



Responding to challenges of Supreme Audit Institutions: Can legislatures and civil society help?

Albert van Zyl, Vivek Ramkumar, and Paolo de Renzio

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Abstract

The gaps between approved budgets and the realisation of policy and development goals stand among key governance challenges in many developing countries. Supreme Audit Institutions (SAIs) play an important role in holding governments to account. However, many SAIs face serious challenges when trying to evaluate the expenditures and performance of government agencies.

This U4 Issue Paper explores those challenges 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.

Given their central role in funding governance reform, donors have a potentially key role to play in supporting SAIs. Existing support could be made more efficient if related interventions were better coordinated and if underlying political dimensions were taken into account. Donors could also play an important role in financing innovative partnerships between SAIs, legislatures, and civil society.

1. Introduction

Governments not spending according to approved budgets, poor quality of budget information, and inefficiencies in service delivery are factors that impact severely on development processes in many developing countries. While ideally governments should be held accountable for these failings by competent external auditors, among others, many Supreme Audit Institutions (SAIs) face serious constraints in fulfilling their mandate.¹ This U4 Issue Paper explores how SAIs can overcome some of these obstacles by forming and strengthening alliances with parliaments and civil society.

SAIs were established to fulfil a financial auditing function — i.e. to provide assurance that a government's financial statements fairly reflect the revenues collected and expenditure incurred, and to determine whether an implementing agency had appropriate authority for transactions undertaken and acted in accordance with relevant laws and regulations. Over the last 20 years, however, the demands on SAIs have expanded to include considerations of how well government bodies perform their work, typically looking at the economy, efficiency, and effectiveness of service delivery. Citizens and their elected representatives increasingly demand that SAIs go beyond judgments of compliance and accuracy to also evaluate government performance and the value for money obtained through government transactions.

In addition to expanding expectations, SAIs have also been challenged by the poor links between the audit function and the exercise of legislative and budgetary power. SAIs have found that it is not sufficient for them to identify errors, possible fraud or examples of poor financial management, but that it is also necessary to identify ways to ensure that their findings are acted upon by the executive.

Given the constraints under which many SAIs operate, such challenges may seem insurmountable. However, in this paper we argue that legislatures and civil society organisations (CSOs) can play an important role in helping SAIs respond to these challenges. While CSOs and legislators cannot assist with a number of the SAIs' technical tasks, they can help overcome certain political and communication challenges.

Given the necessary independence of each of these institutions and their complex relationships with the executive branch, formal institutional relations are not always possible or desirable. It is more realistic to envision informal and strategic interactions between SAIs, CSOs, and legislatures based on case-by-case consideration, because in many contexts, they may be required to adopt very different and sometimes opposing positions (Krafchik 2003).

The suggestions that are made throughout this paper imply that SAIs should play a more proactive role than is often attributed to and played by them. In most commonwealth countries they have a narrow mandate to report to the legislature. In this paper we propose that in circumstances where the legislature is weak, SAIs may need to stretch the letter of their mandate for the benefit of more effective application of public resources to development challenges.

In what follows we consider the role of SAIs in public resource management (section 2) and discuss some of the challenges they face in greater detail (sections 3 and 4). Subsequently we explore how CSOs and legislatures can help them respond to these challenges (sections 5 and 6), and what SAIs themselves can do to facilitate closer cooperation with these actors (section 7).² Section 8 considers the role that donors can play in supporting closer cooperation between CSOs, legislatures and SAIs. Section 9 concludes the Issue.

¹ Supreme Audit Institution is a collective noun for all the national institutions that are responsible for the external auditing of government accounts.

² Although the executive, international organisations, and other actors also can play a role in reinforcing the audit function, we will not consider their potential role in this paper.

2. The role of SAIs in public resource management

Decisions about how to allocate public funds between agencies and activities reflect a government's policy and service delivery goals. But decisions about where to spend money are only effective if such money is actually spent as intended, and if this money is spent in the appropriate way. SAIs are among the most important agencies for ensuring that this actually happens. Though the government itself plays the primary role in implementing the budget, it is the SAI that checks whether the budget has been implemented appropriately.

In most countries the legislature should play an important role in enforcing audit findings and recommendations. However, it is the SAI that generates the investigations of the government's budget execution and diagnoses potential problems. Furthermore, the reports of the SAI are the only independent source of information on budget implementation. As such, they are often the only source of reliable information on the government's efficiency and effectiveness available to the public.

The 1977 Lima Declaration states that through their auditing work, SAIs should pursue the following four objectives:

1. communication of information to public authorities and the general public through the publication of objective reports
2. development of sound financial management
3. proper execution of administrative activities
4. proper and effective use of public funds.³

Various types of audits

Financial auditing assesses the accuracy and fairness of both the accounting procedures utilised by a government agency and the financial statements it produced. The primary question that it investigates is: "Do the audited statements or reports accurately portray the financial condition and/or activities of the audited entity?" Without such audits it is very unlikely that we would know what the government does with public resources because reliable documents with this information would not be otherwise published.

Compliance audits assess whether funds were used for the purposes for which they were appropriated by the legislature and in compliance with the relevant laws and regulations. The primary question that they ask is: "Did the audited entity comply with applicable laws and regulations?" Transactions are reviewed to determine whether government departments and agencies conformed to all pertinent laws and regulations. Without compliance audits we would not know, for example, whether budgeted resources were spent on the items approved by the legislature.

Some SAIs — mostly in developed countries — have started moving beyond these basic audit functions to evaluate "the proper and effective use of public funds." This has led them to explore **performance audits**, also known as **value for money (VFM) audits**, audits that analyse cost-effectiveness (economy), operational efficiency, and the general effectiveness of government programs in achieving their objectives. The National Audit Office-UK reports that:

³ The Lima Declaration of Guidelines on Auditing Precepts was adopted by the delegates of the 9th INTOSAI conference in Lima (Peru) October 1977. The chief aim of the Lima Declaration is to call for independent government auditing. The International Organisation of Supreme Audit Institutions (INTOSAI) operates as an umbrella organisation for the external government audit community. Its aims are 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 was founded in 1953 when 34 SAIs met for the 1st INTOSAI Congress in Cuba. At present INTOSAI has 188 Full Members and two Associated Members.

twenty four of the 25 EU Member States' SAIs carry out performance audits ... While performance audit is generally interpreted as referring to economy, efficiency, and effectiveness, different countries interpret this in different ways. In France, the focus is on the achievement of desired objectives which it undertakes through programme evaluation. In Portugal, performance audits tend to focus on developments against past performance, rather than benchmarks of good practice. (2005:12)

There are also some interesting examples of performance audits from outside the circle of high income countries, e.g. Brazil and South Africa. DFID reports that from 1998 to 2006 it funded two technical assistance projects to support the Brazilian Court of Audit (Tribunal de Contas da União, TCU), with the primary goal of using enhanced audit approaches to reduce social inequalities (2006). The projects have evaluated nearly 60 programmes on such themes as "Assisting Disabled People" and "Basic Sanitation", considering three main equity issues:

1. equality of geographical distribution of resources
2. equality of access to goods and services by individuals or user groups
3. equality of results achieved by the programs.

Without VFM audits we would not know whether implementing agencies used public resources in the most efficient and effective way possible. They are, therefore, an integral part of the process of ensuring that the budget implementation process pursues policy objectives to the greatest extent possible.

Some observers view performance audits as a luxury that poor countries cannot afford and argue that the core business of SAIs should remain financial and compliance audits. Given that the service delivery performance of government is the chief concern of citizens, however, it is difficult to see how SAIs can avoid evaluating performance in the long term.

The section above described what SAIs should do. However, many SAIs fail to meet these standards, especially in developing countries. The following section explores in more detail the difficulties involved in achieving these aims.

