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Working with Supreme Audit Institutions

This How to Note is one of a set. Together they provide good practice guidance to assist country offices in working with partner countries to strengthen their public financial management & accountability systems. Related guidance on other aspects of public financial management and accountability, reducing the risk of corruption and managing fiduciary risk can be accessed through the [Financial Accountability & anti-Corruption team \(FACT\) Insight web-page](#).

1. This good practice guidance has been written principally for governance advisors, economic advisors and programme managers leading DFID's engagement with partner country public financial management & accountability (PFMA) reform programmes. But others in DFID, and officials in partner countries and other development agencies, may also find it useful. There is no single blueprint for successful Supreme Audit Institution (SAI) reform. What works well for one partner country SAI may not be appropriate for another. Where a country office intends to embark on an extensive programme of support to a partner country SAI, it is recommended that further advice from a public sector audit specialist is sought.

Executive Summary

2. Supreme Audit Institutions (SAIs) carry out the external audit of public sector bodies and are one of the key links in the formal system of financial accountability in most countries. The strengthening of partner country SAIs can therefore result in significant improvements to the effectiveness of Public Financial Management and Accountability (PFMA) systems as a whole. **The purpose of this paper is to provide guidance on ways in which country offices can support SAIs to increase their impact.**

3. There are several different models of SAI and information on the main types is available in the DFID [Briefing Note 'Characteristics of Different External Audit Systems'](#)¹. This How to Note focuses on ways to support partner country SAIs to achieve effective reform. It covers three main areas:

1. Understanding the wider reform context in which the SAI operates;
2. Evaluating the SAI's current situation; and
3. Practical suggestions for supporting SAI reform.

¹ The main SAI models, are the Anglo-Saxon (Westminster), the judicial (Napoleonic) and the Board (Collegiate) models.

4. There are several reasons for working with SAIs as part of a programme of support for PFMA reform:

- nearly every country, no matter how weak its PFMA system, has an identifiable SAI, which can provide a starting point for co-operation;
- the SAI's formal role in the system of accountability, means that it should have a commonality of interest in strengthening the national system;
- SAIs can normally look at financial management issues across the public sector, allowing connections to be made between their work and other reform initiatives. For example, there may be scope for SAIs to reinforce the impact of programmes such as Sector Wide Approaches by auditing and reporting on their delivery; and such involvement offers an opportunity for the SAI to strengthen its reputation and experience;
- uniquely among the institutions involved in a PFMA system, virtually all SAIs belong to a single representative body – the International Organisation of Supreme Audit Institutions (INTOSAI) - which has established basic standards to guide SAIs' work and acts as a forum in which common interests can be discussed. There is thus a international architecture within which SAI reform can be set; and
- resources and goodwill to be involved in capacity development initiatives exist across the international SAI community. INTOSAI has established a regional training network under the INTOSAI Development Initiative and many developed SAIs have worked with developing SAIs in long-term relationships and could contribute to future initiatives.

5. Many of the factors associated with SAI reform are **generic to change management** in any organisation, even though audit itself is a technically complex subject. SAIs are affected by issues such as organisational culture and management style; and staff development and motivation which form an inherent part of the governance agenda. There is thus considerable read across from this paper to the reform of other organisations in the Public Financial Management and Accountability (PFMA) sector such as revenue authorities, inspectorates or anti-corruption bodies.

6. SAIs are part of a wider system of accountability and are affected by the political environment and climate of reform which exists in the national system generally. In assessing any support to the SAI, the **first step is to understand the wider reform context** in which the SAI operates. The general principles underpinning such an assessment are those promoted by DFID's Drivers of Change approach, which emphasises the importance of political analysis to understand what is likely to bring about positive change. In the context of SAI reform, critical factors to consider include the relationship between the SAI and the Ministry of Finance, and the SAI and Parliament. The interconnectivity of PFMA systems and the numerous players involved make the sequencing of reform a vital issue. **Section 1** (paragraphs 10 to 23) of this paper deals in more detail with understanding the wider reform context.

7. The **second step is to obtain a good understanding of the SAI’s current situation**, its strengths and weaknesses, developmental needs and priorities. **Section 2** (paragraphs 24 to 36 and Annex 1) provides guidance on factors to consider in evaluating a SAI. These include its statutory position and remit; how it is led and managed; the resources – human and other – available to it; the processes it uses to deliver its work, in particular its audit methodology; and the outcomes which it is able to achieve. It is important to support and work with the leaders and staff of the SAI to develop a shared understanding of its needs, rather than for DFID (or other donors) to evaluate the SAI as an external exercise.

8. Having considered the context within which the SAI is operating and its internal institutional situation, the **third step is to support the SAI in developing practical ways to take forward reform**. All SAIs are different and there is no single blueprint for successful reform. Reform activities can range from minor technical interventions to long-term co-ordinated programmes of institutional support. **Section 3** (paragraphs 37 to 77) provides advice on delivering successful SAI reform. It considers key issues around sequencing of SAI reform; highlights potential easy wins and techniques which have a track record of success; notes potential partners to work with; and suggests ways of working with SAIs where opportunities for reform are limited.

Navigating this note

9. The table of contents below has been included for easy navigation of this How to Note. When viewing this document electronically, double click on a heading for easy reference.

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1. Understanding the wider reform context

10. SAIs do not exist in isolation but are part of a wider national PFMA system. The SAI will be influenced by the way in which the public sector as a whole operates and affected by the political influences and drivers for change in the national system.

11. This paper does not attempt to deal comprehensively with the wider political environment but highlights some of the most important elements which may affect delivery of change at the SAI level. It draws on techniques promoted by DFID's **Drivers of Change** approach. This approach emphasises the importance of political analysis to understand what is likely to bring about positive change. This includes understanding how both formal and informal institutions shape the incentives and disincentives that influence behaviour and drive change. The FACT team are currently finalising a **Briefing Note "Understanding the Politics of the Budget Process"** to provide further guidance on performing this type of analysis in the field of public financial management and accountability. This will draw from in-depth pilot studies of the budget processes in Malawi and Mozambique carried out in 2004.

12. Figure 1 illustrates the six generic stages in a typical budget cycle from the policy review stage which looks back on achievements and informs planning for the new budget year to the reporting and auditing of results at the year end. Overlaid on this are some of the main players likely to be involved in the PFMA system; there may well be others depending on the national context. Besides the players who are directly involved in the PFMA system, are a range of other interested stakeholders, including taxpayers and the media.

Figure 1: stakeholders in the PFMA system



13. The SAI may interact with all these players to some extent but the key relationships are those between the Ministry of Finance (MoF), the SAI and Parliament (e.g. Public Accounts Committee - PAC). For a PFMA system to function effectively, it needs to have strong checks and balances. The MoF normally takes the lead for the Executive on matters of financial accountability. An adequately resourced SAI and Parliament should provide a counterweight to the Executive. In broad terms, the MoF should prepare and oversee the implementation of the budget, the SAI should independently audit and report on how resources have been used and Parliament should use the SAI's findings as one of its main tools in holding the Executive to account for its performance. It is important to understand what is going on between these key players, as the subtleties of their relationships can influence how to work with each of them.

The Ministry of Finance and the SAI

14. In any PFMA system there is a certain level of **inherent tension in the relationship between the Ministry of Finance and the SAI**. This is healthy as the SAI needs to be independent of the executive branch in order to carry out its work properly. However, the MoF / government may find it difficult to accept that constructive criticism is a necessary element of an effective PFMA system, particularly when the underlying systems are weak and there are many criticisms to be made. Behaviours can emerge which run counter to good accountability. Tensions with the MoF can be exacerbated if the tone of the SAI's reports are overly negative; it is not uncommon to see SAI reports which simply highlight weaknesses without making any positive suggestions for improvement, intensifying the adversarial nature of the relationship. An overly critical SAI approach tends to make officials risk averse, which can lead to inefficient management decisions.

15. The **independence of the SAI needs to be maintained** if it is to provide a meaningful check on the Executive. In particular, the SAI's budget should be protected from interference by the Executive – both in setting the level of resources required and during the actual disbursement phase. However, it may be possible for the MoF to exercise control over the SAI's budget, effectively treating the SAI like a line ministry. This is a particular risk where financial resources are limited and the MoF has a strong role in reallocating or rationing available funds. Such interference may undermine the independence the SAI needs to review how the Executive has performed; while a lack of resources may limit the level of work the SAI is able to carry out.

16. The MoF often has a co-ordinating and approving role in agreeing donor funded projects. Where the MoF has a tense relationship with the SAI, it could potentially **delay or reduce the level of support available to the SAI**, or impose additional demands for parallel support to the Executive. Commonly, the MoF is likely to have greater enthusiasm for projects supporting reform in the areas of the PFMA system controlled by the Executive, rather than those relating to the SAI or Parliament. This may be a particular issue where funding is largely provided through general budget support.

The SAI and Parliament

17. As a general rule, Parliament is able to perform its oversight functions most effectively when it uses – and can rely upon – the SAI’s audit work; a SAI has most impact when Parliament provides a forum for the presentation and discussion of its audit results and acts as an ally in ensuring corrective actions are taken. This relationship is particularly important in an Anglo-Saxon model of accountability, where SAIs do not normally have powers to impose sanctions on the bodies they audit, and are likely to rely on Parliament to take forward implementation of their recommendations. By contrast in a judicial system, the SAI normally has powers to impose administrative penalties for breaches of the budgetary law itself, making the relationship with Parliament less critical. However, a good working relationship between the SAI and Parliament is still desirable to enhance the transparency of the accountability process.

18. The relationship between SAIs and Parliaments is often one of the weakest links in the accountability chain in many partner countries. Where the SAI sees few benefits in working with Parliament, or vice versa, the working relationship may be very limited and purely formal; 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. Typically, in weak performing systems, neither side wants to invest its limited time and resources in working with the other.

