

EXTERNAL AUDIT AND OVERSIGHT TOPIC GUIDE

COMPILED BY THE ANTI-CORRUPTION HELPDESK

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Topic guides are a series of publications developed by the Anti-Corruption Helpdesk on key corruption and anti-corruption issues. They provide an overview of the current anti-corruption debate and a list of the most up to date and relevant studies and resources on a given topic.

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This topic guide provides an overview of the role of external audit and oversight in fighting corruption in public finance, and a compilation of the most up to date and relevant studies and resources on the topic.

EXTERNAL AUDIT AND OVERSIGHT

In addition to internal control and internal audit bodies, external oversight institutions such as supreme audit institutions or parliamentary committees play an increasing role in curbing corruption. The external audit of the budget is the stage where corruption should be detected and perpetrators held to account for their misuse of public funding. While corruption can affect the auditing process, the anti-corruption potential is arguably higher than corruption risks at this stage of the process.

SUPREME AUDIT INSTITUTIONS

The role of supreme audit institutions in fighting corruption

As a key element of the formal accountability system, supreme audit institutions (SAIs) have the mandate to scrutinise government transactions to ensure the accountability of public funds. They are in charge of conducting the external audit of public institutions across the public sector to ensure that the government's financial statement accurately reflects revenue collected and expenditures made, and that public funds are used according to the laws and regulations in place. Increasingly, SAIs also undertake value for money and performance audits to assess the agency's performance against its stated goal rather than just its compliance with rules and regulations.

As the last step of the audit cycle, the SAI prepares a report which is examined by the legislature to validate the work of the executive and follow up on problems identified by the SAI. Furthermore, audit reports provide the public with the information they need to hold their governments to account. As such, SAIs are playing a growing role in improving public financial management and accountability and strengthening good governance.

However, in practice, in many countries of the world, the external audit process faces challenges of independence, transparency, resources, capacity and political will of the executive and the legislature to implement the auditor general's report. This can significantly undermine the effectiveness of subsequent legislative scrutiny. In many countries, SAIs also face major capacity challenges, as the introduction of integrated financial management information systems (IFMIS), performance audits, and a multiplication of the number of institutions to be audited which add to the workload of SAIs that are often already strained by a lack of financial autonomy, human and financial resources and capacity. SAIs are also often subject to limited oversight and not immune to risks of undue influence or corruption in their operations.

ANTI-CORRUPTION TOOLS AND APPROACHES

Strengthening the external audit and oversight process is instrumental to allow SAIs to effectively play their role in detecting corruption and holding corrupt officials to account. In particular, they can contribute to identify and publicise areas of corruption risk, working more closely with other institutions, such as parliament, and publicise the recommendations of audit reports more widely.

- **Transparency.** Transparency is a prerequisite for strengthening external oversight and the role of civil society in the process. However, in many countries of the world, not all audit reports are made public and citizens do not have access to the auditor's report, which limits opportunities for public scrutiny. There are some good practice examples of SAIs involving civil society, particularly in audit planning, to better identify and better addresses corruption risks in the audit process.
- **Focussing audit planning on areas highly vulnerable to corruption.** SAIs have a key role to play in proactively identifying and monitoring emerging corruption risks. They can prioritise and focus their audit work on areas especially vulnerable to corruption, often as part of the audit planning process.
- **Working closely with other national institutions.** A strong and supportive institutional environment is critical, especially to ensure that effective mechanisms exist for implementing the recommendations of audit reports.
- **Institutional reforms.** It is also instrumental that SAIs have the independence, human, technical and financial resources and capacity to effectively fulfil their mandate.
- **The role of INTOSAI.** SAIs typically belong to a representative body – the International Organisation of Supreme Audit Institutions (INTOSAI) – which has established basic standards to guide SAIs' work and provides an international architecture for reform. INTOSAI is currently developing a guideline for the audit of corruption prevention in government agencies¹. By adopting this guideline, SAIs would become the first institutions in the PFM system to explicitly address corruption as part of their work.

