Phase One: Analytical Framework
Partners for Good Governance:
Mapping the Role of
Supreme Audit Institutions

Phase One: Analytical Framework
FOREWORD

Governments are looking for innovative and cost-effective responses to address 21st century policy challenges such as climate change, ageing populations or inequality. Pressures increased, in particular, in the context of the global economic crisis, when fiscal space in most countries was drastically reduced and citizens became less confident with the capacity of governments to steer the economy to recovery and protect society from the devastating impact of the subsequent financial, economic and social crises.

Restoring trust in public institutions and processes is vital to enabling governments to take a more proactive approach to addressing long-term societal needs. Citizens need to know that neither policies nor markets will be allowed to favour growth at their expense. This complex endeavour requires credible information about the reliability and performance of public institutions and processes and about the quality of participatory and transparent evidence-based decision making to ensure fair policy choices.

Who is able to provide this quality information?

Ongoing OECD work indicates that Supreme Audit Institutions (SAIs) are important sources of objective information. They are also potentially important partners in fostering good governance in a country. As the external auditor, independent of government, an SAI is a key player in holding governments to account and is often one of the more trusted public institutions. SAIs provide assurance on the use of public resources and government integrity. They are increasingly providing performance-related information on the effectiveness, efficiency and economy of government institutions and programmes. From their bird’s-eye perspective, SAIs are uniquely placed to provide cross-cutting evidence and insights that governments require for decision making, the development of long-term visions and the demonstration of their trustworthiness.

This analytical framework, which is the first component of a three-phase study aimed at enhancing the impact of SAIs on good governance, explores how SAIs can contribute to improving specific key government functions – resource management, rule-making and government-wide coherence – by providing options for SAIs to consider in relation to budgetary governance, regulatory policy, the Centre of Government and internal control.

The analytical framework draws upon years of policy dialogue on good governance in the OECD, among SAIs and with Legislative and Executive branches. It benefits from the longstanding co-operation with the SAI of Brazil and from the close collaboration of 12 SAIs from OECD members and key partner countries.

Phase two of the study will focus on identifying good practices, case studies and comparative data that will illustrate how SAIs are currently, or could, better support the key government functions focussed upon in the analytical framework. In phase three, a peer review of Brazil’s SAI will be undertaken to identify options for strengthening its role in enhancing good public governance in Brazil.
This three-phase study is part of OECD’s project on New Approaches to Economic Challenges, which aims at helping governments find better ways to cope with policy trade-offs, while identifying, prioritising and combining reforms to support sustainable and inclusive growth. To this end, governments would also benefit from a new approach to collaboration. The systemic failures of the financial crisis highlighted the interconnectedness of policy challenges, underscoring the need for a holistic approach. Undertaking reforms that will restore public trust requires a co-ordinated, whole-of-government effort aimed at improving governance while respecting the autonomy and roles of all actors that are working in the public interest. Through a frank awareness of the gaps between traditional practices and the modern ambitions for good public governance, a more collective and effective approach can better serve the public interest and help governments in reaching the common goal of better policies, for better lives.

Rolf Alter
Director for Public Governance and Territorial Development
ACKNOWLEDGEMENTS

The development of this analytical framework was led by the Public Sector Integrity (PSI) Division of the OECD Public Governance and Territorial Development Directorate (GOV). The work was spearheaded by Ishat Reza, Portfolio Manager for Public Sector Audit and Internal Control, and Alison McMeekin, Junior Policy Analyst, under the supervision of Janos Bertok, Division Head. The analytical framework also benefited from early guidance and planning by Paloma Baena Olabe, Deputy Head of Division. PSI colleagues, Douglas Herrick and Sophie O’Gorman, provided valuable proofreading, and formatting and finalisation assistance, respectively.

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The framework benefited further from expert review by Lucy Elliott, Director of Internal Audit and Evaluation, Peter Stokhof, Deputy Director of Internal Audit and Anne-Marie Leroux, Internal Auditor and Secretary of the OECD Audit Committee, of the OECD Internal Audit and Evaluation Directorate. Valuable insight was provided by Edwin Lau, Division Head, and Christoph Demmke, Project Manager, of the Reform of the Public Sector Division, as well as Adam Ostry, Project Leader, and Andrea Grifoni, Policy Analyst, of the Governance Reviews and Partnerships Division.

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The framework, and this three-phase study more broadly, are reliant upon the generous and continued support of 12 peer SAIs, and their dedicated representatives who are key to the developing network around this project. The peer SAIs provided substantial input and peer review of this analytical framework, including through consultation and dialogue with Executive representatives and through the participation of 7 peer SAIs in the June 2014 meeting of the OECD Public Sector Integrity Network. For all their contributions and efforts, we thank our colleagues at the SAIs of Canada, Chile, the European Union, France, India, Korea, Mexico, the Netherlands, Poland, Portugal, South Africa and the United States.

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We are grateful for the support of all contributors, and look forward to further developing this network in phases II and III of the study.
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PREFACE

Brazil faces a number of challenges to achieving higher levels of national development and to combining economic growth with quality of life. Boosting economic activity and ensuring financial stability, investing more and better in health, education, technological innovation and infrastructure and overcoming considerable social and regional imbalances are indeed key aspects for a better society.

Since the public sector is a relevant actor for national development, the improvement of public governance is an unpostponable imperative. Aware of this scenario and in line with its institutional mission, the TCU has increasingly sought to act in a selective and systematic way, with an emphasis on structural issues of Public Administration and with the purpose of safeguarding the interests of society.

In this context, the present analytical framework is of utmost relevance for Supreme Audit Institutions (SAIs) and their efforts towards the formation of a better environment for better policies and stronger delivery capacity. This, I believe, is the most promising strategy to increase the climate of trust in our countries.

The formation of this new environment undoubtedly requires the strengthening of essential cross-cutting government activities, such as Budgeting, Regulatory Policy, Centre of Government and Internal Control - all objects of the present analytical framework, which discusses the respective role of SAIs in each of these areas.

Concerning Supreme Audit Institutions’ community, it is a great pleasure to count on the participation of 12 other SAIs in the study from Canada, Chile, European Union, France, India, Korea, Mexico, the Netherlands, Poland, Portugal, South Africa, to the United States.

As SAIs are a critical source of information for government accountability and decision making we should constantly develop new skills in line with the new governance challenges, particularly with regard to foresight capacity, policy coherence, complex problems and other issues that more and more require a whole-of-government approach that verges towards a consistent set of long-term key national indicators.

This is a landmark study for SAIs in relation to the above-mentioned issues and others on the same scale that are equally relevant, and will surely encourage new dialogues between audit institutions and other government actors, which could substantially contribute to the achievement of more a strategic, agile, accountable and open state.

From this substantial analytical framework, and with the collection of data and best practices in Phase II of the study, we will have one more relevant platform for dialogue and learning that fits coherently with INTOSAI’s motto of “Mutual Experience Benefits All”.

João Augusto Ribeiro Nardes
President of the Brazilian Federal Court of Accounts (TCU) and of OLACEFS
EXECUTIVE SUMMARY

A whole-of-government approach to restoring public trust and fostering good governance is needed, and Supreme Audit Institutions (SAIs) are uniquely placed to support this process.

Addressing complex policy challenges requires insight, foresight and a holistic approach to managing public resources. Good governance is essential to maintaining public confidence in governments, and to ensuring that public sector entities achieve their intended outcomes while acting in the public interest at all times. The systemic ripple effects of the financial crisis highlighted weaknesses in public governance and led to a decline in public confidence in many countries. Just over half of OECD countries experienced a decline in public trust between 2007 and 2012 (OECD, 2013a). With subsequent fiscal consolidation timelines extending beyond what had been anticipated, governments have to do more with less while demonstrating their ability to tackle 21st-century problems. To respond adequately and realise economic, social and environmental objectives, a whole-of-government approach is necessary and should be supported by evidence-based decision making and risk management. The approach to good governance taken in this analytical framework is facilitated by a strategic and open state (Box 0.1).

Box 0.1. Good Governance in a strategic and open state

Good governance is operationalised through a strategic and open state that is proactive and delivers responsive and effective public policies while managing tight fiscal pressures. A strategic and open state has the following characteristics (OECD, 2012; 2013b):

- **Strategic agility**: This refers to the state’s capacity to identify and address internal and external challenges and risks, strengthen efficiencies in policy design and service delivery to meet these challenges and mobilise actors and leverage resources to achieve integrated and coherent policy outcomes that address these challenges effectively as it pursues its strategic long-term vision for the country.

- **Institutional robustness**: This refers to the institutional structures and networks that enable the state to achieve coherence in strategy, policy and purpose, without inefficiencies, fragmentation, redundancies and overlaps.

- **Openness**: This refers to the ability and willingness of the state to show how its actions and decisions are consistent with clearly defined and agreed upon objectives, and to work outward with non-state actors through discussion, partnership and other means in order to advance a shared societal vision.

- **Effective processes**: This refers to the systems and processes, or the machinery of government, that the state can leverage to ensure efficiency and effectiveness in its delivery of public outputs and ultimately to achieve its strategic objectives and government-wide vision.
Public trust depends on good governance, and in turn can be a catalyst for it. With the trust of its citizens, governments are better able to move beyond short-term, reactive approaches to governing with a more holistic, strategic and longer-term vision. Trust in public institutions is driven, in large part, by (i) the way policies are designed and implemented, and (ii) the way policy-makers comply with standards that ensure their behaviour is in the interest of citizens (OECD, 2013b).

Restoring trust in the system will require governments to provide evidence of good governance – to show that policies and programmes are formulated, implemented and evaluated with the public interest in mind. It will require that promised services are provided, and that intended outcomes are achieved. Through its role as an independent institution, an SAI, with its responsibilities for external public auditing, is uniquely placed to provide this relevant and objective evidence. SAIs are generally considered by citizens as having greater integrity in law and in practice than other public sector bodies, including other oversight bodies (TI, 2012).

An SAI’s contribution to good governance can be considered in two ways. On the one hand, SAIs are part of the system of accountability in a state by reinforcing the effectiveness of bodies responsible for government oversight and for public financial management. When SAIs are professional and independent they strengthen the accountability chain, which is required to ensure that public interest prevails over personal interest in policy making. On the other hand, SAIs are evolving from limiting their audit work to traditional assessments of compliance and are increasingly conducting useful assessments of the performance of policies and programmes. Thus, through their work, SAIs (i) provide reasonable assurance and assessment of the way policies are designed and implemented and compliance of policy-makers and (ii) provide evidence of the performance of the machinery of government and programmes and, in some instances, of the achievement of policies.

The objective and reliable information generated by SAIs can feed into the policy cycle and help governments make informed, evidence-based decisions about policy trade-offs, while keeping in mind value for money and broader principles of good governance. This is particularly the case when audit findings are clearly communicated and issued in a timely manner. Legislatures can also use audit findings in scrutinising government activity.

Independent and professional SAIs hold governments to account, and contribute to oversight, insight and foresight of government activity

SAIs are responsible for overseeing and holding governments to account for their use of public resources, together with the Legislature and other oversight bodies. In a democratic system, SAIs usually report to the Legislature and to citizens, and in some cases to the Executive or the head of state. Where there is more than one body fulfilling the public sector external audit role, the SAI is usually distinguished as possessing the strongest constitutional guarantees of independence (OECD, 2011). This independence is a precondition for an SAI to fulfil its mandate in a professional manner, ensuring sufficient distance to evaluate audited subjects objectively. Discussions about SAI independence may become particularly sensitive when it comes to policy development and government agenda setting. Recognising the importance of protecting independence, this analytical framework explores the role of SAIs in objectively assessing the effectiveness, efficiency and economy of the policy-making process, but not in the policy choices themselves.

The type of assessment an SAI undertakes varies depending upon the reason for its execution, the type of audit, the conclusions that are drawn, the “users” or audience of the audit findings and the way in which findings are reported, as Section 3 explains in more detail. SAIs have been evolving, refining and repackaging their audit work in non-traditional ways. They are moving away from confining their work to only financial and compliance audits of the management of public funds, and are undertaking
audits of new scope often under the banner of performance audits or combined audits. In some cases, SAIs may even investigate complaints, at the request of citizens, where damages have been caused by the public service or a public official. SAIs can also audit the implementation of previously agreed upon actions that resulted from past audits.

The expanding knowledge base accumulated through audit work enables SAIs to provide different levels of analysis. SAIs are not only providing oversight, but increasingly insight and foresight to audited entities with respect to their functioning and to the Executive and Legislature with respect to whole-of-government issues.

Well-functioning SAIs provide oversight to ensure that government resources are spent appropriately, that policy is implemented as intended and in conformance with laws and regulations, that strategies are met and that the overall performance of the government meets stated policy objectives. SAIs provide insight to assist audited entities and other decision-makers by assessing which programmes and policies are working and which are not, providing feedback to adjust policies and by sharing best practice information. One way in which some SAIs are providing this insight is through programme evaluations, which are extensions of performance audits that aim to explain successes and failures of policies based on objectives and implementation. Another method is to draw on their oversight and insight to issue good practice guidance to the Executive as well as to provide counselling and advice, usually upon request of the government or Legislature. SAIs also provide foresight to help entities in looking forward by identifying trends and signalling emerging risks before they manifest into significant challenges.

There is potential for SAIs to enhance good governance through a focus on government activities that are key to delivering better policies and programmes

A government aspiring to deliver better policies and programmes needs to ensure that the key functions of resource management, rule-making and government-wide coherence are operating well. To do so, these functions rely on effective, efficient and economical processes that are underpinned by good governance principles such as adherence to the rule of law, transparency, integrity and accountability.

This analytical framework focusses on four areas that are related to these functions and are present in the policy cycle: budgeting, regulatory policy, the Centre of Government and internal control. Resource management and rule-making rely on sound budgetary processes and good regulatory policy, respectively. Government-wide coherence is championed by strategically agile Centres of Government, while sound management of public resources relies on effective internal control systems.

This framework looks at what is considered good governance in each of these areas, and what challenges exist in achieving it. Analysis is framed by existing OECD work including the OECD Principles of Budgetary Governance and the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance, as well as other international good practice guidance including, but not limited to, the International Standards of Supreme Audit Institutions (ISSAI). Through this analysis, the analytical framework offers different options for SAIs to consider in using their assurance and assessment work to strengthen the four areas of government activity in focus. They can be categorised in three ways:

- Assessing processes, systems and frameworks;
- Assessing actors and institutions; and
Assessing performance of government policies and programmes.

The ability of an SAI to engage in these areas will depend on its specific context including its mandate, capacity and resources. As such, options for evolving SAI work will need to be considered in light of the roles of relevant actors, particularly the Executive but also the Legislature and other public sector oversight bodies, to pinpoint the most useful and relevant value-added work to help tackle the policy challenges of that country.

**Ensuring sound resource management through good budgetary governance in a strategic and open state**

Strong budgetary governance – including Public Financial Management (PFM) – is essential for ensuring that resources are deployed efficiently, effectively and with probity in achieving public objectives. The OECD’s work on budgetary governance shows that many OECD countries had extended the depth and duration of their previous budget consolidation plans in view of fiscal difficulties that continued for longer than anticipated. In face of continued fiscal consolidation and budgetary trade-offs, there has been an intensified focus on the budgetary tools, mechanisms and processes that can be utilised to support governments and public administrations in this complex endeavour. More generally, the broader role of PFM and budgeting is being reassessed to underscore the necessary linkages and inter-connections with other areas of public governance, including whole-of-government medium-term planning, performance-related budgeting, full transparency and accessibility of budgetary information, identification and management of fiscal risks, and enhanced quality assurance throughout the different phases and functions of the budget cycle.

SAIs have traditionally interacted with the basic functions of PFM and budgeting through their work in ensuring that resources are allocated to the areas for which they are authorised and that they are deployed appropriately in that context. SAIs have been producing reports on PFM and end of year accounts through audits, as well as issuing opinions or observations on the government’s financial reporting.

As the understanding of the role of budgetary governance widens, it is appropriate that the role of SAIs should be reassessed too. In particular, the recently adopted *OECD Principles of Budgetary Governance* provide a useful template for assessing how the contribution of SAIs could be extended beyond traditional PFM concepts in action, to include issues such as medium-term planning, performance budgeting and identification and management of fiscal risks. Table 0.1 provides a summary of the ways in which SAI work may support governments aspiring to integrate best practices of budgetary governance into their policy-making process.
### Table 0.1. Potential for SAI audit work to support sound budgetary governance of a strategic and open state

<table>
<thead>
<tr>
<th>Sound budgetary governance</th>
<th>Processes, systems, and frameworks</th>
<th>Actors and institutions</th>
<th>Performance of government policies* and programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accuracy of fiscal forecast</strong></td>
<td>Assessing whether adequate institutional procedures and safeguards are in place to ensure reliability and quality of tools that underlie the budget</td>
<td></td>
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<tr>
<td><strong>Top-down budgetary management and planning; alignment with strategic priorities</strong></td>
<td>Assessing whether the processes and procedures in place facilitate an alignment between budgeting and strategic objectives</td>
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<tr>
<td><strong>Medium-term aspects of budgeting</strong></td>
<td>Assessing whether there is an effective framework in place for guiding the multi-annual process of resource allocation</td>
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<tr>
<td><strong>Capital budgeting</strong></td>
<td>Assessing the effectiveness of the national framework capital investment projects; Assessing whether there are sufficiently robust procedures and technical capacity in place to evaluate procuring capital investment projects effectively</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Comprehensiveness of budgetary information and accounting</strong></td>
<td>Assessing whether the existing public accounting framework is fit for informing citizens, Legislature and key stakeholders of the true position of the public finances; Assessing whether the budget document provides a comprehensive, accurate and reliable account of the position of the public finances; Assessing whether the budgetary information conforms with stated accounting standards, communicating the resource-management and policy implications</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ensuring quality of budgetary implementation and delivery</strong></td>
<td>Assessing the effectiveness of the procedures in place for managing, monitoring and overseeing financial allocations; Assessing whether there are adequate mechanisms in place to generate and capture quality performance information during the phase of budget execution</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Identification and management of longer-term sustainability and other fiscal risks</strong></td>
<td>Assessing the integrity and quality of the systems in place for assessing long-term fiscal sustainability; Assessing the overall risk-management system within the system of public and budgetary governance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sound budgetary governance</td>
<td>Processes, systems, and frameworks</td>
<td>Actors and institutions</td>
<td>Performance of government policies* and programmes</td>
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<tr>
<td>Promoting integrity and quality in budgetary management</td>
<td>Assessing the soundness and quality of the overall national framework of budgetary governance in promoting optimal resource allocation, implementation, evaluation and review</td>
<td>Auditing the annual public accounts of public bodies and of the government as a whole, as to their accuracy and probity, and as to the effectiveness of the public financial management systems in place; Maintaining a public log of the key audit findings and recommendations in respect of each public body and of the government as a whole, and update the log by reference to the actions taken to address the issues arising</td>
<td></td>
</tr>
<tr>
<td>Performance, evaluation and value for money</td>
<td>Assessing the quality of performance information used in performance-related budgeting processes, as to its quality, availability and auditability, and advising on how this information could be improved; Assessing the soundness of the programme logic models in place in performance-related budgeting processes, as to their evidential basis, and as to the quality of processes in place for developing such models</td>
<td>Auditing the performance of particular programmes as to their effectiveness, efficiency and economy</td>
<td></td>
</tr>
</tbody>
</table>

*Note: This involves an apolitical assessment of a policy’s rollout that is distinct from, and does not include, the agenda setting or decision-making processes related to the prioritisation or justification of the policy.
Ensuring sound rule-making through good regulatory governance in a strategic and open state

Effective regulatory governance seeks to maximise the influence of regulatory policy to deliver regulations that will have a positive impact on the economy and society, and which meet underlying public policy objectives. Regulations are indispensable to the proper functioning of the economy and societies and to the implementation of policies so that objectives can be achieved. They underpin markets, manage the risk of market failure and protect the rights of citizens. However, businesses complain that red tape holds back competitiveness while citizens complain about the time that it takes to fill out government paperwork. Regulations can also have unintended costs that arise when they become outdated or inconsistent with the achievement of policy objectives, for example.

Good regulatory policy and governance are a key to restoring public trust in their government’s ability to insulate the economy and society from systemic failures that were experienced, directly or indirectly, during the financial crisis. Many OECD member and key partner countries increasingly recognise the importance of effective regulatory governance and are beginning to articulate their own explicit regulatory policies. However, it appears that often a country’s regulatory governance policy often consists of not one but a series of disjointed regulatory policies. In addition, governments are also facing the challenges of closing the regulatory policy gap to facilitate implementation and enforcement; finding an appropriate institutional arrangement for regulatory reform; generating evidence about regulatory policy trade-offs, costs and benefits of reforms; and addressing better regulation beyond the border. The 2012 Recommendation of the OECD Council on Regulatory Policy and Governance provide aspirational principles for governments to pursue in this domain. The Recommendation is the result of careful assessments of best practices identified by the Regulatory Policy Committee over two decades of policy dialogue. The Recommendation offers considerable potential as a benchmark for SAIs to use for such work. While SAIs may conduct financial and compliance audits of regulators, they have not traditionally had a role related to regulatory policy. However, a growing number of SAIs are making efforts to support better functioning on regulations in their country. SAI work in this domain mainly falls under the banner of performance audit, and covers aspects of regulatory policy formulation, implementation and monitoring and evaluation through:

- Performance audits of regulatory tools and programmes (i.e. performance of impact assessment, administrative burden reduction programmes);
- Performance audits of regulators (i.e. performance of regulators in achieving their operational objectives); and
- Performance audits of regulations (i.e. achievement of the benefits sought through the adoption of the regulations).

A continuation or expansion of external audit work in the area of regulatory policy may be beneficial in view of the challenges that governments are facing in establishing coherent regulatory policy systems, and in view of the continuing socio-economic significance of regulatory policy. Table 0.2 provides a summary of the ways in which SAI work currently supports governments that want to strengthen their regulatory policy and governance arrangements.
Table 0.2. Potential for SAI audit work to support good regulatory policy and governance in a strategic and open state

<table>
<thead>
<tr>
<th>Good Regulatory policy and governance</th>
<th>Processes, systems and frameworks</th>
<th>Actors and institutions</th>
<th>Performance of government policies* and programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of regulatory programmes and tools</td>
<td>Assessing the performance of government/government entities to consider the impact of regulation on competitiveness and economic growth; Assessing the performance of the government's policy to achieve open and balanced consultation on the development of regulation; Assessing the performance of government/government entities to monitor the impact of regulation and regulatory processes; Assessing the use of regulatory impact assessment, administrative burdens reduction programme</td>
<td>Auditing performance of regulatory oversight body to monitor and report on regulatory reform activities; Auditing performance of institutions supporting regulatory coherence across levels of government</td>
<td>Assessing also, or instead, achievement of the benefits sought through the adoption of the regulations</td>
</tr>
<tr>
<td>Effective performance of regulatory agencies</td>
<td>Auditing performance of regulatory agencies' transparency and stakeholder engagement</td>
<td>Auditing financial statements of regulators and compliance with statutory requirements; Auditing performance of regulators in achieving their operational objectives and statutory functions; Auditing performance of regulatory authority’s conflict of interest and integrity policies</td>
<td></td>
</tr>
<tr>
<td>Performance of regulation</td>
<td>Auditing government systems to support inspection and performance of regulation</td>
<td>Auditing performance of inspection and enforcement bodies to implement regulation</td>
<td></td>
</tr>
</tbody>
</table>

*Note: This involves an apolitical assessment of a policy's rollout that is distinct from, and does not include, the agenda setting or decision-making processes related to the prioritisation or justification of the policy.

Ensuring government-wide coherence through strategically agile Centres of Government in a strategic and open state

The Centre of Government is defined as the administrative structure of core institutions that serve the Executive. Strong Centres of Government are critical for facilitating coherence of policies and programmes across government, and the productive co-ordination among stakeholders involved in the policy process. Ensuring horizontal and vertical co-ordination helps to avoid fragmentation, redundancies or inefficiencies in policy formulation.

Centres of Government are expected to lead ever more complex policy agendas and co-ordinated responses that offer a whole-of-government perspective. They are increasingly active in budget and policy development and in steering implementation across government. The expansion of mandates has highlighted the limited resources of Centres of Government and has raised questions in OECD and
non-member countries about the viability or reform of structures, resources and linkages to other key areas of governance in order to accomplish its widening range of complex tasks.

A strategically agile Centre relies on quality and evidence-based decision making, strategic planning and foresight and policy co-ordination for effective implementation and monitoring of programmes across its departments and agencies and to avoid redundancies across ministry functions or conflicts between sectoral interests. It necessitates the ability to check the government’s performance against well-developed performance criteria, including at the whole-of-government level. Thus a strong Centre facilitates a careful balancing of trade-offs between ideal policies and programmes, on the one hand, and political and practical limitations, on the other, including the need to do more with less.

SAIs do not appear to have a systematic approach for supporting or assessing the Centre. Involvement to date seems to be limited to an ad hoc basis. Nevertheless some SAIs have provided valuable whole-of-government assessments, which could inform further development in this area. SAIs could offer the Centre of Government insight and foresight on the performance of other key functions of government that Centres are trying to link into a coherent rollout of the Executive’s strategy. Particularly where Centres of Government are limited in resources, they could rely on the evidence base that SAIs can provide as valuable input, particularly at a whole-of-government level. Table 0.3 offers potential ways that SAI audit work could support more strategically agile Centres of Government in completing their tasks to ensure that strategic policy objectives are translated into policies that benefit citizens in reality.
Table 0.3. Potential for SAI audit work to support strategically agile Centres of Government in a strategic and open state

<table>
<thead>
<tr>
<th>Strategically agile Centres of Government</th>
<th>Processes, systems, and frameworks</th>
<th>Actors and institutions</th>
<th>Performance of government policies* and programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality and evidence-based decision making; awareness of challenges and risks</td>
<td>Assessing the clarity of responsibilities and division of tasks in Centre of Government institutions; Assessing the codification of processes that govern Centre of Government institutions (in legislation, for example)</td>
<td>Assessing bodies responsible for strategic planning (e.g. Strategy Units or delivery units where existing)</td>
<td>Conducting horizon scanning activities or synthesising cross-cutting findings on risks and implementation challenges, as input into the budgeting process</td>
</tr>
<tr>
<td>Strategic planning and foresight</td>
<td></td>
<td></td>
<td>Assessing the existence of a government-wide strategic plan for personnel management</td>
</tr>
<tr>
<td>Effective and efficient policy and operational co-ordination, monitoring and evaluation</td>
<td>Providing valuable information at a whole-of-government level for the Centre’s oversight and co-ordination functions, to enable quality policy formulation, policy co-ordination, monitoring and evaluation; Assessing the existence of a reasoned evaluation programme in each ministry, to gather cross-cutting information on the effectiveness of Centre of Government performance</td>
<td>Assessing the functions fulfilled by the Centre’s role in relation to other bodies to facilitate synergies, co-ordination and avoiding overlaps; Assessing the Centre’s role on issuing good practice guides</td>
<td>Assessing the outcomes of major initiatives led by the Centre, particularly “mission-oriented” policies or programmes; Assessing whether governments are achieving its objectives using well-developed national performance indicators at the whole-of-government level</td>
</tr>
</tbody>
</table>

*Note: A political assessment of a policy’s rollout that is distinct from, and does not include, the agenda setting or decision-making processes related to the prioritisation or justification of the policy.

### Ensuring sound resource management through effective internal control mechanisms of a strategic and open state

Internal control systems form the set of checks and balances of government operations that are necessary for the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws, regulations and policies. Internal control exists at two levels through government-wide internal control systems, and the internal control processes of individual public institutions. Effective internal control mechanisms – both systems and processes – facilitate implementation of programmes and allow for transparent and fluid monitoring and evaluation.

Effective internal control requires a clear delineation of roles and responsibilities for risk management to avoid duplication or redundancies. To be effective, risk management must be an integral part of the organisation’s overall system of management, and not conducted in a silo.

Establishing effective internal control processes is not a costless endeavour, and requires a cost-benefit analysis to determine the optimal level of control processes that will facilitate the achievement of objectives. This is an important balance to strike because excessively burdensome controls – similar to poorly designed internal control systems – can lead to a greater risk of circumvention of control.
processes, inefficiencies or unnecessary delays in delivering public services. Internal control processes should be designed to mitigate risks to an acceptable level and should permeate an entire ministry’s activities.

SAIs have the responsibility of conducting the external audit of public entities in which internal control processes are embedded and over which internal control systems preside. Given that SAIs interact with internal control at these two levels, SAIs can contribute to more efficient and effective internal control processes at the ministry level, and to more efficient and effective internal control systems at the whole-of-government level. Some ways in which SAIs could do this are presented in Table 0.4.