19. The FACT team is planning to develop further guidance later this year on working with PACs and other parliamentary committees, looking in particular at strengthening the relationship with the SAI. **Box 1** below highlights some pragmatic ways in which the functioning of this relationship can be improved. The research is based on the experiences of the 10 countries which joined the European Union in May 2004 and draws out a number of practical lessons².

² The research was led by the SAIs of Poland and Malta, working with the Support for Improvement in Governance and Management programme (SIGMA), December 2002. In addition to the experiences of Candidate Countries, the paper considered practices in several countries, widely acknowledged to have strong systems of parliamentary accountability.

Box 1: Good practices in the relations between SAIs and Parliamentary Committees

Lessons for SAIs
<ul style="list-style-type: none">• Write audit reports in a clear and concise, fair and factual manner, avoiding political statements• Give appropriate – but not exclusive – consideration to parliamentary concerns in setting audit priorities• Be selective in deciding which audit reports to send to parliament, sending only those which clearly merit parliamentary attention• Consider establishing a separate unit or person to co-ordinate the SAI's contacts with parliament and help ensure the SAI is aware of parliament's needs and interests• Follow up actively and methodically on previous audit findings and inform parliament of any patterns of inaction on important problems• Avoid commenting directly on government policies but recognise that disclosures of implementation problems may raise questions about underlying policies
Lessons for Parliamentary Committees
<ul style="list-style-type: none">• Specify clearly the types of audit report to be presented to parliament• Inform the SAI of parliamentary interests, including suggested audit topics, but leave the final decisions on audit priorities to the SAI
<ul style="list-style-type: none">• Require that all audit reports, unless restricted for security reasons, be made public within a reasonable period of time• Establish rules of conduct for parliamentary committees and provide them with adequate staff support. For Public Accounts Committees (PACs) it is highly desirable that the Chair should be a member of the opposition, prepared to question the Executive's performance.• Hold committee meetings in public, allowing the media access. Meetings should be attended by representatives of the SAI and the audited body. Committee members should prepare for meetings by developing questions to ask and obtaining additional information if necessary.• At the conclusion of committee hearings, a committee may deem it appropriate to initiate its own actions in response to an SAI report. Such actions should, if possible, reflect unanimous agreement among committee members. Technical assistance should be sought from the SAI if deemed useful.• The government should be required to respond to reports and other actions taken by committees and the SAI and the committee and the SAI should follow up on the government's action.

What is happening in the wider PFMA system?

20. Given that the SAI does not operate in isolation, it is important to assess what is happening elsewhere in the PFMA system. Two key factors which need to be considered are what level of **political will** exists to reform; and how SAI reform can be **best sequenced** in relation to other reforms which might be underway (Box 2).

Box 2: Key issues to consider in the wider PFMA system

Political will

Experience shows that political will is key to any successful reform, and is vital in an area as complex and inter-related as a PFMA system. Questions to consider are:

- Is there real political will for reform among key stakeholders? In the Executive? In Parliament? Is this based on a few individuals or is the desire for change more widespread?
- What is driving reform and how powerful and sustainable are these forces? Drivers may include:
 - a party political agenda for reform;
 - external influences, for example the objective of joining the European Union was a catalyst for change in the countries of Central and Eastern Europe; or
 - popular demand, for example, the November 2003 Rose Revolution in Georgia was partly driven by anger against the corruption of the political elite. The new government initiated reforms to address corruption issues, including strengthening PFMA systems.
- What is the attitude of key stakeholders to SAI / Parliamentary reform as compared to Executive based reforms?
- What could reverse political will? Eg, a change of government, an entrenched and unresponsive bureaucracy?

Sequencing and co-ordination

The interconnectivity of the PFMA system and the numerous players involved make the sequencing of reform a critical issue but one that is often inadequately addressed by government and donors. Unco-ordinated reform in one area may simply exacerbate problems in another area or push problems around the system.

Poorly sequenced reform is unlikely to be sustainable in the longer term, once direct donor support has ended. Key questions to consider are:

- What other reforms are happening in the PFMA sector? Is there an overall programme of reform or a series of isolated projects?
- Does the government play an active co-ordinating role in sequencing PFMA reform?
- How willing are government bodies and/or donors to give up pet projects in the interests of effective sequencing?
- How strong is the SAI in comparison to other parts of the PFMA system? Does it need to catch up with reforms in other areas or is it already ahead of the game? Does it make sense to focus on it now?
 - Eg, if there is little management capacity in audited bodies and internal controls and bookkeeping are extremely weak, should these issues be addressed first?
 - If Parliament is too weak to act effectively on the SAI's reports, does it make sense to enhance the SAI's technical capacity further, rather than strengthening PAC?
- How well would proposed SAI reform fit in with other initiatives?
 - Eg does it complement the development of internal audit capacity in government?

21. The **internal control structures** within a national PFMA system will have a significant impact on how the SAI carries out its work. The responsibility for establishing and operating an effective system of internal control lies with management, not the external auditor. Management needs to be both willing and able to take on these responsibilities. Where an effective system of internal control is not in operation, the job of the external auditor is more difficult. For instance,

poor record keeping may mean that adequate information is not available to allow the auditor to reach a conclusive opinion about the regularity of the financial statements.

22. An internal control system comprises the whole gamut of controls – **non-financial and financial** – which should be established to ensure that an organisation is able to deliver its objectives in an effective and efficient matter. A key requirement of an effective internal control system is that it enables management to track the use of the organisation’s financial resources and produce reliable reports on the income, expenditure, assets and liabilities of the organisation. Increasingly countries are moving towards computerised Integrated Financial Management Systems (IFMISs) to achieve this.

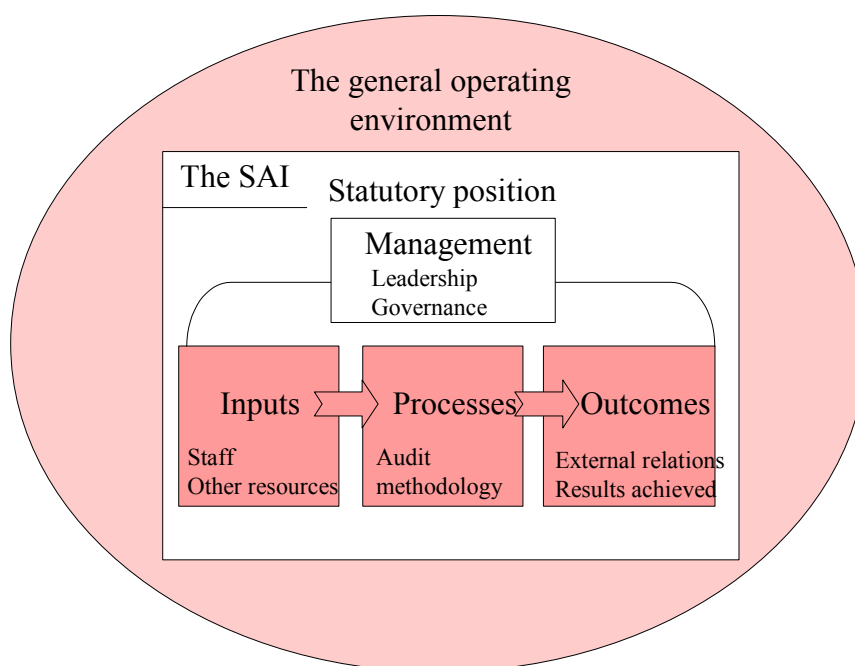
23. The **introduction of an IFMIS** will affect how the SAI conducts its audit and will require SAI staff to acquire new computer audit skills. It is desirable to involve the SAI at the design stage to ensure that the IFMIS specifications give sufficient attention to audit requirements – ie ensuring that an adequate audit trail exists to track computerised transactions. However, not all SAIs will have the technical capacity to feed into this process effectively, and support may be necessary. The transitional phase, as government departments move from old to new systems, may also present audit challenges for the SAI – for example, both systems are often run in parallel for a period of time to ensure that the new system is working before full reliance is placed on it. If the SAI has to carry out parallel audits, it will need more resources.

2. Evaluating the SAI's current situation

24. It is important to understand how well a SAI is currently operating and what constraints it faces in order to be able to plan any assistance. This section sets out ways to approach this in more detail. Relevant information is likely to be available from a variety of national and donor sources, for example, the SAI's own Strategic Plan; diagnostic studies such as the PEFA Performance Measurement Framework, the World Bank's Country Financial Accountability Assessments (CFAAs) or the IMF's Reports on the Observance of Standards and Codes of Fiscal Transparency (ROSCs); or documentation and reviews connected with projects or technical assistance to an SAI.

25. **Figure 2** outlines the key areas of a SAI's work. More detail on how to evaluate these areas is set out in Technical Annex 1 which highlights the characteristics - or excellence factors – one would expect to see in a SAI that is performing effectively.

Figure 2: Factors Affecting how a SAI Operates



26. The factors directly affecting how a SAI operates are its statutory remit and organisational structure; the way it is managed; the inputs and resources available to it; the processes it adopts to carry out its work and, ultimately, the outcomes it is able to achieve. SAIs are diverse organisations and there is no single internationally-agreed model or absolute standard of excellence against which they can be judged. The excellence factors suggested in this paper have been adapted from an evaluation model developed by the United Kingdom National Audit Office which in turn is based on a range of sources, particularly guidance produced by the **International Organisation of Supreme Audit Institutions (INTOSAI)**.

The historic view

27. Most SAIs were originally established to fulfil a narrow **regularity or financial auditing** function - ie to provide assurance that the financial statements fairly reflected the revenues collected and expenditure incurred and that implementing bodies had appropriate authority for the transactions they had undertaken and had acted in accordance with relevant laws and regulations. This remains the primary function of all SAIs but over time the range of work of many SAIs has expanded to include a consideration of how well government bodies perform their work, typically looking at the economy, efficiency and effectiveness of service delivery. This type of work is commonly referred to as performance audit or **value for money audit**.