LEGISLATIVE OVERSIGHT

The role of parliaments in external oversight

In most countries, parliaments have the mandate to approve the annual budget and oversee government expenditures throughout the budget cycle. In particular, parliaments have a key oversight role, normally ensured by the parliamentary public accounts committee, in scrutinising the final audit report after the budget has been executed and following up on the SAI's

¹ INTOSAI Draft Guideline 5700 for the audit of corruption prevention in government agencies: <http://www.issai.org/4-auditing-guidelines/guidelines-on-specific-subjects/>

recommendations. As an elected body, parliaments can facilitate public engagement with the budget process through consultations with their constituents.

However, oversight of government finances and operations is performed poorly by parliaments in many countries of the world, especially in developing countries, due to lack of resources, capacity and leverage, inadequate time scales and a non-responsive executive. Parliaments are also often unable to ensure that their recommendations are acted on, and the lack of enforcement mechanisms and incentives to impose sanctions has been identified as a major weakness of the external audit process.

ANTI-CORRUPTION TOOLS AND APPROACHES

To be fully effective in detecting corruption, legislative oversight requires appropriate parliamentary powers, resources and procedures, good executive accounting, reporting and transparency, skilled parliamentarians, and an independent and vibrant civil society. Initiatives aiming to strengthen the oversight role of parliaments often focus on institutional and technical capacity building. In addition, they can involve a number of measures:

- **Citizens' participation.** As already mentioned, civil society has an important role to play in supporting and contributing to audit and oversight work and increasingly shows commitment to the oversight process through various social audits and budget monitoring tools. This implies that all budget and audit documents are made publicly available.
- **Strengthening the capacity of public account committees (PACs).** Members of parliament often lack the technical capacity to fully play their oversight role due to the complexity of budget processes. PACs can meaningfully contribute to budget oversight, provided they are given appropriate technical, human and financial resources, as well as adequate powers and independence from the executive.
- **Strengthening the relationship between parliament and SAIs** is of decisive importance to ensure effective oversight of government financial operations, for example, with regards to the exchange of information, access to audit reports and follow ups on recommendations.
- **The role of international parliamentary associations.** Parliamentarians also work together to develop and exchange approaches to strengthen their role in curbing corruption in platforms like the Parliamentary Oversight Global Task Force of the Global Organisation of Parliamentarians against Corruption (GOPAC), or the Parliamentarians against Corruption platform of the Council of Europe's Parliamentary Assembly.

RESOURCES ON EXTERNAL AUDIT AND OVERSIGHT

Background studies

Supreme audit institutions and stakeholder engagement practices: a stocktaking report. Effective Institutions Platform, 2014.

[http://www.effectiveinstitutions.org/documentupload/Stock take report on SAIs and citizen engagement.pdf](http://www.effectiveinstitutions.org/documentupload/Stock%20take%20report%20on%20SAIs%20and%20citizen%20engagement.pdf)

This study summarises the potential for, and the benefits of civil society engagement in external auditing. It also elaborates on the conditions which will influence the possible format and scope of engagement between SAIs and CSOs. This includes: political culture and tradition of social accountability in the country, which may influence the legitimacy and acknowledgment of the need to engage citizens and their willingness to cooperate with SAIs; the individual role and mandate of the SAI and the resources available for the SAI's work; or the quality of linkages with other accountability institutions like anti-corruption agencies or the judiciary, to name but a few. The report also identifies risks for a closer engagement between SAIs and CSOs, among which are fears for undermining both parties' independence, objectivity and credibility, delays and higher costs of the audit process, and bureaucratic resistance (again, to name but a few). Several country case studies, from Argentina, Mexico, Korea, Indonesia and other countries, are also provided which makes this book a highly relevant resource for initiatives to strengthen CSO's role in external auditing with the purpose of combating corruption.

Maximising the efficiency and impact of supreme audit institutions through engagement with other stakeholders. Reed, Q., U4, 2013.

<http://www.u4.no/publications/maximising-the-efficiency-and-impact-of-supreme-audit-institutions-through-engagement-with-other-stakeholders/downloadasset/3277>

The paper focuses on how parliaments and NGOs can help SAIs improve both their audits and the impact of their audits. Its main insight is that both legislatures and non-state actors can, and should, be a useful source of audit initiatives, as well as a vehicle to disseminate findings and create pressure for follow up. A review of SAIs in Croatia, Macedonia, Montenegro and Slovenia shows that engagement with NGOs, parliaments and other stakeholders is essential to a well-functioning audit cycle. The paper recommends a more holistic approach to budget accountability that recognises SAI expertise and capacity as only one of the conditions necessary to ensure impact. Other recommendations include the need for an open procedure for audit selection and engagement with external counterparts. It concludes with suggested actions for donors, including assistance to NGOs to monitor the implementation of SAI recommendations.