**Table 0.4. Potential for SAI audit work to support effective internal control systems of a strategic and open state**

<table>
<thead>
<tr>
<th>Effective Internal Control Systems</th>
<th>Processes, systems, and frameworks</th>
<th>Actors and institutions</th>
<th>Performance of government policies*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective internal control processes at the ministry level</strong></td>
<td>Assessing the existence of a clear organisation-wide internal control system; Assessing whether roles and responsibilities of management oversight are clear; Assessing processes for establishing risk tolerance, prioritisation and criteria</td>
<td>Assessing internal audit units, particularly with respect to their efficacy in ensuring internal control and using a risk-based approach; Assessing the objectivity and independence of internal audit; Co-ordinating with internal audit to avoid overlaps and maximise synergies; Assessing the quality and accuracy of information provided from internal audit to external audit</td>
<td></td>
</tr>
<tr>
<td><strong>Effective government-wide internal control systems</strong></td>
<td>Assessing whether a quality and coherent internal control system is in place across government; Assessing the rollout of internal control processes across government by synthesising information gathered at the ministry level; Assessing the design and quality of anti-corruption and anti-fraud frameworks at a whole-of-government level</td>
<td>Assessing the level of independence of audit committees; Assessing the audit committee’s mandate for the adequate coverage of risk monitoring, including of fraud and corruption</td>
<td></td>
</tr>
</tbody>
</table>

*Note: This involves an apolitical assessment of a policy’s rollout that is distinct from, and does not include, the agenda setting or decision-making processes related to the prioritisation or justification of the policy.

Further, oversight of internal control systems is key, and internal auditors are important contributors in this regard. Thus, SAIs can maintain a professional relationship with internal audit units and audit committees, to make both audit and internal control processes more efficient and effective by learning from each other and removing redundancies.

**SAIs and relevant actors can use this OECD analytical framework to inspire and inform partnerships that will facilitate SAIs’ greater impact on good governance**

As governments explore how to revisit or reform activities in the name of value for money, they will require evidence on how well public institutions and the machinery of government are functioning in order to make quality, evidence-based decisions. This wealth of information that SAIs generate on
public institutions and cross-cutting issues is already considered as valuable input for strengthening governance. Yet, in many cases, the potential of audit work could be better harnessed to enhance governance through the provision of relevant and objective information about the reliability and performance of public institutions and processes, particularly at a whole-of-government level. This requires that SAIs be empowered to develop their cross-cutting knowledge about the performance of key functions of government, and have the capabilities and independence to do so effectively.

Part of considering how SAIs could support good governance in relating to budgetary governance, regulatory policy, the Centre of Government and internal control includes: (i) a discussion about new approaches to partnerships between SAIs and relevant actors, particularly the Executive and Legislature and (ii) an introspective view on the part of the SAI to understand how its capabilities align with existing and new work.

**New approaches to professional partnerships**

This analytical framework is a tool to inspire multiple dialogues and knowledge exchanges. It can be the basis for SAIs, internally and across national boundaries, to discuss their audit work, institutional realities, and good governance challenges and successes in their country contexts. SAIs already enjoy partnerships at regional and international levels. Those discussions can be informed by a more concerted and aspirational approach to good governance in the areas explored in this framework.

Similarly, the analytical framework is a tool for SAIs to foster professional partnerships within their national contexts. Discussions with the Executive are necessary in order to better understand challenges and opportunities and to determine what types of audits, styles of reporting and other work can bolster good governance.

The analytical framework can inform SAI discussions with the Legislature on the enhanced benefits of renewed approaches to audit work in strengthening their mutual work on enhancing public governance and accountability. In particular, dialogues between these actors are important for providing a forum to elevate key findings, recommendations, trends and risks that bolster traditional reporting methods by reiterating key points. This contributes to the efforts of legislative committees responsible for following up on audit recommendations where they exist.

To enhance the impact of all types of audit assignments, new and old, SAIs may also consider broader external engagement through the audit process, and presenting the findings in a way that provides further reach and clarity for a broader audience base. Some SAIs have been successful in increasing the use of their work by engaging with citizens, in addition to the Executive and Legislature, to understand how to package and present work in a way that is more useful and user-friendly. The importance of this is evidenced by a growing and valuable discourse in the international community, particularly on SAIs and citizen engagement.

Engaging audited entities throughout all stages of an audit can help them grasp the origins of and reasoning behind recommendations. Furthermore, information derived from engagement with internal and external stakeholders can be used as valuable input to audits and also to policy-making. This can be done by engaging citizens on their perspectives on the efficacy of programmes, and communicating key results to policy-makers during policy formulation stages.

These approaches not only broaden the reach and impact of audit work, but help to strengthen the accountability chain by ensuring stakeholders are better informed on the effectiveness, efficiency and economy of the policy cycle and its outputs. Capitalising on transparency and openness to empower
citizens with credible information is not only important to raising the profile and recognition of SAI work, but is also a critical step toward restoring or maintaining trust in government.

Discussions aimed at exploring how SAIs can strengthen support to good governance, could include the following considerations: the SAI’s mandate, as provided in the constitution or supporting legislation; the relationship between SAI, Legislatures and legislative committees; the reporting lines of the SAI; and the existence of other committees where complementarity or overlaps exist. Additionally, this framework puts forth distinct, but inter-related guiding principles to frame the discussions between necessary actors. They are that:

- Changes to an SAI’s work should be in areas in which the SAI is likely to have, or should be in a position to develop, relevant expertise that is consistent with its mandate;
- Overlap of functions should be avoided; the SAI should not be expected to exercise functions that are already being serviced by, or should be serviced by, another independent expert body or institution;
- An SAI’s role should support, but should not displace, the proper role of other public sector bodies – democratic or bureaucratic in supporting government activity; and
- An SAI, like other public institutions, has limited resources and must operate in a manner that is efficient and effective; therefore it can only reasonably be called upon to exercise new functions in line with its financial and human resources.

**Ensuring capacity for relevant and useful work**

The applicability and usefulness of the audit engagements suggested in this analytical framework will depend on the country context. The level of positive impact that can be derived from changes to SAIs’ work will depend on its capacity, resources and capabilities. In some cases, suggestions in the framework will be implementable in the short-term, while others will require more time or may not be relevant in the country context. The elements of an SAI’s audit work – the reason for its execution, the type of audit, the conclusions that are drawn, the ways in which they are reported and the audience for that information – depend on what is most useful and relevant for tackling the policy challenges in that country.

For SAIs to update existing work or to undertake new work, they will need to (i) hold themselves to the same standards expected of the entities that they audit; (ii) embody the independence needed to provide relevant and objective findings; and (iii) have the institutional capacity to do so. This puts the onus on the SAI to take an introspective view of its own ability to re-evaluate its work in the context of the ideas presented in this analytical framework. Yet it also places a responsibility on the appropriate constitutional actor to ensure that the SAI has independence and autonomy, and is adequately resourced to carry out any expansion or modification to the SAI’s audit programming that would be required to enhance its role in supporting good governance.
References


INTRODUCTION TO THE STUDY
1. THE PURPOSE, SCOPE AND OBJECTIVE

Major global trends – including globalisation and shifting wealth, population growth and ageing, and environmental challenges – have been placing pressure on governments to come up with innovative and cost-effective ways of addressing the unprecedented policy challenges that these trends present. In some countries these pressures have been compounded by the financial crisis, which exposed weaknesses in governance and, in some cases, eroded citizens’ confidence in their government.

Governments are under pressure to demonstrate their ability to deliver programmes and services that meet societal expectations, while managing fiscal constraints. On the one hand, this requires governments to gather credible evidence about the performance of public institutions and processes in order to make quality, evidence-based decisions about policy trade-offs. On the other hand, this requires restoring public trust that enables government to take a long-term and responsive approach to governance. To this end, a whole-of-government approach is needed that respects the autonomy and roles of all actors involved in public governance.

When SAIs, champions of external public sector audit, are well-functioning and independent, they play a key role in ensuring the effective use of public resources, sound fiscal management and proper execution of administrative activities (INTOSAI, 1977). This is accomplished through their audit work, which detects deviations from standards of legality, effectiveness, efficiency and economy of financial management. However, SAIs are no longer only assessing compliance with financial standards. Increasingly, they are looking at the way in which policies are designed and implemented, assessing their effectiveness, efficiency and economy as well as their performance against policy objectives – thus, providing important information for maintaining trust in public institutions and holding governments to account for their stewardship of public resources.

There is an opportunity for SAIs’ work of providing assurance and assessment to be further leveraged to help governments manage public resources optimally and tackle complex policy issues. From their external and independent vantage point, SAIs can provide the type of relevant and objective information that governments need to make well informed decisions. Governance will benefit when productive partnerships are established to further enable the production of this information and evidence, and to facilitate the use of that work as inputs into the policy cycle. This importantly requires an increased awareness and openness by audited entities and the broader public of the potential usefulness of audit work.

The purpose and scope

The purpose of this study is to help SAIs enhance their impact on good public governance. This study examines key areas of government activity to identify and present opportunities for further SAI engagement in supporting and enhancing good governance at the national government level.

The study recognises that there are multiple actors in, and approaches to, good governance, and thus it does not attempt to create a one-size-fits-all approach. Instead it offers good governance ideas for consideration by SAIs and governments to be assessed within their country-specific contexts. The opportunities identified in the study may or may not fall within some SAIs’ current legal mandates or resource bases. Where they do not, it is up to countries to decide whether they wish to
broaden the scope of SAIs’ work within their constitutional frameworks to support better governance. Equally important in considering any evolution in SAIs’ work is to safeguard their independence – a paramount attribute for maintaining their credibility.

The focus of the study, as illustrated in Figure 1.1, is to consider how effective, independent SAIs can contribute to good governance.

**Figure 1.1. The study’s purpose and scope**

![Diagram](Image)

**Good governance at the national government level**

Good governance (as defined in Section 2) is the optimisation of the processes and institutional arrangements through which governments develop, implement and deliver policies, programmes and services for the benefit of citizens and society. This study focusses on specific key functions: resource management, rule-making and government-wide coherence. To illustrate, in a practical way, how governments can establish good governance, this framework explores how to achieve good governance in four government activity areas that are critical to ensuring the well-functioning of resource management, rule-making and government-wide coherence and, thus, to the optimisation of government processes and institutional arrangements. The activities in focus are:

- sound budgetary governance;

- good regulatory policy;

- strategically agile Centres of Government; and
• effective internal control processes.

This study posits that a strategic and open state demonstrates the characteristics needed to ensure that its functions and supporting activities are working well. The government-wide policy cycle relies on sound budgetary governance, good regulatory policy and governance, strategic and whole-of-government approaches by the Centre of Government and effective internal control processes. This is critical for developing and delivering better policies that stem from more effective, efficient and economic policy formulation, implementation, and monitoring and evaluation.

While these government functions and supporting activities do not provide a complete picture of what is required to achieve good governance, they were purposely selected for their importance to developing and delivering policies and programmes that benefit citizens. They provide an illustration of how SAIs can support good governance, and serve as a basis for understanding how it may be replicated in other areas of governance.

The application of the concepts of good governance and a strategic and open state are discussed in further detail in Section 2.

**Effective SAIs**

Effective SAIs produce work that is relevant and useful for its audiences. This study defines “SAI work” as the variety of tasks that an SAI may undertake. Audit tasks may differ depending on the reason for their execution, the type of audit, the conclusions that are drawn and the entity to which those conclusions are reported. SAIs also undertake non-audit tasks including counselling and other advisory roles.

The impact of an SAI’s work, and thus its ability to support and enhance good governance, relies on its independence, its mandate, its ability to navigate the external environment and its internal capabilities including leadership, human resources management and the flexibility of its budgeting, among other variables that are outside the present scope of analysis.

These concepts of SAI work and determinants of its impact are explained in more detail in Section 3.

**The objective and approach of the study**

The objective of this study is to facilitate ongoing dialogues within and between SAIs, and to encourage new dialogues between SAIs and actors responsible for oversight and implementation of the government’s agenda, and in particular, the Executive. These discussions are meant to help a country identify how its SAI can contribute to the government’s delivery of more effective, efficient and economical policies, programmes and services. This dialogue is meant to be a two-way learning process. It is intended to provide the Executive and the Legislature with a better understanding of the importance, relevance and usefulness of an SAI’s function and its existing audit and counselling work. Similarly, it aims to provide SAIs with a better understanding of the challenges that the Executive branch faces, and what type of audit and counselling work is relevant and useful in addressing those challenges.

Traditionally, much of the discussions about and between SAIs have centred on the type or model of audit institution, of which there are generally considered to be three, as elaborated in Section 3. This study uses a common language familiar to the SAI community, and presents comparative data on SAIs and their surrounding contexts to provide evidence on similarities and differences that exist
between SAIs, going beyond the traditional discussions about an SAI’s model. The study aims to give rise to new discussions between SAIs based around the types of tasks that SAIs perform with respect to the maturity of the public sector area in which they undertake those tasks.

Discussions between SAIs, moving forward, could be based more on similarities and differences of the external environment in which SAIs conduct their audit work. The maturity frameworks of the public sector will, to a certain extent, determine how SAIs conduct audits within that framework. By way of example, it is neither feasible nor effective for an SAI to expend resources pursuing an audit of performance budgeting if the government is not close to adopting the practice. Rather than knowledge-sharing on the basis of similar models, or even types of work alone, it may prove more useful for SAIs to share experiences based on the maturity of their audit subjects.

In order to present helpful ideas for SAI engagement in supporting and enhancing good governance, this study uses a collaborative approach, relying on expertise and input from Brazil’s SAI, the Tribunal de Contas da União (TCU), which is the sponsor of the study, and twelve peer institutions, the SAIs of Canada, Chile, the European Union, France, India, Korea, Mexico, the Netherlands\(^1\), Poland, Portugal, South Africa and the United States.\(^2\) These peer institutions are members of various committees and groups of the SAI community, representing both OECD and non-OECD member countries on five continents. Their expertise is contributed through the provision of guidance, benchmark data and peer reviews. The study also importantly relies on the expertise of representatives from the peer SAIs’ respective Executive branch for feedback on various aspects of the project and for comparative data. This collaborative approach allows the study to take a critically neutral approach to understanding how SAIs can best support and enhance good governance, while respecting the roles and responsibilities of the various actors.

The study is structured in three phases:

- **Phase I: January 2014 – June 2014**: The analytical framework below presents opportunities for consideration of how SAIs can support and enhance good public governance in resource management, rule-making and government-wide coherence. It focusses on ideas for how to achieve sound budgetary governance, good regulatory policy and governance, strategic and whole-of-government approaches by the Centre of Government, and effective internal control processes.

- **Phase II: June 2014 – June 2015**: The peer SAIs and their respective Executives will assist in the collection of comparative data, good practices and case studies primarily relating to the four areas of government activity examined in the analytical framework.

- **Phase III: June 2015 – August 2016**: An assessment of Brazil’s SAI will be undertaken. It will include an analysis of the ways in which it can strengthen its role in supporting and enhancing good public governance in Brazil.
2. GOOD GOVERNANCE IN A STRATEGIC AND OPEN STATE

Before proceeding with the analytical framework for how SAIs can support and enhance good governance, it is important to define what is meant by good governance in this study, beginning with what public governance is in general.

From public governance to good governance

Public governance, simply put, is how governments use processes and institutional arrangements to develop, implement and deliver policies, programmes and services for the benefit of citizens and society. Governments use governance to drive the policy cycle (Box 2.1): to formulate relevant and integrated policy objectives, to undertake actions (through programmes and services) to implement these objectives, and to monitor on an ongoing basis and evaluate the outcomes and performance of their delivery against those objectives (Figure 2.1).

Figure 2.1. Governance is how the policy cycle operates

Formulation
Formulating relevant and integrated policy objectives

Implementation
Undertaking the actions required to implement policy objectives

Monitoring and Evaluation
Ongoing monitoring, and evaluating outcomes and performance against objectives

Governance is using processes and institutional arrangements to develop, implement and deliver policies, programmes and services for the benefit of citizens and society
Box 2.1. Key stages of the public policy cycle

**Policy formulation**

Policy formulation in the public sector is the process through which a set of actions are laid out in pursuit of goals and priorities that are established to overcome a policy issue that has already been placed on the government agenda. Formulation may include articulating and drafting the actions, as well as assigning policy tools to facilitate said actions. It comes after the distinct process of government-wide agenda setting, during which decision-makers prioritise and decide upon policies to be pursued. Deciding which policies are on the government agenda is inherently political in nature, and thus, is not an appropriate area for SAI engagement.

Policy formulation is often undertaken by ministries that are responsible for the policy's implementation based on their sectoral mandate within the public administration. Formulation inherently requires budgets to be allocated to meet policy goals. In order to develop effective, efficient and economical policies, the formulation stage requires effective co-ordination across government. It is also important to incorporate insights from those responsible for the implementation of policies and programmes “on the ground”, as that is when citizens judge governments’ ability to address their needs.

Effective engagement of key stakeholders, environmental scanning and foresight are critical to developing policies that are relevant to the context and of benefit to society in the long-term. The plan of action for each policy needs to take these elements into consideration so that policy objectives can be met in the most effective, efficient and economical way possible. There may be ways in which SAIs could assess the integrity and quality of processes for policy setting, including strengthening the linkages between the three stages of the policy cycle, without encroaching on decision making with respect to which policies are set. Criteria that SAIs could consider using to do so are discussed further in Section 4.

**Policy implementation**

Policy implementation in the public sector is the process through which policies are operationalised through programmes and services. The detailed design of programmes falls under the implementation phase, though a notional programme plan is usually developed at the policy formulation stage.

Policy implementation can be difficult since, as mentioned above, there can be a disconnect between those who formulate the policy and those designated to carry it out, even if they are from within the same ministry. Policy implementation requires communication between these parties, as well as co-ordination with other government actors to avoid duplication of effort or redundancies. Efficient and economical budget management and internal control are key as programmes are rolled out to ensure policy effectiveness.

**Policy monitoring and evaluation**

Monitoring and evaluation are important to holding governments to account for their use of public resources, to improve public policies and to help inform the improvement future policy development and implementation. Policy monitoring in the public sector is the process through which a government actively monitors programme implementation to track progress against policy objectives. Ideally, active monitoring allows governments to correct course when problems arise instead of waiting until the end of a programme when public resources have been fully expended. Systematic evaluation is important at key milestones, and particularly at the end of a programme with a view to checking performance and quality of delivery against policy objectives. Proper monitoring and evaluation mechanisms should be set up during the policy formulation stage.

A challenge in monitoring and evaluation is ensuring that there are clear criteria against which to evaluate the policy or programme, and obtaining the appropriate information to do so. A second challenge is in ensuring that relevant information is taken from monitoring and evaluations to improve performance and quality, and using lessons learned as inputs into future policy formulation and implementation.
**Good governance**

The term *good governance* requires precision. Good governance is the *optimisation* of the processes and institutional arrangements through which governments develop, implement and deliver policies, programmes and services for the benefit of citizens and society. It is the assurance that the mechanisms driving the policy cycle in formulation, implementation, and monitoring and evaluation, are operating effectively, efficiently and economically, and are underpinned by broader governance principles such as rule of law, transparency, integrity and accountability.

Well-operating governance arrangements can restore citizens’ trust in their government’s ability to develop and implement policies that lead to sustainable and inclusive growth. It can also position governments to address weaknesses that were exacerbated by the crisis. In the post-crisis context, this means demonstrating value for money with limited public resources to deliver the best possible outcomes.

Good governance is operationalised through a strategic and open state, which embodies the characteristics required to employ the responsiveness and agility needed to address complex policy challenges in the 21st century.

*Good governance through a strategic and open state*

A strategic and open state demonstrates the characteristics that are needed to develop processes and institutions that lead to a more effective, efficient and economical policy cycle. A strategic and open state refers to a government that exhibits the strategic agility and openness required to be proactive and improve responsiveness and effectiveness of public policies while managing tight fiscal pressures. A strategic and open state has the following characteristics (OECD, 2012; 2013c).

- **Strategic agility:** This refers to the state’s capacity to identify and address internal and external challenges and risks correctly and in a timely manner through enhanced evidence-based decision making and to strengthen efficiencies in policy design and service delivery to meet these challenges. It is also the capacity to mobilise actors and leverage resources across government and society to achieve integrated and coherent policy outcomes that address these challenges effectively as it pursues its strategic vision for the country in the long term. Strategic agility refers to the ability to shift from a reactive to a proactive approach, having foresight to anticipate future issues based on current data and trends, and informing policy decisions with future costs and anticipated changes, including demographic, environmental and economic factors.

- **Institutional robustness:** This refers to the institutional structures and networks that enable the state to achieve coherence in strategy, policy and purpose, without inefficiencies, fragmentation, redundancies and overlaps. It requires adequate systems of co-ordination and checks and balances. This includes a strategically agile Centre of Government, a functioning Legislature and independent external and internal control that collectively, over time, articulate and implement a long term, big-picture strategic vision for the country aimed at sustaining prosperity and well-being for its citizens, the economy and society.

- **Openness:** This refers to the ability and willingness of the state to show how its actions and decisions are consistent with clearly defined and agreed upon objectives, and to work outward with non-state actors through discussion, partnership and other means in order to advance a shared societal vision. This in turn requires the government to produce reliable and robust information on the objectives, costs and benefits of policies before, during and
after implementation. It requires a policy-making process that is embedded with integrity to protect public interest and prevent capture. These efforts can be channelled through active commitment to communicating with relevant stakeholders, transparency and accountability.

- **Effective processes:** This refers to the systems and processes, or machinery of government, that the state can leverage to ensure effectiveness, efficiency and economy in its delivery of public outputs and to ultimately achieve its strategic objectives and government-wide vision. These processes rely on evidence-based decision-making, appropriate consultation and feedback mechanisms, effective management of human and financial resources, coherent internal control mechanisms and helpful integrity tools.

**Importance of good governance for public trust**

Public trust is important to allow governments to act on the long-term needs of a country, make necessary reforms and make difficult policy choices. Yet recent years have seen a decline in the level of public confidence in governments (Figure 2.2). This is a concerning trend because when there is distrust, policy horizons are shortened as governments focus on mitigating dissent or crises rather than planning for the longer term.

![Figure 2.2. Confidence in government](Image)


Good governance is important for restoring or enhancing public trust. Trust is borne out of the policy formulation stage and realised in the implementation stage, when citizens judge whether policies were designed with them in mind. Good governance leads to trust, which further legitimises government action in creating a better society. Trust in governments can, in turn, help with implementing structural reforms that have long-term benefits, and allows and motivates governments to build sustainable solutions to complex economic and social problems.
An OECD survey suggests that 44% of governments surveyed have “taken action” to improve trust in government — from citizen engagement to targeting service quality to making human resources reforms (Figure 2.3). This study posits that an additional strategy to improve trust in government is to partner with trusted, reliable institutions that can help government establish good governance. To this end, an SAI is a natural partner.

**Figure 2.3. Strategies and actions to improve trust in government**

![Figure 2.3. Strategies and actions to improve trust in government](image)


**Principles that underpin good governance**

Good governance provides the assurance that the policy process — policy formulation, implementation, and monitoring and evaluation — is operating optimally with effectiveness, efficiency, and economy, and is underpinned by broader principles such as rule of law, transparency, accountability and integrity. As outlined by the International Organisation of Supreme Audit Institutions (INTOSAI) (2013):

- **The principle of effectiveness** concerns meeting the objectives set and achieving the intended results.

- **The principle of efficiency** means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

- **The principle of economy** means minimising the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price.

Policies and programmes that are designed for the benefit of society should be underpinned by fundamental good governance principles in order to ensure they meet their objectives and lead to a well-functioning society. There are a myriad of principles relating to good governance, all of which contribute to good public management. This study considers the principles of rule of law, transparency and accountability as being key to achieving good governance in a strategic and open state.
• **Adherence to the rule of law** means having fair and clear legal frameworks that are enforced impartially.

• **Transparency** means that decisions are taken and enforced in a manner that respects the rule of law and is clear to those who will be affected by such decisions and their enforcement. It also means that relevant public information is accessible at no cost through tools that foster transparency, including effective and efficient on-going communications and robust citizen engagement. These tools can be used to harness feedback, which in turn meaningfully and continuously influences government decision making.

• **Integrity** means the adherence to sound ethical values, ensuring the proper use of public resources in line with the public interest.

• **Accountability** is the process through which governments are made answerable for their actions by those who are affected by them.

These principles are important to gain and maintain the trust of citizens and other actors who are affected by government action.

*Open governance*

A related and similarly important governance principle is that of openness. Openness is the willingness of governments to demonstrate how their activities align with policy objectives. The public wants evidence that policy objectives are being developed, and programmes delivered, in their best interest. Yet openness is broader than the transparency that citizens are demanding globally, as it also includes the willingness to open the policy-making process to those that have a stake in the process or outcome, or are well placed to strengthen it.

Openness is most often conceived from the public or stakeholder point of view, referring to the right to information acts and mandatory disclosures, for example. From the public sector point of view, good public openness means that civil society has the ability to (i) request and receive relevant and clear information; (ii) the ability to access services and understandable information; and (iii) the opportunity to participate in decision-making and policy-making processes (OECD, 2005). The way that governments facilitate the last point will depend on the institutional context and the administrative process that accompanies it. Yet there is pressure mounting on governments to limit openness only when necessary, which makes sharing information and the opportunity to contribute a default procedure.

From all perspectives, openness is also a cross-cutting principle that facilitates more inclusive and sustainable policy-making. It is inherently linked to other good governance principles including accountability and transparency, and requires effectiveness and efficiency itself. It also links to the adherence of the rule of law in those countries that are codifying openness principles. Through these inextricable linkages to good governance principles and as an element of a strategic and open state, embodying openness is a way to restore public trust. As discussed, tackling new and complex challenges cannot be the sole endeavour of the Executive, but requires the willingness to undertake a whole-of-government approach.
3. SUPREME AUDIT INSTITUTIONS

Before elaborating on the role of SAIs in promoting good governance, a general explanation of SAIs is warranted to ensure a common understanding of their purpose, their standards and fundamental principles and their work. This section provides information on how an SAI operates internally and in relation to its external environment, and provides an overview of some of the factors that affect the capability of an SAI to fulfil its mandate, to revisit its existing portfolio or to undertake new work.

The examples presented here are based on initial research and input from peer SAIs, providing a snapshot of the horizon of possibilities for SAI current and future work. The trends, extent or frequency of the work discussed here is to be explored further in subsequent phases of the project.

What is an SAI?

A Supreme Audit Institution (SAI), or national audit institution, fulfils the independent and technical public sector external audit function that is typically established within a country’s constitution or by the supreme law-making body. An SAI is responsible for overseeing and holding government to account for its use of public resources, together with the Legislature and other oversight bodies. In a democratic system, SAIs usually report to the Legislature and, in some cases, to the Executive or the head of state (Table 3.1). Where there is more than one body fulfilling the public sector external audit role, the SAI is usually distinguished as possessing the strongest constitutional guarantees of independence (OECD, 2011).

Table 3.1. Location of supreme audit institutions within government in selected countries

<table>
<thead>
<tr>
<th>Legislature</th>
<th>Neither</th>
<th>Executive</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil, Costa Rica, Denmark, Mexico, Spain</td>
<td>Chile, Israel, the European Union, Italy, Portugal, South Africa</td>
<td>Korea</td>
<td>Australia</td>
</tr>
</tbody>
</table>

Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.

In line with their status as independent external bodies, SAIs require full discretion and sufficiently broad mandates (INTOSAI, 2013a), although this differs depending on the SAI country context. In order to provide expertise and credible findings on the use and management of public resources, SAIs require the ability to access all relevant documents, to work onsite and to follow up with audited entities on their findings (INTOSAI, 1977). An OECD survey of twelve SAIs showed that, while all twelve are able to audit their central governments, only eight are able to audit the Legislature and nine are able to audit the judiciary (Table 3.2).

Guiding principles

In order for an SAI to effectively hold its government accountable for its stewardship of public resources, it must operate on the fundamental principles of independence, transparency and accountability, ethics and quality control (INTOSAI, 2013a; 2013b). An independent and professional SAI should hold itself to the principles that it expects of the public sector entities that it audits, so as to lead by example.
Independence is the cornerstone of a well-functioning SAI, and this should ideally be carved out in the country’s constitution with further specifications made in legislation (INTOSAI, 2013b). Functional, operational and financial independence are required to protect SAIs from undue influence in carrying out their work. Equally important is the independence of SAI officials and particularly the heads or collegial members of the institution (INTOSAI, 1977). They should have security of tenure and legal immunity in the normal discharge of their duties (INTOSAI, 2010b).