Box 1: The UN Convention against Corruption and the auditing of public finances

The United Nations Convention against Corruption (UNCAC) has been recognised internationally as a framework for the fight against corruption. It provides new avenues and guidance for national policies and measures, directed not solely towards anti-corruption, but also toward basic values of good governance more broadly. In this regard, the convention contains provisions that are directly linked to the issues discussed in this paper.

In one of its overarching provisions (Article 5), the Convention asks states to “develop and implement or maintain effective, coordinated anticorruption policies that promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency and accountability.” This phrase demonstrates a broad understanding of the term “anti-corruption” including all public policies involved in or targeted towards increasing public transparency and accountability, hence also the auditing of public expenditures and performance.

Article 6 calls for “the existence of a body or bodies, as appropriate, that prevent corruption by such means as ... Implementing the policies referred to in Article 5 of this Convention and, where appropriate, overseeing and coordinating the implementation of those policies”. If one considers that anti-corruption spreads into all public areas — as UNCAC claims — SAIs may be understood as anti-corruption bodies.

The Convention makes reference to the auditing of public finances and institutions on several occasions. In Article 9 (2), for example, it obliges states to take measures to promote transparency and accountability in the management of public finances. In subsection C it specifically demands a system of accounting and auditing standards and related oversight. One paragraph further, states are also asked to preserve the integrity of accounting books, records, financial statements, and other documents related to public expenditure and revenue.

According to Article 13 on the participation of society, each state is obliged “to promote the active participation of individuals and groups outside the public sector ... in the prevention of and the fight against corruption and to raise public awareness regarding the existence, causes and gravity of and the threat posed by corruption”. This provision would demand the state to ensure, amongst others, that the public has access to information as well as the opportunity to participate in key accountability processes, such as external auditing for instance.

Finally, SAIs may also be eligible for technical assistance by other states, as stated in Article 60: “Each State Party shall, to the extent necessary, initiate, develop or improve specific training programmes for its personnel responsible for preventing and combating corruption. Such training programmes could deal, inter alia, with the following areas: ... (d) Evaluation and strengthening of institutions, public service management and the management of public finances, including public procurement, and the private sector”.

UNCAC is progressively being used to politically legitimise corruption preventive activities of SAIs and cooperating institutions, as well as an instrument to facilitate dialogue and cooperation between different actors. The conference on “Challenges in implementing UNCAC” organised by the Chilean Supreme Audit Institution together with UNDP and GTZ, in October 2008 serves as an example (Contraloría General de la República de Chile 2008) . Other SAIs in the region are beginning to follow a similar approach.

3. What are the challenges that SAIs face?

We noted above some of the challenges faced by SAIs. These challenges will be discussed further below, classified as relating to institutional, technical, political, and communication issues.

3.1. Institutional challenges

SAIs face the same challenges as other government institutions in developing countries. In many poor countries, the SAIs simply lack the capacity to fulfil their functions. They are underfunded, understaffed, under skilled, and constrained by very narrow mandates (World Bank 2001). In a review of SAIs in East Africa, Rakner and Wang conclude that “the supreme audit institutions are not able to fulfil their assigned tasks due to lack of finances, infrastructure and human capacity.” (2005: v) This is also the experience of SAIs in many other developing countries.

The 2006 Open Budget Index (OBI), an independent, comparative measure of the transparency and accountability of government budgets, reports that in 29 of the 59 countries surveyed the funding allocated to the SAI was not sufficient to enable it to fulfil its mandate.⁴ The results of such budget shortfalls are poor quality audits, limited numbers of audits, and delays in the release of audit reports.

The OBI also reports that in 30 of the 59 countries, SAIs did not release audit reports within 12 months of the end of the fiscal year. In the worst cases SAIs simply do not exist or do not produce any audit reports, as was the case in four of the countries surveyed in the OBI. Certainly, delays in the preparation and submission of accounts contribute to the delays in the preparation of audit reports, but the SAIs’ own lack of capacity should also be acknowledged as a major contributing factor.

3.2. Technical challenges

Developments in information technology and new approaches to public financial management have generated new technical challenges for SAIs. In order to perform their basic financial audit functions, the technology skills of auditors need to be strengthened so that they can effectively monitor electronic transactions, such as e-procurement, and obtain access to government systems and data. In their review of East African SAIs, Rakner and Wang point out that “supreme audit institutions have been unable to keep up with 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.” (2005: v)

While posing a challenge for the SAIs now, the move from paper-based to computerised systems should help SAIs become more efficient and effective in the long run. Investments to increase the technical capacity of SAIs to use these systems could therefore realise significant returns.

As mentioned above, the demand is growing for SAIs to go beyond only assessing the financial management process and to start evaluating the value added by government actions. In the words of the head of the Finnish SAI:

To serve living democracy, audit is expected to have more focus on the quality of governance and on the critical and objective appraisal of the effectiveness of various public policy programmes. Audit will be closer to the challenges of economic and fiscal policy. Public audit has to ensure that structures, procedures, management and actual behaviour of the governance and managements system use resources according to the democratic decisions and produces the results and services — the common goods — intended by democratic decision-makers (Pöysti 2007:2).

⁴ The OBI is a research initiative of the International Budget Partnership. For more information on the OBI and countries that it covers, visit www.openbudgetindex.org.

In most developing countries, SAIs are stretched to perform the most basic of audit functions, which means that they are incapable of moving into the field of VFM audits. This is deeply ironic because the question of the quality and impact of public spending probably needs most attention in precisely these countries. The stories of poor quality and wasteful spending on infrastructure projects in developing countries abound. Some of this waste could be detected through financial and compliance audits, but problems such as the usage of inferior and insufficient building materials, purchase of poor quality school text books or poor treatment of patients at clinics require VFM audits. Admittedly the lack of technical capacity is not the only constraint on VFM audits. In most countries VFM are also politically constrained by the lack of an appropriate mandate.

3.3. Political challenges

The political challenges facing SAIs are twofold: they need to protect their independence and to impose their recommendations on the executive. Many SAIs are exposed to undue political influence. The 2006 OBI reports, for example, that in 16 of the 59 countries surveyed the executive could remove the head of the SAI from his or her post without consulting the legislature. The ability to dismiss the head of the SAI unilaterally is a very effective measure of control, especially in parliamentary systems where power and control of the SAI is concentrated with its chief official. It also means that only people who are politically loyal to the government are appointed to senior SAI positions in the first place, which compromises the institution's objectivity.

The 2006 OBI found that out of 59 countries, 13 faced severe legal constraints on what they may audit. The political reality is far worse. A 2001 INTOSAI survey shows that in 63 of 113 countries, SAIs felt that there was significant room for improvement in their managerial and administrative autonomy (Krafchik and Ramkumar 2005:7).

SAIs can also be kept in check by the executive that controls their budgets. Out of the 59 countries included in the 2006 OBI, 21 countries had the budget of the SAI determined by the executive. In the INTOSAI survey cited above, SAIs in 73 of the 113 countries surveyed felt that there was significant room for improvement in their financial autonomy. Control over SAI budgets gives the executive the ability not only to influence directly what gets audited and reported, but also the power to indirectly control the scope of SAIs' work. A SAI's budget determines the number and level of salaries that can be paid, the number of audit that can be conducted, and the extent to which audit reports can be distributed and communicated. In this way control over finances gives the government unhealthy control over the ability of SAIs to audit their agencies and ministries.

The second political challenge SAIs encounter is that they lack sufficient authority to ensure that audit findings and recommendations are acted on within the public resource management process. In many cases SAIs manage to conduct timely audits and make good recommendations for corrective action, only for these to be ignored or not fully implemented by the executive. As we shall see below, judicial audit systems can enforce their recommendations legally, but even under these systems, there are cases where political impunity means that these recommendations are still ignored or that the offending officials are not sanctioned. We deal with the challenge of follow-up in more detail in section 6.3 and 7 below.