28. The way in which SAIs carry out their remit has also tended to adapt over time, reflecting an evolution of audit techniques in both the public and private sectors, and also the development of the wider PFMA systems which the SAI is required to audit. Historically, many SAIs checked every transaction; over time as the number of transactions increased this became unfeasible and sampling approaches were adopted. Now some SAIs, operating within reasonably well controlled PFMA systems, have largely moved to a **risk based approach**, focusing on testing the areas of highest risk within the internal control system. In these cases, concern has moved from the regularity of transactions to the quality of the internal financial control systems. However, other SAIs may still view their main role as being to review as many transactions as possible, which they believe will allow them to detect and report as much irregularity and fraud as possible.

29. Some, though by no means all, SAIs may have originally performed **pre-audit functions** – ie checking transactions before they were authorised. This is primarily a form of internal control rather than audit and SAIs have tended to move away from pre-audit work over time; or to reduce the importance of this part of their remit, in comparison to post audit work. However, historical development in this respect is not hard and fast and some SAIs continue to carry out pre-audit functions (eg Italy).

30. In terms of management style, **Anglo-Saxon model** SAIs tend to be quite centralised in their approach. To a certain extent this is driven by the nature of the work - the audit report usually has to be signed off at the highest level by the Auditor General or equivalent, who takes assurance about the quality of the audit from a hierarchical review and quality control process. In **judicial systems**, the Court of Audit has a number of judges, each of whom is responsible for particular audited bodies. Each judge has authority to rule independently on the cases in front of them. Although the structure of audit responsibilities is less centralised, a hierarchical structure typically exists under each individual judge.

31. Broadly speaking developed SAIs have evolved through three stages:

- **output focused organisations** – concerned primarily with the fast, reliable delivery of quality audit reports; to

- **customer service organisations** – recognising and seeking to meet the needs of external stakeholders; to
- **total quality organisations** – considering how all resources can be mobilised to achieve maximum impact.

32. These general historical trends provide some insight into how a SAI is likely to develop, although clearly not every SAI follows an identical path. There is a school of thought, based on such historical evolution, that SAIs should **concentrate on the basics of their trade first**. That is, they should focus on financial/regulatory audit work - where their primary legal mandate lies - and build up towards performance audit/value for money work. Supporting this argument is the view that the prime cause of poor value for money is weak internal financial control which needs to be addressed first. Moreover, it is argued that an effective value for money audit can only be carried out if good accounting and statistical information is available for analysis. This is likely to be lacking where control systems are weak.

33. However, fairly strong counter-arguments exist for prioritising at least some **value for money audit work**. Firstly, outside stakeholders - particularly parliamentarians, the media and the public – generally find such reports much easier to understand and relate to. The SAI may be able to build up interest in its work and stimulate demand for the Executive to be more accountable in its stewardship of public resources. Secondly, fairly common-sense, pragmatic approaches can be used to assess value for money issues, whereas financial/regularity audits tend to require a higher level of technical knowledge, which the SAI may or may not have.

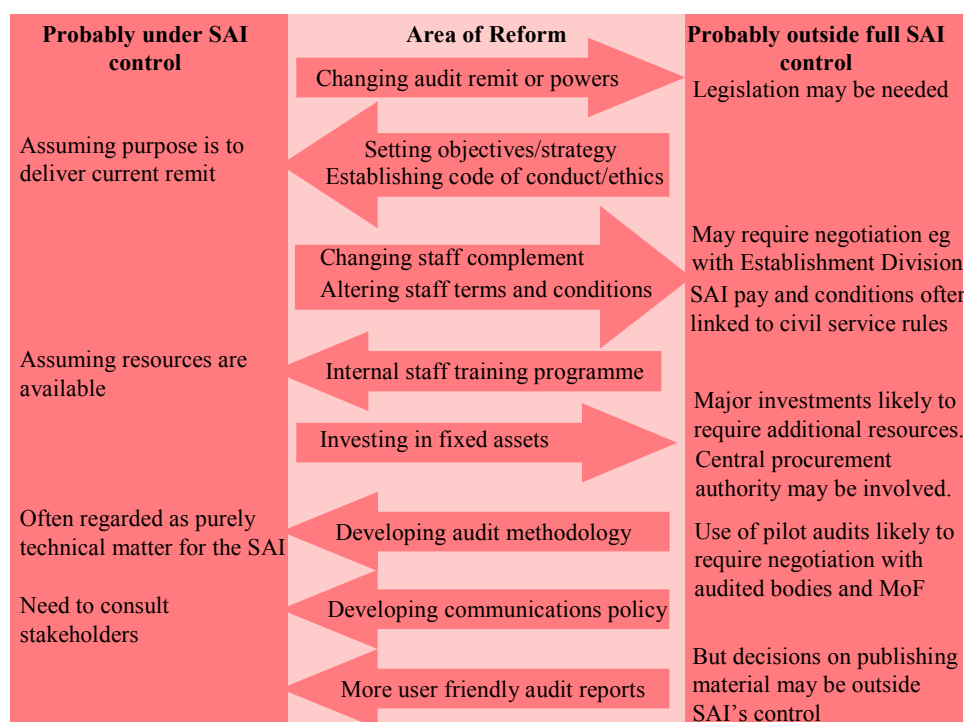
The SAI's legal and operational independence

34. SAIs should have **legal independence** from the Executive and most do. This is the basic building block in a SAI's ability to provide an objective opinion on the Executive's management of public resources. Where the statutory position is unclear or there are limitations on the normal freedoms of a SAI, this is a major stumbling block to reform. The Lima Declaration issued by the International Organisation of Supreme Audit Institutions (INTOSAI) sets out the key factors associated with SAI independence and these are summarised in Technical Annex 1.

35. A SAI's **operational independence** is also critical. The level of change a SAI will be able to achieve through its own efforts is closely related to the level of autonomy it enjoys in managing its resources. The way the public sector is structured may impede a SAI's operational independence. It is not uncommon for the MoF to manage budget allocations in considerable detail; investment planning decisions are often taken at a centralised level by a Ministry of Planning; and staff appointments may be determined by an Establishment Ministry. If the SAI is required to conduct its affairs through such bodies, its freedom to manage its own operations and to reform its business processes will be curtailed. The SAI may therefore have to work more closely with other national partners in order to achieve change, or to wait for more general changes in the public sector to be implemented.

36. The SAI’s operational independence therefore needs to be taken into account in considering which changes are most feasible. The higher the level of autonomy a SAI has, the greater the potential scope for wide ranging reform. However, even SAIs with more limited operational independence should be able to make some changes and establish a platform for further developments. Figure 3 suggests which types of reform which are most likely to fall wholly within a SAI’s control and therefore could offer a starting point for development; and which are likely to require greater external support. It is important to note that this is a generalised model and will not necessarily reflect the situation of every SAI.

Figure 3: Internal/External Influences over Reforms



3. Practical suggestions for supporting reform

37. There is **no single blueprint** for SAI reform that can or should always be followed. What works for one SAI may not be appropriate for another. Decisions about the level and speed of reform and the most effective sequencing of activities need to be taken in the context of the individual SAI and its national operating environment.

38. This section of the paper focuses on reform options where the SAI is the primary partner for support. However, given that SAIs normally have a remit to look at financial management issues across the public sector, their development can also be supported as a by-product of reform in other areas. For example, in Vietnam, a Poverty Reduction Budget Support (PRBS) operation primarily targeted at a national programme to develop infrastructure in the poorest communes, is also seeking to enhance the role of the SAI by involving it in specific audit activities related to the infrastructure programme. DFID will provide technical assistance to the SAI as necessary to carry out this work, thereby increasing the SAI's knowledge and skills, enhancing its reputation as a guardian of public accountability and providing additional assurance about how the Government of Vietnam is using PRBS funds.

39. There is scope to engage SAIs proactively in a range of projects. Sector Wide Approaches (SWAs) typically include measurable and time bound performance indicators which the SAI could be involved in auditing and reporting on.

40. This final section covers:

- issues around the sequencing of reform within the SAI;
- easy wins which the SAI can achieve;
- options for working with SAIs where opportunities for reform are limited;
- possible partners for supporting SAI capacity development; and
- reform techniques which have a track record of success.

Internal sequencing issues

41. **Box 3** outlines a set of generic issues that can affect sequencing decisions. Most of them are interlinked.

Box 3: Generic issues affecting the sequencing of internal SAI reform

The SAI's capacity to absorb assistance

Developing SAIs normally face a range of problems which need to be addressed.

- What level of capacity is there within the SAI to work towards reform on several fronts simultaneously?
- If capacity is limited, what areas should be prioritised for reform? (These decisions should be taken by the SAI leadership, based on analysis of the existing situation)

Incremental versus 'Big Bang' change

Most SAIs develop slowly over a long period. However, opportunities for faster change can arise, often as a reaction to some type of external pressure or crisis.

- Are there any factors in the national environment which could speed up change?
- Are the SAI, other national partners and donors ready and able to seize such opportunities?

Easy wins versus deeper changes

Changes which are more difficult to implement, for example where external buy-in is required, may have a substantially higher long term impacts than smaller internal changes. The benefit of greater co-operation between the SAI and external parties alone could make it worth prioritising reforms which are inherently more difficult and time consuming to achieve. Consideration needs to be given to the appropriate balance of priorities. Ideally a programme of reform should include both easy wins (to stimulate demand by demonstrating tangible results) and also more difficult, longer term changes.