It is also vital that SAIs adhere to the highest standards of integrity within the institution – the same standards that it requires of its audited entities. By demonstrating independence, transparency and accountability, ethics and quality control, SAIs strengthen the state through their participation as an accountable actor within it. SAIs can be an example by both requiring the adherence to these principles and by also exposing itself to the same good practice of independent performance and financial auditing and peer review. This establishes the legitimacy that an SAI needs to deliver the credible findings that can be used to hold government to account, and to recommend better practices to public policies and programmes. Public perception of an SAI’s conduct with respect to these principles is also important to maintaining or regaining trust and confidence in public financial management.

The OECD’s Recommendation of the Council on Improving Ethical Conduct in the Public Service Including Principles for Managing Ethics in the Public Service provides twelve guiding principles that fall under the categories of establishing appropriate guidance, management and control (OECD, 1998). These are necessary prerequisites for cultivating an environment that encourages high standards of behaviour. Guidance and management are required to establish guidelines or codes of conduct set from the top that cultivates a professional and fair environment. The independence, powers and responsibilities of an SAI and its officials are also often specified in a code of ethics in addition to specifications being made in the constitution and supporting legislation. Many SAIs usually refer to supranational guidance such as that provided by the International Organisation of Supreme Audit Institutions (INTOSAI) Code of Ethics or to International Federation of Accountants (IFAC) Handbook of the Code of Ethics for Professional Accountants. Auditors are generally expected to conduct their work with integrity, to be independent, objective and impartial, to exercise professional secrecy and to demonstrate competence to perform their tasks (INTOSAI, 1998). Guidance and management of ethics includes providing appropriate training and education to integrate the values into daily work.

Control of ethics is assured through a legal framework that enforces standards as needed, as well as proper accountability mechanisms (OECD, 1998). While applicable for the entire public sector, compliance with a code of ethics in daily conduct is critical for work that necessitates such high moral integrity and impartiality. For SAIs to be models for the main principles that they champion, they are encouraged to disseminate to the public the outcomes of peer reviews or audits of their institution, including an assessment of their level of compliance with their own codes. The international SAI community, spearheaded by EUROSAI’s Task Force for Audit and Ethics, is promoting the relevance of ethical conduct and integrity in SAIs and other public sector entities. To integrate these principles into daily work, SAIs can lead by example. They could also use their audit work to assess the integration of ethics into other entities’ organisational culture. To this end, the EUROSAI Task Force has suggested criteria for assessing compliance with codes of conduct.5
### Table 3.2. - Audit scope of selected supreme audit institutions

<table>
<thead>
<tr>
<th>Country</th>
<th>Legislature</th>
<th>Judiciary</th>
<th>Central government ministries, agencies</th>
<th>Recipients of public funds (e.g., contractors)</th>
<th>Financial public corporations</th>
<th>Non-financial public corporations</th>
<th>Social security</th>
<th>State government budgetary resources</th>
<th>Local government budgetary resources</th>
<th>Armed forces</th>
<th>Loans</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0</td>
<td>●</td>
<td>●</td>
<td>●</td>
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</tr>
<tr>
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<tr>
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<td>Korea</td>
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<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>X</td>
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<td>●</td>
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<td>0</td>
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<td>Portugal</td>
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<td>●</td>
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<td>●</td>
</tr>
</tbody>
</table>

Notes: ● = Yes; o = No; x = Not applicable (unitary government); .. = Not available.

European Court of Auditors (ECA): Central government ministries and agencies refer to the European Commission and European Union agencies. The mandate of the ECA is set out in Article 287 of the Treaty on the Functioning of the EU which stipulates that the ECA is responsible for examining the accounts of all revenue and expenditure of the European Union. Israel: Audit of the Legislature and judiciary is only administrative aspects. The State Comptroller Law [Consolidated Version], 1958, which provides a detailed framework for the State Comptroller’s Office governance and activity, adds the following audited bodies: i) every person or body holding, otherwise than under contract, any state property or managing or controlling any state property on behalf of the state; ii) every enterprise, institution, fund or other body in the management of which the government has a share; iii) every person, enterprise, institution, fund or other body made subject to audit by law, by decision of the Knesset or by agreement between it and the government; iv) every general employees’ organisation, and every enterprise, institution, fund or other body in the management of which such an employees’ organisation has a share, provided that the audit shall not be carried out on their activities as a trade union. No audit of such a body shall be conducted except and insofar as the Comptroller so decides and subject to international conventions to which the state of Israel is party. Note that the application of this section is extremely rare.

Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.
The world of SAIs

The SAI community

SAIs are supported by a strong network of SAIs and related organisations. The largest of these is the International Organization of Supreme Audit Institutions (INTOSAI), which is an umbrella organisation for external public sector auditors with a current membership of 192 SAIs and 5 observers, founded in 1953. INTOSAI endorses a series of International Standards of SAIs (ISSAI), which form a collection of professional standards and good practice guidelines for public sector auditors, including on general, field and reporting auditing standards. In addition, INTOSAI issues guidance for good governance on internal control and accounting.

INTOSAI also has a seat on the International Auditing Assurance Standards Board (IAASB) covering both public and private sectors. The ISSAIs are based on the IAASB’s International Standards of Audit. INTOSAI collaborates with the United Nations through a co-ordinated annual Symposium, covering widely relevant topics including SAIs and good governance.

Another institution that provides guidance related to financial audits is the International Federation of Accountants (IFAC). It is a global organisation representing the accountancy profession covering public sector reporting and transparency, and the adoption of international reporting and professional standards, through its public sector accounting branch (IPSAS). In partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA), IFAC also helps to foster good governance in the public sector through the establishment of governance principles and benchmarks (IFAC and CIPFA, 2014).

The efforts of the SAI community are reflected in international fora, with the United Nations’ General Assembly Resolution Act (66/209), encouraging its members and institutions “to continue and to intensify their co-operation, including in capacity-building, with the International Organization of Supreme Audit Institutions in order to promote good governance by ensuring efficiency, accountability, effectiveness and transparency through strengthened supreme audit institutions” (UN, 2011).

The international community for SAIs is strong, with large membership to INTOSAI and its regional bodies and committees. The content on which INTOSAI focusses is also indicative of the collegial efforts that SAIs are making to strengthen their capacities and ability to support good governance. Notably, the “Beijing Declaration on Promotion of Good Governance by Supreme Audit Institutions” outlines many principles that are aligned with the spirit of this analytical framework. While it is beyond the scope of this study, the Beijing Declaration importantly covers the need for SAIs to support good governance at the supranational level, recognising that no country can improve its own governance in isolation in this interconnected world (INTOSAI, 2013c).

The types of SAIs

An SAI’s structure typically falls into one of following three models (DFID, 2004):
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- The Westminster model, otherwise known as the Anglo-Saxon or Parliamentary model, is one in which an SAI audits the implementation of expenditure authorised by the Legislature. The SAI reports audit findings and submits annual financial reports back to the Legislature, although it is not a part of the Legislature. The SAI cannot impose recommendations directly on the Executive, but works through a dedicated legislative committee, often called the Public Accounts Committee. This model is directed by a single head, usually called the Auditor General.

- The Collegiate or Board model in which the SAI resides within the Parliamentary system, is led by multiple members who form a college or board to make consensus-based decisions. It operates with independence and reports to a Parliamentary committee that is charged with acting upon its findings. The board is headed by a chairperson, similar to the Auditor General of the Westminster model.

- The Court or Jurisdictional model is one in which the SAI is usually associated with the judicial system and has the jurisdictional power to convict public accountants for improper acts when performing their duties, to suggest or impose recommendations upon audited entities and sometimes to penalise public officials. The SAI is led by a president and is staffed by judges. It can present the end of year state account to the Legislature and citizens, or an annual report of its findings. Depending on its findings, Executive officials can be held personally liable for incorrect expenditures.

While the distinctions of each model can be useful for academic and didactic purposes, these differences are not necessarily meaningful in discussing the role that SAIs can play in relation to fostering good governance for two main reasons. First, there are differences between SAIs that share the same model in theory (Champomier and Lins Dutra, 2013). Not all Court of Accounts/Audits are part of the judicial system. The Brazilian Federal Court of Accounts (TCU), for instance, follows a Court of Accounts model and has juridical powers to judge and punish those it finds guilty of misconduct (Table 3.3). However, it is established as an independent and auxiliary body to the National Congress, not the judiciary, under Brazil’s Constitution.

Table 3.3. Existence of judicial powers of selected supreme audit institutions

<table>
<thead>
<tr>
<th>Yes</th>
<th>Australia, Denmark, European Court of Auditors, Israel, Korea, Mexico, Peru, South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil, Chile, Costa Rica, Italy, Portugal, Spain</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.

Second, there are similarities that exist within SAIs across models. A mapping conducted by INTOSAI Professional Standards Committee of 37 SAIs across all regions sought to understand whether a common language could be established for SAIs across mandates, respective national contexts and SAI models (INTOSAI, 2010a). The mapping found that there exist more similarities than differences among SAI characteristics and thus that a common language could be used to describe an SAI’s functions. INTOSAI regional representatives involved in the mapping found it more useful to have recommendations or
standards classified by audit assignments, rather than audit institution models. Regional representatives further found that the variety of tasks for an SAI can be described through a limited set of concepts. The mapping found that making a few key distinctions regarding objectives and scopes of audits was sufficient to cover the variety of audit assignments around the world.

In view of the difficulty in categorising SAIs under one of the three models and the usefulness of differentiating between audit work, rather than audit institution models, this study focusses on how SAI work, irrespective of an SAI’s model, can better support good governance.

Types of tasks, audits and other engagements

Generally, SAIs are empowered to conduct work in accordance with a self-determined programme within their mandates. They often have prioritisation processes to ensure the relevance of their audit work, which can take risk and materiality assessments into account. However, some SAI work can be requested or required from external sources. The impetus for SAI work can be categorised as follows (INTOSAI, 2010a):

- Fixed tasks are audits that are required for a prescribed entity at specified time intervals
- Discretionary tasks are audits that the SAI initiates at its own discretion
- Requested tasks are audits that SAIs are obliged to conduct upon request
- Negotiated tasks are audits that SAIs are engaged to conduct upon contract

SAIs can be mandated to undertake a variety of audit assignments that are related to the responsibilities and management of public resources. These include audits related to (INTOSAI, 2010a):

- Compliance with norms and performance of the use of public monies, resources, or assets, by a recipient or beneficiary;
- Oversight of the proper collection of revenues owed to the government or public entities;
- Legality and regularity of government or public entities accounts;
- Quality of financial management and reporting; and
- Effectiveness, efficiency and economy of government or public entities’ operations.

INTOSAI’s Lima Declaration makes a distinction between pre-audit and post-audit, also known as ex ante audit and ex post audit respectively. Simply put, pre-audit is a review that occurs before administrative or financial activities take place, in order to approve their execution. Post-audit is a retrospective review of activities, and is an indispensable requirement for an SAI to be able to fulfil its tasks, as listed above.
Pre-audits are not always carried out by SAIs, but rather by other bodies depending on the legal context. When pre-audits are done effectively, they can be a helpful part of good public financial management in that they can detect damage in advance. However, they can create an excessive amount of work and confuse responsibilities under law (INTOSAI, 1977). Over the last 20 years, SAIs have been moving away from conducting pre-audit assignments (Ruffner and Sevilla, 2004), a trend that is also reflected in internal auditing. It is interesting to note that SAIs are still engaging in the pre-audit stage of a policy or programme through the provision of advice or counselling, but this is different from being responsible for the approval of its execution.

For any given audit assignment, SAIs gather evidence to evaluate a targeted subject against a set of criteria and to then express a conclusion about the outcome. Auditors apply different criteria depending on the type of audit work being undertaken. There are three main types of audit work, which INTOSAI (2013a) explains:

- **Financial audits** focus on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.

- **Performance audits** focus on whether interventions, programmes and institutions are performing in accordance with the principles of effectiveness, efficiency and economy and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.

- **Compliance audits** focus on whether a particular subject matter is in compliance with authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials.

SAIs are increasingly undertaking tasks that further enhance the effectiveness, efficiency and economy of public sector programmes and policies. They are gathering new pieces of information by refocussing the audit criteria, packaging those findings in new and useful ways. They may conduct **combined audits** incorporating aspects of financial, performance or compliance audits. Some SAIs are also undertaking **programme evaluations**. While classified as a performance audit by certain institutions, INTOSAI’s working group on Program Evaluation reasons that it is in fact a related, but separate, extension of a performance audit. Regardless of the classification, programme evaluations seek to provide explanations for successes and failures of policies or programmes based on objectives and implementation (INTOSAI, 2010c).

SAIs are synthesising an expanding base of information in new ways, allowing them to provide non-traditional value-add audit work. They are providing not only oversight, but also insight and foresight services. SAIs **provide oversight** to ensure that policy is
implemented as intended, strategies are met, and the overall performance of the
government meets expectations and needs within policy laws and regulations.

SAIs provide **insight** to assist audited entities and other decision-makers by assessing
which programmes and policies are working and which are not, providing feedback to
adjust policies and by sharing best practices information.

SAIs may provide insight through **counselling** or **advice** to the Executive or
legislative bodies, often at their request. It is important to note that SAIs can audit policy
implementation by government and public entities, but they do not audit the soundness of a
policy decision unless specifically instructed to do so by the Legislature (INTOSAI,
2010b). At present, SAIs do not assess why a policy is established, but rather may assess
how, as does the French SAI in its policy evaluation work.

Some SAIs are leveraging their insight to issue **good practice guidance** to the
Executive, which is a proactive measure to enable smoother external audits and encourage
coherence in practices across government ministries. The Australian SAI publishes
numerous better practice guides on topics ranging from preparing financial statements to
implementation of programme and policy objectives. The SAIs of Korea and Italy
similarly issue good practice guides to the Executive. And in Costa Rica, its SAI is legally
tasked with issuing guidelines and directives regarding audit and control.

Some SAIs are providing **foresight** through assessments that are oriented toward
identifying risks and opportunities in the long term. Specifically, risk-based auditing
focusses on the government’s overall risk management framework and provides useful and
relevant information about the audited entities, policies or programmes, to help
governments manage risks to meet their objectives. An important element of foresight is
that SAIs also help government look forward in identifying trends and signalling emerging
risks before they materialise. Foresight is inherently linked to both insight and oversight,
but few SAIs are known to offer this type of analysis at present.

Some SAIs can also undertake judicial reviews or **investigations** into the use of
public resources when the public interest is at stake (INTOSAI, 2013b). Some are
conducting assessments of irregularities to target financial impropriety, fraud and
corruption that hinder a government’s ability to provide policies for the benefit of citizens.
Further tasks include conducting elections audits, public procurement audits and forensic
audits in relation to corruption and fraud investigations.

In addition to requested tasks from the Legislature or the Executive, SAIs may receive
and **investigate complaints** from citizens or civil society organisations. Some are
requested to investigate a claim where damages have been caused by the public service or
a public official to public or private interests in order to evaluate the amount of finances to
be repatriated.

**Reporting on findings**

SAIs usually report their findings, and related conclusions and recommendations, to
Legislatures in a published format, sometimes accompanied by an oral presentation. SAIs
also aim to inform citizens by making findings and information about their institution
available to the public.
INTOSAI (1977) states that audited entities should comment on their audit findings within a period of time that is established by law, indicating what measures will be taken as a result of the findings. The follow-up procedures for each SAI’s findings, however, are dependent on its model and structure with respect to other actors, and the capabilities of those actors. Processes for tracking the implementation of measures indicated in response to audit conclusions or recommendations can be fragmented.

Conclusions drawn from financial audits express assurance in order to indicate the auditor’s degree of confidence in the findings, and are expressed in a statement of a standardised format with a qualified or unqualified opinion (INTOSAI, 2010a). Assurance of financial audits can be expressed with explicit reference to a level of “reasonable assurance” or “limited assurance”, but not absolute assurance. Alternatively, SAIs can provide assurance without explicitly stating but instead objectively explaining how the findings, criteria and conclusions were developed (INTOSAI, 2013a). Recommendations that are issued at the end of compliance and performance audits are not imposed on the audited entity. Giving teeth to recommendations can be politically challenging, particularly when an SAI reports to the Executive (Ramkumar et al., 2009).

Officials or judges of the Court or Jurisdictional model can impose penalties or sanctions when irregularities are detected among audited officials, including public accountants. Usually, under this model, a year-end report is presented to the Legislature, which then relies on this report to grant a “discharge” of responsibility to the government for the year if it is satisfied with the way the government managed its funds. SAIs also report specifically on important events during the year, covering all audit activities in its annual report. Reports are factual and present an objective and clear assessment of the SAI’s activities.

In other cases, the Legislature or legislative committees, such as Public Accounts Committees, are typically responsible for reviewing and issuing a report to which the Executive must respond. While committees are endowed with the rights to follow up on audits, their effectiveness in doing so depends on their own capacity (Ramkumar et al., 2009).

In light of pressures from citizens for governments to demonstrate more accountability and integrity, SAI recommendations that stem from the findings of audit tasks are gaining weight. In response to these pressures, some SAIs are becoming more involved in the follow-up of their recommendations. The Australian SAI has recently produced a performance audit on the arrangements for implementing and monitoring the implementation of its past recommendations at the ministry level. The recommendations stemming from this follow-up audit were provided with a response from the relevant ministry, and the audit report was made available online.9

Ensuring that audit work has meaning includes raising the awareness of the role of SAIs, and the importance, objectives and scope of their audit work. SAIs are taking proactive steps to engage citizens by promoting and sharing this information through social media outlets. Additionally, the media can play an important role in raising awareness about the role and work of an SAI, effectively promoting SAIs. Where citizens understand the salience of audit work, sharing information, particularly on the effectiveness, efficiency and economy of policies and programmes that directly affect citizens, could go a long way in piquing their interest. Communication strategies help to ensure that the wealth of
knowledge that SAIs produce is presented in a clear and useful manner, and that it does not go unnoticed.

In line with principles of transparency and openness, and their mission to serve citizens, SAIs empower citizens with the information that they need to hold their government to account, thereby strengthening the accountability chain and giving more teeth to audit findings. While covering this aspect of SAI work in detail is beyond the scope of this project, there is growing literature on the importance of and options for SAI engagement with civil society that can and should be consulted.10

**Capability and catalysts for impact**

The degree to which an SAI can support good governance depends on its mandate, and its ability to reassess the variety of its tasks and undertake new tasks. An SAI’s ability to make changes in line with institutional goals or external needs depends on (i) its skill in navigating its external environment to ensure impact and (ii) its institutional capacity. These skills and capacities can also help to increase the awareness of the importance and usefulness of audit work, and to strengthen follow up of recommendations.

**Navigating the external environment**

SAIs do not operate in isolation, but rather are part of a complex web of a state’s accountability framework. For this reason, in looking at options to reassess its portfolio of work, an SAI not only needs to consider its mandate, but also needs to be cognisant of its role in relation to other actors, such as anti-corruption authorities, investigative agencies and oversight bodies.

An SAI’s effectiveness is enhanced when it co-ordinates with the actors with whom it shares the responsibility of overseeing government accountability, while respecting constitutionally established roles. The importance of maintaining its independence while navigating the external environment cannot be overstated. SAIs require a strong legal framework and the institutional capacity (professional and organisational) in order to protect its independence, regardless of the SAI model, to ensure objectivity and credibility of its findings, which is necessary for reporting to the Legislature.

**Working with the Legislature**

A professional working relationship between SAIs and the Legislature is key to ensuring impact of SAIs’ work and coherent oversight of the public sector. Not only does the SAI benefit from the enhanced impact that the Legislature can facilitate by lending political weight to audit findings, the Legislature benefits from strengthened oversight and from information on the reliability and performance of public sector entities. The International Budget Partnership’s 2012 *Open Budget Survey* found that countries with weaker SAIs also showed greater weaknesses in budget transparency and legislative oversight of budgets (IBP, 2012).

In addition to fulfilling an important oversight function, the Legislature has bearing on the impact of SAI work. The structural arrangements between SAIs and the Legislature may determine the mandate of an SAI or the scope of work that an SAI undertakes. In some cases, Legislatures directly receive SAI budgets for approval (for example, in Denmark), have a say in the selection and appointment of SAI leadership (for example, in
Costa Rica) and are consulted in development of SAI strategic plans (for example, in the European Union) (OECD, 2014).

The Legislature can give weight to audit recommendations, particularly where the SAI reports directly to the Legislature. At the national government level, an SAI may interact with ad hoc legislative committees including Parliamentary Accounts Committees, finance commissions, audit commissions and investigative commissions. Until 2003, the SAI of Sweden was under the Executive branch, with a small audit organisation under the Parliament (TI, 2012). Recent reforms have further established the Parliamentary Council to enhance co-operation between the Swedish SAI and Parliament. In Finland, the creation of the Parliamentary Public Accounts Committee was seen as a major step toward creating a platform to discuss the issues that SAIs’ work identified and to develop possible responses (OECD, 2010).

In 2003, the European Court of Auditors (ECA) gave a presentation to the Budgetary Control Committee of the European Parliament on good practices for SAIs and Legislatures to consider in establishing a professional and productive partnership with the Legislature (ECA, 2003), which included:

Good practices for SAIs to ensure preparedness to work with Legislature and Legislative Committees:

- Setting and adopting appropriate auditing policies and standards, and assuring that they are implemented;
- Writing audit reports in a clear, concise, fair and factual manner, avoiding political statements;
- Giving appropriate – but not exclusive – consideration to Parliamentary concerns in setting audit priorities;
- Being selective in deciding which audit reports to submit to Parliament by presenting only those reports that clearly merit Parliamentary attention;
- Following up actively and methodically on previous audit findings and informing Parliament of any patterns of inaction on important problems.

Actions that the SAI could consider discussing with the Legislature in order to establish a more productive working relationship:

- Assuring in the applicable legislation that the SAI is independent of both the government and parliament;
- Appointing the SAI Head in a way that assures broad confidence and support in parliament;
- Designating a Parliamentary Committee (PC) to oversee SAI finances (without interference from government) and to review – but not direct – its performance. Parliament should ensure that the SAI itself is independently audited to the same standards that are applied by the SAIs to its auditees;
• Specifying clearly the types of audit reports to be presented to Parliament but being selective and leaving to the discretion of the SAI, where possible;

• Informing the SAI of Parliamentary interests, including suggested audit topics, but leaving final decisions on audit priorities to the SAI;

• Requiring that all audit reports, unless restricted for specified reasons, be made public within a reasonable period of time.

• Establishing rules of procedure for the PCs and providing them with adequate staff support;

• Ensuring that the appropriate PC takes prompt cognisance of SAI audit reports;

• Opening PC meetings to the public and media (unless restricted for specified reasons), and allowing officials from the SAI and the auditee to attend. PC members should prepare themselves for such meetings by developing questions to be asked and obtaining additional information, as deemed necessary;

• As a conclusion of PC meetings or other events, a PC may deem it appropriate to initiate its own actions in response to an SAI audit report. To maximize their effectiveness, such actions should, if possible, reflect largest possible agreement among PC 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 the PCs and the SAI, and the PCs and the SAI should follow-up on the Government’s actions.

While the original report was prepared in 2001, these principles remain applicable and valuable for informing discussions between SAIs and Legislatures. Many of these principles are also applicable to SAIs’ engagement with other stakeholders, particularly, SAIs ensuring that audit reports are clear and concise and actively followed up on.

Whether SAIs are accountable to the Executive or to Parliament, protecting independence and following up on recommendations can be politically challenging. Particularly in countries where SAIs are accountable to the Executive rather than Parliament, the independence of SAIs and of their findings can come into question, diminishing the validity and credibility of their work. In these situations, the Executive has power to influence directly what gets audited and reported, and to control the scope of the SAI’s work indirectly (Ramkumar et al., 2009).

Working with other key stakeholders

INTOSAI’s Building Capacity in Supreme Audit Institutions: A Guide (2007) suggests that SAIs should forge ties with a wide range of entities including press and civil society organisations, provided that their actions fall within the SAI’s mandate and do not threaten independence.

To maximise their work’s impact, SAIs should take into account their stakeholders’ work that may complement, or duplicate, the work of the SAI. Where well-functioning bodies exist, SAIs may be able to co-ordinate so that efforts are complementary. This could include co-ordinating to find an effective means of strengthening audit
recommendations, and ensuring follow-up to the responses of audited entities to audit findings. SAIs could also co-ordinate with the following entities: internal control and internal audit units; institutions that issue opinions and generate data on economic and social trends including statistics agencies; institutions including ministries of finance or public treasuries that deal with the management of public funds; holders of public accounts and appointing public accountants; and private external auditors.

**Institutional Capacity**

Efforts to modernise, address current policy challenges and support good governance rely on institutional capacity. An SAI needs to consider enablers that can facilitate transitions: leadership, human resource management (including professionalisation) and effective budgeting (INTOSAI, 2007).

**Leadership**

An SAI’s strategic direction and willingness to embrace institution-wide change is set from the top. Strong leadership is key to effect internal change as well as for external audiences accepting an SAI’s evolution. Thus an SAI’s auditor general, chairperson/board or president is required to provide strategic direction and ensure that a clear rationale is presented internally and externally for any changes to an SAI’s remit, including addressing issues of the SAI’s mandate. This includes providing a value-added rationale and explaining how the changes contribute to filling gaps and enhancing good governance.

Given the influential role held by the head of an SAI both internally and increasingly externally, leadership should be independent and free from conflicts of interest. The independence of leadership can be enforced through organisational mechanisms that ensure leadership is appointed based on sound selection criteria. In a survey of twelve SAIs, the OECD found that all but two establish incompatibilities of a leader’s appointment to office. Incompatibilities of office include membership in a political party union, or employment in the public sector (Table 3.4).

Leadership can exercise more effective scrutiny when they are safeguarded against undue influence or removal from office. In the same OECD survey of twelve SAIs, legislation to provide clear criteria for a leader’s removal from office existed in eleven countries. However, it is interesting to note that there are only two cases reported in which the leader of an SAI was actually removed from office (Table 3.5).
Table 3.4. Organisational independence of supreme audit institutions’ leadership in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Position</th>
<th>Selection criteria</th>
<th>Incompatibilities of office</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Legislation</td>
<td>Membership in a political party</td>
</tr>
<tr>
<td></td>
<td></td>
<td>definitions</td>
<td>qualifications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>qualifications</td>
<td>qualifications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Professional</td>
<td>qualifications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Character</td>
<td>qualifications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>qualifications</td>
<td>Other</td>
</tr>
<tr>
<td>Australia</td>
<td>Auditor-General</td>
<td>No</td>
<td>0</td>
</tr>
<tr>
<td>Brazil</td>
<td>9 ministers, one of whom is elected internally as president</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Chile</td>
<td>Comptroller General</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Comptroller General</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Denmark</td>
<td>Auditor-General</td>
<td>No</td>
<td>0</td>
</tr>
<tr>
<td>European Court of Auditors</td>
<td>28 members, one of whom is elected internally as president</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Israel</td>
<td>State Comptroller</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Italy</td>
<td>President</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Korea</td>
<td>Commissioners, including chair</td>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>Peru</td>
<td>Comptroller General</td>
<td>Yes</td>
<td>●</td>
</tr>
<tr>
<td>Portugal</td>
<td>President</td>
<td>No</td>
<td>0</td>
</tr>
<tr>
<td>South Africa</td>
<td>Members of Court</td>
<td>Yes</td>
<td>●</td>
</tr>
<tr>
<td>Spain</td>
<td>12 members, one of whom is elected internally as president</td>
<td>Yes</td>
<td>●</td>
</tr>
</tbody>
</table>

Notes: ● = Yes; o = No; x = Not applicable; .. = Missing data.
Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.
<table>
<thead>
<tr>
<th>Country</th>
<th>Head of organisation</th>
<th>Legislation provides criteria for removal from office</th>
<th>By which authority?</th>
<th>Reasons for removal?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legislation</td>
<td>Executive</td>
<td>Judiciary</td>
<td>Other</td>
</tr>
<tr>
<td>Australia</td>
<td>Auditor-General</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>9 ministers, one of whom is elected internally as president</td>
<td>Yes</td>
<td>●</td>
<td>0</td>
</tr>
<tr>
<td>Chile</td>
<td>Comptroller General</td>
<td>Yes</td>
<td>0</td>
<td>●</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Comptroller General</td>
<td>Yes</td>
<td>●</td>
<td>0</td>
</tr>
<tr>
<td>Denmark</td>
<td>Auditor-General</td>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>European Court of Auditors</td>
<td>28 members, one of whom is elected internally as president</td>
<td>Yes</td>
<td>0</td>
<td>●</td>
</tr>
<tr>
<td>Israel</td>
<td>State Comptroller</td>
<td>Yes</td>
<td>●</td>
<td>0</td>
</tr>
<tr>
<td>Italy</td>
<td>President</td>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Korea</td>
<td>Commissioners, including chair</td>
<td>Yes</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Mexico</td>
<td>Superior-Auditor</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Peru</td>
<td>Comptroller General</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Portugal</td>
<td>Members of Court, including President</td>
<td>Yes</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>South Africa</td>
<td>Auditor-General</td>
<td>Yes</td>
<td>●</td>
<td>0</td>
</tr>
<tr>
<td>Spain</td>
<td>12 members, one of whom is elected internally as president</td>
<td>Yes</td>
<td>●</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: ● = Yes; o = No; x = Not applicable; .. = Missing data.
Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.
Human Resource Management

Human resource management is key for an SAI given that technical skill, knowledge and sound professional judgement are required to carry out its work. This applies particularly during periods of transition and change in the organisation.