Responding to the challenges of supreme audit institutions: can legislatures and civil society help? Van Zyl, A., Ramkumar, V., & de Renzio, P., U4, 2009.

<http://www.u4.no/publications/responding-to-the-challenges-of-supreme-audit-institutions-can-legislatures-and-civil-society-help/downloadasset/121>

This U4 Issue paper explores the challenges of evaluating the expenditures and performance of government agencies in detail and suggests how SAIs can overcome some of them by forming and strengthening alliances with parliaments and civil society. It proposes that, in circumstances where the legislature is weak, the SAI may need to stretch the letter of their mandate for the benefit of more effective application of public resources to development challenges.

Standards, principles and guidelines

Draft guideline 5700 for the audit of corruption prevention in government agencies. INTOSAI.

<http://www.issai.org/4-auditing-guidelines/guidelines-on-specific-subjects/>

Currently still a draft guideline, this is designed to help SAI auditors prepare, conduct and evaluate audit missions on anti-corruption policies and procedures in government agencies. It highlights anti-corruptive policies, structures and processes in these agencies and can be used as an audit tool by the auditors. However, it may also be used by the audited bodies (government departments, government institutions, and so on) as guidance for implementing and controlling their own anti-corruption activities. SAIs that do not have a mandate to conduct performance audits can use this guideline for internal purposes. While the period for commenting on this draft has already closed, adoption of this guideline is expected to take place not earlier than 2016, which demonstrates that the matter is a complex, and possibly controversial, one.

Practical insights: handbooks and toolkits

Addressing fraud and corruption issues when auditing environmental and natural resource management: guidance for supreme audit institutions. INTOSAI Working Group on Environmental Auditing, June 2013.

<http://www.environmental-auditing.org/LinkClick.aspx?fileticket=7/YFUCz/6Bk=&tabid=128&mid=568>

While focusing especially on audits of government programmes in the field of environmental protection and sustainable development, this resource contains a number of tools and approaches that can be applied to detect fraud and corruption in audits in all sectors. These include, for instance, an assessment of the internal control systems in place in the government organisation subject to audit, a sector-specific identification of typical corruption risks, sector-specific forms of fraud and corruption, and relevant tools to collect information.

Supreme audit institutions accountability for development. Deutsche Gesellschaft für Internationale Zusammenarbeit, INTOSAI, 2013.

ISBN 978-3-8487-1071-3 (not available online)

Concepts such as good governance, good financial governance and accountability have become increasingly significant in the international discussion. Supreme audit institutions are key pillars of accountability and good governance. They are important actors at the national level, as well as in the international development discourse. This volume of essays highlights the current international discussion and furnishes the reader with a wealth of information about ways in which the external audit function can contribute to good governance. It will provide the reader with fresh insights, inspiring suggestions and ideas.

Social audits as a budget monitoring tool. IBP, 2012.

<http://internationalbudget.org/wp-content/uploads/Social-Audits-as-a-Budget-Monitoring-Tool.pdf>

This report lays out the main elements of social audits in India and consolidates lessons from a horizontal learning exchange that took place between IBP partner organisations from India, Kenya, Mozambique, Cambodia and Indonesia. A part of the IBP's Learning from Each Other series, it lays out in a succinct format the key issues for implementing social audits for budget monitoring.

Good practices in supporting supreme audit institutions. OECD, 2011.

<http://www.oecd.org/dac/effectiveness/Final%20SAI%20Good%20Practice%20Note.pdf>

The guide describes the SAI community and how SAIs are currently working together internationally to help strengthen the capacity of members, and outlines ways donors can contribute to this process. In particular, the guide outlines recommendations on how donors can best support this process by working together to: develop and support long-term capacity development projects; ask SAIs to audit donor-supported projects; help raise the profile of the SAI; and utilise the results of SAI audits 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.