42. As a general rule, where the SAI has limited absorption capacity (or where its leadership has a limited appetite for change) **modest incremental change** is likely to be more successful than radical restructuring. Once some progress can be demonstrated, greater support for change – both internal and external – is likely to swing behind reform. Three practical sequencing suggestions to assist SAIs in designing the reform are noted below.

i) Prioritise the development needs of SAI senior management

43. Political will for reform within the SAI is as important as political will in the wider PFMA environment to achieve lasting results. Reform is more likely to be successful where there is common support for change across senior management, though in practice support is often limited to one or two champions of change. The design of any reform process should seek to involve other senior figures as much as possible.

44. One of the main roles of senior management is to formulate the SAI's strategic priorities. Therefore, reform initiatives which focus on strengthening strategic planning within the SAI can

be very useful in building ownership across the organisation. Activities to address strategic priorities established by SAI leaders can then be built into the project. Such support, generally works best outside the format of traditional training courses, but seminars or retreats can be used to facilitate SAI leaders in developing their strategic plans. Techniques such as gap analysis, which compare how the SAI's current audit approach matches up to international standards and allow a plan to address any deficiencies to be formulated, are particularly useful.

ii) Build in adequate lead time

45. The amount of time a particular reform will require to deliver improvement needs to be considered in sequencing support. Anything which requires consultation with or approval by external parties is likely to require the most time – changes to legislation, large-scale procurements etc – and needs to be begun early. Complicated technical changes – such as the introduction of a new computer system – must allow sufficient time for a full needs analysis to be carried out first to inform decision making.

iii) Remain flexible

46. No matter how much analysis and planning goes into a project, once implementation starts, other problems and priorities almost always emerge. A further in-depth evaluation and planning phase at the start of the project (eg of three to six months for a two to three year project) is very useful and may bring out issues which the SAI was reluctant to discuss in depth before support was approved. The terms of reference of the project need to be sufficiently flexible to allow changes to be made.

47. In the context of SAIs, **change takes time** and it is not realistic to expect too much too soon. A gradual approach, within the capacity of the SAI is prudent and most likely to be sustainable. While changes are being trialled and gradually adopted, the bulk of the SAI's work will continue to be delivered under the old systems and this needs to be taken into account.

Easy wins

48. In any type of reform process it is valuable to produce some tangible changes quickly in order to build support and increase the momentum for reform. In the SAI context, easy wins are most likely to be things wholly within the SAI's control, which can be delivered quickly or which have little or no cost. Examples may include:

- i) Reprioritising resources
- ii) Cultivating positive publicity
- iii) Writing better recommendations
- iv) Writing clearer reports
- v) Improving audit documentation
- vi) Developing a SAI 'vision'
- vii) Improving communications with audited bodies
- viii) Using pilot audits as learning experiences

i) Reprioritising resources

49. It may be possible for the SAI to achieve easy wins in a cost-neutral way simply by stopping or changing some of the things it has been doing and switching resources to areas which are likely to deliver a higher impact. It is often the case that developing SAIs are under-resourced to deliver their full legal remit, for example, they may not have the capacity to audit every client, every year; or they may lack the funds to cover the cost of travelling to provincial or local offices. One of the key factors to consider when prioritising what to do with limited resources, should be a consideration of where the greatest impacts can be achieved.

ii) Cultivating positive publicity

50. The reputation of a SAI is critical to the impact it is likely to achieve. Confidence building and educational measures should be built into any reform programme from the start. The media may be a useful means through which the SAI can enhance its impacts, by increasing demand for greater accountability for the management of public resources. Most SAIs have some sort of media policy, ranging from the very simple – releasing a press briefing when the annual report is released; to the more complex, eg a rapid response system for dealing with critical press coverage. Many SAIs can initiate steps to promote good news stories about their work, for example by sending summaries of major findings to the press in advance or by holding press conferences when a report is released. Stories about positive changes in the SAI itself, such as a new technical assistance project or increases in staff numbers can also help build reputation.

iii) Writing better recommendations

51. Audit reports are often largely negative in tone, highlighting numerous errors and faults. Conversely they are often not strong in providing recommendations on what audited bodies should do to improve performance. Producing clear, specific, evidence based and practical recommendations should promote a more constructive relationship with audited bodies, which in turn increases the probability of audit recommendations being acted on. Recommendations should take into account the costs and benefits of implementing changes and be targeted at the level of management able to act on them.

iv) Writing clearer reports

52. This is closely linked to writing better recommendations. SAIs may produce audit reports which are not user-friendly. In many countries, the sole output of the SAI is an annual audit report, containing all the findings on every organisation audited during the year, although it often does not include the financial statements to which the audit report refers.

53. In order to maximise its impact, the SAI should make clear which issues it considers most important, what its specific recommendations are and who is responsible for taking actions. Not only will the requirements on audited bodies be clear, but parliamentarians, the media and civil society will be more able to focus and demand action on the key points.

54. The detailed nature of the SAI's report can be a consequence of the nature of the wider PFMA system. Budgets in developing countries often have a detailed line-by-line description of inputs, with little or no information on the activities or objectives the resources are intended to deliver. The audit approach follows the detailed formulation of the budget, resulting in much checking but little strategic overview of what is really going on. Many developing countries are involved in projects or programmes to modernise their budget formulation and management procedures, and SAIs may be able to link into these in adjusting their reporting approach.

55. Regardless of wider reform efforts, there are various relatively simple measures which SAIs can take to improve their audit reports. For example:

- the language used should be clear and technical terms should be explained; simple graphics and the use of visual tools such as highlighting, text boxes and differentiated headings should be used to emphasise key messages;
- reports could be issued more frequently, or multi-organisational reports broken up and issued on a departmental basis;
- the audit report should be published together with the financial statements to which it relates;
- rather than listing all the individual breaches in an internal control system (e.g. travel and subsistence or payroll) uncovered during an audit, results should be summarised. The identified level of error should be quantified and compared to overall expenditure to give a sense of the materiality of the problem; and
- recommendations for change should be prioritised into issues of high, medium and low priority and those responsible for implementing changes should be clearly identified.

56. Box 4 describes a DFID funded project supporting the Brazilian Court of Audit (Tribunal de Contas da União, (TCU)) where the SAI was very proactive in targeting its reports to the needs of a variety of audiences and was able to impact positively on public bodies and society as a whole.

Box 4: Support to the Brazilian Court of Audit

Background

The project's overall aim was to improve the performance of public entities. TCU sought to do this by carrying out performance audits and making recommendations for improvement to audited bodies. As well as considering the standard three Es of performance audit – economy, efficiency and effectiveness – the TCU developed methodologies for considering the equity, or fairness, with which public services were delivered. In developing its audit strategy, the TCU actively targeted programmes relevant to the poor, including those designed to deliver the MDGs. Since 1998 the TCU has produced 40 reports on subjects such as:

- Maternal mortality monitoring and prevention
- The family health programme
- The child labour eradication programme
- Elderly care

- The national programme of school libraries
- Conditional cash transfer programmes

Reporting

The TCU took an active approach to publicising its reports in user friendly formats. It produced differentiated reports on each subject tailored to the needs of different user groups, including public managers, service users and the general public. The outputs targeted at service users usually were in the form of short leaflets, written in non-technical language, and illustrated with photographs, charts and graphs. Those for other users were more detailed but still sought to highlight key messages – ie the audit recommendations – explicitly.

Impacts

A range of stakeholders benefited, including:

- TCU and sub national audit institutions which have developed their technical capacity to carry out performance audit work
- Audited bodies which have been helped to deliver programmes more effectively
- The Brazilian public, as programme beneficiaries, who have benefited from service delivery improvements
- Civil society, parliament and the media who have access to better and more reliable information about service delivery
- The donor community which can place reliance on the TCU's work to assess the impact of development programmes

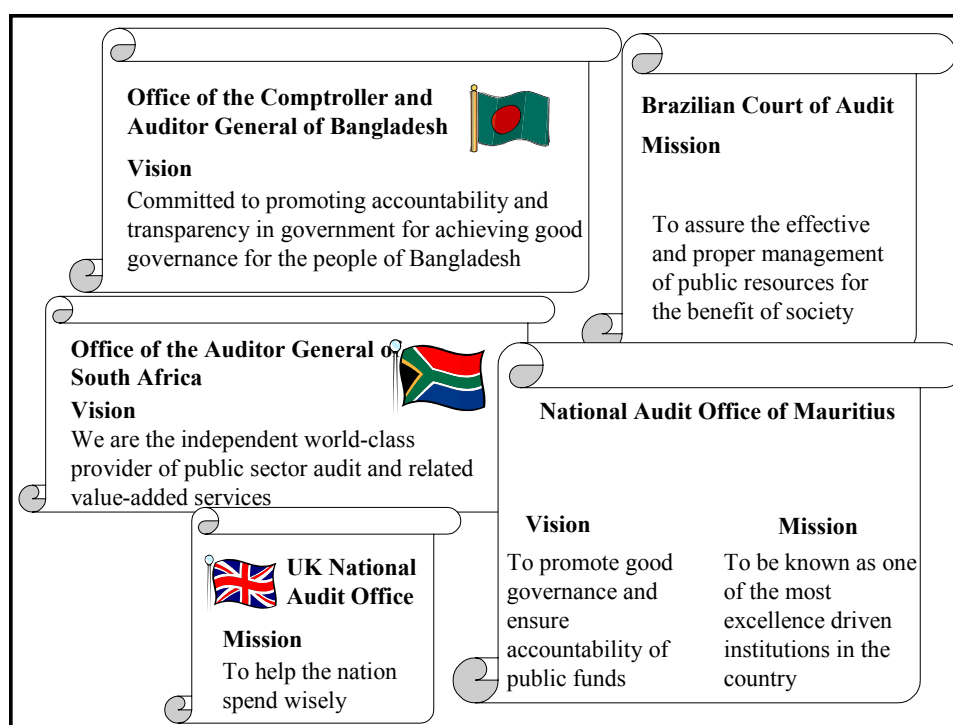
v) Improving audit documentation

57. The SAI must be able to justify its audit opinions and therefore needs to obtain and retain sufficient and appropriate evidence. Poor record keeping is often a problem at the bodies being audited, but can also be an issue for the SAI, particularly where records are kept manually and staff have not been adequately trained in how to record their work. A relatively simple technical solution should be achievable: audits follow a pattern where the same basic processes need to be followed each year and the same type of evidence collected. A set of mandatory audit files can be devised and opened for each audit, each year (standing information on the client, audit plan, payroll audit, audit of fixed assets etc) together with checklists of their expected contents. Standardised forms (which can be printed and completed by hand if necessary) can be developed for key audit stages (eg calculating a sample, documenting an error, extrapolating an error).

vi) Developing a SAI 'vision'

58. Although this is not necessarily a quick process, as it should involve consultation and input throughout the organisation, it is something that should be within the SAI's control, and therefore achievable. The development of a strategic vision can bring a number of benefits to the SAI. The process should bring together staff throughout the organisation, leading to a common understanding of what they are trying to achieve which they can then communicate to others. The vision or mission statement itself, should be short, memorable and capable of being used as a marketing tool through which the SAI can promote its message. **Figure 4** provides some illustrative examples from around the world.