Multi-year workforce planning can help an SAI to ensure that it has adequate human capital to support the implementation of its mission, vision and strategic goals, as well as to respond to internal changes and those within the public administration. Successful management of human resources includes strategic workforce planning, attention to workforce competencies and the use of traditional tools such as recruitment, compensation and career development (OECD, 2014). Multi-year workforce planning has already been introduced as a formal and regular instrument in the SAIs of some countries including Australia and Brazil and as an ad hoc instrument in South Africa (Table 3.6). By using planning to identify the knowledge, skills and competencies needed, SAIs can begin to determine the gaps in recruitment and training that need to be addressed for change.

Table 3.6. Multi-year workforce planning in supreme audit institutions

<table>
<thead>
<tr>
<th>Country</th>
<th>Is forward-looking planning in place to ensure that the supreme audit institution has an adequate workforce to deliver its mission and achieve its vision?</th>
<th>How many years are covered by the supreme audit institution's workforce planning?</th>
<th>What are the key aspects explicitly considered by the supreme audit institution when conducting workforce planning?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formal and regular</td>
<td>Ad hoc</td>
<td>None</td>
</tr>
<tr>
<td>Australia</td>
<td>●</td>
<td></td>
<td>2-3 years</td>
</tr>
<tr>
<td>Brazil</td>
<td>●</td>
<td>4-5 years</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>●</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Court of Auditors</td>
<td>●</td>
<td>2-3 years</td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td>●</td>
<td></td>
<td>2-3 years</td>
</tr>
<tr>
<td>Italy</td>
<td>●</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>●</td>
<td></td>
<td>4-5 years</td>
</tr>
<tr>
<td>Portugal</td>
<td>●</td>
<td></td>
<td>2-3 years</td>
</tr>
<tr>
<td>South Africa</td>
<td>●</td>
<td></td>
<td>4-5 years</td>
</tr>
<tr>
<td>Spain</td>
<td>●</td>
<td></td>
<td>3-5 years</td>
</tr>
</tbody>
</table>

Notes: x = Not applicable; .. = Missing data.
Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.
Multi-year workforce planning includes attracting and retaining capable employees who exhibit the competencies necessary to respond to current and emerging demands, which in turn supports an SAI’s ability to competently do its work of supporting good governance over the long term. This move toward professionalisation of an SAI’s workforce has taken place or continues in some SAIs, and is required in others. The SAI of the United States, for example, has greatly restructured the scope of its audit function over the last sixty years, which necessitated a restructuring of its workforce. As it focussed its work more and more on auditing the performance and efficiency of programmes, it systematically reduced the number of non-experts and accountants in favour of hiring more subject-matter experts.

**Effective budgeting**

Additionally, an SAI can more readily address resource changes when it has the ability to reallocate its financial resources in line with its institutional needs or directions. This ability varies within country contexts but is key to enabling organisational change. The SAI of Chile, for example, has much budget flexibility and receives lump sum appropriations for personnel expenditure and materials, consumables and goods expenditures. However, the SAI of Denmark has relatively less flexibility for investment expenditure such as in information and communications technology, for example (Table 3.7).
<table>
<thead>
<tr>
<th>Country</th>
<th>Same policies, procedures as other public entities</th>
<th>Included in draft state budget without change</th>
<th>Sent directly to Legislature for approval</th>
<th>C. “Lump sum” appropriations</th>
<th>D. Flexibility to vire (i.e. reallocate) funds between expenditure categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>●</td>
<td>For personnel, materials and capital</td>
<td>Yes, without any limit and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>●</td>
<td>For personnel, materials and capital</td>
<td>Not possible without ex ante legislative approval Yes, without any limit and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>●</td>
<td>For personnel, materials and capital</td>
<td>Yes, without any limit and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>●</td>
<td>No</td>
<td>Flexibility to make internal modifications without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>●</td>
<td>For personnel and materials only</td>
<td>Flexibility to allocate between operating, capital expenditure without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Court of Auditors</td>
<td>●</td>
<td>No</td>
<td>Yes, up to certain threshold with ex ante legislative approval Yes, without any limit, and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td>●</td>
<td>For personnel, materials and capital</td>
<td>Yes, without any limit, and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td>For personnel, materials and capital</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td>No</td>
<td>Yes, up to certain threshold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>●</td>
<td>..</td>
<td>..</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>●</td>
<td>For capital</td>
<td>Yes, up to a certain threshold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>●</td>
<td>For personnel, materials and capital</td>
<td>Yes, without any limit, and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>x</td>
<td>x</td>
<td>Yes, without any limit, and without Executive/legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>●</td>
<td>For personnel, materials and capital</td>
<td>Yes, up to certain threshold</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: ● = Yes; ○ = No; x = Not applicable; .. = Missing data. Block/lump sum appropriations involve allocating a lump sum to line ministries or agencies, which are then free to determine the best mix of economic inputs to produce their services.
Source: Adapted from OECD (2014), Chile’s Supreme Audit Institution: Enhancing Strategic Agility and Public Trust, OECD, Paris.
Notes

1 The full involvement of the SAI of the Netherlands will begin in Phase II of the study.

2 Data on these peer institutions will appear in the following phases of the project. Most data presented in this framework is taken from a previous source and covers only some, but not all, of the peer institutions involved this project.

3 Adapted from various sources including: The World Justice Project’s “The Rule of Law Index”; IFAD’s “Good governance; an overview”; UNDP’s “Governance for Sustainable Human Development” Policy Paper; UNESCAP.

4 Australia: The Auditor-General is an independent officer of the Parliament and all audit reports are tabled in the Parliament. The Australian National Audit Office (ANAO) is an agency established by law to assist the Auditor-General to perform his/her functions. Israel: The State Comptroller is accountable only to the Israeli Parliament, the Knesset, and shall not be dependent upon the government; this provision has been interpreted to say that principally the State Comptroller and Ombudsman are not part of any of the above branches, including the Legislature. Korea: The Constitution of the Republic of Korea establishes the Board of Audit and Inspection under the direct jurisdiction of the President (Art. 97); the Board of Audit and Inspection Act states that the Board of Audit and Inspection is established under the President but shall retain an independent status (Art. 2). Portugal: The Court of Accounts is an independent, sovereign court, subject only to the law (1976 Constitution, Arts. 202, 203 and 214; Law 98/97, Art. 24). It is SAI of Portugal, with the statute of Supreme Court, with the power to audit all the public resources and also the jurisdictional power to judge financial responsibility.

5 As reported by the EUROSAI Task Force of Audit and Ethics (TFA&E), assessment criteria for compliance are found in the appendix to ISSAI 5600 on peer review guidelines, and in the drafts of Performance Measurement Framework and of the ISSAI Compliance Assessment Tools (iCATS). See also EUROSAI’s “Auditing Ethics in the Public Sector”, available on their website http://www.eurosai-tfae.tcontas.pt/DOCUMENTS1/default.aspx.

6 INTOSAI (http://www.intosai.org) and ISSAI (http://www.issai.org/)

7 INTOSAI covers the three branches of auditing in “Fundamental Principles of Public Sector Auditing” (ISSAI 100), which are individually elaborated upon in “Fundamental Principles of Financial Auditing” (ISSAI 200), “Fundamental Principles of Performance Auditing” (ISSAI 300), and “Fundamental Principles of Compliance Auditing” (ISSAI 400).


9 Audit report is available at: http://www.anao.gov.au/~media/Files/Audit%20Reports/2013%202014/Audit%20Report%2034/Audit Report_2013-2014_34.PDF?sc_camp=9A8CF4CF82C4442BA03B9FC5784C44B

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http://dx.doi.org/10.1787/9789264207561-en


http://dx.doi.org/10.1787/9789264086081-en


PHASE I: THE ANALYTICAL FRAMEWORK
4. THE ROLE OF SAIS IN GOOD GOVERNANCE

Part II of this analytical framework explores how SAIs currently do, or could, support good governance of key processes and public institutions that are required for the optimal functioning of resource management, rule-making and government-wide coherence. The activities in focus are:

- sound budgetary processes;
- good regulatory policy and governance;
- strategically agile Centres of Government; and
- effective internal control processes.

The analytical framework identifies good governance with respect to each area, and the challenges faced in their implementation within the Executive branch. In so doing, the framework offers an approach for a practical assessment of the ways in which SAI audit and counselling work can provide useful support in these key areas of public management to enhance good governance.

Suggested areas for exploration should be considered with regard to the country context, including respecting the SAI’s independence, as well as the autonomies and established roles of all actors contributing to good governance, based on legal and constitutional frameworks. To this end, this study offers some distinct, but closely inter-related, guiding principles that may help in assessing the feasibility of SAIs undertaking the options suggested in this analytical framework:

- Changes to an SAI’s work should be in areas in which the SAI is likely to have, or should be in a position to develop, relevant expertise, consistent with its mandate
- Overlap of functions should be avoided: the SAI should not be expected to exercise functions that are already being serviced by, or should be serviced by, another expert body or institution
- An SAI’s role should support, but should not displace, the proper role of other public sector bodies – democratic or bureaucratic in supporting government activity
- An SAI, like other public institutions, has limited resources and must operate in a manner that is efficient and effective; therefore it can only reasonably be called upon to exercise new functions in line with its resources

Any normative suggestions that the framework makes about the current or potential role of SAIs are to be considered with these guiding principles in mind. These principles should underlie any discussions between SAIs and respective Executive bodies about strengthening the whole-of-government approach to good governance.

**Contributing to overall good governance**

SAIs are by definition contributing to good public governance by holding public bodies to account for their management of public resources. When SAI work is underpinned by fundamental principles, particularly independence, it contributes to good governance directly by providing the
intended users with independent, objective and reliable information based on sufficient and appropriate evidence. While the focus of the study is to better understand how this work can be targeted to support good governance more effectively, there are many avenues through which SAIs support good governance, as outlined in INTOSAI’s 2013 Beijing Declaration (INTOSAI, 2013c):

- enhancing accountability and transparency, encouraging continuous improvement and sustained confidence in the appropriate use of public funds and assets and the performance of public administration;

- reinforcing the effectiveness and efficiency of those bodies within the constitutional arrangement that exercise general monitoring and corrective functions over government, and those responsible for the management of publicly funded activities;

- creating incentives for change by providing knowledge, comprehensive analysis and well-founded recommendations for improvement;

- promoting democracy, the rule of law and maintenance of order, and promoting the improvement of people’s livelihoods by ensuring that public funds achieve their desired impact; and

- playing a role in detecting and deterring fraud, combating corruption and safeguarding national interests through identifying risks to the economy and society.

SAIs can foster good governance by enhancing transparency, ensuring accountability, and promoting performance through their financial, compliance and performance audit work. Against this backdrop, a great emphasis has been placed on performance auditing, which is often broad in scope and has empowered SAIs to review the effectiveness, efficiency and economy of government or public entities’ operations. Closely related is programme evaluation, which is often conceived as an extension of performance audit. In a few instances, SAIs have gone further to check the equitability, ethics or impact of programmes or policies on the environment. This performance-related audit work of SAIs is a critical link in the chain of public sector accountability and good governance insofar as it can provide reliable and robust reports that those able to influence government decisions directly have sufficient information upon which to base their actions (OECD, 2007).

SAIs can also foster good governance through their contribution to the openness of a state by continuing the practice of making clear and useful information available on the institutions and processes that form the state, including on its own institution. SAIs could also assess the openness of the state – namely the ability for citizens to receive relevant information, to obtain services and undertake transactions, and to participate in decision-making and policy-making processes (OECD, 2005). Assessment against internationally established principles on the good governance of key activities can provide evidence of the cross-cutting nature of openness. The OECD Principles of Budgetary Governance (2014) suggest that budget documents should be open, transparent and accessible, and that the budget process should be inclusive, participatory and realistic. The 2012 Recommendation of the OECD Council on Regulatory Policy and Governance includes a recommendation on adhering to principles of open government, transparency and participation in the regulatory process with an eye to ensuring regulations serve the public interest and are based on legitimate needs. International guidelines can be explored by SAIs interested in establishing criteria for assessing how well a state is performing on the important principles of openness.

Independent and professional SAIs are often considered an important player in the fight against fraud and corruption, in light of their critical role in ensuring transparency and compliance of public
resource expenditure. In addition to contributing to public sector integrity through fulfilment of their basic function, some SAIs have a role in national anti-corruption strategies, developing and maintaining officials’ private interest disclosures and in auditing political financing (Tables 4.1, 4.2, 4.3).

Table 4.1 - Selected SAIs playing a formal role in national anti-corruption strategies

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil, Chile, Costa Rica, European Court of Auditors, Italy, South Africa</td>
<td>Australia, Denmark, Israel, Korea, Portugal, Spain</td>
</tr>
</tbody>
</table>

Source: “Chile’s Supreme Audit Institution: Enhancing strategic agility and public trust”, OECD 2014.

Table 4.2 - Role of SAIs in the development and maintenance of public officials’ private interest (income and asset) disclosures in selected countries

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile, Costa Rica, Israel</td>
<td>Australia, Brazil, Denmark, European Court of Auditors, Italy, Korea, Portugal, South Africa, Spain</td>
</tr>
</tbody>
</table>

Source: “Chile’s Supreme Audit Institution: Enhancing strategic agility and public trust”, OECD 2014.

Table 4.3 - Role of SAIs in auditing political financing in selected countries

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark, Israel, Italy, South Africa, Spain</td>
<td>Australia, Brazil, Chile, Costa Rica, European Court of Auditors, Peru, Portugal</td>
</tr>
</tbody>
</table>

Source: “Chile’s Supreme Audit Institution: Enhancing strategic agility and public trust”, OECD 2014.

Supporting a strategic and open state

SAIs are well positioned to help states aspire to embody the characteristics of a strategic and open state. This is a state that exhibits the strategic agility and openness required to improve responsiveness and effectiveness of public policies while managing tight fiscal pressures. A strategic and open state exhibits strategic vision and agility, a clean and open government, institutional robustness and has effective processes. This is a state that has the public institutions and processes that are needed to execute a more effective, efficient and economic policy cycle, which delivers policies and programmes that benefit citizens.

Supporting good governance in a strategic and open state

The analytical framework presents opportunities for SAI engagement in supporting and enhancing good governance through a strategic and open state by examining four key areas of government activity: budgeting, regulatory policy, the Centre of Government and internal control. These areas of public administration need to be operating well through the policy cycle in order for government to achieve its policy objectives:

- Sound budgetary governance, including traditional Public Financial Management, is at the heart of enabling programme and service delivery which ensures that resources are allocated to the areas for which they were authorised, and that the resources are deployed appropriately in that context. Sound budgetary governance is an effective process of a strategic and open state.
- Good regulatory policy and governance delivers regulations that meet underlying public policy objectives and positively impacts the economy and society. Regulations are indispensable to the proper function of economies and societies. Good regulatory policy is an effective process of a strategic and open state.

- Strategically agile Centres of Government are critical for ensuring government-wide coherence with respect to policies and programmes, and co-ordination among stakeholders in the execution of the policy process. Horizontal and vertical co-ordination led by strong Centres of Government are part of the strategic capacity and, more specifically, the institutional robustness of a strategic and open state.

- Effective internal control systems assure the effectiveness and efficiency of government operations, the reliability of financial reporting and compliance with applicable laws, regulations and policies. These systems, along with internal audits, complement SAI work in ensuring integrity, efficiency and economy in the use of public resources. Effective internal control systems contribute to the openness of a strategic and open state.

**Promoting effectiveness, efficiency and economy in strategic and open state**

SAIs are increasingly undertaking tasks that further enhance the effectiveness, efficiency and economy of public sector programmes and policies through performance audits, a combination of financial, performance or compliance audits and/or increasingly through programme evaluations.

Some SAIs are providing oversight, insight and foresight services as inputs to the policy process. Oversight ensures that policies are implemented as intended, strategies are met, and the overall performance of the government meets expectations and needs within policy, laws and regulations. Insight is provided to assist audited entities and other decision-makers by assessing which programmes and policies are working. This involves providing feedback to adjust policies and sharing good practices information. SAIs also provide audited entities with assistance in foresight by identifying trends and signalling emerging risks before they manifest into significant challenges. Given that policy formulation relies on foresight to ensure policy development adequately addresses public needs and policy goals, these oversight, insight and foresight services are important to bolstering the policy process (NAO Mauritius, 2008).

From this perspective, there are some examples of audits by different SAIs that can inform the policy-making process, particularly during programme design, implementation and evaluation. The SAI of the United Kingdom, for instance, has conducted several audits on impact assessment procedures and efforts to reduce administrative burden. The European Union’s SAI has done an audit on the impact assessment procedure as well. And the Netherlands’ SAI has been active in audits of administrative burden reduction programmes. Several SAIs have conducted audits on the implementation of EU directives.11

Another interesting example may be found in the field of sustainable development. According to INTOSAI: “while it may be difficult to audit the government’s strategy against any firm audit criteria, it may well be possible to examine the success with which government bodies are integrating a sustainable development approach to their day-to-day decision making. Working alongside government bodies, and looking at comparisons on the international stage and other large organisations, the SAI may help strategic decision-makers within government to identify and disseminate examples of good practice (INTOSAI, 2004).
Accordingly, although most SAIs focus their audits on policy implementation, SAIs may look at how strategies and policies are set without encroaching on why. In the case of the French SAI, this falls under its policy evaluation area of work, rather than performance audit. Typically these types of evaluations are performed at the ministry level, but there may be scope for SAIs to support government-wide evaluation. Regardless of how an SAI may subsume this work into its audit programme, SAIs could consider the following questions found in INTOSAI’s ISSAI 5130, “Sustainable Development: The role of Supreme Audit Institutions”, as criteria for exploring the link between strategies and policies (INTOSAI, 2004):

- Does the government have a strategy or plan that clearly describes its objectives?
- Does it clearly identify the policy instruments to be used to achieve the aims?
- Is the strategy and choice of policy instruments based on good data about what needs to be done?
- Is the strategy truly integrated, reflecting the interactions between policies, and the balance to be struck between economy, society and the environment?
- Where budget proposals are scrutinized by the SAI, what is the total budget for sustainable development, and what proportion of this is allocated to green issues?
- Has the government evolved any system to monitor and co-ordinate the activities of Non-Governmental Organisations (NGOs) working on environmental issues?

**Enhancing public trust**

Trust is not only an outcome of good governance, but also an enabler of good governance as it gives governments space to establish longer-term policy goals and to develop and deliver programmes and services that meet those goals. Trust by citizens in their government is determined by their perception and the reality of how well policies, programmes and services meet their needs. Thus it is driven by the way policy-makers comply with standards that ensure their behaviour is in the interest of citizens (OECD, 2013). Citizens must have confidence that governments will develop the right policies to deliver effective programmes in order to address long-term and complex policy issues. Yet, in many countries, public trust in government has declined. This increases enforcement costs and reduces the policy horizon. Regaining trust requires a whole-of-government approach, as the financial crisis demonstrated that the Executive cannot tackle pervasive 21st-century challenges alone.

There are many public institutions that have played or should play an important role in regaining trust and, thus, in being part of the collective action toward good governance. SAIs have a strong role to play. Through their most basic function of auditing the expenditure of public funds, SAIs help to ensure transparency and reliability of government financial management. Increasingly, SAI audit work is assessing the transparency and reliability of information related to policy and programme performance too.

In a study of 27 European countries, SAIs ranked higher with respect to integrity in law and in practice compared to other watchdog institutions including Ombudsman Offices and Electoral Management Bodies (TI, 2012). This study was conducted by an international watchdog organisation and provides evidence that the role of SAIs and the principles of good governance have been elevated beyond national borders. Discussions of SAIs and their role in good governance have been the focus of the international SAI community. INTOSAI’s most recent ISSAI (12) focusses on the value and
benefits of external audit for citizens. Also, the Report on the 19th UN/INTOSAI Symposium on Government Audit (2007) stated that the value of SAIs stems from promoting good governance now and in the future.

A whole-of-government approach is needed to restore trust in government, and to address complex policy challenges through better policy formulation, implementation and evaluation. Given that, within the whole-of-government, SAIs are widely perceived as credible and independent verifiers of information, governments should be considering how SAIs’ audit and counselling work can be better used as inputs to a more effective, efficient and economical policy process. This analytical framework aims to provide suggestions on how this could be done.

Notes

11 This information is based on discussions held between the SAI of Brazil and the SAI of Finland.
References


5. BUDGETARY GOVERNANCE

This section considers the potential, and in some cases current, role of SAIs in promoting good governance in relation to budgeting and public financial management (PFM). The audit function is most traditionally associated with the basic functions of PFM – ensuring that resources are allocated to the areas for which they are authorised, and that the resources are deployed appropriately in that context. SAIs already produce reports on governments’ financial management through audits, end-of-year reports, or opinions or observations on governments’ financial reporting.

However, against the backdrop of the difficult economic and fiscal contexts experienced internationally over recent years, the role of PFM and budgeting is being reassessed to underscore the necessary linkages and inter-connections with other areas of public governance – including whole-of-government medium-term planning, performance-related budgeting, full transparency and accessibility of budgetary information, identification and management of fiscal risks, and enhanced quality assurance throughout the different phases and functions of the budget cycle. The major international organisations have, over recent years, been updating their guidance on fiscal management frameworks, and the OECD in particular has recently developed the OECD Principles of Budgetary Governance (PBG) that reflect the experience and insights of the long-standing OECD Senior Budget Officials (SBO) Working Party.

As the understanding of the role of budgeting widens, it is appropriate that the role of SAIs should be reassessed in particular to consider the extent to which the traditional strengths of the SAI – independent, objective and rigorous scrutiny of PFM concepts in application – could and should be extended to the new reaches of budgeting.

Budgetary governance: a broader understanding

Traditionally, public budgeting was concerned primarily with the allocation, authorisation and management of financial resources. Within this traditional framework, SAIs have played a central role in ensuring accuracy in the rendering of accounts, probity in the management of public moneys and, to some extent, examining issues of cost-effectiveness. More recently, it has come to be appreciated that PFM, as a discipline, must also be understood in terms of how it can facilitate a wider range of objectives and interests within the sphere of public governance.

The OECD Best Practices for Budget Transparency of 2002 take as their starting point the relationship between open budgetary governance and better economic and social outcomes:

- Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms.

In outlining how the budget policy document can be framed in an open and transparent manner, the Best Practices deal with budgetary governance under three dimensions:

1. The provision of budgetary documentation at various stages of the policy-making cycle: in advance of the budget (i.e. policy formulation stage), during the course of budget execution, and after the conclusion of the budget year;
2. The various elements and specific disclosures that should feature in the budget documentation, including contingent liabilities and tax expenditures (i.e. the costs of preferential tax measures for particular activities); and

3. The role of integrity, control and accountability is highlighted, including the specific role in this context of both internal and external audit processes and institutions, and the need for public information and engagement on budgetary matters.

Since the Best Practices were adopted in 2002, there have been very significant developments in the economic and budgetary landscape, and a deepening understanding of how the various aspects of budgeting and fiscal policy should be elaborated and inter-connected.

With the onset of the global financial crisis in 2008 and its economic and fiscal implications for many OECD countries, the focus of budgetary policy shifted markedly to correction and consolidation of the public finances so that excessive public deficits are narrowed, and debt levels are reduced, in the interests of restoring the sustainability of the public finances. This can involve expenditure cutsbacks, tax increases or structural economic reform measures to enhance economic growth. This trend toward fiscal correction and consolidation was tracked and reported in the OECD’s Restoring Public Finances of 2011 and its 2012 Update. It showed that fiscal consolidation has been a major preoccupation of most OECD countries in the period 2010-2012 and, despite progress achieved in correcting fiscal imbalances, continued budgetary correction is planned into the medium term against a backdrop of elevated – and still rising – debt levels. Indeed, the 2012 Update showed that many OECD countries had extended the depth and duration of their earlier budgetary consolidation plans in the face of longer-than-expected fiscal difficulty. The analysis also showed that fiscal consolidation was weighted toward the expenditure side of the budget rather than the revenue side. Within public expenditure, savings have been sought most commonly from the areas of health care, social security, pensions and infrastructure investment – areas where savings must be calibrated and evaluated carefully as to their political, social and broader economic impacts.

Within this overall context of fiscal consolidation and difficult budgetary trade-offs, there has been an intensified focus on the budgetary tools, mechanisms and processes that can be brought to bear to support governments and public administrations in this complex endeavour. A feature of the fiscal consolidation agenda in many countries – such as Ireland and Spain – has been the re-design and reform of traditional budgetary frameworks, as part of a more comprehensive reform of the public sector and of public governance more broadly, and as part of an economic restructuring agenda aimed at making their respective economies more competitive and responsive.

Against the background of budgetary turbulence among its members over recent years, the EU has sought to promote the credibility and effectiveness of national fiscal frameworks by adopting a range of new economic governance rules (see Box 5.1. below). These rules emphasise the need for a coherent, government-wide response to the challenges of budgetary consolidation and co-ordination.

Based on OECD surveys of budget practices and procedures across OECD countries and other global regions, including Central and Eastern Europe, Latin America and the Caribbean, together with analysis and peer discussion at the SBO, the following broad developments in budgetary practice have been identified.
Box 5.1. Overview of EU Economic Governance Rules

The key elements of the EU economic governance framework applicable to most EU countries, following the reforms of 2011-2013, can be summarised as follows:

**Countries must manage their public finances within fixed limits**

- The debt level and the deficit level must not exceed ceilings of 60% of GDP and 3% of GDP, respectively; both expressed in general government terms.

- The public finances should be maintained close to a balanced position (i.e. a deficit of no more than 0.5% of GDP) in cyclically-adjusted terms, net of one-off factors.

- The growth in public expenditure must not exceed the underlying medium-term level of economic growth, unless it is financed by additional revenues.

**If these limits are not respected, budgetary correction must proceed at a minimum pace**

- Any unduly high, non-structural budget deficit (i.e. not close-to-balance) must be corrected by 0.5% of GDP each year, in structural terms; while any excess above the debt limit of 60% of GDP must be reduced by 1/20th each year.

**Exceptions to these rules are very limited**

- Countries may delay compliance with these fiscal limits in the event of a sudden severe economic shock, provided that they are making satisfactory fiscal effort in structural terms.

**Numerical fiscal rules to achieve these targets must be enshrined in national constitutions or laws**

**There are financial penalties for non-compliance**

- Sustained failure to comply with the fiscal commitments leads to an escalating process of ‘recommendations’ and sanctions, culminating in financial penalties.

- Under new voting rules, it is harder for member states to block decisions on these matters.

**Co-ordination of national budgetary calendars**

- As well as preparing medium-term Stability or Convergence Programmes in April of each year, countries should submit a draft annual budget in October of each year for consideration at the EU level prior to being adopted at the national level by year-end.

**A medium-term budgetary framework must be put in place**

- Countries must develop an institutional framework so that the annual budget is framed within the context of clear multi-year fiscal objectives, projections and policy orientations.

**A role for independent fiscal institutions**

- Within each country, an independent fiscal body should monitor compliance with the fiscal rules, and should be responsible for preparing, or endorsing, national economic forecasts.
Long-term fiscal sustainability

Public fiscal sustainability is the ability of public governments to maintain public finances at a credible and serviceable position over the long run, in light of the prevailing mix of spending and revenue policies. Public fiscal sustainability also takes into account debt servicing costs and future socio-economic and environmental factors that challenge the public budgets. Prudent macroeconomic assumptions, sensitivity and risk analysis and appropriate fiscal rules are factors that can help to orient spending and revenue policies within sustainable levels in the short and medium term. For more forward-looking perspective, long-term fiscal projections that incorporate demographic and socio-economic trends are a useful analytical tool.

