



STRENGTHENING SUPREME AUDIT INSTITUTIONS

Little is known about the actual functioning of Supreme Audit Institutions (SAIs) in developing countries: What can SAIs achieve? What effects do audit reports actually have?

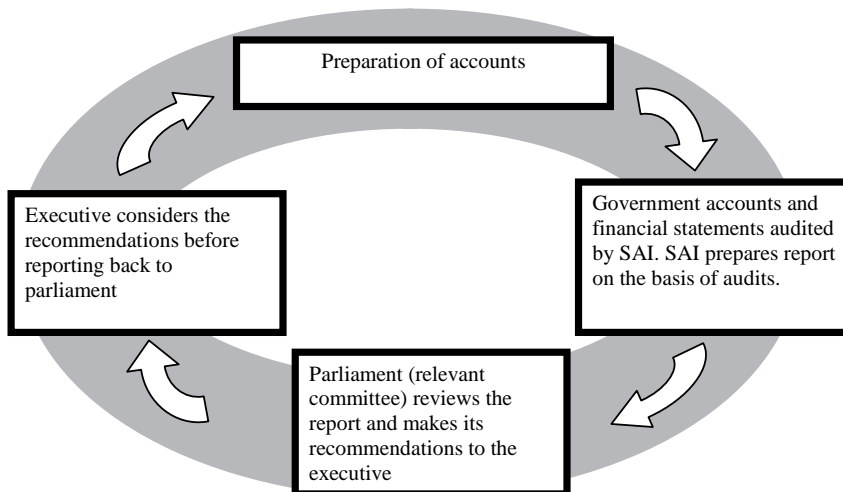
Audit is inherent in public financial administration to secure the proper use of public funds. Supreme audit institutions (SAIs) play a crucial role in terms of checking governmental treatment of public funds.

SAIs must ensure that public resources are spent according to political decisions; that funds are distributed in consistence with stated objectives, and that corruption is avoided.

The importance and relevance of the accountability function of supreme audit institutions have increased both towards the domestic population and towards donors. An increasing amount of aid is provided as direct budget support, and poverty reduction strategy paper processes (PRSPs) in sub-Saharan Africa have made sound auditing processes even more important in recent years.

This brief presents the main findings from a study that compared the SAI in Malawi, Uganda and Tanzania focusing on the institutional and relational aspects affecting their performance.

The Westminster Model



In this model, there is a close relation between the SAI and the public accounts committee and other committees in parliament that review the audit report. The SAI is dependent on the parliament to act upon its reports for audits to be effective, implying that with an impotent legislature that does not fully discharge its duties the value of external public auditing is considerably reduced. In other countries, this institution may stand outside the parliament, and in yet others it is part of the judiciary.

Systems of Governance

Uganda stands out with its so-called no-party democracy. Notably this system will be transformed into a multiparty system before the March 2006 presidential and parliamentary elections. Both Tanzania and Malawi introduced multiparty systems in the early 1990s. Yet, while Tanzania has had one dominant party in power, the three democratic elections in Malawi (1994, 1999 and 2004) have not resulted in a dominant party system.

Current challenges

The organisational structure and capacity has not been sufficiently adjusted to cope with an increased scope of responsibilities. The funding is scarce and serves as a constraint on their capacity.

Weakness in Mandate

The scope of responsibilities (jurisdiction) of the audit raises issues of concern. Limited access to information, and a considerable part of the spending categorised as classified expenditure seem to be a greater concern in the case of Uganda than in Tanzania and Malawi. Yet, new legislation has increased the scope of auditing. The level of expenditure outside the scope of the supreme audit institutions has been reduced in all three countries. The 2003 Public Finance and Accountability Act, allowed the Ugandan SAI to audit classified expenditure under specified conditions, reporting to a special committee. The results of this remain to be seen. In Tanzania the SAI is compromised as it reports to parliament through the ministry of finance and the executive thus can exert undue influence on the SAI in relation to reporting. The Uganda and Malawi SAIs report directly to parliament.