Figure 4: Vision and Mission Statements



vii) Improving communications with audited bodies

59. Better communication does not necessarily require a great deal of financial resources but it may well require a change of mindset in how the SAI interacts with external parties. Improved communication is a long-term process, but various small steps can be taken initially to set the ball rolling. For example:

- A senior member of the SAI staff (eg Director level) should be nominated as the overall responsible contact for each audited body, and as a minimum should meet and brief senior staff from the audited body at the beginning and end of the annual audit process.
- Audit managers should ensure that working level meetings are held with clients at the beginning and end of every audit visit to explain what is about to happen and what has been found and obtain immediate feedback on results.
- Communication is a two-way process; the auditor needs to have sufficient familiarity with the general nature of the client’s business and the specific issues the audited body faces to target the audit approach appropriately. Where it does not interfere with audit objectivity, the auditor should be willing to address issues which are of interest to management (for example, how business processes can be made more efficient).

viii) Using pilot audits as learning experiences

60. One of the best ways for a SAI to develop both its technical competence and organisational abilities is through a pilot audit approach. Pilot audits provide a practical learning and training

opportunity for SAI staff in new methodologies, while also helping to deliver the audit work programme. They should be targeted at areas where significant improvements are likely to be identified, to reinforce the message, both internally and externally that the new approach is beneficial. Ideally, pilot audits should be introduced as a medium term programme of work and are likely to require a period of three to four years before they are fully adopted as the accepted methodology of the SAI, from the running of the initial pilot involving a few staff, through to the dissemination of the new approach throughout the entire organisation. However, pilot audits can be used in a more short term manner or even as one-off demonstrations, making it possible to work with only a few champions of the new approach in the SAI.

Working with SAIs where opportunities for reform are limited

61. [DFID's Policy Paper, 'Why we need to work more effectively in fragile states'](#)³ recognised that there are a range of weak governments which are unable or unwilling to provide for their people and further noted that it was important not to walk away from such states. Similarly, at the SAI level, SAIs may be unable or unwilling to adequately carry out their functions. Most of this How to Note focuses on supporting SAIs which, while they may be unable to fully deliver their remit, are committed to reform and improvement; supporting reform led from within offers the best opportunity for positive change. This section, however, considers some ways of working to support SAIs where opportunities for reform are more limited.

62. SAIs may be unwilling to commit to reform or strengthening initiatives for a variety of reasons. For example, there may be significant politicisation of the SAI's leadership to the service of particular political faction, undermining the independence and integrity of the organisation, and reducing the appetite for change.

63. In some circumstances, it may be wise not to provide direct support to an organisation where commitment is lacking. However, situations also exist where the rejuvenation of the SAI is so key to the success of other reforms that it is worth making the effort of working with an unwilling partner. This is particularly likely to be the case, where there are other willing partners within the national administration able to influence the SAI. The parties most likely to have influence over the SAI are those responsible for appointing its head and senior staff and approving its budget. In most Anglo-Saxon PFMA systems the key party will be parliament; in other systems, it may be the President or Head of State.

³ Why we need to work more effectively in fragile states, DFID, January 2005

64. To date, donor support to SAI's where there are limited opportunities for reform has often been focused on isolated technical changes introduced at a junior to mid-management level – e.g. training for selected staff or new audit manuals; combined with the provision of specific goods or services such as study tours and new IT kit or cars for senior staff. Though the SAI might accept this type of support, the lasting effects tend to be negligible. Typically, newly trained staff often lack the seniority to introduce new techniques to the SAI's audit approach and become isolated within the organisation or move on to other jobs.

65. Sustainable change might be better achieved through other, more cost-effective means, for example:

- adopting some of the easy wins noted above, e.g. improved report writing and better publicising of good news stories;
- supporting others to apply peer pressure on the SAI, e.g. from more reform minded SAIs in the region sharing their experiences; or
- supporting the SAI to carry out specific audit tasks - financially and with technical assistance from a reliable audit source. Although this might not go as far as a full pilot audit (in that the SAI may not be actively seeking to learn lessons from the experience), it would allow staff to gain relevant experience, and help to build the SAI's reputation.

66. Where support to an SAI is not judged to be immediately viable, it is still important to maintain contact and keep lines of communication open so that future opportunities can be supported. It is worth seeking to identify potential future champions of reform within the SAI and maintaining awareness of internal factors which might change and open up the scope for reform – e.g. senior staff who are currently blocking change might move on.

Possible partners for supporting SAI capacity development

i) International Organisation of Supreme Audit Institutions (INTOSAI)

67. INTOSAI offers a resource through which SAIs may be able to access cost-effective training and support for capacity development. The international SAI community underlined its commitment to development in its new strategic plan approved in October 2004. Under this, capacity development, rather than just training, is recognised as one of the three main pillars of INTOSAI's work.

68. Over the last ten years, the **INTOSAI Development Initiative (IDI)**, which has a secretariat based in Norway, has established training networks in all regions of the world. An important aspect of this infrastructure are training specialists who have been through courses organised by IDI and now work both nationally and as members of regional pools to train others.

These training specialists may be able to provide a local resource to help assess training needs and deliver training. The initial point of contact is IDI at www.idi.no.

ii) Developed SAIs

69. Many developed SAIs see a range of benefits in being involved in technical co-operation work with developing country partners. A SAI in a donor country will have a responsibility to audit how its national development assistance funds are used in partner countries; stronger SAIs in partner countries provide some assurance that funding is being used appropriately. Technical co-operation work is a two-way street. The exposure to different SAI practices, offers a learning opportunity for both SAIs and, on an individual level, offers challenging and fulfilling work experience for SAI staff. Thus there is an existing pool of expertise and enthusiasm among developed SAIs to be involved in long-term technical co-operation work with partner SAIs.

iii) Professional bodies

70. Another possible source of support for SAI development are the professional accountancy or auditing bodies working in the country concerned. These may be national organisations, or international professional bodies with a local affiliate or representation. For example, the Association of Chartered Certified Accountants has members throughout the world and local offices in numerous countries in Asia and Africa. The Chartered Institute of Public Finance and Accountancy (CIPFA) also has an active international arm. It is therefore worth exploring what professional bodies exist and what support they might be able to offer.

