

**OECD GLOBAL FORUM ON GOVERNANCE:**  
**Modernising Government: strategies & tools for change**

**Discussion paper on the role of an effective Supreme Audit  
Institution in the reform of service delivery and public sector  
performance**

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## Introduction

1. This paper explores the role of the Supreme Audit Institution [SAI] in the reform of public service delivery and in the improvement of performance in the public sector. The paper begins by setting out the functions of an effective SAI and then explores how the work of the SAI is linked to some of the questions posed to this working group.

## What does the Supreme Audit Institution [SAI]do?

2. The SAI is usually tasked to scrutinise public spending on behalf of Parliament and taxpayers. It will have a high degree of independence from Government and be headed by one person [or a group of persons] in whom statutory responsibility for the audit of central government is vested. SAIs carry out various forms of audit, one of the most common of which is called **Certification Audit**. At the end of each certification audit, the SAI gives an audit opinion on the accuracy, truth, fairness, completeness etc of the financial statements prepared by various government Ministries, Agencies and Departments [MDAs].
3. At this point one must note that there are differences in the quality of the work of SAIs across the globe, with each SAI being at a different stage in its maturity and effectiveness in comparison with others. For effective and mature SAI's, this certification audit work is similar in nature to the audits of private entities and companies, as carried out by private sector audit firms [e.g. PwC, Ernst and Young, Deloitte , KPMG], and is carried out to similarly stringent audit standards.
4. Within the past 15 to 20 years however, there has been growth in the other types of work done by SAIs, particularly in the area of **Value for Money [VFM] or Performance audits**. In carrying out Value for Money audits, the SAI is tasked to examine the outputs and outcomes achieved by MDAs in the course of spending public money to deliver government policy objectives. The topics selected for study are typically matters that are of significant interest to the legislature and the public, and the work of the SAI leads to reports that are to be submitted to parliament through its budgetary oversight or Public Accounts committee.
5. VFM audits focus on the **three Es**, Economy, Efficiency and Effectiveness in the use of public funds. However, SAIs are expected to be able to explore any aspects of an MDAs use of public funds, even where there is no obvious link to any of the three Es. Audits that are undertaken by an SAI that are not directly to do with certifying the client's financial statements or to do with the three Es are usually termed **Investigative audits or Special audits or Good Governance audits** [varying from SAI to SAI]. Overall, depending on the statutory instruments underpinning its work, an SAI will have the powers to deliver audits, reviews, studies using all three types of audit approach.

### **To what degree of professionalism does an SAI undertake its audits?**

6. Modern SAIs tend to be staffed by qualified accountants, and aspire to undertake audit work to International Standards of Audit, published by the International Auditing and Assurance Standards Board [IAASB]. The IAASB is in turn a sub-set of the International Federation of Accountants [IFAC]. It is therefore clear that the work of an effective or mature SAI will be well regulated by professional accountancy bodies, and the standard setting process underpinning the work of auditors will be robust.
7. Also, SAIs as members the International Organisation of Supreme Audit Institutions [INTOSAI], subscribe to its guidance in the practice of audit. As stated on its website, INTOSAI provides an ‘ *institutionalised framework for supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries.*’

### **Why is this relevant to Public Service delivery and performance?**

8. By carrying out Value for Money/ Performance audits, SAIs are able to explore the extent to which various government Ministries, Agencies and Departments [MDAs] are meeting their service delivery objectives and how these MDAs are performing across a wide range of indicators. This places the SAI firmly in the middle of the process by which levels of public service delivery and performance are independently measured.
9. It must however be made clear that SAIs are not a part of the Government and can not drive, force or order MDAs to pursue any particular agenda. What they can do is to provide reliable and robust audit reports on performance so that those able to directly influence MDAs and the government [Parliament, Civil Society etc] have enough information upon which to base their actions.
10. In addition to making recommendations for improvement within the client’s systems, an SAI can also work with its clients [the MDAs] to encourage the use of performance information in service delivery and in decision making.