3.4. Communication challenges

Closely related to the political challenges is the challenge of improving communication between SAIs and legislatures, CSOs, the media, and the public. If the legislature and CSOs cannot understand the meaning or significance of audit reports or communicate their concerns to the SAI, audits will have less impact.

According to DFID:

The relationship between SAIs and Parliaments is often one of the weakest links in the accountability chain ... frequently the SAI may do little more than send its annual report to Parliament. Although Parliament may use the report as the basis for its own review, there is commonly little communication about its contents, the lines of investigation to pursue or the means of following up findings (2005:6).

Communication between CSOs and SAIs is generally even less developed.

One of the key problems is often that audit language is extremely technical and inaccessible to people from outside of the accounting community, such as legislators and CSO representatives. As Sigma states, "The writing style of audit reports can ... play an important part in generating interest in the issues from Members of Parliament and others. Reports should be clear and concise, but with sufficient evidence to convince an objective reader ... of the validity of the audit findings." (2001:25)

An example of typical audit report language from the audit report of the British Department for Work and Pensions Resource Accounts 2005-6 is provided to underline this point:

In 2005-6, the Department introduced a new customer overpayment management and accounting system known as Debt Manager. Introduction of this system in the Department validated the valuation balances transferred from the existing debt systems. Based on the Audit Office's review I am satisfied that the opening balances in Manager were accurately migrated from heritage systems and that subsequent recoveries arising in 2005-06 were appropriate (NAO 2006)

In order to follow this report, one needs the definitions, history, and context of each of the following terms: "customer overpayment management and accounting system," "opening balances," "validated the valuation balances," "migrated," "heritage systems," and "recoveries." And this is just one paragraph. Section 17 of the Lima Declaration therefore encourages SAIs to develop audit reports which "present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand." (INTOSAI 1998)

4. Audit models and their specific challenges⁵

Most of the challenges described above are fairly common in developing countries. All audit systems are however not alike, and different SAI models encounter unique challenges. We discuss the three main audit systems and some of the unique challenges they face below.

4.1. Westminster model⁶

Under the Westminster model, the work of the SAI is intrinsically linked to the system of parliamentary accountability. The legislature authorises expenditure and revenue, government departments spend and produce annual accounts, and the SAI audits the implementation of the authorised expenditure and reports back to the legislature.

The SAI examines the government accounts from two perspectives. The financial audit tests the accuracy of the financial records and the reliability of the systems underlying them, and examines whether the accounts are in agreement with the records and thus fairly represent the transactions. Compliance audits complements financial audits by ensuring that expenditure is in accordance with the intention of the legislature, has been authorised by the Department of Finance, and complies with the provisions of the relevant statute, regulations or other rules. The SAI's relationship with parliament

⁵ This section draws extensively on DFID 2004 and 2005. More detailed descriptions of typical Westminster (Ireland), Board (Netherlands) and Judicial (France) systems are contained in the appendix.

⁶ Also known as the Anglo-Saxon or parliamentary model.

is essentially a reporting one, exercised by way of audit and annual financial reports, which form the basis of parliament's examination of state revenue and expenditure.

Under the Westminster model, the SAI is generally directed by a single chief official, often called the Auditor General, who may be an officer of parliament. As the model's name suggests, this system applies in most Commonwealth countries, a few European countries, e.g. Ireland and Denmark, and some Latin American countries, such as Peru and Chile.

Given the centrality of the legislature in this model, it requires knowledgeable and actively involved legislators for it to function properly. If the SAI submits reports to the legislature and these are not read, understood, and acted upon, the system breaks down. In such cases, the legislators may not detect or understand important audit findings, or may not follow up on the implementation of audit recommendations by the executive.

Unlike its counterparts in the judicial system, the SAI in a Westminster system cannot impose its recommendations on the executive directly. The model depends entirely on the legislature being willing and able to hold the executive to account. Where legislatures are weak, the model is ineffective, regardless of the state of the SAI. These systems are, therefore, particularly prone to the political challenges that we described in the previous section.

4.2. Board or Collegiate model

The basic structure of the board accountability model is very similar to the Westminster model, with key differences in the internal structure of the audit institution. As with the Westminster model, the SAI still reports back to the legislature on the way in which authorised expenditure and revenue was affected. But rather than having a single head, the SAI consists of a number of members who form its college or governing board and take decisions jointly.

Given the central role of the legislature in the board model, the problems they face are similar to those faced in countries with Westminster models. This system is in place in certain European countries, e.g. Germany and the Netherlands, in some Asian countries, including Indonesia, Japan, and the Republic of Korea, as well as in Argentina.

4.3. Judicial or Napoleonic model

Under this model, the SAI is an integral part of the judicial system and operates independently of the executive and legislative branches. A complementary high-level system of parliamentary accountability for public expenditure is normally in place, but the SAI is a court of law, and its members are judges who can impose penalties or recommendations on audited officials.

In the judicial system, officials of the Ministry of Finance are based in line ministries and other bodies, and act as public accountants. They are responsible for the proper expenditure of funds and for drawing up the annual financial statements of the spending body. These "comptables," or public accountants, are normally held personally liable for the sums involved should an unauthorised or illegal payment be made.

The SAI audits the annual financial statements prepared by the public accountants. The SAI judges the legality of the public accountant's actions and can either discharge them from further liability, if satisfied that the transactions were legal, or impose a penalty where illegal transactions are identified.

At the end of the financial year, the SAI also prepares the State Account, reporting on public expenditure as a whole and drawing on its findings from the audit of individual public accountants as well as from wider analytical review procedures. It presents this report to the legislature, and on the basis of this report, the legislature can discharge the executive as a whole for the year if it is satisfied with the way it has managed public funds.

This system is in place in the “Latin” countries in Europe; Turkey; francophone countries in Africa and Asia; and in several Latin American countries, including Brazil and Colombia.⁷

Judicial systems are by their nature very formalised, with extensive checks and balances. Where key players do not understand their roles or do not have the skills and integrity to fulfil them, this complex system can be difficult to operate. In such circumstances, the SAI may descend into a formalism in which controls are applied mechanically or not at all (DFID 2004:7).

Judicial systems also tend to focus on compliance with detailed rules and regulations to ensure that money has been properly spent (DFID 2004:8). This raises the risk of failing to focus on the bigger picture of how well resources are being used (economy, efficiency, and effectiveness of expenditure). Especially in developing countries judicial systems may therefore tend to be less suited to conduct VFM audits and to examine the effectiveness of budget implementation as a whole.

In these systems the limited role of the legislature can also reduce the openness of the accountability process. There tends to be less debate on the court’s findings, and the process of holding officials to account remains relatively closed (DFID 2004:8). Therefore, the judicial model may be more vulnerable to the communication challenges referred to above. Because the legislature is not as involved, less of the relevant documentation is likely to find its way into the public domain. And given the formal nature of the court system, fewer citizens are likely to participate in these deliberations.

In the next sections we consider how legislatures and CSOs can help SAIs respond to some of the challenges outlined above. We also reflect on how SAIs can make it easier for these two actors to support them.

5. How can legislatures support SAIs in responding to these challenges?

The extent to which legislatures reinforce the work of SAIs depends on the capacity of the former as well as the accountability framework within which it operates. The electoral system, party structure, amendment powers of the legislature and design of the budget process are among the factors that determine the accountability framework and the overall capacity of legislatures. A thorough examination of how these factors influence accountability systems and the constraints of the legislature more generally is however beyond the scope of this paper.

In most audit systems, Public Accounts Committees (PACs) or their equivalent play a particularly important role in the relationship between legislatures and SAIs. The PAC is the body that digests audit reports and recommendations for the legislatures and recommends subsequent action. There are a number of institutional factors that specifically impact on the effectiveness of PACs. According to Stapenhurst, Saghal and Pelizzo, these factors include the PAC’s access to appropriate analytical and research capacity, its authority to investigate all past and present government expenses, and to follow up on government action in response to its recommendations (2005).