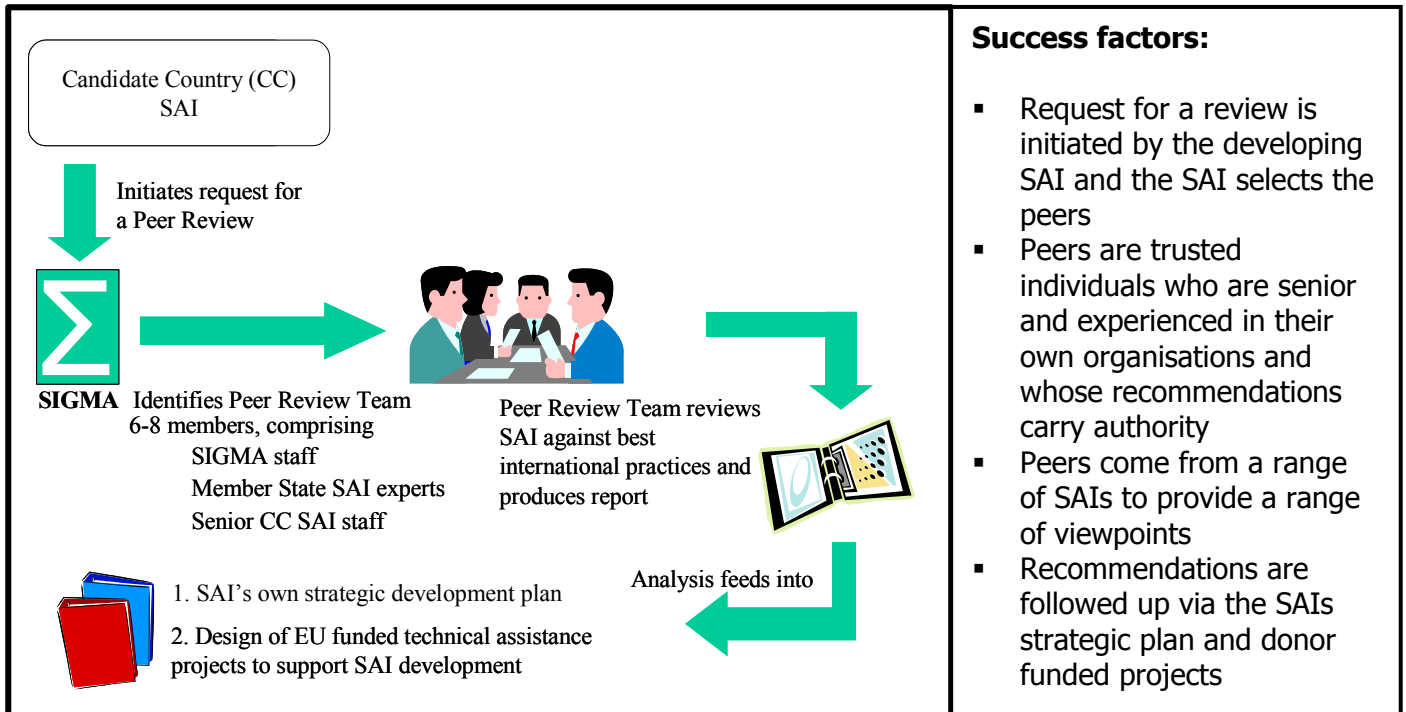
Successful SAI reform techniques

71. Several reform techniques have a demonstrable track record of assisting SAIs to develop, in particular: peer reviews, the development of internal training capacity, twinning projects and contact committees. Most of these techniques were successfully used in the context of EU enlargement. The goal of achieving EU membership was an enormous pull factor and the enlargement process proved to be a catalyst for wide-ranging reform in countries wishing to join. In most country situations there will not be a motivating factor as strong as this. However, where there is a willingness to reform, these mechanisms have the potential to be successful and there are examples of them being used in developing countries as diverse as Sierra Leone, Brazil and Afghanistan.

i) Peer Reviews

72. An external peer review process involves an evaluation of a SAI's working practices against best international practice by a team of external counterparts. In the context of European Union enlargement, the SAIs in most Candidate Countries initiated Peer Reviews, assisted by the Support for Improvement in Governance and Management programme, generally known as SIGMA. SIGMA is a joint OECD/EU initiative which provides support to countries trying to modernise their public governance systems. **Figure 5** illustrates the SIGMA peer review process and the critical factors associated with successful reviews.

Figure 5: Peer Review process



ii) Development of technical support and training capacity

73. Audit is a technically complex area and SAIs need enough appropriately qualified staff to deliver their work. This can be difficult to achieve in situations where resources are limited and SAIs cannot afford to buy in expertise. SAIs may not be able to afford the costs of training staff for recognised professional qualifications. In such situations, the most pragmatic approach is often for the SAI to build up its own internal training capacity. A range of complementary and mutually reinforcing approaches can be used to do this. The case of the Latvian State Audit Office (**Box 5**) offers a good example of available approaches being used in a co-ordinated way.

Box 5: Capacity development of the State Audit Office (SAO) of Latvia

The SAO was originally established in 1923, but did not operate between 1940 and 1993. After the fall of communism, preparations to re-establish the SAO began in the early 1990s. When the SAO became operational again in 1993, it faced a range of challenges. Issues around the adequacy of staff resources included:

- staff only had limited experience of modern audit techniques;
- the audit environment was rapidly changing and expanding, requiring staff to adopt new ways of working; and
- there was competition from the private sector for staff with professional qualifications.

Key measures which the SAO adopted to improve the technical expertise of its staff included:

- Establishing an **Audit Methodology, Analyses and Development Department (AMADD)** as a centre of knowledge, expertise and learning within the SAO. AMADD's objectives included improving the planning and methodology of audits and addressing the SAO's development needs. AMADD developed an audit methodology, drawing on Latvia's own audit traditions as well as international guidance and standards. AMADD coordinated technical assistance to the SAO from external bodies such as the European Commission and other European SAIs.
- Using the audit approaches developed by AMADD in **pilot audits** – to test the methodology in practice and gain feedback. Audit staff gained direct experience of the new methodology, reinforcing classroom based training and spreading confidence in the approach. The SAO noted immediate positive benefits, for example, the time needed to complete audits was reduced to one third of what had previously been required.
- Developing an **audit manual** based on the new methodology which formed the basis of training courses and provided an ongoing reference point for SAO staff.
- Using a **train the trainers approach**, so experienced audit staff were trained to train others, providing an affordable and sustainable internal training resource.
- Developing **competency statements** for different grades of staff and carrying out an office wide **assessment of staff training needs** to plan future courses.
- Taking advantage of any external, cost-free training opportunities, for instance placements at the European Court of Auditors.
- Participating in **regional audit forums and technical working groups** to share knowledge and learn from other SAIs facing similar challenges.
- Actively encouraging staff to pursue external academic studies, relevant to the office's work, offering both time and some financial support for a range of qualifications.

iii) Twinning projects

74. In the EU enlargement context, a twinning project is an institutional capacity development project with a medium to long term life-span, which matches or 'twins' a developing SAI with a developed counterpart so that experience can be shared in depth. The counterparts were SAIs from existing Member States which were able to offer their experience and shared commonality of purpose to SAIs from Candidate Countries. The key factors in successful twinning projects are summarised in Box 6. Twinning between SAIs can bring ongoing benefits, in that once a relationship has been developed, it tends to continue even after projects have formally ended. This is a result not only of the shared history of the project but because SAIs regularly meet and co-operate with each other through various international fora.

Box 6: Twinning project success factors

- Planning for the twinning project is based on detailed analysis of development priorities from a peer review or similar
- The developing SAI selects its twinning partner or partners and maintains ownership of the project
- Each partner agrees up front what they will bring to the project – staff, IT other equipment, financing etc and the measurable outputs which will be delivered. They also agree a mechanism for adjusting inputs/outputs if necessary.
- The developing SAI nominates leaders and teams to implement each element of the project. Responsibility for maintaining overall progress is assigned to the highest level of management.
- The partner's role is to facilitate development, to train, to guide, to suggest – not to be part of the line management of the developing SAI or perform its work.
- At least one advisor is based in the developing SAI throughout the project to provide ad hoc advice and guidance, coordinate inputs and adapt plans in response to emerging needs.
- The expertise of the resident advisor is backed up by short term inputs on specific topics from other experts.
- A senior staff member from the provider organisation liaises regularly with senior management of the developing SAI to review progress and keep the project on track.
- Relationship is long term, preferably at least five years.

75. In the wider development context, there are examples of long-term **SAI to SAI technical co-operation** – for example, the Swedish NAO has been involved in long term projects with the SAIs of Namibia and Mozambique while the German SAI worked with that of China for a ten year period until 2001. Developing SAIs can also obtain technical support from **private sector providers** - for example, in Sierra Leone a private audit firm is leading a medium-term project to support the Auditor General's Office. However, there are differences in scope between public and private sector auditors; if private sector providers are to be used, it is desirable that they are able to demonstrate a proven track record of working with the public sector.

iv) Contact Committees

76. A Contact Committee is a **regional forum for SAIs** with similar interests and development needs to meet and share experiences. In the EU context, a Contact Committee was established for the SAIs of Candidate Countries, allowing them to work together and define a development agenda focused directly on their needs. In October 1999, this Contact Committee issued the Prague Recommendations on the functioning of SAIs in the context of European integration. The priorities identified in the Recommendations subsequently acted as a roadmap to guide the work of a range of technical committees established by the Contact Committee.

77. **SAIs often co-operate together** under the auspices of INTOSAI or one of its regional branches (AFROSAI, ASOSAI, ARABOSAI etc) and may be involved in associated technical working groups. However, there could be scope for smaller groups of SAIs with greater similarity of needs and priorities to work together. For example, a workshop of South Asia SAIs held in Bangladesh in August 2004, agreed to explore the potential for more focused co-operation in the region.

Based on the EU experience, key factors in making Contact Committees productive and responsive to the real needs of their members, rather than just being fora for discussions, are:

- the challenges facing committee members are sufficiently similar in nature and priority for there to be mutual advantages in addressing them on a common basis;
- the SAIs involved have some internal resources available to commit to committee meetings and related technical working groups;
- developed SAIs and other external parties are able and willing to share expertise; and
- if necessary, external funding is available to help cover the administrative expenses of the Committee.

Technical Annex 1: Key Areas and Excellence Factors for Evaluating the Effectiveness of a SAI

Key Areas		Excellence Factors
1. Statutory position	Organisation	Independence, audit remit, access rights, reporting
2. Leadership and strategy	Management	Vision, strategy, priority setting, internal communication
3. Governance		Accountability, proper conduct
4. Staff resources	Inputs	Recruitment and retention, qualifications and training
5. Non-staff resources		Finance, office space, utilities and equipment, IT, corporate knowledge base
6. Audit methodology	Processes	Standardised approaches, relations with other auditors, quality assurance
7. External relations	Outcomes	Communication policy, reputation, working with audited bodies, working with PAC
8. Achievement of results		Timeliness, monitoring and follow up

For each of the Excellence Factors in this annex, consider:

- ***Whether the good practices listed in the bullets are in place***
- ***If not, what is the likely impact?***
- ***What scope is there for reform and what incentives can be identified?***

KEY AREA 1: STATUTORY POSITION

The adequacy of the legal framework underpinning the SAI's operations

78. The key characteristic of external audit is that **the auditor should be independent of the bodies being audited so that s/he can give an objective opinion**. The auditor needs to be independent of both individual audited bodies and the Government as a whole. Where the statutory framework does not meet the independence excellence factors noted, the effectiveness of the SAI is compromised before it even begins its work.

79. The exact remit of SAIs varies from country to country and there is no single 'right' model to follow. Within the individual national context, legislative arrangements should be in place to ensure that **all public income and expenditure is subject to independent external audit**. Some SAIs only audit central government entities, others have the power to follow public expenditure to its final recipient, for example, a company subcontracted to deliver public services or an individual in receipt of a grant or personal benefit.