### **Addressing the key areas set out for discussion**

11. And now to focus on four of the questions set out for discussion at this forum. The comments made in this paper in response to the issues raised come from hands-on experience in the delivery of audits outside of, and within an SAI; as well as from a broad understanding of both the strategic direction of SAIs and the interrelationship between SAIs and their various stakeholders. [i.e. the Ministry of Finance, Parliament, Civil Society and the general public]. Questions 1, 3, 5 and 7 are hereby addressed in turn, as follows;

## **Session A: Reforming budget and management system: the role of finance and other ministries**

*Q-I: What incentives can be provided to motivate agencies and ministries to use performance information in decision making and for performance improvement?*

12. Everyone will agree that in order to arrive at the best decisions on how to improve their performance, the starting point for MDAs will be to obtain robust information on their current and past performance. The value of performance information in decision making is therefore beyond doubt. The issue at hand therefore is how to motivate MDAs to do something that they know they should be doing, and how to ensure they do it well. In other words, how can MDAs be assisted in defining the performance information that needs to be collected; in determining the best methods of collecting this information; and in deciding how to use the information collected to effect change. SAIs are able to play an important role in all these stages. In this area therefore, it can be said that a large part of the ability to motivate these MDAs falls firmly within the remit of the SAI in each country.
13. The SAI has the overarching responsibility, as the country's spending watchdog, to provide clear Value for Money or Performance audit reports to parliament and to the public, on various aspects of the performance of each MDA. These reports are the measure by which tax payers know what is being achieved with public funds, and SAIs aspire to produce reports that are increasingly clearer and clearer on outputs and outcomes achieved by MDAs. In many instances, the reports produced by the SAI serve to inform the Ministry of Finance, and act as a counterweight to the reports produced internally by MDAs for the Ministry of Finance [MoF].
14. In the UK experience, the Treasury [MoF] is the main driver in setting spending limits for each central government Ministry, Departments or Agency [MDA], and these limits are linked to targets and objectives agreed in advance with these MDAs, and called Public Service Agreement [PSA] targets]. The PSA Targets are widely published and each MDA with such targets is to report annually to the Treasury on the progress it has made towards achieving its targets. As a part of ensuring the integrity of the performance data flowing from the MDAs to the MoF and to Parliament, the SAI reviews the systems used by each MDA to produce its performance data, and also undertakes select VFM audits of areas of performance considered to be deserving of closer scrutiny.
15. Also, it is common for the task of driving public service reform to fall to the MoF and there have been examples where some MoFs may pay lip service to reform or may be half hearted in their approach and commitment to reform. It falls therefore on the SAI to ensure that the outputs, outcomes and possibly failures arising from a half-hearted reform process are communicated directly to society, through the relevant Performance/VFM audits. Where a reform policy, with set objectives and expected efficiency gains, is failing to meet these objectives or achieve the gains set out, the SAI is to report these failings, and their causes, to parliament.
16. At the UK National Audit Office, through our Value for Money Audits, we are able to determine the level of performance and the outcomes achieved, in a

wide variety of areas, ranging from the cost effectiveness of Private Finance Schemes, to hospital cleanliness, to the regulation of various industries. Our work sets out the expected levels of performance [*outputs and outcomes*], the levels achieved by each MDA and our understanding of the challenges faced by each MDA, especially where we are clear on why particular MDAs have underperformed.

17. Our reports are debated by the UK Parliamentary Committee on Public Accounts [PAC] and, very commonly, the Head of each MDA and his senior staff are required to appear before the PAC, to defend the performance of their Departments, as reported by our Office. This makes it clear across UK Central Government that Parliament and the electorate are interested in, and keep a close watch on the performance of the MDAs, and they have a tool in the UK-NAO, to determine exactly what the levels of performance are. MDAs in the UK are therefore unlikely to ignore performance information in decision making and for performance improvement.

***Q-III: How do budgeting reforms link to other managerial reforms and financial management developments?***

18. The nature and extent of the budgetary reforms being considered will no doubt determine the extent to which a link should exist between such reforms and other managerial and financial management developments.
19. For example, where a country seeks to introduce a Medium Term Expenditure Framework [MTEF] to underpin its annual and medium term budgeting process, the robustness of its annual and medium term forecasts will depend to a large extent on the integrity of the financial data provided by its various MDAs through the MoF. This will mean in turn that budget holders at MDA level should be made to understand the purpose and mechanism of the MTEF process and the risks associated with the use of unreliable budgetary data. In this scenario, a top to bottom re-orientation of the understanding of the budget holding and financial reporting regime may be required, to ensure the MTEF process is successful.
20. On the other hand, if the budgetary reforms being sought revolve around a change from cash based budgeting to resource based budgeting, the re-orientation that is required will be different in nature. In a cash based budgeting environment, the focus is on the actual cash outgoing required within each financial period, and there is normally less emphasis on the extraction of maximum value from all resources, including capital items put in place within previous financial periods. In a resource budgeting environment, a holistic approach to budget setting is taken, with the result that all resources are considered in the setting of budgets. The systems required, and indeed the skill sets required to get the most out of these two methods are quite different.
21. To illustrate, this, where a manager has a set cash requirement each year, but is also responsible for a vast number of capital assets from which income is not being generated, the real cost of that manager's operation includes the cost of the capital tied down within the assets in hand. In adding this notional cost of capital to the manager's cash requirement to arrive at true cost of his/her operations, the need for the continued carriage of each asset on the manager's