In principle, PACs should be very well placed to support SAIs in the audit follow-up process. They have the right to call all the relevant officials to testify, they normally have the right to obtain information and investigate widely, and in most Commonwealth countries the PAC has a broad mandate that allows it to review any current or past government financial activity. The PAC is also normally a very prestigious committee to sit on, and its Chair is often a respected legislative figure from the main opposition political party.

⁷ The “Latin” countries in Europe usually refer to France, Spain, Italy, and with variations Portugal, Romania, and Moldova.

In the remainder of this section we describe some of specific practices that PACs and legislatures undertake in support of the work of SAIs.

5.1. Institutional challenges – identifying audit priorities

Where there is a weak link between a SAI and the legislature, the SAI could benefit substantially from involving the legislature in determining its audit program and priorities. There are many formal and informal means by which the knowledge of the legislature can be integrated into decisions on what to audit without undermining the independence of the SAI.

Legislators, especially those who sit on PACs, often have extensive experience of overseeing service delivery and/or access to substantial information networks that can help SAIs identify audit projects. On a more mundane level, the timing of the release of audit reports can often have significant positive and negative political ramifications. For all these reasons, legislatures could play a beneficial role in audit planning.

A fairly common model for involving the legislature is found in Canada where the SAI will consider requests from parliamentary committees and audit the relevant subject matter if deemed appropriate. Another innovative mechanism used in Canada is that the SAI answers letters from parliamentarians. These letters are considered by individual audit teams when planning their work (Sigma 2001: 126). These letters pertain to a variety of subjects, including queries about the SAI's past or ongoing work and requests that certain matters be audited.

Some SAIs go further in involving the legislature in their planning process. Sigma reports that before the Algemene Rekenkamer (Netherlands Court of Audit) publishes its programme, parliament receives a draft plan (2002: 67). With the State Expenditure Committee (Netherlands' PAC) acting as an intermediary, parliamentary committees are asked to put forward proposals for audits or adaptations of proposed audits. Several of these proposals have led to new audits or changes in the programme. In Hungary, the SAI president only determines the content of the annual audit programme after consulting with the PAC (Sigma 2001: 18).

In a number of countries the process of legislature input is more closely regulated. In Malta, for example, the PAC can request an audit, investigation or other review from the National Audit Office (NAO), but such requests have to be made by at least three members of the committee. While honouring these requests is not strictly mandatory, the Auditor General seldom refuses requests as long as they are reasonable and within the mandate of the NAO (Sigma 2001:87).

In Slovenia, the PAC can request an audit from the Court of Audit, and again such requests are not considered mandatory. The Court of Audit can thus refuse such requests, but at least once a year it must submit a report of its work to the parliament that includes a list of all audit proposals made by deputies and working bodies of the parliament and a clear indication as to which audits took the proposals into account (Sigma 2001:87).

Even in judicial systems where legislatures play a less important role in the audit process, there are examples of the legislature providing input into the planning process of the SAI. In Portugal, for example, the parliament may request that the Court of Auditors (Tribunal de Contas) carries out audits of any and all entities, public or private, subject to its powers of control (Sigma 2002: 73).

5.2. Political challenges

Involving other partners

Public legislative hearings on audit reports can have a multitude of benefits for SAIs. Firstly they provide access to the full array of non-legislative actors — CSOs, academics, and professional bodies — to present further evidence on and insight into the audited entities.

Making the PAC hearings open to the public also creates pressure for the executive to implement the recommendations of the SAI and PAC. Once audit recommendations are public, the media also reports on them, which opens the process to even more people and creates more pressure on government.

Despite these benefits, a 2001 Commonwealth Parliamentary Association Survey found that in 32 out of 70 countries, PAC hearings were not open to the media and general public (Wehner 2002:21). It is likely that in the more formalised judicial model, the system is even more closed.

PACs are also in a good position to mobilise other legislative committees to support the work of the SAI. In some Commonwealth countries extensive relationships have been established between SAIs and other committees in the legislature. Some examples of the results of these relationships are joint hearings between PACs and departmental committees, and SAI support to departmental committees through advice and secondments.

In Canada, other standing committees (apart from the PAC) of the House or Senate also hold hearings on audit report chapters. The SAI attends 15 to 20 such hearings in a year (Sigma 2001:124). These interactions provide important links between PACs, SAIs, and departmental committees that could ensure the flow of information from departments to the SAIs, and generate pressure for the implementation of audit findings in the relevant departments.

Endorse and follow up on recommendations

As we indicated above, the key role of the legislature is to give political support to audit recommendations. At least in parliamentary and board systems, audit recommendations have little force until they have been endorsed by the legislature. Therefore, one of the most important things that the legislature can do for the SAI is to promote their recommendations in the political realm.

As is evident all over the developing world, even SAI recommendations that *have* been endorsed by legislatures are often not implemented sufficiently by government departments. When this happens, the SAI and the legislature could cooperate to draw attention to such oversight and give fresh political impetus to these recommendations.

It is generally the SAI that will discover through subsequent audits the poor implementation, or complete disregard, of previous findings. But there are a number of specific things that PACs can do to help. Good practices in this regard include:

- **Regularly following up on implementation:** it is not necessary to wait for subsequent audit reports before calling a department back to report on the implementation of audit findings
- **Making such follow-up meetings open to the media and the public:** this will publicise progress on the audit recommendations and create further pressure for implementation
- **Limiting the time that the executive has to implement audit findings:** when an audit finding is particularly negative, the PAC could insist that corrective action be taken in a specific timeframe.

6. How can CSOs help SAIs respond to the challenges?

Despite the best efforts of legislatures and SAIs, ensuring that audit recommendations are implemented has proven extremely difficult in developing countries (Krafchik 2003). For this reason many SAIs and donor agencies have started to look to CSOs for further support.

The relationship between legislatures and SAIs is institutionally and legally embedded, while the relationship with CSOs is less formally structured. The opportunities for SAIs to partner with CSOs

are at an historical high point and audit-related initiatives conducted by CSOs have grown exponentially in recent years.⁸

Explorations like these are manifested in meetings such as the two-day conference in Manila, the Philippines, on Dialogue on Civil Society Engagement in Public Accountability. In November 2006, the International Budget Partnership (IBP), the United Nations Department of Economic and Social Affairs and the Eastern Regional Organization for Public Administration co-hosted this conference that brought together representatives of CSOs and officials from public audit institutions from six countries, including India, South Africa, the Philippines, Argentina, South Korea, and Mexico (Ramkumar 2007:6). This meeting explored a variety of ways in which CSOs and SAIs can cooperate, some of which are discussed below.

6.1. Institutional challenges – blowing the whistle

CSOs have the networks and expertise to detect potential cases of corruption in public expenditure and to report these to SAIs.

In 2008 La Asociación Civil por la Igualdad y la Justicia (ACIJ), a human rights organisation in Argentina, released a documentary film that reported on the poor quality of schools in slums in Buenos Aires. For several years, ACIJ had documented the poor quality of school construction in these neighbourhoods and had demanded increases in government investments in these schools. ACIJ staff members presented their findings to the city audit office. Impressed by ACIJ's findings, audit officials have since agreed to undertake their own audit investigation into the functioning of these schools.

In 2007 the Honduran Tribunal Superior de Cuentas (the national SAI) initiated a pilot program to solicit greater public participation in its audits. The SAI selected eight agencies, including hospitals, schools, and municipalities, for audits. The selection of these agencies was based on public input received at a meeting organised by the SAI. Subsequently, the SAI sought and received public complaints regarding the functioning of these agencies, and these complaints were investigated and incorporated into the SAI's audit reports. The resulting audit reports were discussed at another public meeting organised by the SAI, which was also attended by officials from the audited entities, who were asked to respond to the audit findings. An assessment of the initiative found that a large number of audit findings reported from these pilot audits originated from public input and would probably not have been identified through a regular audit investigation.