80. The remit of SAIs also varies in relation to the different types of audit they are empowered to carry out, the most common of which are:

- **Financial audit** – focusing on providing an audit opinion on the annual accounts of public bodies – broadly whether their financial statements properly present or give a true and fair view of financial events in the period under review;
- **Compliance / legality / regularity audit** – focusing on verifying the legality of transactions which have taken place; and
- **Performance / management / value for money audit** – considering the economy, efficiency and effectiveness with which resources are used. This is a more recent type of audit and consequently not all SAIs have explicit statutory powers to carry it out.

81. The SAI's legal framework should ensure it has access to all the information required to carry out its work and may provide enforcement mechanisms to ensure information is made available. Discretion for deciding what information is required should rest with the SAI.

82. The SAI should be both **empowered and required** to report its findings to Parliament or any other responsible national body. It is not desirable that audit reports be routed through the Executive, (sometimes the MoF, the Prime Minister or President's office plays a role) because this increases the risk of delaying or even suppressing the accountability process. Reporting should occur at least on an annual basis and preferably the SAI should be able to report significant or important findings at any time throughout the year. SAI reports should be publicly available.

Excellence Factor 1 - Independence	Excellence Factor 2 – Audit Remit
<ul style="list-style-type: none">• The process for appointing the head of the SAI minimises political manipulation (eg selection involves members of the government and opposition, approval requires a vote of Parliament and is not a gift of the President or Prime Minister)• Head of SAI is protected against arbitrary removal• SAI does not carry out executive functions (eg	<ul style="list-style-type: none">• The SAI is empowered to audit all central government ministries, departments and other bodies, including those whose financing may be off budget• If relevant (ie in situations where there are no lower tier external auditors), the SAI is empowered to audit all regional and local public bodies

<ul style="list-style-type: none"> preparing accounts or approving payments) SAI presents its budget directly to the legislature for approval Head of SAI is free to appoint staff and establish their terms and conditions SAI is free to select subjects to audit 	<ul style="list-style-type: none"> If relevant the SAI is empowered to audit entities such as publicly owned companies, companies in which the government has a significant investment or the National Bank. The SAI is empowered to carry out all relevant types of audit activity, including performance (value for money) audit
Excellence Factor 3 – Access Rights	Excellence Factor 4 – Reporting
<ul style="list-style-type: none"> SAI has access to all the records and documents it needs, irrespective of the format in which they are held SAI staff have right of access to the premises of audited bodies Staff of audited bodies are required to provide the information and explanations requested by the SAI Enforcement mechanisms are in place to ensure that information is provided on a timely basis 	<ul style="list-style-type: none"> SAI is able to report directly to Parliament, preferably on its own initiative, as well as in order to meet annual statutory deadlines SAI cannot be sued for expressing well founded audit opinions SAI’s published reports are publicly available

KEY AREA 2: LEADERSHIP AND STRATEGY

How proactively the SAI determines its objectives and puts strategies in place to achieve them

83. The need for clear leadership and a coherent strategy is a prerequisite for any successful organisation; SAIs are no exception to this. SAIs are increasingly articulating their role in terms of a vision and/or mission statement, setting out their over-arching goals (see Figure 4). The statements tend to emphasise both:

- the wider public good which the SAI intends to promote through its work; and
- the high professional standards which the SAI is aiming for in carrying out its work.

84. Many developing SAIs have to carry out their responsibilities with limited resources. They operate in an environment where it is not certain what funds will be available in a given period. In such circumstances, it is easy to become involved in a daily scramble for resources and to ‘fire-fight’ immediate problems, rather than taking a longer term view. But in many ways, an uncertain operating environment makes strategic planning even more necessary in order to target key opportunities and make the best use of what is available.

85. Public sector auditing is a knowledge based activity and the key resource of a successful SAI is a motivated workforce. An effective internal communications policy should be a key vehicle for engaging staff in the vision and mission of the organisation. Communication should be open and regular, with staff being able to contribute to the development of office policies. A sense of involvement in and affinity with the organisation can help to offset de-motivating factors, such as relatively low levels of remuneration in the public sector.

Excellence Factor 5 – Vision	Excellence Factor 6 – Strategy
<ul style="list-style-type: none"> SAI has an overall vision or mission statement, guiding its work SAI leadership fully supports and articulates the vision Staff at all levels understand and are motivated by the vision and can explain it to others 	<ul style="list-style-type: none"> SAI has a development strategy looking 5 to 10 years ahead Strategy is based on research into stakeholder needs Staff from all parts of the organisation contribute to the strategy
Excellence Factor 7 – Priority Setting	Excellence Factor 8 – Internal Communications
<ul style="list-style-type: none"> SAI’s policies, plans, objectives and targets flow from its vision and strategy SAI manages its resources flexibly. Decisions on which activities to prioritise are based on informed analysis Management information and performance measures are in place The annual audit programme is flexible enough to prioritise urgent work 	<ul style="list-style-type: none"> Vision, strategy, plans and other corporate information are communicated in a range of ways Open, two-way communication is encouraged Staff believe that SAI leadership will listen to their ideas

KEY AREA 3: GOVERNANCE OF THE SAI

How the SAI manages its business and how accountable it is to others

86. If a SAI is to be credible as a guardian of public accountability, it must carry out, and be seen to carry out, its work in an ethical and principled way. The INTOSAI Code of ethics states,

"The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of the auditors, the SAI that they represent, and the quality and validity of their audit work in an unfavourable light, and may raise doubts about the reliability and competence of the SAI itself. The adoption and application of a code of ethics for auditors in the public sector promotes trust and confidence in the auditors and their work".

87. SAIs can influence others by the example they set in their own working practices. Seeking to meet the highest standards of accountability gives SAIs the moral authority to expect similar good practice from bodies they audit. A willingness to accept external scrutiny also implies that SAIs are ready to accept advice or recommendations which may be put forward by others.

88. The SAI should be part of the accountability chain, not only in the sense helping to ensure others are accountable, but in the sense of being accountable itself. The justifiable question, 'Who audits the auditors?' is often asked and is best answered by the SAI itself being subject to independent external audit. The SAI should be accountable in the broadest sense to all parts of the community it serves – the taxpayers and the general public, and not just the bodies which can directly affect the level of the SAI’s own resources, ie Parliament or, in some cases the Executive.

89. In some countries, there may be legal barriers and/or barriers of perception to the SAI being audited. Where the SAI is a Court, difficulties may arise if it seems that a higher authority (ie the SAI’s auditor) can sit in judgement or hold the SAI to account. However, most SAIs do

have their accounts externally audited – for example, in the case of the United Kingdom the National Audit Office is audited by auditors from a private sector firm appointed by a Parliamentary committee.

90. Often codes of conduct do not exist or are not followed and conflicts of interest arise - for example, senior SAI staff sit on the governing boards of bodies which the SAI audits.

Excellence Factor 9 – Accountability to Others	Excellence Factor 10 – Proper Conduct
<ul style="list-style-type: none"> • SAI, as a minimum, publishes its corporate plan and annual report • SAI’s annual accounts are independently audited and publicly available • SAI has appropriate internal controls in place, including internal audit • SAI seeks feedback from audited bodies and external stakeholders 	<ul style="list-style-type: none"> • SAI has a comprehensive, written code of conduct • All staff are familiar with the code of conduct and comply with it • An up-to-date register of interests is maintained and is publicly available • Procedures to protect ‘whistleblowers’ within the SAI are in place

KEY AREA 4: ADEQUACY OF STAFF RESOURCES

The number and skills of staff available to the SAI

91. Audit is a technically complex area which requires trained staff to deliver effectively. The most important resource of a SAI is its workforce but in many developing countries there are problems in recruiting and retaining sufficient numbers of appropriately qualified staff. This can lead to a range of problems. If staff leading and working on audits do not have the appropriate skills for the job, the quality of the work done is brought into question. Audit reports are often late or of a poor quality due to a lack of staff resources and staff in post are demotivated because of low pay and high workloads.

Excellence Factor 11 – Recruitment and Retention	Excellence Factor 12 – Qualifications and Training
<ul style="list-style-type: none"> • SAI is responsible for managing its own staffing needs and does not have to rely on an Establishment Division or similar • SAI’s staffing complement is defined by assessment of workload needs • SAI is able to fill vacancies within a reasonable period • Staff are recruited on merit through an open and transparent system • Staff are adequately remunerated and turn-over is manageable 	<ul style="list-style-type: none"> • Knowledge, skills and competencies for all the jobs within the SAI are defined • Professional audit staff have, or are working towards, relevant qualifications • SAI has a structured training programme to develop its professional and support staff • Development needs of individual staff are regularly assessed

KEY AREA 5: ADEQUACY OF NON-STAFF RESOURCES

The adequacy of other key resources available to the SAI

92. The ability of the SAI to carry out its work depends on an adequate level of funding and physical resources to meet its operational needs. As well as maintaining a head office, the nature of audit work means that SAI staff are likely to have to travel to other locations to visit audit clients. This requirement will increase if the SAI is responsible for auditing regional and local levels of government, as well as central ministries and departments.

93. SAIs often see greater use of Computer Assisted Audit Techniques (CAATs) as the key to successful development. However, CAATs and IT systems are only tools; to be effective, they need to be operated by trained and knowledgeable staff, able to make appropriate audit judgements. The introduction of complex IT systems is traditionally difficult in developing country situations and such projects tend to have sustainability problems because of the limited resources available for maintaining and operating systems – in terms of hardware, software and trained staff. In the case of the SAI, consideration needs to be given to ensuring that any IT system it adopts is compatible with those of key audited bodies, especially the MoF. In situations where a IFMIS is being introduced nationally, it is critical that the SAI is given early access to the system.