Lack of Resources

SAIs are not able to fulfil their assigned tasks due to lack of finances, infrastructure and human capacity. The supreme audit institutions have been unable to keep up with the technical development. Initiatives within the general framework of the poverty reduction strategy process (i.e. public financial management reform) have been centred on government ministries, and audit institutions have been sidelined. None of the three countries' audit systems have the necessary expertise or financial resources to carry out adequate performance audits.

Lack of Autonomy

The President appoints the Auditor General in all three countries. The appointment of the Auditor General must be approved by the parliament in Uganda and Malawi, but this is not a requirement in Tanzania. The Tanzanian president alone holds power to appoint, which enhances his leverage over the auditor general. Potentially he is able to exert undue influence on the auditor general in issues of appointment and removal. In practice, there is so far no evidence that presidential discretionary powers have led to unwarranted dismissals. The effect of this hidden threat should not be underestimated.



According to the International Organization of Supreme Audit Institutions, auditing is performed to ensure:

1. Proper and effective use of public funds
2. Development of sound financial management
3. Proper execution of administrative activities
4. Publication of objective reports

Insufficient budget forces the auditor general to spend time lobbying donors and the ministry of finance for money undermining his independence.

Parliament Lacks Resources and Leverage

Parliamentary committees report that they are constrained by lack of resources and leverage. The situation is most alarming in Malawi. The government of Malawi only provides funds for plenary sessions. In the last four years, donor support has allowed some committees to meet on a regular basis, most notably the budget and finance and public accounts committees. This has improved the oversight function of the legislature, but this form of donor dependency may create a legitimacy problem as to who the committee is accountable. The Ugandan parliament and committees appear to be in a better position to follow up on audits. Its oversight committees, particularly the Uganda public accounts committee (PAC), appear to have exploited the opportunities to hold the executive accountable to a greater extent than in Malawi and Tanzania. An explanation of this may be the considerable openness of committee proceedings. The Uganda PAC and to some extent the Tanzania PAC, have gained a modicum of strength in acting upon the SAI reports. However, party discipline/movement discipline and executive dominance constrain the accountability function of parliament in all three countries.

The Importance of Timely Reporting

The failure to report to statutory deadlines diminishes the practical relevance of the audit report in the budget and financial management process. Despite improvements, supreme audit reports are habitually delayed in Tanzania, Uganda and Malawi.

The Tanzania SAIs' reports are delayed to the extent that they are irrelevant in the budget preparation- currently 18 months after the end of the fiscal year.

Auditees' Late Releases of Accounts

Late releases of accounts contribute to constrain and delay the work of the SAIs. The statutory national financial reporting deadline is not met in either country. Weak internal auditing adds to the workload of the SAI and diminishes the effect of external audit. Internal auditing in all three countries requires considerable strengthening. The formal framework has been reinforced in Tanzania, and contrary to Uganda and Malawi IA is now a statutory obligation. The Malawi ministries



and departments are not timely in submitting their financial statements. The reports are therefore delayed and the SAI has no punitive measures available. In Uganda the auditor general and his staff time and again run into difficulties in accessing the necessary information and documentation so that the national audit report can be completed on time. In Tanzania a gradual improvement has taken place and now accounts, especially central government accounts, are available on time.

Weak Links to Media and Civil Society

Neither of the SAIs has developed functioning media strategies. Relations to civil society are hampered by weakly developed media coverage of audit findings. The interactions between SAIs, civil society organisations and the media seem best developed in Uganda. Members of the public accounts and budget and finance committee of the Malawi parliament emphasised its working relationship with civil society in terms of analysis and follow up of audits and the budget process.

Lack of Action

The real weakness of the SAI performance is, however, that its recommendations are not acted upon. The same problems are repeated in the reports year after year underscoring lack of enforcement mechanisms and incentives to impose sanctions, partly rendering the auditing a cosmetic exercise. Government agencies, local governments and parastatals are rarely held accountable for mismanagement. The executive's response is often poor and therefore an issue of continuing concern. Although the executive frequently acts in response to the SAI report, "the general view is that such action is selective, only

targeting those who have no patrons up in the hierarchy." As one of the directors of audit in Uganda readily admitted "I would say that about 30-40% of the process is cosmetic. The net cannot catch the big fish because of the positions they are in".