In 2001 the South Korean Board of Audit and Inspection (BAI) introduced a Citizens' Audit Request System to allow citizens to request special audits from the BAI on public agencies suspected of corruption or legal transgressions. Applications are made under this scheme to a Citizens Audit Request Screening Committee, which comprises citizens and audit officials who screen requests to identify those that merit a full audit. This body also provides a barrier against the capture of these channels of participation by specific interest groups.

Further, some local governments have decided to address complaints and grievances filed by citizens by appointing citizen auditors. These auditors, who are not public officials, are appointed to review petitions for a certain period and, if necessary, to conduct audits and to notify the petitioners of the results. Citizens also are encouraged to file petitions with the BAI under a Civil Petitions Reception System, and against public agencies through a variety of media, including the internet and a 24-hour

⁸ In 2008, the IBP released a publication titled *Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures*, which presents case studies on ten innovative tools used by CSOs in Asia, Africa and Latin America to monitor and audit government expenditures. The publication showcases the increased capacity within — and great interest on the part of — civil society around the world to hold governments accountable for the use of public resources.

toll-free hotline. About 8 000 reports are filed every year. Under the Advance Notice Audit System, the BAI notifies citizens in advance of planned audits and requests them to provide feedback to help with audits.

6.2. Communication challenges – increasing budget literacy

Experience from a number of countries suggests that an environment, in which the public understands the essentials of public financial management, as well as the significance of audit findings and recommendations, would be very supportive to SAIs. Such support includes members of the public reporting suspected financial misconduct, or advocacy for the implementation of key audit recommendations.

CSOs have a proven track record of building citizen literacy on the basics of public financial management. One prominent example is Procurement Watch Inc. (PWI) in the Philippines, which provides training courses on procurement law for CSOs and individuals. They have been successful in building a cadre of citizens who have the capacity to monitor public agency procurement practices and to demand changes when corruption occurs.

Another example is the Public Sector Accountability Monitor (PSAM) in South Africa, which maintains a scorecard of public agency performance. This database is used to educate the media, other civil society organisations, and individuals on specific problems with public financial management in agencies identified in reports released by the public auditor.

6.3. Political challenges – responding to public pressure

CSOs obviously do not have the same institutional platform as legislatures from which to ensure that audit recommendations are implemented. They can, however, play a role by publicising these recommendations and any possible inability or unwillingness to implement them. In some countries CSOs use audit findings to pressure governments to take corrective action. A good example is the work of PSAM in South Africa.

In 2000 PSAM began drawing public attention to the implications of the large number of “audit disclaimers” being issued by the South African Auditor-General (A-G) to public service delivery agencies in the country’s Eastern Cape province.⁹ Between 1996 and 1999 audit disclaimers were issued to 12 of the province’s 13 major public agencies. Provincial ministers responsible for these agencies expressed little interest in rectifying the problems identified by the A-G, which subsequently had been referred to the provincial legislature’s Standing Committee on Public Accounts (SCOPA). In 2002 the A-G revealed that provincial ministers had not responded to a single SCOPA resolution passed in the seven financial years between 1995 and 2002.¹⁰ In response, PSAM began a campaign to highlight in the South African media the impact of audit disclaimers. It issued press releases and provided non-technical explanations to radio and newspaper audiences. By tabulating the amounts of the provincial budget that had been issued with “disclaimer” audit opinions at the conclusion of annual financial audits, PSAM set out to quantify the extent to which the provincial administration had been unable to properly account for the budget it had been entrusted to manage.

⁹ An audit disclaimer indicates that the auditors were unable to express an opinion on the accounts presented to them. This may be due to the inability to obtain sufficient evidence; or may be due to substantial doubts about the integrity of evidence presented to them.

¹⁰ See General Report of the Auditor General on the Accounts of the Eastern Cape Provincial Administration for the Financial Years 1997-98 and 1998-99, PR62/2000, Part 1, section 6. This report notes that SCOPA “has pursued its mandate with commendable diligence during the past number of years and has conducted hearings on a number of audit reports. However, the committee is being frustrated in its effort to contribute to proper accountability since not one of the Committee's resolutions tabled in and accepted by the legislature since its inception, has been responded to by the accounting officers concerned.” This finding is also repeated in the Interim Management Team Report, June 2003, p. 17.

For instance, in 2002, PSAM pointed out that the province could not properly account for 82 percent of its budget, as over 17 billion of the province's 21 billion South African Rand budget had been issued with audit disclaimers. It also calculated these amounts cumulatively across fiscal years to put pressure on the provincial executive and administration to strengthen their financial controls and improve their record keeping.

As a result of an extended publicity campaign by PSAM, the South African cabinet dispatched an Interim Management Team to Eastern Cape province in 2003 to assume joint management of its finances. As a result, in 2005 audit disclaimers were issued for only 54 percent of the total provincial budget expenditure, a drastic reduction from the 2002 total of 82 percent. In 2007, the percentage of disclaimers issued to provincial agencies fell to a historic low of two percent.¹¹

Perhaps more significantly, in the wake of this campaign, Eastern Cape agencies began to include targets for unqualified audit opinions in their strategic plans starting in 2004.¹² In addition, starting in 2007, the performance agreements of the heads of key service delivery agencies began to include the achievement of an unqualified audit report and the development of "remedial action plans to address outcomes of Auditor-General's findings and recommendations" among their key performance measures.

6.4. Technical Challenges

Various examples show that CSOs can assist further than just blowing the whistle, in providing assistance with some aspects to the audit process itself, especially with performance audits — an area where SAIs in poor countries are severely challenged.

In 2002, the Philippines' national Commission on Audit (COA), the country's SAI, entered into a partnership with several non-governmental organisations to conduct participatory audit exercises. The exercises focused on performance audits, which assess the impact of the audited government program or project to determine whether it has achieved its anticipated results. Audit teams included members from COA and non-governmental organisations. The teams received joint training on conducting participatory audits before they began auditing.

COA officials also cooperated with PWI by providing it with access to procurement documents of agencies it was auditing in order for it to test a tool that measures corruption in procurement processes. PWI's specialisation in procurement systems and its advocacy on improving procurement law made it a potentially critical ally for auditors in strengthening their own capacity to perform specialised procurement audits.

In India, the well-known MKSS sponsored public hearings to provide platforms for citizen-beneficiaries to comment on the effectiveness (or lack thereof) of government programs that could then be integrated into the findings of official performance audits.¹³ Public hearings of this kind can provide the public auditor with critical evidence on the proper use of funds for public projects or programs. In addition, the auditor can engage beneficiaries and residents of public projects or programs in the course of conducting performance audits.

¹¹ See www.psam.org.za for details.

¹² The audits issue an unqualified audit opinion when they are satisfied that the financial statements fairly presented to them fairly reflect the financial transactions of the entity.

¹³ The MKSS (Mazdoor Kisan Shakti Sangathan) is a social movement based Rajasthan, India that pioneered social audits and a right to information campaign. See <http://www.mkssindia.org/>

Inspired by the MKSS social audit process, the Andhra Pradesh state government is leading a campaign on social audit in collaboration with a consortium of non-governmental organisations.¹⁴ Local communities are provided with information on the use of funds under the “National Rural Employment Guarantee Scheme” and social audit forums are organised to discuss the legitimacy of expenditures incurred under this scheme. Findings from social audits are immediately acted upon by the state government to improve the functioning of the scheme. In the state of Rajasthan, frustrated by the poor implementation of its recommendations, the public auditor’s office has shared findings from some of its audit reports with the MKSS and invited it to publicise the results so that action is taken against errant agencies.