In most OECD countries, the Central Budget Authority (CBA) is responsible for long-term fiscal projections. In some countries this responsibility is located in other departments of the Ministry of Finance other than the CBA or in other core ministries.

Long-term fiscal uncertainty is a challenge for most OECD countries. The INTOSAI community recognises that the long-term sustainability of financial policies is necessary to further the social and economic development of nations (INTOSAI, 2013). A growing elderly population, higher longevity, increased demand for health services and, in some cases, simultaneous reductions in the government’s tax base are some factors that create long-term challenges. Long-term fiscal projections can play a useful role in identifying the expected future costs and associated debt of current policies in light of forecasted demographic and economic developments.

Long-term projections of the public sector’s role in the economy could also contribute to the informed political and public discussion of a broader reform agenda, to ensure that the costs of the public sector are assessed against benefits delivered to society and issues of affordability. The size and structure of the public sector in several OECD countries pose challenges in terms of long-term sustainability. Some governments also present long-term fiscal challenges in a cross-generational perspective, in order to distribute benefits and cost in a reasonable way over generations.

Sensitivity and fiscal risk analysis

Two-thirds of OECD countries include fiscal sensitivity analysis in their publicly available budget. Sensitivity analysis is a hypothetical type of analysis used in quantitative modelling to test the sensitivity of outcomes to changes in parameters or underlying assumptions. If a small change in a parameter results in relatively large changes in the outcomes, the outcomes are said to be sensitive to that parameter (IMF, 2007). Sensitivity analysis is one way to account for uncertainties associated with forecasting macroeconomic variables that are important to the budget as a whole or to individual expenditure items. It is used to test the importance of different assumptions to the projected performance of a government intervention. For example, sensitivity analysis could be used to test the extent to which projected revenue growth is affected by changes in the price of key export commodities on the world market.

Another method of taking uncertainty into consideration in fiscal projections and macroeconomic assumptions is to identify and assess specific risk elements that would negatively influence the assumptions and projections should they materialise. Actions should be taken in accordance with the risk elements’ probability and consequence.
Fiscal rules that limit the budget

A fiscal rule is a permanent constraint on fiscal policy expressed in terms of a summary indicator of fiscal performance (Kopits and Symansky, 1998). A fiscal rule has two fundamental characteristics. First, it presents a constraint that binds political decisions made by the Legislature and by the Executive. Second, it serves as a concrete indicator of the Executive’s fiscal management. Budgeting in democratic countries is inherently biased toward expansionary outcomes (Schick, 2003). If observed, fiscal rules constrain politically motivated spending to improve macroeconomic stability in the short-term, while contributing to long-term fiscal sustainability. Fiscal rules also signal a government’s creditworthiness and provide justification for making tough fiscal decisions. Finally, fiscal rules can control the negative spill-overs and externalities that arise within a federation or union (Inman, 1996).

There is no one-size-fits-all fiscal rule. Four broad yet distinctive categories of rules exist, namely: expenditure rules, fiscal balance rules, debt rules and revenue rules.

- **Expenditure rules** limit the amount of government spending and can be expressed in nominal or real terms as limits on spending levels or expenditure growth, or as an expenditure-to-GDP ratio.

- **Fiscal balance (i.e. deficit or surplus) rules** directly target the fiscal balance (i.e. the gap between government spending and revenues), e.g. a requirement to run a balanced position, not to exceed a defined deficit limit, or a requirement to attain a defined surplus at minimum. Such rules can be expressed in nominal or cyclically adjusted terms, usually by reference to a percentage of GDP.

- **Debt rules** limit the amount of government debt that can be accumulated and can be expressed in nominal terms as a debt-to-GDP ratio or as an explicit reduction of the debt-to-GDP ratio.

- **Revenue rules** impose constraints on the tax-to-GDP ratio and place restrictions on government revenues raised in excess of projected amounts.

Where they are used, fiscal rules and targets should be clearly stated and explained, with specific attention paid to their design. Rules should be based on appropriate summary indicators and be simple and transparent so as to facilitate management and monitoring activities. Furthermore, they should be responsive to cyclical fluctuations and should include provisional mechanisms to deal with revenue windfalls. Fiscal rules should involve all levels of government where possible.

While evidence suggests that fiscal rules can assist governments to achieve fiscal consolidation, practices vary and there is no academic consensus on what design features are most effective. It is notable, however, that countries that fail to enforce or renew fiscal rules are unlikely to achieve fiscal discipline. The effectiveness of fiscal rules is also linked to other budget practices and procedures. According to Schick (2003), these include: medium-term budget frameworks; top-down budgeting; long-term fiscal projections; policy change impact assessments; monitoring and follow-up procedures; and enforcement mechanisms. Recent literature also highlights the supportive role of independent enforcement bodies (Schaechter et al., 2012).
Top-down budgeting

A natural complement to a fiscal-rules-based environment or to an environment in which clear fiscal objectives are laid down by government, ‘top-down budgeting’ refers to the budgeting practice whereby the fiscal targets are determined from the outset, with annual and multi-annual budgetary policies subsequently determined in conformity with these overall levels. Typically in top-down budgeting, the Executive first determines aggregate public finance targets (spending and revenue levels) given medium-term fiscal objectives and prevailing economic conditions. Within this aggregate, sectoral ceilings are set (and approved by cabinet) reflecting existing commitments, political priorities in general and new key policy initiatives. The detailed allocation decisions are typically delegated to individual line ministries. To be implemented effectively, top-down budgeting requires rigorous and prudent economic forecasts and must be combined with complementary fiscal management practices such as medium-term expenditure frameworks.

Many OECD countries began to adopt top-down budgeting practices in the 1990s in an effort to control deficits and constrain expenditure growth (Kim and Park, 2006). Top-down budgeting marks a shift not only in the sequence of budget decisions but also in budgetary roles, responsibilities and relationships. While the Central Budget Authority works to control aggregate spending by establishing and enforcing spending ceilings, line ministries assume relatively greater responsibility for resource allocation. This delegation of authority requires close working relationships between the two: line ministries use their superior knowledge of operational issues to determine the most efficient allocation of resources in their policy area but may require advisory and technical support from the Central Budget Authority to understand how programme spending will evolve over time and to develop expenditure projections.

Top-down budgeting marks a significant re-orientation of the budget process as compared to the traditional bottom-up approach (Table 5.1). Bottom-up budgeting is a reactive, expenditure-driven process that imposes no up-front constraints on ministerial requests. Total spending is determined as the residual sum of individual appropriations and remains unknown until the final stages of budget preparation. The detailed appropriations characteristic of bottom-up budgeting foster agency-specific programme ownership and make it difficult to reallocate in accordance with new policy priorities. Top-down budgeting, on the other hand, should encourage joint ownership of proposals across line ministries and create space to reallocate resources according to shifting priorities and economic conditions.

| Table 5.1 - Top-down budgeting vs. bottom-up budgeting |
|-----------------|-----------------|-----------------|
| **Primary Focus** | Policy-driven process that aligns spending with key priorities (proactive) | Expenditure-driven process (reactive) |
| **Role of Finance Minister** | Set aggregate spending level based on fiscal management target and monitor compliance | Negotiate details of individual spending proposals to control detailed allocations |
| **Role of Spending Ministers** | Allocate financial resources to individual programmes within assigned spending ceilings | Submit budget requests and negotiate itemised appropriations |
| **Economic Forecasting** | Aggregate fiscal analysis that takes into account economic forecasts. | Ministry by ministry analysis that largely ignores economic forecasts |
| **Efficiency** | Streamlined process reduces inefficient practices and excessive requests | Inefficient and time-consuming negotiations process |
| **Timeframe** | Multi-year perspective | Annual appropriations process |

*Source: Adapted from Kim and Park (2006)*
Some factors that have a bearing on budget flexibility are: the number and detail of budgetary line-items (i.e. the most detailed level of spending that is mandated by the Legislature); the use of lump-sum appropriations, which give government organisations a greater deal of flexibility to allocate public funds in order to maximise their performance; latitude to reallocate appropriations during the budget year, subject to certain restrictions; and latitude to carry over unused appropriations from one budget year to the next.

On this last point, the appropriateness of carry-over rights has been subject to debate. In general, for carry-overs to be most effective and to limit their misuse, budget systems should have a medium-term budget framework (see below), devolved budget management powers, well-developed accounting and reporting systems, and sound internal control and external audit procedures.

Medium-term fiscal and expenditure frameworks

One of the major developments since the introduction of the OECD Best Practices for Budget Transparency in 2002 has been the increased focus on the multi-annual dimensions of budgeting. Medium-term expenditure fiscal frameworks (MTFFs) and expenditure frameworks (MTEFs) strengthen the ability of the government collectively, and the Ministry of Finance in particular, to plan and enforce a sustainable fiscal path. If properly designed, an MTEF should force stakeholders to deal with the medium-term perspective of budgeting and budgetary policies rather than adopt an exclusively year-by-year approach. MTEFs typically cover a period of three to four years and aim to improve the quality and certainty of multi-annual fiscal planning by combining prescriptive yearly ceilings with descriptive forward estimates. ‘Estimates’ in this context are calculations of how expenditure, revenue and the aggregate fiscal position will evolve under certain assumptions. By their very nature, high-level fiscal ceilings are set in a medium-term context. Ceilings are targets or limits set by the government regarding aggregate or policy area spending for each year of the multi-year frame of reference. The ceilings may be updated annually or fixed for a period. For the medium-term framework to work effectively, estimates and ceilings need to be reconciled within the context of a forward-looking approach to budgetary planning and policy formulation. Accordingly, a medium-term framework should state the government’s medium-term fiscal objectives clearly in terms of high-level targets such as the level of aggregate revenue, expenditure, deficit/surplus and debt. It should also facilitate stakeholders in identifying the policy choices and trade-offs that will be necessary in light of the estimates of what would happen in the following three to five years based on unchanged policies. The level of detail of such frameworks varies from country to country, and a corresponding vocabulary describing the various forms of medium-term frameworks has developed.  

MTEFs are increasingly relevant in a context where the multi-annual character and implications of certain policies need to be more clearly presented. Many policies require an extended time horizon, such as large capital projects, new programmes, and organisational reform and restructuring. The forward estimates make clear the medium-term implications of budget decisions. This is particularly important when: i) capital projects are launched with changing operating costs; ii) programmes come into effect late in the budget year, thus not exposing their full costs in the initial year; iii) programmes’ spending implications are not fully reflected under the circumstances prevailing during the budget year, but will become so in out-years. These are all classic examples of budgeting “games”, which the medium-term frameworks aim to mitigate. From the point of view of managers, in-line ministries and agencies, medium-term frameworks put them in a better position to plan their policies and operations, to the extent that they have some level of visibility regarding the likely level of funding beyond the next budget. This is especially relevant in a context of fiscal consolidation. Many savings options involve more than one year in order to reap their full benefits. Prior to the advent of medium-term frameworks, such options were often not considered as the time horizon only extended to the next budget year.
Almost all OECD countries report to have a medium-term expenditure framework in place. Half of the OECD countries have enshrined the MTEF in law and most of the rest have established the framework in a policy or strategy decided by the government or through other arrangements.

**Capital budgets and multi-year funding practices**

Capital budgeting means different things in different countries. Capital budgeting can mean that the government has a divided budget, with one budget for investment and another for current expenditures. It can also mean that government accounts for investment and current expenditure separately, but then integrates them into a single budget with budget charges for depreciation and write-offs on capital assets. Alternatively it can mean separate decisions, which are then combined into a single budget. Two-thirds of OECD countries prepare separate capital and operating budgets, while most of the other countries have integrated capital and operating budgets.

**Public-private partnership practices**

Public-Private Partnerships (PPPs) are a way of delivering and funding public services using a capital asset where project risks are shared between the public and private sector. A PPP can be defined as a long term agreement between the government and a private partner whereby the service delivery objectives of the government are designed to be aligned with the profit objectives of the private partner.

Since the early 1990s and increasingly throughout the 2000s, there has been a significant increase in the use of PPPs by OECD countries. Countries such as Australia, France, Germany, Korea and the United Kingdom increasingly use PPPs to deliver services that they previously delivered through traditional public procurement. Given the complexity of PPPs and their somewhat infrequent use, critical skills to ensure value for money may need to be concentrated in a PPP Unit that is made available to the relevant authorities.

**Value-for-money assessment**

Value-for-money can be defined as what a government judges to be an optimal combination of quantity, quality, features and price (i.e. cost), expected (sometimes, but not always, calculated) over the whole of the project’s lifetime. Thus, the value-for-money concept attempts to encapsulate the interests of citizens, both as taxpayers and recipients of public services. As such, value for money should, in principle, also be the driving force behind traditional infrastructure procurement. Therefore, any project, whether it is a PPP or a traditionally procured project, should be undertaken only if it creates value for money.

There are several techniques for assessing value for money. Cost-benefit analysis is a systematic process for calculating and comparing benefits and costs of a government policy. It has two purposes: i) to determine if it is a sound investment or decision (to assess the justification or feasibility); and ii) to provide a basis for comparing different government policies. It involves comparing the total expected cost of each option against the total expected benefits, to see whether the benefits outweigh the costs, and by how much. Cost-benefit analysis is related to but distinct from cost-effectiveness analysis. In cost-benefit analysis, benefits and costs are expressed in monetary terms, and are adjusted for the time value of money, so that all flows of benefits and costs over time are expressed on a common basis in terms of their “net present value.” Cost-effectiveness analysis is a form of economic analysis that compares the relative costs and outcomes (effects) of two or more courses of action. Cost-effectiveness analysis is often used in the field of health services, where it may be inappropriate to monetise health effects. Common measures include “quality-adjusted life years”. Other relative analysis methods could be, for example, public sector comparators.
The extent to which these methodologies can and should be applied to areas of current expenditure, complementing their longer-established use in capital projects, is an active area of consideration in many OECD countries.

Performance-related budgeting

A further area where developments have progressed substantially since the 2002 OECD Best Practices for Budget Transparency is the area of performance information and its use in the budget. The public sector has traditionally been held to account for compliance with rules and procedures, including accounting for financial appropriations. In more recent years, OECD and other countries have increasingly sought to develop a focus on the results achieved with the appropriations allocated through various approaches under the heading of “performance budgeting”. This area is the subject of a lot of activity across many OECD countries at present, including revisions and reassessments of established performance budgeting models, and there is currently no settled consensus on the optimal way of using performance information within the budgeting context. The issues arising range from i) the level of information being used (with a more recent focus on streamlining and focussing performance information, and retreating from a tendency to “over-engineer” performance budgeting products); ii) the problems inherent in measurement of public performance and iii) a broader question of whether the budgeting process lends itself well to performance monitoring, or whether other mechanisms of governance and accountability should play a more significant role.

Performance budgeting frameworks are widely found in OECD countries and are generally flexible in nature. In general, the different policy sectors mainly use performance information for setting allocations for programmes, line ministries and agencies, for strategic planning, for proposing new areas of spending, and for a reduction in spending. However, in some countries, performance information does play a limited role in the budget negotiations with the Central Budget Authority. A general finding is that when performance targets are not met, the consequences for managers of ministries can be limited - this suggests that performance information is not easily transformed into action.

A consistent finding is that countries have difficulty establishing performance information of sufficient quality, robustness and reliability to serve as a sound basis for informing resource-allocation decisions. While frameworks exist for the types of indicator that can be applied to various stages of the budget process (see Table 5.2), a settled consensus tends to be lacking – whether nationally or internationally – on the benchmark indicators that can be used to guide and assess progress on the achievement of public policy objectives.

Table 5.2 - Types of performance measures

<table>
<thead>
<tr>
<th>Types</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Measures</td>
<td>What goes into the system? Which resources are used?</td>
</tr>
<tr>
<td></td>
<td>What products and services are delivered? What is the quality of these products and services? Intermediate: What are the direct consequences of the output? Final: What are the outcomes achieved that are significantly attributable to the output?</td>
</tr>
<tr>
<td>Contextual measures</td>
<td>What are the contextual factors that influence the output (e.g. processes, antecedents and external developments)</td>
</tr>
<tr>
<td>Ratio Indicators</td>
<td>Efficiency Cost / Output</td>
</tr>
<tr>
<td></td>
<td>Productivity Output / Input</td>
</tr>
<tr>
<td></td>
<td>Effectiveness Output / Outcome (intermediate or final)</td>
</tr>
<tr>
<td></td>
<td>Cost-effectiveness Input / Outcome (intermediate or final)</td>
</tr>
</tbody>
</table>

Source: Adapted from Sterck et al. (2006)
Budget Transparency and Comprehensive Reporting

In line with the OECD Best Practices for Budget Transparency, a variety of government reports and related disclosures exist that are essential for appropriate openness and transparency. Key elements are summarised below:

- **Disclosure of underlying assumptions and publicly available budget documents:** A key aspect of transparency is the extent to which the Executive’s budget discloses the underlying assumptions (macroeconomic and others) that set the fiscal framework within which government organisations formulate their spending proposals. Key assumptions include estimates of GDP growth, the current account, inflation and the interest rate. These estimates underlie forecasts for tax and non-tax revenues, and government debt-servicing obligations and requirements. Arguably there is no single factor more responsible for “de-railing” budget outcomes and projections of deficits or surpluses than the use of weak macroeconomic assumptions.

- **Comprehensiveness of budget documentation:** It is important that comprehensive information is presented in the budget to enable policy debate. In addition to the economic assumptions underlying the budget, the Best Practices for Budget Transparency states that the budget should include, among other things: a medium-term perspective; a detailed commentary on each revenue and expenditure programme; appropriations by administrative unit (e.g. ministry, agency); and non-financial performance data, including performance targets. Most OECD countries identify expenditure items that are considered as contingent liabilities. From a transparency perspective it is also important that those elements are disclosed in the budget documentation submitted to the Legislature and that the documentation is made publicly available.

- **In-year reporting:** Periodic in-year reporting on budget execution and revision of budget estimates help to detect and manage the impact of economic developments on the budget in a timely manner. This includes information on tax and non-tax revenues and spending on programmes and public services. Such reports identify any changes in the assumptions underlying the budget, as well as other relevant events that have transpired during the fiscal year.

- **Year-end reporting:** The year-end report is a government’s key accountability document. The Best Practices recommend that it should be audited by SAI and released within six months of the end of the fiscal year, and scrutinised by Parliament. All OECD countries have an institution mandated with auditing government accounts. There is, however, great variation within OECD countries as the time by which the audited annual report is disclosed after the end of the fiscal year. For example, while Mexico and the United States produce an audited year-end report within three months of the end of the fiscal year, Germany, Greece, Portugal and the United Kingdom’s year-end reports are published 11-12 months after the end of the fiscal year. Spain publishes the audited report 16 months after the end of the fiscal year (six months after the audit institution receives the accounts).

Ensuring an effective role for the Legislature

The OECD believes that an effective role for the Legislature is a key ingredient in establishing and maintaining fiscal discipline, while providing a necessary link with civil society and fostering accountability of the Executive. Legislatures are constitutionally mandated to hold governments to
account, including with respect to the budget process. Indeed, the evolution of legislative “power of
the purse” dates back to medieval times. Today’s Legislatures scrutinise and authorise revenues and
expenditures and ensure that the national budget is properly implemented. This is done through a
variety of means, including committee review, plenary debates, and Parliamentary questions and
interpellations. It is worth noting that the general trend in OECD countries in terms of committee
structures for reviewing the budget appears to be a dominant Budget/Finance Committee responsible
for budget review which co-ordinates varying levels of input from sectoral committees. Ideally, a
strong Budget/Finance Committee promotes co-ordination and consistency in legislative budget action
and facilitates fiscal discipline, while involving sectoral committees allows the Legislature to draw on
its specific expertise (Schick, 2002).

Amendment powers

There is nevertheless great variation in legislative influence over the budget in OECD countries,
as demonstrated by a Legislature’s amendment powers. At one end of the spectrum, the Legislature in
the United States has the power to rewrite the government’s proposed budget; at the other end,
Legislatures of countries such as Greece or Ireland can only approve or reject the budget. In Australia,
the Legislature can only make amendments on new policies.

Time available for legislative debate

The effectiveness of a given Legislature in the budget process is also influenced by the time
available for legislative debate and the quantity of resources that the Legislature has at its disposal. It
should be emphasized that the presentation of the budget and related documentation in the Legislature
is normally the first opportunity for public scrutiny of the government’s spending priorities.
Legislative debate in both the plenary and committees facilitates public participation in the budget
process.

Legislatures and their committees require an adequate amount of time to reflect upon and debate
budget documentation prior to approval. This is particularly important in order to ensure that
legislative committees (which exist in all OECD Legislatures and which provide the most in-depth
scrutiny of the budget) have sufficient time to review, debate and propose amendments. The OECD
(2002) Best Practices for Budget Transparency recommend that the Executive’s draft budget should
be submitted far enough in advance to allow for its proper review by the Legislature. This should be
no less than three months prior to the start of the fiscal year, and the budget should be approved by the
Legislature prior to the start of the fiscal year.

Analytical capacity

To engage meaningfully in the budget process rather than simply serving as a rubber stamp,
Legislatures require reliable, unbiased information as well as strong analytical capacity. Strengthening
research capacity, hiring adequate committee staff, and allowing committees to consult or employ
experts all serve to enhance legislative effectiveness and redress the capacity imbalance between the
Legislature and the Executive. Most Parliaments in OECD countries have access to several sources of
technical capacity for budget analysis. Committee staff is perhaps the most commonly available
resource. However, the number of staff available to assist the Budget/Finance Committee in
undertaking specialised analysis of the budget and related matters varies widely.

There is a trend in OECD countries to establish specialised units that assist Legislatures with
budget-related research and analysis. In some cases, these units are located within Parliament, often as
part of Parliament’s research services. In others, they are independent. Some larger Legislatures

maintain a large unit – a “Parliamentary budget office” (PBO) or equivalent – to assist the finance committee on public finance work. Across the OECD, these bodies differ in size, constituents and core functions, but all help to simplify the budget, eliminate the Executive’s monopoly on information in the budget process, and improve the budget’s credibility and accountability. Key tasks may include analysis of the Executive’s budget proposal or the estimates, costing of legislation, and economic forecasting.

**Independent fiscal institutions**

In parallel with the development of enhanced resources and institutions to facilitate Parliamentary engagement in the budget process, there is a clear trend within OECD countries to establish independent fiscal institutions (typically referred to as fiscal councils, although the definition sometimes also includes PBOs) as a means of enhancing independent oversight and accountability in regard to the fiscal performance of the Executive and/or to improve the credibility of budgetary forecasts. The role, structure and funding model of these bodies vary considerably across countries. Apart from a role in assessing or preparing official economic forecasts, typical tasks include analysis of the Executive's budget proposals, monitoring compliance with fiscal rules or official targets, costing of legislative proposals and analytical studies on selected issues.

A fiscal council’s independence – real and perceived – is critical to its success. Independence is underpinned by a clear legal framework. The OECD’s “Principles for Independent Fiscal Institutions” (2014) identify several factors that can enhance independence.

**The role of SAIs in sound budgetary governance**

On the basis of the analysis set out above, this section considers the opportunities for SAI engagement to enhance budgetary governance in line with the SBO’s newly developed *Principles of Budgetary Governance* (PBG). These principles aim to provide normative guidance to countries – within the OECD and further afield – in developing and reforming their budgetary frameworks to take account of recent experiences, good practices and innovative developments. The PBG (see Box 5.2 below) emphasise that budgeting and PFM are no longer a matter of basic financial allocations and appropriations; this area is now much more closely inter-twined with the broader themes of public governance, including support for the achievement of government-wide strategic objectives, open and transparent government, management of complex risks and public service innovation.

It is fitting to consider in this context to what extent the role of the SAI should also evolve, so that it can engage with these broader aspects of PFM and keep pace with budget policy-makers who are becoming increasingly active in these spaces. In particular, an overarching theme is that the objective, professional perspective of an SAI should be capable of adding value and enhancing quality throughout the budget process by broadening the traditional understanding of their role in PFM oversight and accountability.

Accordingly, this section will assess the actual and potential roles of the SAI against these Principles and offer suggestions on how these roles could be put into practice. The experience of various countries in adopting a forward-looking approach to the role and contribution of SAIs will also have a bearing on the proposed approach. It should be borne in mind, however, that SAIs, like all public bodies, must prioritise their activities and areas of focus within their limited resources. Therefore, SAIs will need to carefully weigh the question of whether and to what extent they should apply their resources beyond the traditional areas of activity (notably financial audit) and into other areas of public governance. The SAI’s own assessment of the priority areas for improving budgetary...
governance, as well as the assessment of other key stakeholders will naturally be of fundamental importance in this regard.

It should also be noted that the SAI is one of the key institutions of national budgeting alongside the Parliament and the Executive. The relations between these institutional pillars are usually well established, and any initiatives to modernise and re-work these relations should, ideally, command the understanding and the support of all stakeholders. Managing the process of renewal, reform and modernisation may, in some circumstances, represent a significant implementation challenge for countries.

Box 5.2. The OECD Principles of Budgetary Governance

1. Budgets should be managed within clear, credible and predictable limits.
2. Budgets should be closely aligned with the medium-term strategic priorities of government.
3. The capital budgeting framework should be designed to meet national development needs in a cost-effective and coherent manner.
4. Budget documents and data should be open, transparent and accessible.
5. Debate on budgetary choices should be inclusive, participative and realistic.
6. Budgets should present a comprehensive, accurate and reliable account of the public finances.
7. Budget execution should be actively planned, managed and monitored.
8. Performance, evaluation and value for money should be integral to the budget process.
9. Longer-term sustainability and other fiscal risks should be identified, assessed and managed prudently.
10. The integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation should be promoted through rigorous quality assurance including independent audit.

See www.oecd.org/governance/budgeting/ for further information on the principles.

**Budgetary planning and formulation**

**Accuracy of fiscal forecasts**

- SAIAs could assess whether adequate institutional procedures and safeguards are in place to ensure the quality and reliability of the technical economic and budgetary forecasts that underlie the budget and the medium-term projections. SAIAs could then determine if these forecasts are consistent with budgetary constraints and objectives.

As discussed above, in recent years, there has been an increase in the number of independent fiscal institutions tasked with, among other functions, ensuring compliance with fiscal rules, assessing the accuracy of economic forecasts, and evaluating the appropriateness of the fiscal stance pursued by the government, whether by reference to fiscal rules (internal or external) or by reference to stated
fiscal objectives of government. Given the specialist economic nature of this analysis, it is not apparent that the SAI should become directly involved in this area.

However, the accuracy and reliability of budget forecasts are of fundamental importance to the credibility and quality of the government’s budgetary framework. To the extent that an SAI may have a legitimate role in assessing the integrity of the overall national fiscal framework, it may be appropriate for the SAI to consider what safeguards are in place to ensure the professional quality and character of such forecasting processes – e.g. whether through the establishment of an Independent Fiscal Institution (IFI) or through administrative assurances for the independence of forecasting units within ministries of finance.

Top-down budgetary management and planning: alignment with strategic priorities

- SAIs could assess whether the processes and procedures in place facilitate the alignment of the annual budgetary/resource-allocation process and with identification, prioritisation, resourcing and monitoring of governmental strategic objectives.

- SAIs could communicate key results from previous audits, evaluations and other assessments during the policy-formulation stages of the budget process and engage with administrative, political and Legislative counterparts in this regard.

The PBG emphasise the importance of an inter-connected, holistic and clear approach to budgetary planning and management, to ensure the quality of resource allocation and alignment with the policy priorities of government. What is envisaged in a policy-making cascade in which there is clarity from the outset about the level of resource availability for different sectors; there is a strong impetus within each sector to identify priorities so that resources can be targeted to best effect within each sector; and review/monitoring processes that form an integral part of the policy cycle so that messages about performance and delivery can feed back into subsequent resource-allocation phases.

At a general level, an SAI role can be identified in assessing whether such a coherent overall framework exists, so as to facilitate an effective, strategic and results-focused deployment of limited resources. It should be noted that an alignment of this nature extends beyond the annual budget-formulation window and encompasses also the results of monitoring and evaluation.

More specifically, SAIs can play a role in the ex ante policy formulation stage by ensuring that the results of previous financial audits, performance audits and other assessments are made available to policy-makers at an early stage. For it to be most effective, this approach requires a clear communication of key findings by the SAI in a manner that is comprehensible and relevant for policy-makers, as well as an appreciation on the part of policy-makers (both administrative and Parliamentary) of the value of the SAI contribution and its relevance for policy design. For example, the Federal Court of Audit in Germany is present in the initial discussions between the Federal Ministry of Finance and line ministries when negotiating initial budget requests, and is also called upon by the Bundestag Budget Committee when debating the draft budget from the Federal Government. In this way its critical perspective and experience can be brought directly to bear on the budget negotiations.