Limited Donor Coordination

In highly aid dependent developing countries the donors are also indirectly and directly involved in the national budgetary process. Limited donor coordination and off-budget donor funding remain a concern as this undermines the budget as a tool to coordinate and determine the distribution of limited resources. The SAI-donor relationship is particularly problematic in Malawi. This is partly due to an inconsistent and turbulent process of general budget support. In Tanzania and Uganda donor harmonisation is well developed, with the poverty reduction budget support/poverty reduction support credit in Tanzania generally considered as particularly well-functioning. The share of direct budget support and support on a "basket" and sector-wide basis is increasing especially in Tanzania and Uganda.

Conclusions

In terms of both institutional capabilities and relational resources, our findings suggest an informal 'ranking'; the supreme audit institution in Uganda performs slightly better than its Tanzanian counterpart. The Malawian auditor general lags behind. However, the Ugandan oversight institutions and functions have been established within the movement system, where presumably 'everyone agreed on the basic principles'. Now moving to a competitive and more conflict prone political situation, government commitment to the oversight institutions is challenged.

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Policy Implications

Donor Coordination

Coordination of support, both to the SAI and to the recipient country in general, is arguably the single most important contribution that donors can make both in order to facilitate the work, and to make the institution more relevant.

Long-term Support

Donor initiatives in relation to the SAI, have frequently been short-term, uncoordinated and focusing on technical assistance. The SAIs need capacity-building over time: they need trained staff, infrastructure and reliable finances.

Focus on Basic Auditing

In addition to the regular financial and compliance auditing, performance auditing have been introduced in Malawi, Tanzania and Uganda. Performance auditing developed in industrialised countries partly in response to a demand from parliamentarians for advice on how to increase the efficiency of government and thus obtain better value for the taxpayer's money. Performance auditing is a specialised form of auditing and cannot neglect and surpass basic auditing.

There is reason to question the rationale behind introducing performance audits in countries struggling to carry out the traditional types of audit. At the moment none of the three countries' audit systems have the necessary expertise or financial resources to carry out adequate performance audits. With SAIs lacking qualified accountants, forcing them to embark on more complex auditing processes requiring also other specialised staff (i.e. lawyers, political scientists), seem a futile activity. Currently, we would advise donors to focus their attention on basic audit functions rather than resource and skill demanding special audits.

Enforcement and Incentive Mechanisms

There is little help in strengthening the SAI alone, if its reports are not followed up. Strengthening oversight committees in parliament is one way to approach this problem. Another is to look at the legal framework. Overall, the parliaments, civil society and donors have shown increasing commitment to the oversight process. However, at the moment there are few incentives for the executive to follow up on committee recommendations.

General Audit Literacy

To the SAIs the lack of interaction with the media represents a lost opportunity to promote themselves and their work. Media and civil society could function as resources to the SAI and have not been sufficiently exploited. The media could for instance aid in building audit literacy and suggest sites for audit. In Malawi press reports about corruption has functioned as important sources of information for the auditor general. However, none of the SAI in this study has an explicit media strategy. To strengthen audit literacy in the media, economic and analytic journalism should therefore be a priority.

Conclusions

SAIs supply the information needed by the legislature and the public to hold governments accountable for stewardship of public funds and assets. As such, good governance requires effective SAIs that can limit opportunities for financial malpractice and the abuse of power. Strengthening the Supreme Audit Institution is strengthening one of the key pillars of a country's national integrity system. Yet, SAIs cannot be seen in isolation. They are as dependent on their relational resources as its institutional capabilities. Unless Parliament does its job and follows up on the recommendations made by the SAI, nothing happens. Overall the CMI study showed that the parliaments, civil society and donors increasingly show commitment to the oversight process. It is time to focus on the implementation of audit findings. A good place to start is to strengthen Public Accounts Committees in Parliament, to focus on the executive and their incentives to follow up on SAI recommendations.

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