7. How SAIs can unlock the support of legislatures and civil society

As indicated in the previous two sections, legislatures and CSOs can assist SAIs with a number of challenging tasks. One of the most important factors in the relationships between SAIs, legislatures, and CSOs is the definition of SAIs as “independent” institutions. In most countries, the legal mandates of SAIs include some reference to their independence. Section 5-7 of the INTOSAI Lima Declaration also makes provision for the institutional and financial independence of SAIs (INTOSAI 1998).

The independence of SAIs can however be overstated. Where it is used to protect against politically motivated interference, this independence serves its purpose. But where it isolates the SAI from what could be helpful relationships with legislatures, CSOs, and other actors, it becomes counter-productive.

However, SAIs may need to interpret their mandates more broadly in order to unlock the assistance to be derived from legislatures, CSOs, and citizens more generally. It is widely known that especially in poorer countries, SAIs have had limited success in having their findings accepted and implemented by the government. In order to address this challenge, we argue that SAIs could stretch their mandates by being more assertive in the promotion of their work and findings (Krafchik and Ramkumar 2005).

In the next few paragraphs we present some of the initiatives that SAIs themselves can undertake to invite greater assistance from legislatures and CSOs.

Report on time

Probably the single most important step that SAIs can make to mobilise the help of the legislature, CSOs, and citizens is to make every effort to report on time. One of the most persistent problems in audit systems is the late submission of final accounts by implementing agencies and the late release of audit reports by SAIs. As was reported in the 2006 OBI, more than half of the 59 countries surveyed could not produce audited accounts within 12 months of the end of the fiscal year.

The first consequence of such delays is impunity. Wrongdoers know that there will be long delays before their deeds are uncovered and by the time all is revealed, very few people will still be interested. In some African countries, delays of two to three years are common, meaning that the audit period often spans elections, so there is even less likelihood that violations will be sanctioned.

Apart from these consequences, delays in the release of audit reports also make it almost impossible for the legislature to plan its deliberations on audit reports. As a result important reports arrive at times

¹⁴ The MKSS uses government financial statements in public hearings to facilitate structured and focused discussions among residents on development funds spent in government-sponsored projects in their communities.

when the legislature cannot deal with them or a large number of reports arrive at the same time and are not given sufficient attention.

Help others to understand

Apart from some generic practices like clarity and succinctness, some of the other ways in which SAIs can ensure that their potential partners penetrate the technical nature of audit reports could include:

- **Produce glossaries of technical terms.** A good example is the UK that has reproduced a glossary of Privatisation and Public Private Partnership terms prepared by an INTOSAI working group¹⁵
- **Produce non-technical summaries of reports** with key findings included. Many SAIs do produce summaries of their findings, but these are often not very easy for non-specialist audiences to understand
- **Limit the length of audit reports and place technical details in annexes.** Again the UK NAO provides a good example to follow by starting their reports with a short point-form summary of its key findings
- **Indicate priority of audit findings.** Some findings are much more important and significant than others; the audit report should direct the readers to the most important aspects and not leave them to guess.

SAIs should not limit their efforts to improving the accessibility of their reports. DFID encourages SAIs to be even more proactive in their communication campaigns, arguing that

publicity can be used as a tool to highlight the SAI's findings and any subsequent reports by the PAC and make it more difficult for the government not to respond to recommendations. The SAI should prioritise its findings and recommendations and make them accessible and easy to read. It should actively seek to report on "sexy", high value issues — corruption, gross mismanagement, failure to deliver the services which voters are particularly concerned about — which will be attractive to members of the PAC (Public Accounts Committee, see section 5 above) and encourage them to act on the SAI's reports (DFID 2004:5).

As the DFID report suggests, improving communication with legislatures and CSOs can have wider benefits than just strengthening interaction with these bodies themselves. While these institutions are consumers of information produced by the SAI, they also can assist with the process of making the SAI's work more widely known. Once the legislature starts deliberating on an issue, it is often open to the public and the media, and a SAI can use this channel to help gain wider publicity for its work. The wider dissemination of audit findings can, in itself, create pressure on the executive too, although the effect of such pressure would depend on the political will and capacity of government.

Direct assistance

Empowering members of parliament and CSOs creates an audience for the difficult technical content produced by SAIs. Not many people have the capacity to engage with SAIs reports, so training them give SAIs an opportunity to increase the number of people who can receive, read, and respond to their reports. Such training could be made available to the media for the same reasons. Apart from its obvious role in publicising audit findings, the media is also an important source of information for many legislators.

In some countries, institutional reforms have been undertaken to improve the communication between SAIs and legislatures. In many Commonwealth countries, SAIs and legislatures have created a parliamentary liaison office/officer. The creation of a liaison institution can ensure continuity and

¹⁵ http://www.nao.org.uk/intosai/wgap/glossary_pop.htm

availability and send a strong signal of cooperation and goodwill. Such units' responsibilities may include maintaining day-to-day contact and communications with the relevant parliamentary committees. In this capacity, the parliamentary liaison unit can ensure that the SAI is aware of current parliamentary interests and concerns that may need to be considered in developing the annual audit programme. The unit can also ensure that interested legislators are kept informed of SAI work that may be of material interest to them. And the liaison unit can provide a useful channel through which legislators can convey their views to the SAI on matters of mutual interest.

In some countries, the SAI also helps the PAC prepare for hearings. In Canada, the PAC's research staff will meet with the responsible audit teams prior to hearings. This process helps the research staff to better understand the subject matter and allows them to better prepare the committee members for the actual hearing (Sigma 2002: 52). In Malta, the NAO (the national SAI) prepares a list of questions concerning the issues on which the PAC is holding hearings. Following a PAC meeting, the NAO identifies the recommendations made by the PAC and subsequently follows up on progress by the ministry concerned (Sigma 2001:93).

Asking for help

As we indicated above, there are a number of mechanisms for soliciting the help of the legislature in deciding which entities to audit and which issues to examine.

Even though audit proposals from legislatures should not be binding to the SAI, one would still like to ensure that such proposals are seriously considered. The Slovenian system is interesting from this perspective. The SAI isn't bound to accept such proposals, but they must report on those received and give a clear indication of which audits have taken the proposals into account.

There are a number of ways in which SAIs can encourage input from citizens and CSOs as well. In addition to formal bodies that involve and consider CSO proposals, many other countries use "consumer" offices and hotlines to encourage the broader population to report on any problems in budget implementation. Fraud hotlines are used by SAIs in many countries — including the United States, the United Kingdom, and South Korea — to encourage the public and whistleblowers to provide information on suspected irregularities in the management of public funds.

Facilitating follow up

As indicated earlier, one of the central challenges that SAIs must overcome is that their recommendations are ignored or not implemented by government departments. A number of countries have put in place interesting mechanisms to address this problem.

In Hungary, SAI reports often include very specific recommendations for action by the government. In response, the audited body has to prepare an action plan based on these recommendations, which is tracked by the SAI. The SAI also comments in subsequent reports on how the audited body has responded to the recommendations (NAO 2005:15).

A number of SAIs publicise progress against their recommendations. In France, the Cour des Comptes follows up every three months on whether audit recommendations have been implemented (NAO 2005:15). The Austrian SAI's annual report includes a list of recommendations from previous years and the action taken to implement them. The German SAI publishes an Audit Impact Report that highlights the action taken in response to its audit recommendations (NAO 2005:15).

8. What donors can do?

The previous sections looked at the different ways in which legislatures and CSOs can assist SAIs in addressing the challenges they face and in becoming more effective agents of budget accountability. This section addresses the more specific issue of how donor agencies can assist and facilitate that process.