Medium-term aspects of budgeting

- SAIs could assess whether there is an effective framework in place for guiding the annual process of resource allocation by reference to multi-annual budgetary constraints, fiscal plans and strategic priorities/objectives of government.
As discussed above, the multi-annual character of budgeting has moved to the forefront of budgetary practice over recent years, and the annual budgetary process has increasingly come to be viewed as an element within the longer time horizon during which public sector outcomes can most realistically be planned and assessed. A growing number of OECD countries have developed medium-term budgetary frameworks (MTBFs) and medium-term expenditure frameworks (MTEFs) to make the multi-annual aspects of budgeting explicit, and more directly manageable. These aspects relate both to compliance with fiscal constraints and to achievement of multi-year strategic objectives.

However, there is often a sharp distinction between the ostensible attributes of a MTEF (e.g. routine presentation of multi-annual projections) and the substantive effect of a MTEF (especially – whether the framework effectively guides and constrains multi-annual resource allocation, and how easily the expenditure ceilings can be varied from one year to the next). In assessing whether an effective MTBF or MTEF is in place, an informed, qualitative judgement is called for, and this is an area where an SAI could have a value-added role to play, and some already have. The Portuguese SAI identifies and assesses emerging trends – economic, social, technological and environmental – that have the potential to impact the public administration in the medium to long term. For example, it has identified demographic issues as being a key structural constraint to economic development and financial sustainability in Portugal, given its ageing population and the impact on the sustainability of its social security system and national health service.\(^1\)

**Capital budgeting**

- SAI could assess the effectiveness of the national framework for identifying, evaluating and prioritising capital investment projects by reference to the economic, social and environmental needs of the country.
- SAI could assess whether there are sufficiently robust procedures and technical capacity in place to evaluate effectively the various modalities for procuring capital investment projects, including PPPs, and to ensure that the selection of modality is properly grounded on value-for-money considerations.

Capital budgeting is one particular dimension of multi-year budgeting with a distinct set of attributes. Capital budgeting is concerned with the creation of an asset with a multi-annual lifespan (typically of five years or more, although the lifespan can be much longer in the case of public infrastructure assets). This area of budgeting also corresponds closely with capital asset accumulation in the private sector, and a range of international norms have been established in areas such as appraisal (e.g. cost-benefit analysis) and depreciation.

Given the technical nature of the various appraisal methodologies and accounting decisions, and the potentially significant implications for the cost-effective use of public funds, this area represents a natural area of scrutiny by an SAI. Moreover, decisions about capital infrastructure need to be grounded in a comprehensive assessment of the economic, social and environmental needs of a country.

Finally, in this regard, over recent years there has been an increasing focus in many OECD and other countries on the potential application of PPPs and related non-traditional methodologies for procuring capital investment projects. Experience has shown that procedural faults and lack of technical professional capacity can have serious repercussions for the achievement of value for money from PPPs, whether through an institutional or political bias toward the use of PPPs, a misunderstanding of the use of the “public sector benchmark” or an under-appreciation of the potential contingent liabilities and other fiscal risks that a PPP may entail. To this end, SAI could offer useful
assessments of PPPs, identifying risks associated with them, as the SAI of Poland did in a 2012 audit regarding the implementation of PPPs.¹⁴

Budgetary openness, transparency and inclusiveness

- SAIs could publish the results of key audit findings and of other technical assessments in a format and in language that is accessible to citizens, including through clear and easily understood publications and on-line media.

- SAIs could engage directly with citizens, NGOs and Civil Society Organisations (CSOs), including through the use of “expert panels” in some circumstances, where this can provide additional useful evidence in support of an audit or assessment of programme efficacy.

- SAIs could maintain a close working and reporting relationship with Parliament or a key committee of Parliament to ensure two-way communication with public representatives on audit findings and policy implications.

- SAIs could foster budgetary transparency in the Executive.

The OECD has long advocated budget transparency and openness in the interests of ensuring that citizens and their representatives in Parliament can understand and engage with a budgetary process that is in their interests. The OECD Best Practices for Budget Transparency provide clear and practical guidance in this regard, and could form the basis for a qualitative assessment by the SAI (see also under “Comprehensiveness of budgetary information and accounting” below).

Given the role of the SAI as one key actor in the budget process, one way in which the SAI can contribute to budget transparency is by ensuring that the key results of audit reports and other technical assessments are made available to citizens generally in a format and in language that are accessible. In many advanced OECD countries, accessibility can be achieved through on-line media; in more developing countries with populations that are poorly-connected to the internet, accessibility can mean making a simple publication available in local citizen centres or through public libraries. For example, the Comptroller & Auditor General of India publishes short, non-technical, user-friendly summaries of its audit reports (sometimes referred to as “noddy books”) aimed at a general audience.

In addition, the SAIs of some countries have developed innovative approaches to engaging directly with citizens, with a view to improving the quality and the evidence base for the audit process – in particular through accessing local knowledge and experience that is not normally available to an SAI. Such a direct citizen-centric engagement may also have intangible effects in terms of promoting trust in government as a whole. For example, the SAI of the Philippines has pioneered a “citizen participatory audit” process which engages with civil society organisations – on the basis of a formal memorandum of agreement – as partners in the auditing of particular infrastructure projects, beginning with projects aimed at providing protection from flooding. In Brazil, a country with a tradition of mobilising citizens in various aspects of the budget process, the SAI has developed representative “expert panels,” which help to inform the SAI of how to engage with citizens. This practice has now been institutionalised as part of the SAI’s manual for the conduct of performance audits. A new stocktake report presented by the Effective Institutions Platform in collaboration with the OECD, explores in further detail the opportunities for SAI engagement with citizens.¹⁵

Of course, the primary means of ensuring that citizens’ viewpoints are taken into account via elected representatives in Parliament. A close working relationship between the SAI and the
Parliament, or a dedicated committee of Parliament, is therefore a hallmark of an effective SAI in many OECD countries.

**Comprehensiveness of budgetary information and accounting**

- SAIs could assess whether the budget document provides a comprehensive, accurate and reliable account of the position of the public finances, including by reference to the treatment of off-budget items, security information and the enumeration/quantification of fiscal risks.

- SAIs could audit whether the budgetary information conforms with stated accounting standards and communicate the resource-management and policy implications of the accounting information in particular areas, where this may not be obvious.

- SAIs could assess whether the existing public accounting framework is fit for purpose in informing citizens, Parliament and key stakeholders of the true position of the public finances, and providing expert advice – including by reference to international standards and practices – on how the national accounting framework might be modified and improved.

As outlined above, the OECD *Best Practices for Budget Transparency* provide useful guidance on the information that should be listed in the budget documentation. As underlined also in the PBG, the budget documentation should include a comprehensive account of all expenditures and revenues, and no figures should be omitted or hidden. The SAI, in the context of an overarching qualitative assessment of the soundness of the budget framework, would be in a position to provide an informed view in this regard. This is particularly important in those areas where there is a marked asymmetry of information between the government and citizens, and where assurances from technically competent and independent experts such as those in the SAI can play a key role in underpinning trust, such as: the fair treatment of off-budget items; appropriate (and not excessive) recourse to security restrictions on budget transparency; proper quantification and listing of the likely costs and benefits associated with PPPs. In addition, an assessment and quantification of contingent liabilities and other fiscal risks (as discussed in more detail below) would also be relevant in this overall context.

In addition, a number of countries have committed themselves to moving from traditional cash-based budgeting and public accounting methodologies toward more accrual-based approaches such as those laid down by IPSAS. In principle, accrual-based approaches can have some advantages in making explicit the full longer-term financial implications of budget decisions and policy programmes. A potential disadvantage is the increased complexity relative to simple cash-based approaches for public finance non-specialists. Accordingly, there is an important role for the SAI in assuring non-specialists of the accuracy and reliability of budgetary accounting, and indeed of communicating the implications of these accounts in understandable terms.

Related to this point, SAIs could potentially have a role to play in informing the national debate on the choice of accounting standards to use, as they are doing in Europe around the possible implementation of European Public Sector Accounting Standards. SAIs are uniquely well-informed in assessing whether an existing traditional accounting framework is “fit for purpose” in informing the citizens and stakeholders about the real position of the public finances, and in providing recommendations – tailored to national circumstances – on what elements of the accounting framework might be modified, perhaps, to reflect international experience or to conform with international accounting standards.
Ensuring quality of budgetary implementation and delivery

- SAIs could assess the effectiveness of the procedures in place for managing, monitoring and overseeing financial allocations, by reference to budgeted appropriations during the phase of budget execution; and the appropriateness of mechanisms in place to facilitate budget flexibility during this phase.

- SAIs could assess whether there are adequate mechanisms in place to generate and capture quality performance information during the phase of budget execution, and advise on how these mechanisms could be improved.

Once resources are allocated and made available for use, it is a matter for budget managers (i) to ensure that resources are allocated to the areas authorised (ii) to ensure that the resources are properly deployed in pursuit of the objectives specified and (iii) to observe the principles of economy and efficiency in so doing. In most OECD countries, the oversight of budget execution is primarily the responsibility of a central financial office or co-ordinating unit within a line ministry (vis-à-vis its implementing agencies) or of units within the ministry of finance, which “shadow” the spending of the line ministries.

Monitoring of budget execution is a basic budgetary function not just in terms of keeping account of financial outlays, but also in assessing whether appropriate activities are being generated and objectives achieved. Among the tools at the disposal of budget managers, in responding with agility to the issues arising during the implementation phase, are virement (the latitude to switch funds from one budget line to another) and carry-over (the ability to bring unspent funds from the budget year forward into the following year). While these tools have the potential to promote better value for money, e.g. by discouraging managers from using up all of the allocation when it might be used elsewhere (or in a different time period) to better effect, they are also open to misuse and need to be regulated carefully.

Moreover, the budgetary implementation phase is also the phase when much useful non-financial information could – or should – be generated to assist in the process of management reporting and performance evaluation, as outlined in more detail in the foregoing section. Traditionally, these aspects have not been highlighted during the implementation phase, which has been characterised by a focus on financing service activity. As outlined previously, modern budgeting practice envisages a policy-making cycle in which the data generated during the budget execution phase are used in ongoing evaluation and review work, which in turn feeds into the subsequent round of resource allocation and prioritisation. In each of these areas, there is a potential value-added role for the SAI in assessing the extent to which the basic/traditional and more advanced/modern governance aspects of budgetary implementation are being put in place.

Identification and management of longer-term sustainability and other fiscal risks

- SAIs could assess the integrity and quality of the systems in place for assessing long-term fiscal sustainability, including the effectiveness of these systems for identifying clear policy messages of relevance for the policy-making process.

- SAIs could assess the overall risk-management system within system of public and budgetary governance – including as regards the identification, management and mitigation of fiscal risk.

As outlined above, the management of fiscal risks is an area of budgetary practice that is receiving increased attention in the light of the experiences of the global economic and financial crisis.
Related to this is the question of longer-term fiscal sustainability (see above) taking account of demographic and other trends.

In several OECD countries, independent fiscal institutions (IFIs) such as fiscal councils are assigned a role in assessing long-term sustainability; in other countries, such an assessment may be carried out by the ministry of finance or its equivalent. It will normally be beyond the remit of an SAI to conduct such an assessment on its own capacity. However, one common shortcoming in national processes for assessing long-term sustainability is the weak connection between longer-term fiscal issues and the full range of near-term policy messages. In the context of an overall assessment of the quality and soundness of a national fiscal framework, an SAI with foresight capability may be in a position to assess whether the overall approach for identifying long-term sustainability issues (i) is institutionally robust and (ii) allows for the discernment of near-term policy signals.

In regards to fiscal risks more generally, including shorter-term risks: the assessment of risk-management frameworks should fall within the normal range of activities of an SAI; and in the context of quality budgetary governance, it is natural to consider whether such risk assessment such extend beyond traditional areas of financial management to include broader fiscal risks. This area is related to the question of comprehensive, full and fair budget accounting, which in modern budgeting goes beyond the central government sector to include the full spectrum of assets, liabilities and risks arising from all public agencies, state-supported companies and indeed private bodies in strategic sectors of the economy.

Promoting integrity and quality in budgetary management

- SAIs could audit the annual public accounts of public bodies and of the government as a whole, as to their accuracy, and probity and the effectiveness of the public financial management systems in place.

- SAIs could maintain a public log of the key audit findings and recommendations in respect of each public body and of the government as a whole, and update the log in reference to the actions taken to address the issues arising.

- SAIs could assess the soundness and quality of the overall national framework of budgetary governance in promoting optimal resource allocation, implementation, evaluation and review, including by reference to international norms and practices; and providing advice on how the overall framework might be improved.

The core traditional role of the SAI is of fundamental importance in ensuring the financial probity of the public budgeting system, the accuracy and reliability of public accounts, and the effectiveness of internal governance arrangements including internal audit. This primary quality-assurance role should not be undermined or displaced in any move to extend the breadth of the SAI involvement in public budgeting.

One way of ensuring that audit findings and recommendations have a heightened visibility and impact is by maintaining a log of the key audit findings and tracking/updating the progress made by public bodies in addressing these issues. This practice, adopted for example by the Montenegrin SAI, has proven effective in leveraging the high public standing of the SAI and maintaining pressure on the system of public administration to address issues arising. This issue is also relevant in promoting the transparency of the budget framework (as discussed above), of which the SAI is an integral part.
As outlined in the preceding sections, there is also an overarching potential role for the SAI beyond core PFM issues, in providing an informed critique of the quality of the overall budgeting framework of budgetary governance, based on the modern understanding of how the elements of budgetary governance are inter-related.

**Performance, evaluation and value for money**

- SAIs could audit the performance of particular programmes as to their effectiveness, efficiency and economy.

- SAIs could assess the quality of performance information (including Key National Indicators and similar models where these are used) used in performance-related budgeting processes, as to its quality, availability and auditability; and advise on how this information could be improved.

- SAIs could assess the soundness of the programme logic models as to their effectiveness in making linkages between resources, results and strategic objectives; as to their evidential basis; and in place in performance-related budgeting processes, as to their evidential basis, and as to the quality of processes in place for developing such models.

SAIs have an established tradition of conducting value-for-money audits and performance audits, and, indeed, INTOSAI has developed standards and principles in this area (ISSAI 3000, 3100). When done effectively, performance audits can generate useful and relevant information that bears directly on the resource allocation process. Traditionally, performance audits have focussed upon issues of economy (i.e. minimising resources consumed), efficiency (i.e. getting the most out of the limited resources available) and effectiveness (i.e. achieving the intended policy objectives).

The challenges faced by an SAI in conducting a performance audit are the same as those faced by public administrations generally in this regard: namely, identifying clearly the objectives of a public programme, identifying and obtaining performance information that is useful and relevant in assessing whether these objectives are being achieved, and gauging whether the proximate objectives (outputs) of a policy programme are logically and efficiently connected to the higher-order objectives (outcomes) of public policy.

As outlined above, countries tend to have difficulty establishing performance information of sufficient quality, robustness and reliability to serve as a sound basis for informing resource allocation decisions. It seems likely that, due to resource and other constraints, and to issues of prioritisation within the legislative mandate, SAIs have not in the past been able to devote the same level of attention to the performance-related aspects of budgeting as to the core financial management aspects. As a result, the discipline and rigour that the audit perspective has instilled in the financial area has not been matched by corresponding levels of quality in the performance sphere. In other words, there has not up to now been the same pressure on administrations to make performance information ‘auditable’ – available, measurable, consistent over time, clearly related to financial allocations, attributable to policy objectives etc. On this theory, a stronger engagement by the SAI on performance-related aspects of budgeting should contribute to higher levels of quality and robustness of performance information frameworks, and thereby increase its relevance and usefulness to policy-makers. For example, the French SAI takes performance, evaluation and value for money into account in most of its reports, and in particular, produces an annual report (*Résultats et gestion budgétaire de l’État*) on the results and management of the state budget execution that includes an assessment of programmes and policies matched against objectives and performance criteria. It also contains a set of recommendations as well as tracking progress in implementing previous years’ recommendations.
Apart from conducting performance audits on the traditional model, an enhanced role for SAIs in promoting quality in this area of budgeting would involve a more fundamental, critical assessment of whether the performance indicators chosen correspond properly to public policy objectives. In other words, the “programme logic model” – the rationale for linking financial inputs for given activities, production of certain outputs and achievement of desired outcomes – should it be criticised about its evidential basis and robustness. In several countries, Key National Indicators have been laid down as a basis for setting and monitoring overall development and strategic objectives of government, and INTOSAI has been actively considering ways in which SAIs can support the quality and impact of the Key National Indicators model. The technical capacity within ministries and agencies to develop such models is also of critical importance: in the absence of robust professional capacity, there will inevitably be a risk that programmes may be designed and justified by reference to prejudices or populist appeals rather than by reference to evidence.

Moreover, all of the above observations apply with equal force to tax expenditures as they do to programme expenditures. Indeed, as set out in the OECD Best Practices for Budget Transparency (section 2.2, OECD, 2002), analysis and discussion of tax expenditures should in principle be ‘mainstreamed’ as part of a discussion of resources in a particular sectoral area. SAIs could play a role in monitoring and, in appropriate cases, challenging whether this principle is being observed satisfactorily in the interests of an informed overall discussion of resource allocation. In the case of Brazil, its SAI has increased its efforts to improve the quality and effectiveness of its engagements in this area, in recognition of its fundamental role in the external control of tax collection policies in Brazil (TCU, 2011).
Notes

12 The World Bank (2013) proposes some useful distinctions among MTEFs, in ascending order of sophistication and detail: medium-term fiscal frameworks (MTFFs, which focus upon fixed fiscal limits for budget-setting), medium-term budget frameworks (MTBFs, which aim to incorporate national and sectoral strategies within the MTFF) and medium-term performance frameworks (MTPFs, which include systematic use of performance information within funding envelopes).

13 Information provided by the SAI of Portugal through a peer review process, May 2014.

14 Ibid.

15 The Effective Institutions Platform’s forthcoming Supreme Audit Institutions and Citizen Engagement: a Stocktake is available for download at: http://www.effectiveinstitutions.org/.
References


6. REGULATORY POLICY

Effective regulatory governance seeks to maximise the influence of regulatory policy to deliver regulations that will have a positive impact on the economy and society, and which meet underlying public policy objectives. Regulations are indispensable to the proper functioning of economies and societies. They create the “rules of the game” for citizens, businesses, government and civil society. Regulations underpin markets, manage the risk of market failure and protect the rights and safety of citizens. In addition, “regulation inside government” seeks to minimise the use of resources for internal government activities while increasing the quality of public goods and services, as well as the effectiveness of public agencies. At the same time, regulations are not costless. Businesses complain that red tape holds back competitiveness while citizens complain about the time that it takes to fill out government paperwork. Regulations can also have unintended costs, that arise when, for example, they become outdated or inconsistent with the achievement of policy objectives.

This section focusses on how an SAI can add value to regulatory governance by placing a specific focus on economic regulation. The discussion is guided by the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance as well as various International Standards of Supreme Audit Institutions – including ISSAI 5230 “Guidelines on Best Practice for the Audit of Economic Regulation”. Future analysis could equally be broadened to focus on other types of regulation (e.g. environmental and social) – as well as regulation inside government. Indeed, the INTOSAI Working Group on Environmental Auditing (2012) “Improving National Performance: Environmental Auditing Supports Better Governance and Management” is explicit that SAIs can play a role in “providing practical, objective, and rigorous examinations of how environmental and sustainability programs, laws, regulations, and targets are managed, implemented, and monitored at the national and international levels”. While examination of regulation inside government is outside the scope of this section, it is dealt with, in part.

This section compliments INTOSAI standards by drawing upon the 2008 OECD indicators of regulatory management systems (OECD, 2009) and a 2012 OECD survey of regulatory policy evaluation, which included specific attention to the role of SAIs in evaluating the performance of regulatory management tools and programmes. The data are supplemented by desk research of publicly available audit reports on SAI websites and informal consultation with the SAIs of Brazil, the United Kingdom and the United States.

What is regulatory governance?

The OECD model of regulatory governance is founded on the view that assuring regulatory quality requires an integrated and dynamic approach to the deployment of regulatory institutions, tools and processes. Governments must be actively engaged in assuring the quality of regulation, not reactively responding to its failures. It is often found in an explicit regulatory policy that there is a permanent need to ensure that regulations and regulatory frameworks are justified and achieve policy objectives. It helps policy-makers to reach informed decisions about what to regulate, whom to regulate and how to regulate. Such a policy needs to be adopted at the highest political level, and its importance should be adequately communicated across the administration and to lower levels of the government. Regulatory governance also recognises the roles of a wider domain of players including the Legislature, the judiciary, sub-national and supranational levels of government and international standard setting activities, including those of the private sector.
Attempting to classify neatly any approach to governance is a challenge. The OECD has developed and reassessed principles on regulatory policy and governance, drawing on over twenty years’ experience. These principles – the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance – represent aspirational goals for governments to pursue. The principles are the results of careful assessments of best practices identified by the Regulatory Policy Committee through two decades of policy dialogue. The Recommendation builds upon previous OECD instruments on regulatory policy, including the 1995 Recommendation of the OECD Council on Improving the Quality of Government Regulation, Policy Recommendations on Regulatory Reform (1997) and Guiding Principles for Regulatory Quality and Performance (2005). The principles and guidelines aim to share the results of the OECD countries’ experience, and to foster good practices in terms of processes for preparing and issuing new regulations as well as tools and policies to improve the stock of existing regulations (Box 6.1).

A growing understanding of the need for effective regulatory governance has led OECD members and many other countries to articulate their own regulatory policies (Figure 6.1). However, while indicators reveal the broad lines of regulatory policy development, closer examination reveals that a country’s regulatory policy often consists not of one but of a series of often disjointed regulatory policies. For example, policies to tackle administrative burdens in existing regulations may not be fully joined up with policies for the ex ante impact assessment of new regulations.

Figure 6.1. Adoption of explicit regulatory policy in OECD member countries and EU

Notes: The sample includes 31 jurisdictions for 2008 and 2005. For 1998, 27 jurisdictions are included as no data were available for the European Union (EU), Luxembourg, Poland and Slovak Republic.
Box 6.1. 2012 Recommendation of the OECD Council on Regulatory Policy and Governance

The Council recommended that Members:

1. Commit at the highest political level to an explicit whole-of-government policy for regulatory quality. The policy should have clear objectives and frameworks for implementation to ensure that, if regulation is used, the economic, social and environmental benefits justify the costs, the distributional effects are considered and the net benefits are maximised.

2. Adhere to principles of open government, including transparency and participation in the regulatory process to ensure that regulation serves the public interest and is informed by the legitimate needs of those interested in and affected by regulation. This includes providing meaningful opportunities (including online) for the public to contribute to the process of preparing draft regulatory proposals and to the quality of the supporting analysis. Governments should ensure that regulations are comprehensible and clear and that parties can easily understand their rights and obligations.

3. Establish mechanisms and institutions to actively provide oversight of regulatory policy procedures and goals, support and implement regulatory policy, and thereby foster regulatory quality.

4. Integrate Regulatory Impact Assessment (RIA) into the early stages of the policy process for the formulation of new regulatory proposals. Clearly identify policy goals, and evaluate if regulation is necessary and how it can be most effective and efficient in achieving those goals. Consider means other than regulation and identify the trade-offs of the different approaches analysed to identify the best approach.

5. Conduct systematic programme reviews of the stock of significant regulation against clearly defined policy goals, including consideration of costs and benefits, to ensure that regulations remain up to date, cost justified, cost effective and consistent and deliver the intended policy objectives.

6. Regularly publish reports on the performance of regulatory policy and reform programmes and the public authorities applying the regulations. Such reports should also include information on how regulatory tools such as RIA, public consultation practices and reviews of existing regulations are functioning in practice.

7. Develop a consistent policy covering the role and functions of regulatory agencies in order to provide greater confidence that regulatory decisions are made on an objective, impartial and consistent basis, without conflict of interest, bias or improper influence.

8. Ensure the effectiveness of systems for the review of the legality and procedural fairness of regulations and of decisions made by bodies empowered to issue regulatory sanctions. Ensure that citizens and businesses have access to these systems of review at reasonable cost and receive decisions in a timely manner.

9. As appropriate, apply risk assessment, risk management and risk communication strategies to the design and implementation of regulations to ensure that regulation is targeted and effective. Regulators should assess how regulations will be given effect and should design responsive implementation and enforcement strategies.

10. Where appropriate, promote regulatory coherence through co-ordination mechanisms between the supranational, national and sub-national levels of government. Identify cross-cutting regulatory issues at all levels of government, to promote coherence between regulatory approaches and avoid duplication or conflict of regulations.

11. Foster the development of regulatory management capacity and performance at sub-national levels of government.

12. In developing regulatory measures, give consideration to all relevant international standards and frameworks for co-operation in the same field and, where appropriate, their likely effects on parties outside the jurisdiction.

**The regulatory governance cycle**

Effective regulatory governance involves the co-ordination of regulatory actions, from the articulation of policies and the design of regulations, to their implementation and enforcement, to closing the loop with monitoring and evaluation in order to inform the development of new regulations and the adjustment of existing regulations. Figure 6.2 depicts an ideal state in which the different actions of effective regulatory governance are co-ordinated. It highlights a number of critical points: (i) policy making is closely linked to regulatory design but the two are not synonymous with one another; (ii) regulatory governance is a dynamic and continuous process; and (iii) integrating and joining up the various functions in not just a matter of processes, but of institutions.

**Figure 6.2. The regulatory governance cycle**

![Diagram of the regulatory governance cycle]

*Note: Different jurisdictions may use different vocabulary to express the functions depicted in the figure, which are not always easily translatable. They are so closely associated with the country context that some terms take on a country specific meaning. For example, in Europe, enforcement may also be referred to as supervision, inspection or execution.*


Of particular significance in the depiction of the policy cycle in other parts of this framework is the difference between policy formulation and regulatory design. Indeed, there are two distinct steps: defining which policy instrument is appropriate and, if regulation is the policy option that offers the greatest net benefit, providing the attention to assure necessary regulatory quality.

Not every policy issue can be solved by government. The government should only intervene if there is a genuine need for it to take responsibility for the problem. There are a number of situations that justify direct government intervention such as market failure (e.g. imbalance in market power generating inefficient outcomes or where information is inherently asymmetric) where there are externalities emerging from the economic activities of one organisation on another. However, government policy may be more effectively achieved through no regulatory action whatsoever (e.g. information and education campaigns, market-based instruments including taxes and tradable permits), or even the better enforcement of existing regulation. Where regulation is the best solution, there are multiple approaches such as quasi-regulation (e.g. codes of practice, guidance notes, accreditation...
schemes), co-regulation (i.e. where industry develops and administers its own arrangements and the government provides the underpinning regulation to enforce it) or explicit government regulation — though each option is not able to manage risks acceptably in public policy making.

Regulatory design refers to the explicit design of regulation, i.e. once a decision has been taken that regulation is the policy option that offers the greatest net benefit. Regulatory design ensures that regulation is most effectively, and cost-effectively, designed to support the policy objective, and that a clear implementation and evaluation plan is established from the outset. Regulatory cost-effectiveness relates to all of the costs attributable to the adoption of regulatory requirements. Among these costs, specific attention often focuses on what compliance costs are, i.e. those incurred by business or other parties at whom regulation may be targeted in undertaking actions necessary to comply with regulatory requirements (OECD, 2014). A clear implementation and evaluation plan ensures that there is a shared understanding of how the governments will ensure compliance and enforce the regulation, and how the continued relevance of government regulation will be assessed.

**Challenges affecting regulatory governance**

Reviews, surveys and roundtables on regulatory reform have confirmed that the 2012 *Recommendation of the OECD Council on Regulatory Policy and Governance* is very much aspirational and that there is much heterogeneity of a country’s achievement of the spirit of this recommendation. The scope for improvement in adopting good practices, in terms of processes for preparing and issuing new regulations as well as tools and policies to improve the stock of existing regulations, is illustrated by the OECD’s periodic surveys of indicators of regulatory management systems. The most recent survey, in 2008, demonstrated that there had been progress but also that there remained much that could be done (OECD, 2009), for example in the extent of regulatory impact assessment (Figure 6.3), the use of *ex post* review and evaluation (Figure 6.4) and the mechanism for co-ordination of regulatory policy between different tiers of government (Figure 6.5).