records will inevitably be assessed. [*i.e. the manager will need to be certain that the assets in question are still required for operational purposes*]. It is not uncommon for managers faced with this scenario to consider a rationalisation of assets held, in order to reduce this notional cost and possibly to achieve some income on the disposal of assets. One question that arises therefore is whether such managers will, as a matter of course, be conscious of the need to maximise the value they derive from their capital assets, in the absence of a budgeting approach that considers their entire use of resources. Where the answer to this is negative, there will be a clear need to dovetail the introduction of a resource based budgeting system with other reforms that expand the role and the skill sets of the manager.

22. One clear overall answer therefore is that where budgeting reforms are being introduced, there will be a need to ensure this is accompanied by a wider reform of financial managerial practices, to get the best value out of these budgetary reforms. Managers and budget holders will need to understand the basis for budgetary reform, the benefits expected from such reforms and how their own practices and their own thinking must adapt to ensure that the benefits expected from budgetary reform are not lost.
23. The role of the SAI in this process can not however be overstated. SAIs are well placed to undertake independent assessments of the various impacts of reforms across MDAs in a timely manner, and determine where there are lessons that can be applied more widely. In many instances, where there are indeed lessons that can be applied widely, the SAI should work with the MoF in producing guidance for circulation across MDAs, and in determining how best to manage the risks within the reform process. Furthermore, the support and guidance of a mature SAI will be invaluable to MDAs that seek to introduce a Resource based budgeting and accounting system, as seen in the UK and in other countries.

### **Session B: Providing incentives and motivations for change: engaging politicians and civil servants in reform.**

#### ***Q-V: How can performance information be made more relevant to political decision makers?***

24. It is common for MDAs to produce reports on their own performance that can be flattering, heavily technical in format, untimely/out of date and in many other ways not of the best value for political decisions makers. However, through the work of the SAI and its published reports, these political decision makers are able to obtain clear insight into levels of performance across MDAs.
25. Furthermore, in the UK experience, it is common for members of parliament to contribute to the setting of the SAI's audit agenda by flagging specific areas of interest or concern. They are able to suggest the questions that they would like to have answers for.
26. As the SAI exists to serve the tax payer, it is always conscious of the need to ensure its reports and outputs can be understood clearly by readers and that they form a robust enough basis for decision making. It must however be emphasized that an SAIs ability to pitch its reports appropriately will depend

on the level of investment in the SAI and the value attached to its outputs by the various stakeholders. I have seen examples in a few countries where SAI's reports are extremely late as to be obsolete, littered with errors and inaccuracies, and otherwise incomprehensible for the purposes of determining levels of performance achieved by MDAs, or for decision making.

***Q-VII: Is getting the public more interested in performance information a potential solution?***

27. Many would argue that this is the only true solution, as Central Government is only truly held accountable by democratically elected officials [*Ministers, Members of Parliament etc*], and these elected officials are usually only truly accountable to their electorate. To ensure that the accountability cycle is indeed complete, members of the public need to be clear on the levels of performance being achieved on their behalf [*with public sector funds*], by MDAs. Where members of the public are not aware of the levels of performance being achieved, there is little scope for governance and accountability to work to its utmost potential.
28. Again, the work of the SAI is of paramount importance here. The SAI is tasked to report directly to Parliament and the public on the performance of MDAs. Where these reports are easily accessible, easy to understand, and where the integrity of the SAI is clearly robust, the governance arrangements expected within a democratic society will be able to function much more fluidly.

***Conclusion***

29. In many countries of the world, there is a need to professionalize the audit and accountancy profession at SAI level. The gains of having a professionalized SAI include oversight by professional bodies, strict codes on ethics, access to modern audit methodology, training and guidance, and various peer review mechanisms.
30. Professional audit will in turn lead to robust audit reports delivered to a high standard and published into the public domain. There will thus be enough material with which members of the public can challenge their democratically elected representatives, and enough material with which these representatives can challenge the performance of the government and the civil service.
31. The work of the SAI is therefore of utmost importance to complete the chain of public sector accountability and good governance. With an effective SAI in place, the risks of corruption, inefficiency, ineffectiveness and waste can be better managed. Without an effective SAI in place, it is difficult to see how tax payers will ever know with certainty the levels of performance being achieved with public resources.