Donor efforts to improve governance in recipient countries date back almost two decades, along with the increasing recognition that institutions play a vital part in determining the development performance of countries. Given their importance in ensuring a more effective use of foreign aid funds, Public Financial Management (PFM) systems have been the focus of increased attention on the part of donor agencies. According to the OECD Development Assistance Committee data, donor funding for PFM programs increased from about \$150 million in 1996 to \$700 million by 2005. Yet, the greatest part of these funds has been channelled to the executive branch of government, and more specifically to Ministries of Finance, to promote a number of reforms linked to budget coverage and classification, medium-term expenditure frameworks, IT-supported automated financial management systems, and performance-based budgeting.

While these programs address vital areas in PFM, they largely overlook key aspects of budget accountability and, therefore, weaken some of the broader checks and balances needed to ensure that public spending is efficient and effective. Direct donor involvement with SAIs is a more recent phenomenon and tends to involve a limited number of donor agencies. In recent years, for example, the World Bank, regional development banks, the Swedish agency SIDA, the UK's DFID, and the European Commission have all increased their focus on the quality of audit processes in recipient countries, partly because of the need to account for increasing aid flows delivered as direct budgetary support. Generally speaking, such SAI support has taken the form of technical assistance programs, through which a combination of external expertise, training, capacity building, and necessary equipment are provided to assist SAIs in carrying out their functions more effectively. For example, this support can help SAIs to increase the number of audits that they carry out or to shift their focus from verifying compliance to assessing performance. In some cases, such interventions are coupled with higher-level policy pressure through conditionalities linked to policy lending or budget support, which set more specific targets for the SAIs' audit responsibilities (see Box 2 for more information).¹⁶

The limits of past donor interventions

While these efforts can only be welcomed from the broader perspective of strengthening budget accountability, at the same time many of them suffer from some important limitations. The first one relates to their narrow technocratic focus, which assumes that the only constraining factor for SAIs is a lack of technical capacity and means to do their job. While this is clearly a key factor, donor interventions often do not tackle some of the more important underlying weaknesses, which are likely to be linked to the political and political economy forces at play.

In some cases, legal frameworks for the audit function may not provide sufficient independence and political protection to the SAI, as highlighted above. While these are clearly more difficult issues for external players to address, they nevertheless have the potential to nullify or greatly reduce the effectiveness of interventions aimed exclusively at filling a capacity gap.

A second limitation deals with the fragmentation and lack of coordination with other donor initiatives to improve budget accountability. For example, there may be little integration of support for SAIs into efforts that aim to strengthen the role of legislatures and CSOs in budget accountability processes.

¹⁶ For a discussion of World Bank and Inter-American Development Bank funding to audit agencies, see Santiso 2006

Box 2: Budget Support and Auditing by SAIs

In recent years several donor governments and multilateral organisations have begun to channel more aid money not through projects but through either sector support or general budget support. Providing money that governments can allocate through their national budget cycles is intended to build more efficient and accountable governance in recipient countries. This practice is commonly known as budget support. So far only five percent of total aid is spent through budget support, but in some countries as much as 20 percent of aid money is provided in this way (Hayes and Zyl 2008). Budget support funds are combined with the government's own budget funds and therefore the use thereof can no longer be explicitly tracked. The recipient country manages such funds in accordance with its own budgetary regulations.

Submitting evidence to support the proper and orderly use of budget funds is central to financial management and subsequent audits. Since this evidence cannot be submitted to the donors' governments and parliaments showing exactly how the budget support funds have been utilised, a large number of donors rely on estimates of the fiduciary risk as to how recipient countries will manage and administer the budget support received before they actually grant budget support. For this purpose, they carry out a comprehensive analysis of the PFM system of the recipient country. Such analyses are based on tools developed by the World Bank and the International Monetary Fund.

In the last few years, the willingness to initiate reforms in the recipient countries and the pressure to bring about substantial reforms have considerably helped enhance the conditions in which SAIs operate in some recipient countries. In 2007, the SAI of Nicaragua, for example, audited for the first time ever the budget settlement reports of the Ministry of Finance.

In addition to traditional forms of technical assistance, there have been a number of innovative coordinated or joint audit assignments by the SAIs of recipients and the donor countries. One example of a joint initiative taken by some donor SAIs is the Harmonization in Overseas Audit Practices, which undertook a pilot study both in Zambia and Tanzania to test cooperation between audit teams from some donor SAIs with the respective local SAI (Wingerde and Voogd 2005, Cosmo 2007). Another example is Vietnam, where donors have several times commissioned the local SAI to audit programmes and projects funded by Official Development Assistance (ODA) and which provided the local SAI with an audit fee for this work.

The success of such joint audit exercises is dependent on the negotiation of the mutual interests of the participating governments. Donors would for example be interested in good financial management while recipient governments would be disinclined to reveal audit findings that would jeopardise their access to ODA.

Almost in parallel to the increasing focus on strengthening audit institutions, donor agencies have started providing support to other agencies that have an important role to play in holding government accountable for the way in which it uses public resources: PACs (and the offices that provide them with technical support) and various civil society groups, from national-level policy advocacy organisations and research centres, to community-based groups that monitor the implementation of government programs. The underlying principle is always the same, to promote a more holistic approach to improving budget systems and results by helping put in place the necessary institutional checks and balances.

Unfortunately, many of these different programs work in parallel, with separate budgets, separate implementation arrangements and separate specialised expertise, thereby preventing some of the possible synergies described in previous sections from taking place. Of course such holistic support of the broader audit system must not substitute programs designed for strengthening of SAIs but rather complement them.

What should donors do

Four major recommendations for donors arise from this discussion:

1. **Donors should** review the arrangements under which programs in support of SAIs, legislatures, and CSOs are implemented, in order to **promote a more holistic approach to budget accountability** that takes advantage of the possible synergies among these different actors. A better coordinated approach entails not only improved integration within a single donor agency that supports more than one of these actors, but also arrangements to bring different donor agencies (and their implementing partners) together, in order to discuss avenues for collaboration and opportunities for dialogue
2. **Donors should improve their understanding of the formal and informal mechanisms that underlie the effectiveness of budget accountability processes.** Such an understanding will allow them to **provide more targeted and effective support** to the different actors involved in the process, as well as to identify entry points for reform efforts which address political economy constraints to improved budget accountability
3. **Donors could also encourage and fund innovations in SAIs through pilot projects that replicate best practices in collaboration between SAIs, PACs and CSOs** (some of which are mentioned in this paper)
4. **Lastly donors should encourage governments to become more transparent** through adoption of access to information laws, better disclosure practices, inclusive/participatory budget and oversight forums that enable the public to complement the oversight provided by SAIs.
- 5.

9. Conclusion

The gaps between approved budgets and the realisation of policy stand among key governance challenges in many developing countries. Governments and donors mobilise funds and allocate them to social services in amounts that are sufficient to make a difference in the lives of the intended beneficiaries. But through a combination of poor financial management practices, poorly skilled service providers, and corruption, these goals are not achieved to any significant degree. Except for the allocation of funds, SAIs can play a key role in all the phases of the public resource management process. For this reason they are key actors in the development process.

If SAIs are to fulfil this role, they will not only need to reinforce their technical capacity, but also play a role in mobilising the political momentum needed to have their findings implemented. The “audit activism” that Krafchik and Ramkumar refer to may be controversial (2005). It does however seem necessary if the budget implementation challenges faced by many developing countries are to be addressed.

In this U4 Issue Paper we have outlined where SAIs struggle to perform their tasks and how legislatures, CSOs, and donors can support them. Admittedly, SAIs, legislatures, and CSOs are not the cure-all for problems in poor countries, especially where they have limited capacity themselves. A stronger partnership between them can, however, start to address some of the key problems.

As indicated above, developing countries that follow the Judicial/Napoleonic audit model may face difficulties monitoring overall economy, efficiency, and effectiveness of expenditure. In countries with this audit model, CSOs and the legislature may also have a particularly important role to play in opening up the accountability process, as they are better placed than the courts of accounts to communicate and draw the broader population into the process.

