_working_groups_task_forces/goal_2_capacity_building/sub_committee_3_promote_best_practices_and_quality_assurance_thr/

ISSAI (no date). ISSAI 20 Principles of Transparency and Accountability

http://www.issai.org/media%28794,1033%29/ISSAI_20_Endorsement_version_June.pdf

DFID (2004). Briefing: Characteristics of different external audit systems, Department for International Development

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<http://www.cmi.no/publications/publication/?3287=responding-to-the-challenges-of-supreme-audit>

Gloeck, J.D., (2003). Advancing or retreating in the quest to improve public accountability and government auditing? The South African Draft Public Audit Bill, Southern African Journal of Accountability and Auditing Research, Vol 4, pp.1-13.

<http://repository.up.ac.za/upspace/handle/2263/4084>

Broadbent, J. and Laughlin, R. (2003). Control and Legitimation in Government Accountability Processes: The Private Finance Initiative in the UK, Critical Perspectives on Accounting, Vol. 14, pp.23-48

http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6WD4-47CYF2M-2&_user=10&_coverDate=01%2F31%2F2003&_rdoc=1&_fmt=high&_orig=search&_sort=d&_docanchor=&view=c&_searchStrId=1261072046&_rerunOrigin=scholar.google&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=f43512e0f5c0a65c635347fbf5c9ad22