**Figure 6.3. Extent of regulatory impact assessment processes in OECD member countries & the EU (2008)**

*Notes: This graph summarises information about the extent of RIA processes in OECD member countries. It does not gauge whether these processes have been effective. The vertical scale is a composite on a scale of 0 to 28 of a range of measures of aspects of the regulatory impact assessment system in each country.*

**Figure 6.4.** Mechanisms for *ex post* regulatory review in OECD member countries and in the EU (2008)

*Notes: This graph summarises information about dynamic processes of update and evaluation of existing regulations in OECD jurisdictions. It does not gauge whether the efforts made by these countries have been effective. The vertical scale is a composite on a scale of 0 to 8 of a range of measures of the *ex post* regulatory review mechanisms in each country.¹⁸


**Figure 6.5.** Multi-level co-ordination mechanisms for regulatory policy in OECD member countries

*Notes: This figure summarises information about the existence of formal co-ordination mechanisms between national/federal and state/regional governments with respect to regulatory policy. It does not provide information on their effectiveness. Vertical scale is a composite on a scale of 0 to 5 of a range of measures of aspects of the formal co-ordination mechanisms in each country. This question is not applicable to the European Union.¹⁹

Assessing indicators on the implementation of regulatory policy programmes and tools over time can provide an overview of the progress made toward full implementation of a coherent and effective regulatory policy. Indicators can also help to demonstrate measurable improvements that can be attributed against particular activities, and help highlight areas for improvement. While half of OECD members publish performance indicators on administrative simplification and burden reduction programmes (17) and one-third on the performance of RIA (11), only five countries have indicators for consultation (Table 6.1). However, a number of countries indicated that they have performance indicators for several regulatory tools and programmes available internally only. Most of these internally available indicators refer to the functioning of RIA (9) and consultation (9), some to administrative burden reduction/simplification programmes (8), and only very few to ex post analysis (3).

More broadly, beyond tools and processes, emerging themes and challenges of regulatory policy appear to centre on four essential areas:

- Closing the regulatory governance cycle: Regulatory implementation and enforcement remain the weakest link in regulatory governance. There is still large potential to improve inspections and use new approaches to regulatory design – such as behavioural economics – to foster better compliance.

- Empowering the players of regulatory governance: The landscape of regulatory players is rich and there is no blueprint or ideal institutional arrangement for regulatory reform. However, there are missed opportunities in the institutional set up of countries to promote regulatory reforms. There is untapped potential of traditional actors and the emerging state and non-state actors, including at the international level.

- Promoting evidence-based policy: Many countries are still in the process of developing the tools that can support the identification of the trade-offs, costs and benefits of alternative regulatory reforms upon which countries can base their societal choices. The evidence on the impact of using alternative regulatory policy tools and approaches remains very elusive.

- Addressing better regulation beyond the border: Regulators cannot afford to act in isolation anymore. They are impacted by the regulatory activity of other jurisdictions. Their own activity may have direct or indirect effects on trade and investment flows. However, ensuring efficient regulatory policy in an interconnected world remains a challenge, and one also related to the limited spread of regulatory policy beyond a handful of OECD countries.
SAIs’ contributions to good regulatory governance

A wide range of actors are involved in the regulatory governance cycle, including Legislatures, regulatory oversight bodies, regulatory bodies and other tiers of government as well as non-government actors (e.g. private sector and civil society). However, SAIs are not typically considered by the Executive as a key actor at any particular stage of the regulatory governance cycle. The Executive from only five out of 24 OECD member countries considered that SAIs have a role in

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**Table 6.1. Countries publishing indicators by policy tools and programme in OECD countries and the EU (2012)**

<table>
<thead>
<tr>
<th>Publicly available indicators on the functioning of:</th>
<th>Regulatory Impact Analysis (RIA)</th>
<th>Consultation practices on draft regulations</th>
<th>Ex-post analysis/reviews of existing regulations</th>
<th>Administrative simplification and burden reduction programmes</th>
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Source: OECD Survey on Regulatory Policy Evaluation (database).
evaluating regulatory governance (Table 6.2). The notion that SAIs are only involved in the evaluation stage of the regulatory governance cycle would most likely be reasserted by SAIs themselves. SAIs do not normally have a role in deciding questions of policy and design, which are matters for the Executive and legislative branches that have the electoral mandate to do so. Moreover, SAIs are also often concerned that to advise on matters of policy, design and implementation might affect their real or perceived independence when conducting evaluation. The potential role of SAIs may also be affected by the existence of other types of (sometimes independent) oversight bodies focussed on regulatory policy.

| Table 6.2. The reported actors at each stage of the regulatory cycle in OECD member countries |
| Number of countries reporting involvement of actors at the stages |
| Parliament | 7 | 6 | 2 | 4 |
| Government collectively (e.g. cabinet or president) | 19 | 6 | 4 | 6 |
| Individual ministries acting within their policy areas | 15 | 20 | 14 | 15 |
| National government body co-ordinating or overseeing regulatory proposals | 17 | 20 | 6 | 10 |
| Regulators | 3 | 9 | 17 | 9 |
| Supreme audit institution (SAI) | 0 | 0 | 0 | 5 |
| Other (subnational) tiers of government | 4 | 7 | 7 | 5 |
| Civil society (business, citizens, etc.) | 3 | 8 | 0 | 3 |


A further reason why SAIs may not be perceived to have such a prevalent role in the regulatory governance cycle is because not all of these actors are subject to audit by the SAI. For example:

- SAI audit work is normally focussed on the activity of the Executive branch. Decision making by the Legislature and civil society is not normally within the scope of an SAI’s review.
- Regulatory enforcement is often the responsibility of a body separate from the ministries that develop policy, and design and evaluation is often a joint activity between both ministries and regulators. This separation can reflect a deliberate intention to ensure regulators are independent of government, for example in the case of economic regulators of infrastructure industries.
- Independent national regulators may be set up in a form that means that they are not subject to audit by the SAI. For example, in the United Kingdom, the statutory regulators of professionals working in health services are not supported by public funds and appoint their own commercial auditors.
- Depending on the public audit arrangements in place, public bodies in sub-national tiers of government may not be audited by the SAI. This is frequently the case in federal countries (e.g. Australia, Canada, Germany, Mexico and the United States).

However, in relation to the issue of sub-national tiers of government, the absence of an SAI mandate need not be a limitation on appropriate scrutiny. SAIs need to be alive to the constitutional implications of scrutinising, on behalf of the national Legislature, the exercise of power by sub-national tiers of government. Typically, alternative forms of audit, and accountability to an elected
body, have been provided at the sub-national level. Often, however, sub-national tiers are implementing regulation designed to a greater or lesser degree by national bodies. Where this is the case, the sub-national tiers concerned may have the information needed to make an assessment of the performance of the national bodies – for example, its design of the regulations concerned and the policy choices made when they were designed. Accordingly, SAIs will need to be able to engage with sub-national tiers of government and their auditors, even when they are not the auditors themselves.

Ultimately, the role of SAIs in contributing to the regulatory governance cycle will depend on their mandate. The 2012 OECD survey on regulatory policy evaluation found that around half of the countries reported that their SAIs had a mandate to review regulatory management tools or programmes and just over a third reported that their SAIs had done so (Table 6.3).

| The audit office has... | the mandate to review regulatory management tools and/or programmes | actually undertaken a review of regulatory management tools and/or programmes | actually undertaken a review of the performance of regulators or inspection authorities |
|------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| Australia              | 1                                                              | 1                                                              | 1                                                              |
| Austria                | 1                                                              | 1                                                              | 0                                                              |
| Belgium                | 0                                                              | 0                                                              | 0                                                              |
| Canada                 | 1                                                              | 1                                                              | 0                                                              |
| Chile                  | 0                                                              | 0                                                              | 0                                                              |
| Czech Republic         | 0                                                              | 0                                                              | 0                                                              |
| Denmark                | 1                                                              | 1                                                              | 0                                                              |
| Estonia                | 1                                                              | 1                                                              | 0                                                              |
| EU                     | 1                                                              | 1                                                              | 1                                                              |
| Finland                | 1                                                              | 1                                                              | 0                                                              |
| France                 | 1                                                              | 1                                                              | 1                                                              |
| Germany                | 1                                                              | 1                                                              | 0                                                              |
| Greece                 | 0                                                              | 0                                                              | 0                                                              |
| Hungary                | 0                                                              | 0                                                              | 0                                                              |
| Iceland                | 0                                                              | 0                                                              | 0                                                              |
| Ireland                | 0                                                              | 0                                                              | 0                                                              |
| Israel                 | 0                                                              | 0                                                              | 0                                                              |
| Italy                  | 1                                                              | 1                                                              | 0                                                              |
| Japan                  | 0                                                              | 0                                                              | 0                                                              |
| Korea                  | 0                                                              | 0                                                              | 0                                                              |
| Luxembourg             | 0                                                              | 0                                                              | 0                                                              |
| Mexico                 | 1                                                              | 1                                                              | 0                                                              |
| Netherlands            | 1                                                              | 1                                                              | 0                                                              |
| New Zealand            | 1                                                              | 0                                                              | 1                                                              |
| Norway                 | 1                                                              | 0                                                              | 0                                                              |
| Poland                 | 0                                                              | 0                                                              | 0                                                              |
| Portugal               | -                                                              | -                                                              | -                                                              |
| Slovak Republic        | 0                                                              | 0                                                              | 0                                                              |
| Slovenia               | 1                                                              | 1                                                              | 1                                                              |
| Spain                  | 0                                                              | 0                                                              | 0                                                              |
| Sweden                 | 1                                                              | 1                                                              | 1                                                              |
| Switzerland            | 1                                                              | 1                                                              | 0                                                              |
| Turkey                 | -                                                              | -                                                              | -                                                              |
| United Kingdom         | 1                                                              | 1                                                              | 1                                                              |
| United States          | 0                                                              | 0                                                              | 0                                                              |
| OECD34+EU              | 17                                                             | 14                                                             | 8                                                              |

*Notes: 1 = Yes, 0 = No. Answers from Portugal and Turkey not available.
Source: Adapted from OECD Survey on Regulatory Policy Evaluation (database).
SAIs mandates not only cover the scope of their audit powers but the types of audit and non-audit engagements. Where regulatory bodies are subject to financial and compliance audit, engagement is likely to be regular and routine. Through these audit assignments, the governance of the regulatory body may potentially be a part of the audit subject matter – for example, as a way of checking whether expenditure is in accordance with relevant authorities. However, regulatory governance – the processes governing the formulation of regulatory policy and practice – is likely to be germane only to the extent that it gives rise to public expenditure.

Performance audit involves a greater degree of judgement and flexibility on the part of the audit, and it is possible to identify at least three ways in which it can examine regulatory issues:

- Performance audit of regulatory policy and governance (e.g. use of impact assessment, administrative burdens reduction programme, etc.);
- Performance audit of regulators (e.g. performance of regulatory in achieving their operational objectives, having regard to public sector resources consumed); and
- Performance audit of regulations (e.g. considering also, or instead, achievement of the benefits sought through the adoption of the regulations, and taking into account the consumption of non-public sector resources, such as compliance costs – the cost to regulated entities and others of complying with the regulations).

In addition, various SAIs have mandates to perform a range of other work. ISSAI 100 recognised that SAIs may carry out audits or other engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. These engagements may include reporting on the quantitative outputs and outcomes of the entity’s service delivery activities, sustainability reports, future resource requirements, adherence to internal control standards and real-time audits of projects (INTOSAI, 2013). SAIs continue to acquire such responsibilities as in Australia, for example. In December 2011, amendments to the 1997 Auditor-General Act provided the Auditor-General with the explicit authority to conduct audits of the appropriateness of agencies’ Key Performance Indicators and the completeness and accuracy of their reporting. Given the number of countries publishing indicators on the implementation of regulatory policy programmes and tools (Table 6.1), SAIs could also potentially audit the reliability of this information.

In 2001, INTOSAI adopted ISSAI 5230 “Guidelines on Best Practice for the Audit of Economic Regulation”. It followed recognition by the XVI INCOSAI that economic regulation of both privately and publicly owned businesses was a growing area of importance for governments and citizens. ISSAI 5230 defines economic regulation as the exercise by the state, either directly or indirectly, of control and influence over publicly and privately owned suppliers of services to consumers. Economic regulation addresses a number of objectives, some of which are in competition with one another. This could include, for example, protecting consumers from abuse by monopoly suppliers while seeking to ensure that suppliers are able to finance the provision of essential services, such as utilities, public transport and financial services, to specified standards. In the case of competitive markets, the economic regulator’s attention is focussed on securing adequacy and transparency in the provision of information by suppliers to assist consumers in making informed choices, monitoring the financial standing of suppliers and acting against anti-competitive practices. The range of business activities covered by economic regulators is vast, directly affecting the vital interests of all citizens (INTOSAI, 2001).
ISSAI 5230 highlights a series of key questions that SAIs are likely to need to address when examining the efficiency and effectiveness with which economic regulators set about their tasks. In recommending these guidelines, INTOSAI’s working group recognised that economic regulation was an evolving concept, practised in a variety of ways in different countries with different constitutions and at different stages of development. The working group, therefore, advised that the guidelines may need to be applied with regard for the particular circumstances of different countries with appropriate modifications to take account of the state of development there (INTOSAI, 2001). However, compliance with ISSAI 5230, and ISSAIs more broadly, is “voluntary” given that SAIs operate under different mandates and models, which are matters for each country to determine - though ISSAI 12 encourages SAIs to apply the ISSAIs and to assess their compliance with such provisions in a manner that is most appropriate for their respective environments (INTOSAI, 2013).

This section is based on a review of available information of work on regulatory issues carried out by SAIs in recent years. The examination focusses mainly on performance audit and distinguished between two main categories of audit:

- Audits of regulatory policy and governance. As regulatory policy and governance is usually formulated at a government level and applied across most or all of central government bodies, such audits tended to look across government as a whole. In some cases, audits focus detailed examinations on only a small number of ministries, for example, to reduce the cost of the audit.

- Audits of regulators or regulations. In most cases these concentrated on a single public body – typically the regulator – but some examined several, for example, when they needed to work together in the operation of the regulatory system.

In addition, this section reviews other work carried out by SAIs with a bearing on regulatory management such as good practice guidance and counselling work and testimony in Parliament. The examination subsequently assesses the extent to which SAIs’ work addresses each of the 12 principles set out in the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance and to the different phases of the regulatory governance cycle.22

**Audits of regulatory policy and governance**

Examination of SAIs’ websites identified 12 SAIs that had examined aforementioned regulatory issues since 2005, two of which23 had published reports on the subject within the last year.24 The 12 SAIs identified largely corresponded to the 13 SAIs reported in the 2012 OECD survey but the overlap was not complete. As can be seen from Table 6.1, most of the reports were in the areas of *ex ante* impact assessment or *ex post* administrative simplification. In addition, the most recent work by the SAI of the United States examined regulatory impacts, but the GAO had also examined international regulatory co-operation earlier in the year (GAO, 2014) and has built up a large and varied body of work on regulatory governance and policy over the years. In 2005 the Netherlands’ SAI had examined regulatory enforcement, and both SAIs also have done earlier work in either Impact Assessment or administrative simplification. Between 2008 and 2010 the United Kingdom’s NAO worked with the United Kingdom’s Better Regulation Executive to publish 12 reports on different regulators’ implementation of the recommendations of the 2005 Hampton Report on regulatory inspection and enforcement.
Audits of regulators or regulations

Some evidence on the extent of SAIs’ work on regulators is available from discussions at the VIII Congress of the EUROSAI in Lisbon in 2011. Prior to the Congress, a survey had been conducted of European SAIs. The survey focussed on SAIs’ work on economic regulators, such as competition authorities, financial regulators and regulators of infrastructure industries. Four key points of the survey are detailed below.

- All 23 SAIs responding reported that they had a mandate to conduct financial audits of regulators. But some restrictions were imposed on performance audits in the countries where the central bank has regulatory functions. In two countries the SAI was not allowed to audit the central bank at all, and in two others only the financial management could be audited.

- Financial audits were the most frequent types of audits of regulators but more than half of SAIs responding had conducted performance audits of regulators, reporting that SAIs had conducted a total of 50 audits between 2008 and 2010.

Box 6.2. Summary of recent SAI audit reports on regulatory policy and governance between 2005-2014 based on an Internet search

- Austria (Rechnungshof – Court of Audit): Verwaltungsreforminitiative - Register der Bundesverwaltung [Administrative Reform Initiative - the Federal Register]. Published in May 2012.
- Belgium (Cour des Comptes – Court of Audit): La stratégie de simplification administrative en Région wallonne [The Administrative Simplification Strategy in the Walloon Region]. Published in May 2014.
- European Union (ECA): Are Preferential Trade Arrangements Appropriately Managed?
- Finland (Valtiontalouden Tarkastusvirasto – National Audit Office of Finland): Evaluation of the Economic Impacts of Legislative Projects. Published 2011.
- Germany (Bundesrechnungshof – Court of Audit): Report by the Federal Performance Commissioner: Opinion on Steps Taken to Enhance Regulation and Improve Legislation in Place. Published in November 2010.
- Korea (BAI – Korean Board of Audit and Inspection): Regulatory Reform Policy 1125/2009
- Korea (BAI): Economic Regulation Reform 0813/2007
Most performance audits had been of infrastructure regulators, followed by competition and consumer protection regulators. Audits of financial regulators had been least common, possibly because of the limited mandate for SAIs in some countries to audit central banks which have regulatory functions.

Due to the specialised issues audited in regulatory authorities, some SAIs reported that they had contracted out the audits or used the services of external experts. A methodological challenge, also highlighted by some regulators, was that of determining indicators of outcomes that reflected regulators’ statutory or other duties; and recognising the fact that outcomes are usually influenced by other factors as well as the regulator’s actions (EUROSAI, 2011).

In the 2012 OECD survey on regulatory policy evaluation, seven countries reported that their SAIs had carried out reviews of the performance of regulators or inspection authorities (Table 6.3). However, the website search found a number of others as having done so in recent years (Table 6.4). Examination of SAIs’ websites identified a total of 21 SAIs that had published information on reviews since 2005 either of regulators, or of policies in which regulation played a significant part (Table 6.4), of which 10 had done so in the last year. The subject matter of these reviews varied considerably, reflecting the wide range of activities that governments seek to influence through regulation. Table 6.5 shows the subjects addressed by the 10 SAIs having produced such reports in the last year – and, of course, the variety is even greater over longer periods.

Table 6.4. Supreme audit institutions (SAIs) auditing regulators or regulations since 2005

<table>
<thead>
<tr>
<th>Australia</th>
<th>Austria</th>
<th>Belgium</th>
<th>Brazil</th>
<th>Canada</th>
<th>European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Austria</td>
<td>Belgium</td>
<td>Brazil</td>
<td>Canada</td>
<td>European Union</td>
</tr>
<tr>
<td>Australia</td>
<td>Austria</td>
<td>Belgium</td>
<td>Brazil</td>
<td>Canada</td>
<td>European Union</td>
</tr>
<tr>
<td>Australia</td>
<td>Austria</td>
<td>Belgium</td>
<td>Brazil</td>
<td>Canada</td>
<td>European Union</td>
</tr>
<tr>
<td>Australia</td>
<td>Austria</td>
<td>Belgium</td>
<td>Brazil</td>
<td>Canada</td>
<td>European Union</td>
</tr>
</tbody>
</table>

Source: OECD desk research.
Table 6.5. Subject matter of supreme audit institution (SAI) audits of regulations or regulators in last year

<table>
<thead>
<tr>
<th>Country</th>
<th>Title of report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Administration of the Improving Water Information Program</td>
</tr>
<tr>
<td></td>
<td>The Regulation of Tax Practitioners by the Tax Practitioners Board</td>
</tr>
<tr>
<td>Belgium</td>
<td>The functioning of the Belgian Gaming Commission</td>
</tr>
<tr>
<td>Canada</td>
<td>Canada’s Food Recall System</td>
</tr>
<tr>
<td></td>
<td>Oversight of Rail Safety—Transport Canada</td>
</tr>
<tr>
<td>France</td>
<td>Labour Market: Faced with High Unemployment, Better Target Policies</td>
</tr>
<tr>
<td>Hungary</td>
<td>Audit on the Operation and Financial Management of the Hungarian Competition Authority</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Supervision of the Netherlands Food and Consumer Product Safety Authority Following the Merger</td>
</tr>
<tr>
<td></td>
<td>Co-ordinated Audit on the Enforcement of the European Waste Shipment Regulation – Joint report based on eight national audits (including by SAIs of 6 other OECD members)</td>
</tr>
<tr>
<td></td>
<td>Quality Control in Higher Education in the Netherlands and Flanders: Follow-up Audit 2013 (in conjunction with Belgium)</td>
</tr>
<tr>
<td></td>
<td>Sustainable Intensive Livestock Farming: Follow-up Audit 2013 Quality Indicators in the Care Sector</td>
</tr>
<tr>
<td>Poland</td>
<td>Civil Aviation Office</td>
</tr>
<tr>
<td>Portugal</td>
<td>Regulation of PPP in the Sector of Water</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Trans-boundary Movement of Waste</td>
</tr>
<tr>
<td>Sweden</td>
<td>The Government and the Telecom Market</td>
</tr>
<tr>
<td></td>
<td>The State in the Electricity Market – Interventions for a Functional Electricity Transmission System</td>
</tr>
<tr>
<td>United</td>
<td>Regulating Financial Services</td>
</tr>
<tr>
<td>Kingdom</td>
<td>4G Radio Spectrum Auction: Lessons Learned</td>
</tr>
<tr>
<td></td>
<td>The Regulatory Effectiveness of the Charity Commission</td>
</tr>
<tr>
<td></td>
<td>The Levy Control Framework</td>
</tr>
<tr>
<td>United</td>
<td>Countries’ Regulatory Bodies Have Made Changes in Response to the Fukushima Daiichi Accident</td>
</tr>
<tr>
<td>States*</td>
<td>Energy Infrastructure Risks and Adaptation Efforts</td>
</tr>
<tr>
<td></td>
<td>Drinking Water: EPA has Improved its Unregulated Contaminant Monitoring Program, but Additional Action is Needed</td>
</tr>
<tr>
<td></td>
<td>Fair Labor Standards Act: The Department of Labor Should Adopt a More Systematic Approach to Developing its Guidance</td>
</tr>
<tr>
<td></td>
<td>Clean Water Act: Changes Needed if Key EPA Program is to Help Fulfill the Nation’s Water Quality Goals</td>
</tr>
<tr>
<td></td>
<td>Air Emissions: Status of Regulatory Activities and Permitting on Alaska’s Outer Continental Shelf - Jan 2014</td>
</tr>
</tbody>
</table>

*Notes: Data for the United States is limited to a review of three months only because of the volume of reports produced.
The economic regulators of utilities are a common subject of such reports, reflecting the significance of their activities both for economic performance and development, and for issues such as the environment and national energy security. Several of the audits reported in Table 6.5 touch on the work of such regulators. Since the early 2000s, the SAI of Brazil has had a particularly large programme of work on such issues, focusing particularly on energy, telecoms and roads (Box 6.3).

**Box 6.3. Audits of infrastructure regulation by the supreme audit institution (SAI) of Brazil**

Articles 70 and 71 of the Federal Constitution provide for oversight of regulatory agencies by the SAI of Brazil, the Tribunal de Contas da União (TCU). Pursuant to these articles, the TCU undertakes performance audits and renders accounts of those who manage public goods and values. The oversight of regulated sectors aims to verify regularity, efficiency, transparency and improvement of federal infrastructure sector management. This improvement may derive from the regulatory agencies and from bodies that develop public policies and plan services expansion and operation.

Some recent activities of the TCU are discussed below.

**The oil and gas sector**

The TCU assesses the management of regulatory agencies and entities in the oil sector. Through audits, it also evaluates their performance and monitors compliance with applicable legal standards.

The TCU oversees all public bids granting oil and gas exploratory blocks, held periodically by the National Petroleum, Natural Gas and Biofuel Agency (ANP). The TCU monitors, under the guidelines provided in Internal Rule nº 27/1998, the adequacy of studies of economic and financial feasibility, which establish signature bonuses. It also monitors contract compliance which should be inspected by the respective regulatory agency and concessions of gas transportation and storage. TCU approval is not required for the bidding process to proceed but involvement at this stage means the TCU can alert government to any deficiencies while there is still time to rectify them. Amongst this work, the TCU oversaw the auction of the largest oil field in the so-called pre-salt area, in which the subscription bonus for this field reached USD 7 billion.

**Reviews and readjustments of electric power distribution tariffs**

The TCU monitors the periodical tariff reviews of concession contracts for power distribution. The main purpose of this oversight is to verify consistency in the methodological criteria used, considering regulation principles such as moderate tariffs. It involves the evaluation of methodology, studies and procedures uniformly applied by the National Electric Energy Agency (Aneel) to all concessionaires during a review cycle (four years). TCU also monitors, on a yearly basis, the use of this methodology in some specific tariff review processes.

Following its oversight of tariff reviews during the first cycle, between 2003 and 2006, the TCU issued recommendations and determinations to Aneel. Those were related to an early stage of the tariff review process and the issues raised at the time were addressed with the introduction of new methodologies.

From the second cycle, between 2007 and 2010, the TCU recommended that Aneel improve the criteria used in the valuation of surplus power purged from the balance sheet in order to increase efficiency, boost low tariffs and improve concessionaires’ management of power purchase contracts. The TCU also recommended that Aneel establish mechanisms for periodic monitoring of actual revenue reported by concessionaires and to improve ways on informing population about average increase or decrease of tariffs. In the third cycle of reviews, conducted between 2011 and 2014, the TCU evaluated major enhancements to the methodology used.

The TCU does not perform systematic monitoring of annual tariff adjustment. However, this issue was the subject of a specific audit, following a request from the Committee of Mines and Energy of the Chamber of Deputies. In the audit the TCU found that the adjustment formula contained distortions which revealed undue gains by the concessionaires since 2002. In response, Aneel discussed the issue with distribution concessionaires and in 2010 contractual amendments were signed changing the criteria for adjustment.
Box 6.3. Audits of infrastructure regulation by the supreme audit institution (SAI) of Brazil (cont.)

Quality of telephone service provision

In 2006 the TCU conducted an audit to evaluate the performance of the National Telecommunications Agency (Anatel) in monitoring and assuring quality in the provision of telephone services. The work was proposed based on the observation that, although privatisation of telecommunications in Brazil has allowed significant growth in the number of accesses to telephone services, the quality of these services has been the subject of complaints to Anatel by users, representative organisations, consumer protection agencies and other organisations that protect users’ rights.

The TCU found that fundamental aspects of quality were not being properly addressed by the Regulatory Agency. There were gaps in quality regulations, weaknesses in the monitoring procedures developed by the agency and lack of effectiveness of the sanctions imposed on service providers. The regulating process of Anatel did not adequately consider the demands of society for improvement in services. In addition, the audit found a very low rate of user participation in the regulatory processes.

Source: Review of TCU documentation and email correspondence.

Other work on regulatory management

Providing advice and sharing knowledge acquired from audit work is a common feature of SAI strategies. For example, the strategy of the SAI of the Netherlands recognises that the insights provided by its audits may have wider application than to just the individual auditees, aiming to disseminate knowledge and improve access to audit findings, and to improve the learning ability of public administration. Similarly, the Danish SAI, Rigsrevisionen, has the aim of communicating and sharing its knowledge and experience in various fora, and acting as a knowledge partner and sounding board for both clients and other auditors operating in the public sector.25

In addition to its performance audit reports for the House of Commons Public Accounts Committee, the United Kingdom SAI also provides briefings at the request of other Select Committees of the House of Commons from time to time. These can cover regulatory issues, such as a July 2013 briefing provided to the Environmental Audit Committee on carbon budget management (NAO, 2013a). Other outputs beyond its normal performance audit output include a paper on setting out principles to guide public bodies purchasing services in markets (where public bodies can possess market power as the only or principle buyers of the services) and a review at the request of the Food Standards Agency of the efficiency of the Agency’s delivery of meat hygiene official controls (NAO, 2012; 2013b).

In 2007, the Australian National Audit Office (ANAO) published a Better Practice Guide on administering regulation (ANAO, 2007). This provided a framework to assist Australian Government regulators in assessing the quality of their administrative practices and identifying improvements that could, and should, be made. Examples of how regulators were currently employing better regulatory practice were provided throughout the guide.
Analysis of a supreme audit institution’s role in regulatory governance

Extent to which the audits address the principles set out in the Recommendation of the OECD Council

The Recommendation of the OECD Council was issued in March 2012, so the great majority of the audit reports identified were planned or published before its publication, and none of the reports mentions it. However, the principles set out in the Recommendation are of enduring importance and, while the Recommendation has succeeded in bringing them together and codifying them, the issues that they highlight were potentially available for SAIs to examine them at any time. Accordingly, Table 6.6 analyses the extent to which the reports produced by SAIs addressed each of the 12 principles in the OECD Council Recommendation. In view of the small number of reports on regulatory governance and policy produced in the last year, the analysis focuses on two groups:

- The reports on regulatory governance and policy in Table 6.4 – i.e., the most recent reports published since 2005 by those SAIs having reported on regulatory governance and policy in this period.
- Reports on regulators or regulations published in the 12 months to the end of March 2014 – i.e. those listed in Table 6.5.