The CDF social audit guide: a handbook for communities. Open Society Institute, 2008.

<http://www.opensocietyfoundations.org/publications/cdf-social-audit-guide-handbook-communities>

This handbook is designed to assist community groups and individuals to understand the Constituency Development Fund (CDF) process in Kenya and to provide information and skills on how to monitor these through social auditing. The social audit process involves scrutinising details of a public project at a public meeting, including the management of finances, officers responsible, record keeping, access to information, accountability, levels of public involvement, and so on. It seeks to evaluate how well public resources are being used and how to improve performance. It also aims to ensure maximum community participation.

Financial oversight: a handbook for parliamentarians. Johnston, N., World Bank Institute, 2007.

http://gopacnetwork.org/Docs/Oversight_handbook_EN.pdf

This book suggests how parliamentarians can increase the effectiveness of their oversight function in the strengthening of parliament's role and capacities during the preparation of the budget (ex-ante oversight), as well as for the oversight over the execution and the implementation of the budget (ex-post oversight). The guidebook points to techniques and procedures that have been successfully employed in parliaments worldwide. The book has been adapted to country-specific contexts (for Bangladesh and Arabic countries) and is available in English and Arabic.

Resources from Transparency International's Anti-Corruption Helpdesk

Auditing the auditors: international standards to hold supreme audit institutions to account. Clench, B., 2010.

http://www.transparency.org/files/content/corruptionqas/238_International_standards_to_hold_audit_institutions_to_account.pdf

This Helpdesk answers tackles the question of whether there are internationally agreed standards or guidelines with respect to external audits on SAIs and how SAIs are held to account. The paper concludes that there are no internationally agreed guidelines for external audits of SAIs. INTOSAI provides international guidelines on key principles for SAIs and encourages peer reviews of SAIs. Summarised, it is found that accountability of SAIs is usually vis-a-vis the legislature or the judiciary.

The role of supreme audit institutions in combating corruption. Evans, A., 2008.

<http://www.u4.no/publications/the-role-of-supreme-audit-institutions-in-combating-corruption/downloadasset/400>

The paper gives a comprehensive overview about the role of SAIs in anti-corruption. It focuses on concrete activities that SAIs can undertake, techniques to be acquired, and audit focuses to be changed for anti-corruption efforts. It concludes that the role of SAIs in fighting corruption is primarily an indirect one, centring on deterrence and prevention. Successful approaches include identifying and publicising areas of corruption risk, working closely with other institutions and publicising the recommendations of audit reports more widely.

Actors and stakeholders

Parliamentary oversight global task force. GOPAC.

<http://gopacnetwork.org/programs/parliamentary-oversight/>

GOPAC is an international network of parliamentarians dedicated to good governance and combating corruption throughout the world. GOPAC facilitates an exchange of information and analysis, works towards establishing international benchmarks, and to improve public awareness through a combination of global pressure and national action. The parliamentary oversight global task force of GOPAC focuses on financial and operational integrity which includes the on-going review of all government revenue and expenditures, legislation and other parliamentary rules establishing government financial control practices. It also includes legislation and other rules which guide and enable parliament to oversee the implementation of UNCAC.

Parliamentarians against corruption' platform of the Council of Europe's Parliamentary Assembly PACE.

<http://website-pace.net/web/apce/anti-corruption-platform>

PACE's new anti-corruption platform, launched on 8 April 2014 in Strasbourg, creates a space for dialogue on this fundamental threat to European values, and helps to promote transparency and honesty in public life. It brings together elected representatives from the parliaments of the 47 member States of the Council of Europe and of non-member states, with experts and other stakeholders to share information, spread good practices and debate how to deal with new forms of corruption. The objective to engage parliamentarians in this is two-fold: to support the work of parliamentarians as responsible guardians in their national parliament and to support the implementation of GRECO recommendations, the Council of Europe's anti-corruption body, into national legislation.

The International Organisation of Supreme Audit Institutions (INTOSAI)

<http://www.intosai.org>

INTOSAI operates as an umbrella organisation for the external government audit community. INTOSAI provides an institutionalised framework for supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries. INTOSAI facilitates the development and endorses the international standards of supreme audit institutions guidelines for carrying out audits in the individual fields of government activity.