94. Knowledge is a less tangible asset but is vital if a SAI is to function effectively. Information needs to be available to all staff who require it, when they require it. Types of information which the SAI should collect and regularly update include:

- Professional auditing and accounting standards
- Legislation governing the SAI and the bodies it audits
- Budget documentation, annual accounts and annual reports for each audited body
- The SAI's audit reports and reports by PAC or other relevant parliamentary bodies

In addition, for each audited body the SAI should maintain a detailed file providing information about the organisation's business environment and detailed organisational structure.

<p>Excellence Factor 13 – Finance</p>	<p>Excellence Factor 14 – Office Space, Utilities and Equipment (non-IT)</p>
<ul style="list-style-type: none"> • The financial resources actually made available to the SAI are equal to those approved in the budget • Resource planning has medium term (3-5 year) as well as annual basis to enable the SAI to plan investments in infrastructure, training etc 	<ul style="list-style-type: none"> • SAI has adequate premises from which to carry out its work, including regional or local offices if necessary • Basic services operate on a continuous basis – electricity, telephones, water etc • The SAI has the basic office equipment it requires
<p>Excellence Factor 15 – IT</p>	<p>Excellence Factor 16 – Corporate Knowledge Base</p>
<ul style="list-style-type: none"> • The SAI staff have access to IT equipment appropriate to their needs • There is an IT strategy designed to meet the SAI's operational needs • SAI's IT systems are compatible with those of its audit clients 	<ul style="list-style-type: none"> • The SAI collects and maintains the information required to carry out its work in a professional manner (normally in a technical library) • Corporate knowledge is stored in an orderly way, is accessible to all staff members who require it and is updated regularly

- Appropriately qualified IT support staff manage the system
- A training programme for SAI staff has been developed and implemented
- Equipment is used and maintained to optimise its life cycle and performance

KEY AREA 6: AUDIT METHODOLOGY

The processes in place to deliver audit work of a reasonable professional standard

95. SAIs may be following audit standards from a variety of sources. The most common are.
- **National standards** – set by a body in the country concerned. In some cases the MoF may be responsible, in others, the Accountant and/or Auditor General. In the United Kingdom, the Auditing Practices Board, made up of representatives of the six national professional accounting bodies, is responsible⁴. National auditing standards are likely to be relatively detailed and take full account of the national operating environment.
 - **INTOSAI standards** – INTOSAI has over 180 members from a wide range of audit traditions, working in different control environments. INTOSAI audit standards are set at a relatively high level and in many ways are more akin to statements of principle, with detailed implementation decisions being at the discretion of individual SAIs.
 - **International Standards on Auditing (ISAs)** are developed by the International Federation of Accountants (IFAC) - the representative organisation of professional accounting bodies worldwide. ISAs are primarily aimed at the private sector but efforts are made to incorporate a public sector perspective.
96. Whatever auditing standards a SAI adopts, it needs to establish processes to ensure its work is carried out in a consistent manner. These should include: an Audit Manual, setting out the SAI's audit methodology; training for staff; standardised documentation to record audit evidence; and a two stage internal review process, ie, all audit work should be checked and signed off by two levels of line management to ensure it has been carried out to an appropriate standard.
97. External validation of the SAI's work is desirable, and can be carried out in various ways. The use of peer reviews is discussed in paragraph 74. Other mechanisms include:
- sub-contracting some audit work to private sector auditors and comparing their approach and results with the SAI's own methodology;
 - requesting the SAI's external and/or internal auditors to review aspects of its work;

⁴ The Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in Ireland (ICAI), the Chartered Institute of Public Financial Accountants (CIPFA), the Association of Chartered Certified Accountants (ACCA) and the Chartered Institute of Management Accountants (CIMA)

- using quality assurance services which national audit or accountancy bodies may offer, eg, the UK's Joint Monitoring Unit, set up by the six professional bodies, fulfils this role
- using academics or consultants to assess particular audit processes or outputs.

98. In a PFMA system that is functioning well, the SAI should be able to rely on work done by internal audit (IA) to reduce the level of testing it needs to do itself. However, in most developing countries, the capacity of IA is low and little reliance can be placed on its work. IA often has few staff, of whom very few are qualified; and little independence from departmental managers. It is common for IA to fulfil a control function (checking vouchers before payments are made) rather than an audit function (checking after the event, that controls operated by line management worked). The SAI may be able to support the role of IA by emphasising its importance in its own audit reports and recommending greater support for it. SAIs may also be able to include some internal auditors in their training events as a means of developing capacity.

Excellence Factor 17 – Standardised Approaches	Excellence Factor 18 – Relations with Other Auditors
<ul style="list-style-type: none"> • Audit methods and processes comply with appropriate auditing standards • SAI has a comprehensive, written Audit Manual and/or technical guidance • Staff are trained in the audit approach • Standardised documentation is used to plan the audit, carry out work, record findings and report • Guidance is kept under review and regularly updated 	<ul style="list-style-type: none"> • SAI assesses the quality of IA and lower tier audit bodies where they exist, and relies on their work where possible • SAI liaises with IA and other auditors to avoid duplication of effort and maximise audit coverage
Excellence Factor 19 – Quality Assurance	
<ul style="list-style-type: none"> • SAI's internal procedures include a two-stage review of audit work • SAI benchmarks its own performance regularly • SAI regularly opens itself to external review of its operations 	

KEY AREA 7: RELATIONS WITH EXTERNAL STAKEHOLDERS

How effectively the SAI interacts with external stakeholders

99. Every SAI needs to interact with a variety of external stakeholders including PAC, audited bodies, MoF, the media, civil society and the general public. While SAIs need to remain independent of the bodies they audit, they should also seek to develop positive working relationships with them. An environment of mutual respect increases the likelihood that the audited body will implement recommendations without the need for sanctions. A key factor in developing a positive relationship, is the professionalism with which the SAI conducts its work and the defensibility of the SAI's own reputation is also inherently linked to this.

100. The SAI's key relationships are normally with the MoF and Parliament but they should seek to develop relations with other stakeholders as well. This is of particular relevance where the relationship with the MoF or Parliament is not functioning very well. The SAI may be able to reach out beyond these bodies and stimulate demand among a wider audience, including the media and civil society, for its work, and for action on its audit results.

101. SAIs often have not identified different stakeholder groups nor developed a differentiated communications policy for dealing with them and staff do not see external relations as being part of their job. The lack of attention to the SAI's external image often means that the SAI is not widely respected for the quality of its work and adverse reports on its work go unchallenged.

Excellence Factor 20 – Communication Policy	Excellence Factor 21 – Reputation
<ul style="list-style-type: none"> • SAI identifies all external stakeholders and develops a communications strategy for each • SAI senior management play a leading role in communicating formally and informally with key stakeholders • SAI staff at all levels understand that they are ambassadors for the SAI in all their interactions with external parties • SAI produces user-friendly reports and other outputs, tailored to the needs of the target audience 	<ul style="list-style-type: none"> • SAI is meticulous in ensuring its audit opinions are defensible and based on sufficient, relevant and reliable evidence • SAI monitors its own performance and reports against key performance indicators • Findings arising from any sort of independent external scrutiny of the SAI (eg audit of its accounts, Quality Assurance reviews) are acted on • SAI anticipates and has procedures in place to repudiate adverse publicity
Excellence Factor 22 – Working with Audited Bodies	Excellence Factor 23 – Working with Parliament
<ul style="list-style-type: none"> • SAI cultivates positive working relations with audited bodies, based on mutual respect and two way communication • There is mutual understanding and agreement on the role, rights and responsibilities of the SAI and audited bodies • SAI involves audited bodies in dialogue on its work programme • Clear processes and timetables are established for communicating with audited bodies at each stage of the audit • The SAI's audit recommendations are constructive and seek to improve overall performance, motivating audited bodies to implement them 	<ul style="list-style-type: none"> • SAI and PAC work closely together to maximise audit impacts • There is regular liaison between the SAI and PAC, preferably at the highest level • SAI provides oral and written briefings in advance of PAC hearings • SAI assists PAC in checking whether its recommendations have been implemented

KEY AREA 8: ACHIEVEMENT OF RESULTS

The actual outcomes achieved by the SAI

102. Audit is not an end in itself but should be undertaken with a view to improving financial management and accountability in the public sector. Audit reports are of most use when they are

delivered on a timely basis, allowing necessary corrective actions to be taken quickly and enabling responsible officials to be held to account for their actions. Most SAIs have an obligation to report their financial or compliance audit findings on an annual basis. In terms of performance auditing, where the choice of audit subject is usually more at the discretion of the SAI, timely reporting is equally desirable in order to implement audit recommendations as quickly as possible. Monitoring and follow up by the SAI is important, both to apply pressure on the audited body to implement recommendations and to allow the SAI to evaluate the effectiveness of its work.

103. When audit work is not completed on a timely basis, common problems include the loss of relevant records and documentation; the movement of the officials who were originally responsible for the transactions involved; and an inability to impose sanctions for past actions. It is easier for audited bodies to ignore the findings of older audit work, as they appear to be of less relevance. Delays in reporting also tend to create a backlog of old, and increasingly irrelevant reports, which PAC is required to look at, reducing its capacity to review newer and, potentially, more important issues.

Excellence Factor 24 – Timeliness	Excellence Factor 25 – Monitoring and Follow Up
<ul style="list-style-type: none"> • SAI meets statutory deadlines for completing audits, assuming other parties have met their obligations (such as preparing the financial statements) to make this possible • Where audit work is at the SAI’s discretion (typically performance audit), reports should be produced quickly so that findings are relevant and up-to-date 	<ul style="list-style-type: none"> • Formal mechanisms exist, requiring audited bodies to implement audit recommendations, or explain why they are not doing so • Key players in the executive branch, eg MoF, oversee the compliance of line ministries with audit recommendations • The extent to which audit recommendations have been acted on, is taken into account in subsequent audits • SAI monitors compliance by audited bodies and reports again if they are not acting on recommendations • SAI reports on the results it has achieved – eg, value of savings generated by implementing audit recommendations

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