For the Westminster audit model, the challenge lies in the implementation and follow up on audit recommendations. In this system, the SAI does not have the same legal authority as in the Judicial model and, therefore, relies almost exclusively on political pressure. Given their mandate, SAIs generally do not play much of a role in building such pressure. For this they need the legislature, CSOs, and the broader public.

In this Issue Paper we also consider a number of things that SAIs themselves can do to generate support from legislatures and CSOs. Apart from the number of specific practices and recommendations presented here, the central imperative is for SAIs to expand the audience for audit reports. It is only when people understand the nature of SAIs' work and the significance of their recommendations for socio-economic development that government departments will be pressured into making the changes that will render budget implementation efficient and effective.

Given their central role in funding governance reform, donors have potentially a key role to play in supporting SAIs. We argued above that their existing support could be made more efficient if related interventions were better coordinated and if underlying political dimensions were taken into account. Donors could also play an important role in financing innovative partnerships between SAIs, legislatures, and CSOs, as well as applying even greater pressure on aid-receiving governments to improve the quantity and quality of information that they make public.

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11. Appendices

Box 3: A Case study of an SAI using the Westminster model: The Irish Comptroller and Auditor General

The role of the Comptroller and Auditor General is to audit government accounts for accuracy and regularity and to report to Parliament [Dáil] on this work, along with value for money assessments. The Comptroller and Auditor General examines the appropriation accounts from two perspectives. The financial audit work tests the accuracy of the records and the reliability of the systems underlying them, and examines whether the accounts are in agreement with the records and so fairly represent the outturn. In addition, regularity audits ensure that expenditure accords with the intention of the Dáil and has been authorised by the Department of Finance, and that the provisions of the relevant statute, regulations or other rules have been complied with.

The Comptroller and Auditor General's relationship with Parliament is essentially a reporting one exercised by way of an Annual Report, Value for Money Reports and Special Reports, which form the basis of Parliament's examination of state revenue and expenditure by the Committee of Public Accounts. Under the 1993 Act, the Comptroller and Auditor General reports annually on his examination of the appropriation accounts. He presents the Annual Report to the Dáil, and it is then considered by the Committee of Public Accounts, forming the basis of its examination of the relevant heads of government departments and offices. Similarly, the heads of all organisations audited by the Comptroller and Auditor General may be called before the Committee as a result of a VFM or Special report.

The Committee consists of 12 deputies, none of whom may be a minister. Traditionally the chair is a member of the Opposition. The Committee is entitled under Standing Orders to send for persons, papers and records. It reports its findings to the Dáil, but follow up is a matter for the Government, and the Ministry of Finance notifies the Committee of action taken in response to its reports. Meetings are open to the public. The Office of the Comptroller and Auditor General has a liaison officer on secondment to the Committee of Public Accounts. The Committee may suggest subjects for examination to the Comptroller and Auditor General, but he has statutory discretion on taking up such suggestions.

Under the 1993 Act, the Comptroller and Auditor General presents value for money reports to the relevant minister, who is responsible for submitting them within a period of three months to Parliament. The Committee of Public Accounts can take evidence on the reports in open session, question the heads of the organisations reported on and present a report to Parliament. The Act provides for the Comptroller and Auditor General to report value for money examinations individually as they are completed, rather than annually. Special reports on specific or general matters also may be prepared.

(Source: NAO 2005)

Box 4: A Case study of a SAI using the Board Model: The Dutch Algemene Rekenkamer

The Court of Audit [Algemene Rekenkamer] has a Board of three members, including the president, each of whom is appointed by the government on the recommendation of the legislature. The term “Rekenkamer” (Chamber) is a reflection of the tripartite nature of the Rekenkamer’s leadership, rather than an indication of legal competence, as it no longer possesses the powers of a court. It cannot judge or sanction those responsible for public expenditure or act as a court of appeal.

The Rekenkamer has a very broad audit remit, and the constitution establishes that it “is responsible for auditing state revenue and expenditure.” Its approach is systems-based and relies heavily on the work of the Ministry Audit Departments (MADs). If it considers the MADs’ audits to be reliable, which is usually the case, it adopts their audit findings. The Court then determines whether errors or uncertainties at the budget article level are sufficiently material to warrant reporting to parliament. It also considers which shortcomings in the financial management control systems should be reported.

If the MADs’ work is weak or reveals problems, the Rekenkamer can carry out further audits. After reviewing the MADs’ audit work and completing its own investigations, the Court issues 24 reports on the annual reports prepared for each budget (ministerial budgets, special budgets and budget funds). The reports set out the findings and opinions regarding the operational management and financial statements of the ministries, departments and budget funds.

Performance audits form an important part of the Rekenkamer’s work. The statutory basis for this work is section 85 of the Government Accounts Act 2001, which requires it to “examine the effectiveness and efficiency of the policy pursued, and the efficiency of financial and tangible asset management, of the records kept for this purpose and of the organisation of central government.” The Rekenkamer can examine the efficiency and effectiveness of government policy, but not the policy itself.

The Rekenkamer reports to the Staaten Generaal (parliament) at various times during the year. It is required to publish an Annual Report on its activities by 31 March each year, and it publishes its report on the State Account on the third Wednesday in May. The findings of performance audits are published throughout the year. Any reports that are published through the Staaten Generaal automatically pass into the public domain as parliamentary documents and are thus available for public review.

(Source: NAO 2005)

Box 5: A Case study of an SAI using the Judicial Model: the French Cour des Comptes

With this audit model, there is an official of the Ministry of Finance (“comptable” or “public accountant”) based in each ministry or spending agency. The public accountant’s task is to review financial transactions and to ensure that it does not exceed prescribed limits. The comptable's role is to ensure financial equilibrium, integrity, regularity and quality in the application of public funds. Comptables are personally responsible for the funds within their control and are fully independent of the bodies in which they work.

When a magistrate (auditor) considers a comptable has acted illegally, he presents his findings to the Cour. If the Cour agrees with the magistrate, it issues a provisional judgment. This details the offence and the sums involved, and sets a time limit of one month for the comptable to respond in writing. The chamber considers the response and can either cancel the provisional judgment or ratify it. If the judgment is ratified, it is legally binding, and the amounts to be repaid plus interest are legally due from the comptable.

Not all accounts are examined by the Cour every year. On occasion, up to five years’ accounts may be audited at a time, with an audit of a comptable covering all financial years since the last audit. The Cour believes that auditing several years’ accounts simultaneously provides economies of scale, gives an overview of operations that cover more than one year and improves relations with the auditee.

Since 1995 the Cour has issued three main reports a year: a report to Parliament on the execution of the Budget Law, an Annual Public Report and a report on the Social Security System.

The report on the execution of the Budget Law is a single document commenting on the performance of government spending against the plans approved by Parliament. It is completed, according to the Constitutional Bylaw, by an analysis of management results. It contains information on significant breaches of budgetary rules and analyses of outturn against budget with explanations for variances. The report can also include comments on cutbacks decided by a ministry financial controller that have resulted in inefficiency or wasted expenditure. The report is deliberated by the Finance Committees of both the National Assembly and the Senate. Both committees can request the president of the Cour to give a presentation on the subject matter of the report although in practice this is rare.

The Annual Public Report is submitted to the President of the Republic, the National Assembly and the Senate and is published in the Official Journal.

(Source: NAO 2005)

Abstract

The gaps between approved budgets and the realisation of policy and development goals stand among key governance challenges in many developing countries. Supreme Audit Institutions (SAIs) play an important role in holding governments to account. However, many SAIs face serious challenges when trying to evaluate the expenditures and performance of government agencies.

This U4 Issue Paper explores those challenges 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.

Given their central role in funding governance reform, donors have a potentially key role to play in supporting SAIs. Existing support could be made more efficient if related interventions were better coordinated and if underlying political dimensions were taken into account. Donors could also play an important role in financing innovative partnerships between SAIs, legislatures, and civil society.