

Transparency and Accountability tools

How can internal and external audit be used by central budget agencies to facilitate accountability and transparency?

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What I will cover

- A quick refresher about audit and the grand models of financial management
 - External audit
 - Internal audit
- How audit is evolving in general
- The notion of accountability
- How audit can be used by budget authorities as a driver for change
- Some questions for the Panel members

The roles of Auditors

- Internal audit
 - independent, objective assurance and consulting activity designed to add value and improve an organization's operations
 - helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes
 - A tool of managerial accountability – follows accountability line
- External audit (Supreme Audit Institution)
 - Independent audit of government accounts
 - Performance audits of government's income and expenditure
 - A key feature of accountability to Parliament
 - No single model – Courts and Offices.

Financial management models

- Reflect three key factors:
 - Historical development
 - Legal development
 - Administrative development
- In effect, the two grand models of financial management are simply a reflection of historical empires. The British and the French.
- However no one country is completely similar to any other in terms of the management of public finances

Two basic models....

Anglo Saxon

- High level budget
- Focus on accounting officers
- Internal audit of internal controls
- External audit linked to Parliament
- Control is a process

Francophone

- Detailed budgetary control
- Focus on budget holders
- Financial/Budget controllers - pre authorisation
- External audit linked to Judiciary
- Control is a person

...and a FSU variant

Many elements of Francophone model:

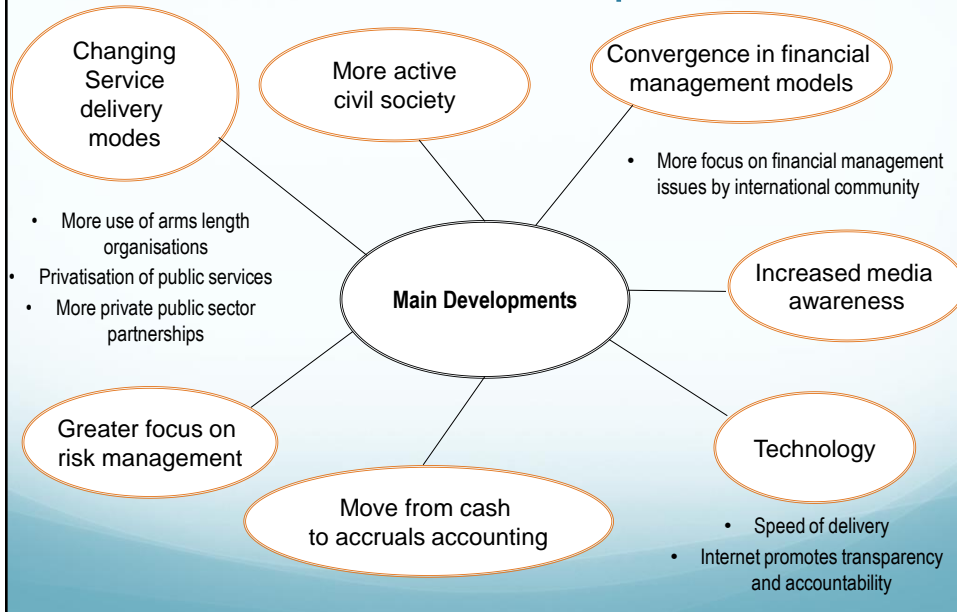
- Detailed budget
- Chambers/Committees of Accounts
- Elements of “ex-ante” audits

Some key additions:

- A highly centralized and powerful financial inspection function to carry out planned ex post reviews of legality of expenditure made
- Coverage of the whole public sector within a few years

... also exported widely to other countries.

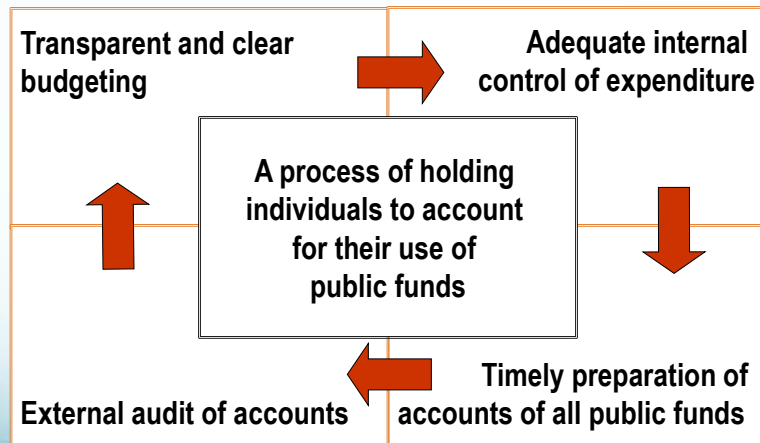
Main PFM Developments



Convergence of approaches

- There has been a general coming together of the two main models of financial control
- A key driver has been the accession criteria for EU membership which promoted PIFC
- Another factor was the spectacular failure of financial control in the European Commission itself when it operated under the francophone model

Key elements of sound financial management



How audit is evolving

- From compliance and basic financial audit covering checks of rules and procedures, legality and correctness of expenditure
- To sophisticated financial audit following the move to accruals based accounting using International Public Sector Accounting Standards
- Performance audits now a key role of most auditors focusing on economy, efficiency to effectiveness
- Reduced confidentiality and increased transparency as many internal audits are now publicly available

Why transparency is not a zero sum game

- The more open governments are the better they are.
- External scrutiny requires managers to develop better information systems and seek assurance on their effectiveness. It promotes better management of resources.

The notion of accountability

- A word that does not exist in some languages
 - It is not about reporting...
 - or a synonym for transparency
 - It reflects a process which result in consequences for officials the way public money is spent.
- Accountability exists:
 - There is a clear line of responsibility and authority for policy implementation
 - It is felt by people who are accountable
 - When ministers are sent to prison for their mismanagement of resources

Different views of accountability

- **External audit** view accountability in terms of the responsibility of ministers to report to Parliament
- **Internal Audit** view accountability in terms of managerial responsibility for internal control
- **Treasury/Budget** – view accountability in terms of the provision of reports and information for the public to allow them to hold government to account for the money they allocate and spend.

Using audit to best effect - 1

- Audit can help with.
 - Validation (of performance indicators, budget out-turn, etc)
 - Assurance (of financial statements, the effectiveness of internal control, etc)
 - Performance audits (economy, efficiency, effectiveness, etc)
 - Risk assessment (identifying areas of high risk, poor or too much control, potential frauds, etc)
- Good auditors can be effective business partners
 - Eyes and ears of budget setters
 - Providing data and information for effective budgetary challenge of requests for additional resources
 - Showing where resources have been poorly spend
 - Help budget hold managers accountable

Using audit to best effect – 2

- To be effective audit needs:
 - Authority and independence
 - Adequate resources (both number and quality of staff and non-staff budgets for travel and IT support)
 - To adopt and apply of best practice standards
 - Access to information and people
 - Effective and timely reports (well written with strong evidence, a focus on the important issues and clear recommendations for action)
- Audit also needs clients who are:
 - Prepared to listen and open to constructive criticism
 - Can see beyond the negative
 - Willing and able to take action to address key issues

Questions for panel members

1. Is accountability just painful or also beneficial?
2. What do you as clients see as the key role of Internal and External Audit in strengthening accountability and transparency? Can you give any examples?