Table 6.6 shows a clear difference in the pattern of the two types of examinations. It shows that reports on regulatory governance and policy have largely focussed on questions around regulatory policy, communication and engagement, the work of regulatory oversight bodies and the implementation of regulatory impact assessment. Reviews of the stock of regulation have also been featured, especially in audit reports on administrative simplification programmes. In contrast, reviews of regulations and/or regulators have focussed far more on operational matters, such as the organisation of regulatory agencies. Risk has also featured heavily in the latter group, and has done so in two main ways:

- Discussion of regulators’ use of assessment of risk as a means of targeting regulatory effort where it can be most valuable; and
- Discussion of the hazards that regulation is seeking to control – a common indicator of the performance the regulatory regime being how successful it is in managing the risks presented by these hazards.

It is interesting to note that neither type of report addressed Principle 8 (access to systems of administrative or judicial review). In addition, few addressed questions of sub-national tiers of government. The reason for the low emphasis on sub-national tiers is generally not explained, but in one case (Canada) the wording used suggests there may have been a concern to respect the autonomy of other tiers of government within a federal system of government.
Table 6.6. Surveyed supreme audit institution (SAI) audit reports mapped to the 12 Principles of the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance

<table>
<thead>
<tr>
<th>Principle</th>
<th>Number of reports including coverage of this principle, either in the evidence examined or in recommendations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Explicit whole-of-government policy for regulatory quality</td>
<td>Reports on regulatory governance and policy (base 10*)</td>
<td>10</td>
</tr>
<tr>
<td>2: Transparency and engagement in regulatory processes</td>
<td>Reports on regulators or regulations (base 27)</td>
<td>2</td>
</tr>
<tr>
<td>3: Mechanisms and institutions for oversight of regulatory policy</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>4: Regulatory impact assessment integrated into regulatory design</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>5: Systematic ex post reviews of the stock of significant regulation</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>6: Regular publication of performance of regulatory policy</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>7: Consistent policy on the role and functions of regulatory agencies</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>8: Systems for administrative and judicial review of legality and procedural fairness</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>9: Application of risk management in regulatory processes</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>10: Regulatory coherence across levels of government</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>11: Regulatory management capacity at sub-national level</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>12: Consideration to international regulatory co-operation</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

*Note: Base omits four reports (Austria, France, Germany and Korea) for which English summaries were not available.

How they address the different phases of the regulatory governance cycle

As illustrated by Table 6.2., the Executive considers the contribution of SAIs exclusively at the evaluation stage of the regulatory governance cycle. However, analysis of the reports listed in Box 6.2 and Table 6.7 suggests a more complicated picture. Both types of report included examples where there was some examination of the policy-making process. With only one exception, all reports in the first group included at least some examination of policy development, but so too did around a quarter of the second group. For example, an examination of Transport Canada’s regulatory framework formed part of the Canadian SAI’s examination of the oversight of rail safety regulation in Canada (OAG, 2013), while the Dutch SAI’s review of nature conservation, nature management and spatial planning in the Wadden Sea area included examination of the central government’s supervision and co-ordination of Wadden Sea policy and difficulties that had resulted from it.
Table 6.7. Surveyed supreme audit institution (SAI) audit reports mapped to the different phases of the regulatory governance cycle

<table>
<thead>
<tr>
<th>Number of reports including coverage of this phase of the regulatory governance cycle</th>
<th>Reports on regulatory governance and policy (base 10*)</th>
<th>Reports on regulators or regulations (base 27)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Design</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>Enforce</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>Monitor</td>
<td>7</td>
<td>23</td>
</tr>
</tbody>
</table>

*Note: Base omits four reports (Austria, France, Germany, Korea) for which English summaries were not available.

Nonetheless, there was a broad pattern of the first type of report focussing mainly on the “upstream” side of regulation, while the second type focussed mainly on the “downstream” elements of design, enforcement and monitoring. It is suggested that this might reflect a number of factors:

- As already noted, SAIs are frequently limited in the extent to which they can or wish to engage with policy development – for example, they may not have the mandates to do so. They may also face technical challenges in developing criteria for evaluation which would allow them to examine policy development, without crossing the line into examining policy itself. The 2012 Recommendation of the OECD Council on Regulatory Policy and Governance was not cited in any of the SAI reports reviewed, but is potentially a major help to SAIs because it sets a clear and internationally recognised benchmark for evaluating these processes as they apply to regulation.

- In many countries there is often a division between regulatory policy making by government ministries and regulatory implementation by arm’s-length regulators. Inevitably, therefore, examinations of regulators will tend to focus particularly on the “downstream” side of regulation, since that is predominately what these bodies do.

Opportunities and challenges facing supreme audit institutions in looking at regulatory governance

SAIs have a key role in supporting high standards of public sector governance – including regulatory policy. Their work is most evident and has the longest history in the field of public financial management and accountability. However, during the previous decade there has been growing attention by INTOSAI to the role of SAIs in supporting good public governance. This included, in the early 2000s, the development of “Guidelines on Best Practice for the Audit of Economic Regulation”. However, compliance with these guidelines is “voluntary” in the sense that INTOSAI as an organisation has neither the intention nor the means to attempt to enforce their application. At the same time, understanding of regulatory policy and governance in OECD has advanced substantially during the past decade, as captured by the 2012 Recommendation of the OECD Council on this subject (Box 6.1).

The above analysis shows that many SAIs are seeking to contribute to good regulatory governance through their audit work. Practice in a number of countries demonstrates that SAIs are examining the performance of regulatory programmes and tools, as well as the performance of regulators. SAI mandates frequently permit them to undertake audits related to regulatory governance but do not require them to do so, given that this audit work is conducted as a performance audit. Although only a very small proportion of SAI performance reports are related to issues of regulatory governance, such reports nonetheless are a periodic feature of many SAI outputs. Whilst spending
programmes are likely to remain the main focus of SAI performance audits for the foreseeable future, the socio-economic significance of regulation, and the importance of some of the policy objectives it is used to achieve, suggests that SAIs could increase their work in this area.

In this regard, the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance offers considerable potential as a benchmark for SAIs to use for such work, as suggested in Table 6.8. The Recommendation is an internationally agreed standard, based on many years’ assessment and experience of what works. As such, it provides SAIs with a valuable resource to draw on when developing evaluative criteria for performance audits, and a basis for putting national performance in the context of international best practice. For example, the Recommendation could be used by SAIs when they conduct performance audit of regulatory impact analysis and ex post review of regulations, which have been a common theme in surveyed audit reports. However, SAIs need also to look at (i) the extent to which their existing audit programming may be predisposed to measure materiality and risk based on government spending, including through failing to understand the significance of the regulatory costs; and (ii) the maturity of their country’s regulatory governance systems (which existing OECD regulatory management systems indicators can help provide information).

SAIs may also draw insight from the emerging themes and challenges that have been identified by the Executive branch in OECD countries as a means of contributing to good public governance. These challenges include closing the regulatory governance cycle, empowering the players of regulatory governance, promoting evidence-based policy and addressing better regulatory policy beyond the border. In many respects, an SAI’s work is predisposed to addressing these challenges because of the emphasis on evidence and providing recommendations to the heads of public entities, thus supporting efforts to close the governance cycle, empower different plays in regulatory governance and emphasising regulatory policy. Some SAIs surveyed in this section are also addressing issues across the border (such as the European Court of Auditors and the GAO of the United States).

Nevertheless, there are a number of institutional factors that can support or, conversely, prevent SAIs from addressing issues of regulatory governance in their audit work, and that warrant further attention. These factors include (i) the SAIs mandate (levels of government, types of public bodies), capacity and composition of audit portfolio (i.e. financial, compliance, performance); (ii) the availability of alternatives forms of scrutiny (e.g. independent regulatory oversight bodies); (iii) the relationship between the SAI and the Legislature and its committees (e.g. if the SAI is considered a body of the Legislature); (iv) whether the SAI reports primarily to a single committee and/or multiple committees and whether there is a specific committee responsible for regulatory policy; (v) the allocation of responsibility for regulatory reform between functional ministries and ministries with cross-cutting responsibilities (e.g. role of oversight bodies); and (vi) other contextual factors such as national legal systems (i.e. civil versus common law) and state structure (i.e. federal versus unitary states).
### Table 6.8 Potential for SAIs’ audit work to support the achievement of the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance

<table>
<thead>
<tr>
<th>Principle</th>
<th>Processes, systems and frameworks</th>
<th>Actors and institutions</th>
<th>Performance of government policies* and programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Explicit whole-of-government policy for regulatory quality</td>
<td>Assess internal controls to assure reliability of performance reporting of regulatory policy outcomes</td>
<td>Assess institutional arrangements to monitor coordination of regulatory reform activities across portfolios</td>
<td>Assess government consideration of policies, institutions and tools as a whole against specific outcomes</td>
</tr>
<tr>
<td>2: Transparency and engagement in regulatory processes</td>
<td>Assess government processes for co-operating with stakeholders in the review of existing and developing new regulations</td>
<td></td>
<td>Assess implementation of government policy to ensure open and balanced public consultation on the development of rules</td>
</tr>
<tr>
<td>3: Mechanisms and institutions for oversight of regulatory policy</td>
<td></td>
<td>Assess performance of regulatory oversight bodies to deliver its functions or tasks</td>
<td></td>
</tr>
<tr>
<td>4: Regulatory impact assessment integrated into regulatory design</td>
<td>Assess mechanisms to provide quality control of impact assessments and rules for inadequate impact assessments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5: Systematic ex post reviews of the stock of significant regulation</td>
<td>Assess mechanisms for co-ordinating ex post evaluation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6: Regular publication of performance of regulatory policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7: Consistent policy on the role and functions of regulatory agencies</td>
<td></td>
<td>Auditing financial statements of regulators and compliance with statutory requirements.</td>
<td></td>
</tr>
<tr>
<td>8: Systems for administrative and judicial review of legality and procedural fairness</td>
<td>Assess performance of appeals processes</td>
<td>Auditing performance of regulators in achieving their operational objectives and statutory functions</td>
<td></td>
</tr>
<tr>
<td>9: Application of risk management in regulatory processes</td>
<td>Assess mechanisms to design responsive implementation and enforcement strategies</td>
<td>Auditing performance of regulatory authority’s conflict of interest and integrity policies</td>
<td></td>
</tr>
<tr>
<td>10: Regulatory coherence across levels of government</td>
<td>Assess mechanisms to diagnose regulatory issues that cut across levels of government</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Assess mechanisms to support information sharing
and transparency between levels of government

<table>
<thead>
<tr>
<th>11: Regulatory management capacity at sub-national level</th>
<th>Assess incentives to foster horizontal co-ordination across jurisdictions and seamless internal markets</th>
<th>Assess separation of roles of subnational governments as regulators and service providers</th>
<th>Assess policy/programmes to build regulatory management capacity and performance at sub-national levels of government</th>
</tr>
</thead>
<tbody>
<tr>
<td>12: Consideration to international regulatory co-operation</td>
<td>Assess processes to take into account relevant international regulatory settings when formulating regulatory proposals</td>
<td>Assess regulatory oversight body and regulators to take into account relevant international regulatory settings when formulating regulatory</td>
<td>Assess compliance with international treaty obligations and other forms of international regulatory co-operation</td>
</tr>
</tbody>
</table>

*Note: This involves an apolitical assessment of a policy’s rollout that is distinct from, and does not include, the agenda setting or decision-making processes related to the prioritisation or justification of the policy.
Notes

Two caveats should be acknowledged. First, the 2012 OECD survey was sent to the Executive branch and, although survey recipients were encouraged to co-ordinate within their respective government, there is no guarantee that SAIs were explicitly consulted. Although desk research of publicly available audit reports through SAI websites largely corresponds to the results of the 2012 OECD survey, the overlap was not complete. Second, the analysis draws heavily on a desk review of audit reports carried out in English. The analysis is likely to understate the full extent of work by SAIs, particularly among those SAIs that do not publish information on their work in English.

The vertical scale is a composite on a scale of 0 to 28 of a range of measures of aspects of the regulatory impact assessment system in each country. The questions and their corresponding weights are shown in the table below:

<table>
<thead>
<tr>
<th>Questions:</th>
<th>Weights:</th>
</tr>
</thead>
<tbody>
<tr>
<td>d(ix) Is the RIA required to include assessments of other specific impacts: Impacts on the budget, impacts on competition, impacts on market openness, small businesses, specific regional areas, specific social groups, the public sector:</td>
<td>d(ix), Impacts on the budget, competition, market openness, small businesses, specific regional areas, specific social groups, the public sector: if no=0, in other selected cases=1, only for major regulation=1, always=2</td>
</tr>
<tr>
<td>d(ix), Impact on other groups (charities, not for profit sector):</td>
<td>d(ix), Impact on other groups (charities, not for profit sector): if no=0, in other selected cases=0.5, only for major regulation=0.5, always=1</td>
</tr>
<tr>
<td>e) Is risk assessment required when preparing a RIA?</td>
<td>e) if no=0, in other selected cases=1, only for major regulation=1, always=1</td>
</tr>
<tr>
<td>For all regulations, for health and safety regulation, for environmental regulation?</td>
<td>if yes, weight=1</td>
</tr>
<tr>
<td>Does the risk assessment require quantitative modelling?</td>
<td></td>
</tr>
<tr>
<td>f(i) Does the RIA require regulators to explicitly consider compliance and enforcement issues when preparing new regulation?</td>
<td>f(i) if yes, weight=1</td>
</tr>
<tr>
<td>f(ii) Are reports prepared on the level of compliance with the above RIA requirements?</td>
<td>f(ii) if no=0, ad hoc basis=1, regularly=2</td>
</tr>
<tr>
<td>f(iii) Are these reports published?</td>
<td>f(iii) if yes, weight=2</td>
</tr>
</tbody>
</table>

The vertical scale is a composite on a scale of 0 to 8 of a range of measures of the ex post regulatory review mechanisms in each country. The questions and their corresponding weights are shown in the table below:

<table>
<thead>
<tr>
<th>Questions:</th>
<th>Weights:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is periodic ex post evaluation of existing regulation mandatory?</td>
<td>No=0, For specific areas=1, For all policy areas=2</td>
</tr>
<tr>
<td>Are there standardised evaluation techniques or criteria to be used when regulation is reviewed?</td>
<td>No=0, Yes=1</td>
</tr>
<tr>
<td>Are reviews required to consider explicitly the consistency of regulations in different areas and take steps to address areas of overlap/duplication/inconsistency?</td>
<td>No=0, Yes=1</td>
</tr>
<tr>
<td>Are there mechanisms by which the public can make recommendations to modify specific regulations?</td>
<td>No=0, Yes=1</td>
</tr>
<tr>
<td>If the answer is &quot;yes&quot;, please specify:</td>
<td></td>
</tr>
<tr>
<td>- Electronic mailboxes</td>
<td>If yes, weight=0.5</td>
</tr>
<tr>
<td>- Ombudsman</td>
<td>If yes, weight=0.5</td>
</tr>
<tr>
<td>Is sunsetting used for primary laws?</td>
<td>No=0, Yes=0.5</td>
</tr>
<tr>
<td>Is sunsetting used for subordinate regulations?</td>
<td>No=0, Yes=0.5</td>
</tr>
<tr>
<td>Do specific primary laws include automatic review requirements?</td>
<td>No=0, Yes=0.5</td>
</tr>
<tr>
<td>Does subordinate regulation include automatic review requirements?</td>
<td>No=0, Yes=0.5</td>
</tr>
</tbody>
</table>
The vertical scale is a composite on a scale of 0 to 5 of a range of measures of aspects of the formal co-ordination mechanisms in each country. The questions and their corresponding weights are shown in the table below:

<table>
<thead>
<tr>
<th>Questions:</th>
<th>Weights:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there formal co-ordination mechanisms between National/Federal and State/regional governments? (in Federal or quasi-federal countries, between national and regional/local governments in unitary countries)</td>
<td>No=0, Yes=1</td>
</tr>
<tr>
<td>Do any of these mechanisms impose specific obligations in relation to regulatory practice?</td>
<td>No=0, Yes=1</td>
</tr>
<tr>
<td>Are any of the following regulatory harmonisation mechanisms used?</td>
<td>If not at all, weight=0; if sometimes, weight=0.5; if widely, weight=1</td>
</tr>
<tr>
<td>- Mutual recognition?</td>
<td></td>
</tr>
<tr>
<td>- Regulatory harmonisation agreements?</td>
<td></td>
</tr>
<tr>
<td>- Strict regulatory uniformity agreements?</td>
<td></td>
</tr>
</tbody>
</table>

In a small number of jurisdictions, SAIs may have a role to play in a before-the-fact review of administrative or financial activities – known as a pre-audit (or *ex ante* or *a priori* audit). However, *ex ante* audit of legality function does not exist in the majority of benchmark SAIs while in the few where it is present, the scope is limited, either functionally (e.g. Italy) or financially (e.g. Portugal).

The term “regulatory body” is used in this paper to cover all bodies exercising regulatory functions that are subject to audit by SAIs – including potentially both ministerial departments and arms-length bodies – and any sub-national bodies subject to SAI audit.

The analysis in this part draws heavily on a review of SAIs’ websites carried out in English. The search examined the websites of the SAIs of the 34 OECD members, the European Union (a permanent observer to the OECD) and two key partners (Brazil and South Africa). Of these 37 websites, 8 provided full information in English; a further 21 provided at least a listing of reports in English, but normally only of a selection of the reports published by the SAI. Some gaps in coverage could be filled using information provided in other surveys, for example carried out by OECD and by EUROSAI (European Organisation of Supreme Audit Institutions – a regional grouping of INTOSAI). Nevertheless, as mentioned in the introduction, it should be noted that the analysis is likely to understate the full extent of work by SAIs, particularly among those SAIs that do not publish information on their work in English.

Belgium and the United States.

In addition, Canada and the Netherlands had published such reports before 2005.


http://www.courtofaudit.nl/english/Publications/Audits/Introductions/2013/11/Wadden_area_nature_protection_nature_management_and.spatial_planning
References


UN/INTOSAI (2013), “Audit and advisory by SAIs: Risks and opportunities, as well as possibilities for engaging citizens”, Conclusions and Recommendations of the 22nd UN/INTOSAI Symposium on Audit and Advisory by SAIs: Risks and Opportunities, As Well As Possibilities for Citizen Engagement, 5-7 March, Vienna, Austria.

7. THE CENTRE OF GOVERNMENT

Strengthening the role and performance of governments is crucial to sustainable economic development. Strong government and effective performance require a strategic and forward-looking state with commitment to and capacity for policy implementation and compliance. This cuts across all aspects of policy and needs to be integrated into policy responses across the whole-of-government. The Centre of Government, which comprises the core institutions that support decision making by the head of government, plays a pivotal role in ensuring that this vision of a more strategic state is translated into better and more coherent policies on the ground.

Centres of Government are expected to fulfil their traditional role of serving the head of government and cabinet from a procedural perspective but are also, in many countries, engaging much more actively in policy and budget development, and in steering of implementation across government. The Centre is expected to lead ever more complex policy agendas and co-ordinate responses in a manner that come as close as possible to a whole-of-government perspective. The Centre also plays a role in driving reform of the public sector in order to improve implementation capacity and, in some countries, monitors spending, delivery and outcomes, and steers whole-of-government evaluations.

Governments are facing increasing pressures in addressing more complex and interconnected economic, social and political challenges. In a strategic and open state, the government identifies and addresses internal and external challenges to policy implementation through evidence-based decision making and strategic foresight, strengthens efficiencies in policy design and service delivery to meet these challenges and mobilises actors and leverages resources across governments effectively. This requires leadership and stewardship from the Centre of Government.

In view of expanded mandates, the question for Centres of Government across the OECD and in non-member countries is about how the Centre can be structured, resourced differently, or linked in to networks of relevant expertise in order to better accomplish its key tasks. Meeting new challenges has, on the one hand, highlighted the need for a strategically agile Centre but has also, on the other hand, exposed the limited resources at its disposal. Some central analysis units employ only a handful of people, which means they are wholly dependent on data and assessments from line ministries and agencies themselves which, in some cases, are interested parties and thus not fully objective. This suggests a need for the Centre to draw on information and analysis from independent and objective sources, external to the Centre. SAIs may be well-placed to contribute in this way, as external and independent actors with a view across government institutions. However, it is important to note that SAI activity in assisting the Centre with its work must be apolitical and must not compromise the external auditor’s institutional independence.

Defining the Centre of Government

To understand how SAIs could support better policy making through the Centre of Government, it is important to define what is meant by the Centre of Government. Various definitions are possible to establish, but the one that the OECD has used for its work on Centres of Government is as follows:

The Centre of Government is the administrative structure that serves the Executive (President or Prime Minister, and the Cabinet collectively). This definition does not cover other units, offices, and
commissions (e.g. offices for sport or culture) that may report directly to the President or Prime
Minister but are, effectively, carrying out line functions that could be carried out equally well by line
ministries. The Centre of Government has a great variety of names across countries, such as General
Secretariat, Cabinet Office, Chancellery, Office/Ministry of the Presidency, Council of Ministers
Office, etc. In many countries the Centre is made up of more than one unit, fulfilling different
functions.

For the purposes of this framework, the Centre of Government includes other core institutions at
the “Centre” that directly support whole-of-government functioning, and usually exercise some
oversight of ministries’ activities. This can include ministries of finance and treasuries, and
government-wide planning and management ministries.

There are some differences between Centres of Government in Parliamentary systems and those
in Presidential systems. In Parliamentary systems, the goal of the Centre’s leadership is to provide
guidance and co-ordination to Ministers and their civil servants on strategy setting and implementation
to ensure that the government can demonstrate accountability to Parliament. In a presidential system,
the purpose of the Centre is to generate and sustain institutional accountability across the government
while ensuring that the government can demonstrate accountability to the Head of State to whom it is
responsible (OECD, 2013b).

In the past, commentators have often emphasised that the Centre of Government is a product of
diverse historical, cultural and political forces and has developed incrementally, and often
haphazardly. As such, it was also assumed that this heterogeneity made comparative analysis difficult.
However, a recent OECD survey found that the aforementioned OECD definition was recognised as
usable for their own Centre of Government in most of the 24 countries surveyed (OECD, 2013a).
This suggests commonalities across very diverse constitutional forms. At the same time, the geometry
can vary widely, with some countries noting that units in several ministries (notably Finance, but also
Foreign Affairs, Justice and Interior) manage functions that come under the notion of the Centre of
Government. In some cases, formal institutions (such as the Political Committee in Chile or
New Zealand’s Corporate Centre) give some shape to a broader definition of the Centre while, in
others, informal groupings according to topic or objective develop to act as the de facto Centre of
Government for that issue or function. More rarely, the notion of collective action is used to describe a
concept in which all ministries contribute in different ways and therefore constitute the “centre”.
Nonetheless, a large majority recognise an entity that can be delimited and that plays a set of core
functions.

The OECD survey found that the primary roles fulfilled by the Centre include preparation of
cabinet meetings, policy co-ordination, monitoring implementation of policy, preparing the
government’s programme, strategic planning and overseeing the relationship with the Legislature
(Figure 7.1). Secondary roles include communicating government messages, risk anticipation and
management, and policy analysis.
The Centre of Government’s role in government-wide coherence

Three particular functions of the Centre are important to government-wide coherence in achieving strategic objectives: i) promoting evidence-based decision making, ii) strategic planning and foresight, and iii) co-ordination, monitoring and evaluation of policy implementation.

Promoting evidence-based decision making

The OECD Centre of Government survey underlines the role of the Centre in driving evidence-based, inclusive and effective decision making, and in leading whole-of-government strategy setting, implementation and performance monitoring and evaluation. This means demonstrating strong leadership, playing the challenge function effectively and advising Ministers strategically about government priorities, as well as managing communications with both internal and external audiences.

Evidence-based decision making is a key tool that governments and public administrations use to gain strategic insight through examining and measuring the likely benefits, costs and effects of their decisions. Performing evaluations at a government-wide level helps with ensuring coherence across the government and provides a good understanding of whether government-wide objectives are being met. It elucidates the reality of the costs associated with government objectives, and gives governments the tools to help prioritise competing objectives. Evidence-based decision making also supports the implementation and legitimacy of policies and major government reforms. Strategic insight does not automatically result from amassing more evidence or even from improving the frequency and quality of analysis, but a clear and transparent flow of information and outcomes of
analysis from public administration to political and administrative decision-makers can help to inform discussions and clarify options and potential consequences.

While there are numerous channels available to a head of government for policy-related decision making, the Cabinet remains the principal vehicle. As such, the role of the Centre in co-ordinating Cabinet meetings and the discussion of agenda items, ensuring the necessary information is put before decision-makers, has an important influence on reaching the right outcome.

Box 7.1. Summary of survey results – cabinet meeting co-ordination

- In 17 out of 24 countries, the Cabinet is the principal channel for decision making by the head of government;
- In all countries, the Centre reviews agenda items;
- In 22 out of 23 countries, the Centre co-ordinates discussion of agenda items in advance of cabinet meetings;
- In half of the countries, the Centre organises pre-meeting briefing sessions with relevant senior ministry officials and uses these occasions to mediate possible differences of opinion and comments on evidence and supporting material.

The function of the Cabinet or Council of Ministers itself varies greatly. In some cases, the Council of Ministers is the key locus of decision making while, in others, it acts to ratify decisions taken by the head of government in consultation with key Ministers. In presidential systems, the ministerial team might not meet regularly and its participation in policy meetings with the head of government will depend on the topic. Yet, in all cases, whether a full Cabinet of twenty or more Ministers or a bilateral or trilateral discussion with the head of government on a more narrow topic, the Centre has a crucial role in controlling the quality of evidence, objectivity and inclusiveness of options presented, and ensuring procedures are respected, to foster quality decision making.

Table 7.1. How are the items submitted to Cabinet reviewed?

<table>
<thead>
<tr>
<th>Review criteria</th>
<th>Centre of Government reviews</th>
<th>Centre has the authority to return items to Ministry for additional work if criteria are not satisfied</th>
<th>This is reviewed by another body</th>
</tr>
</thead>
<tbody>
<tr>
<td>That procedures for preparation and presentation are respected</td>
<td>16 (66.67%)</td>
<td>19 (79.17%)</td>
<td>0 (0.00%)</td>
</tr>
<tr>
<td>Quality of legal drafting and legal conformity</td>
<td>10 (41.67%)</td>
<td>13 (54.17%)</td>
<td>13 (54.17%)</td>
</tr>
<tr>
<td>That a regulation meets regulatory quality standards (public/economic benefits, that benefits outweigh costs, that an impact analysis has been carried out, etc.)</td>
<td>8 (33.33%)</td>
<td>14 (58.33%)</td>
<td>10 (41.67%)</td>
</tr>
<tr>
<td>That the item is in line with the Government Programme</td>
<td>12 (50.00%)</td>
<td>13 (54.17%)</td>
<td>4 (16.67%)</td>
</tr>
<tr>
<td>That relevant ministries and other stakeholders have been consulted as required</td>
<td>12 (50.00%)</td>
<td>16 (66.67%)</td>
<td>3 (12.50%)</td>
</tr>
<tr>
<td>That adequate costing has been carried out</td>
<td>10 (41.67%)</td>
<td>13 (54.17%)</td>
<td>12 (50.00%)</td>
</tr>
</tbody>
</table>

One important objective of the management role of the Centre of Government, with respect to high-level government meetings, is to ensure that harmonised consultation processes have been followed and that appropriate analytical tools have been used. These twin streams aim to ensure that basic issues regarding the usefulness and cost-benefit analysis of a particular action can be judged easily by the head of government and Cabinet. This analysis and consultation process usually extends beyond the sectoral perspective of the sponsoring agency or department and, as such, the analytical tools and consultation processes must also be broader. The resulting presentation of information to the government should enable political leaders to understand the need for, and consequences of, proposed policy interventions. This includes understanding their costs and benefits based, in part, on weighing up evidence on the likely impacts of such interventions and anticipating risks and resistance to the policy. While individual departments might focus on their own evidence-gathering sometimes, through large internal research units, the Centre is obliged to canvass opinion and analysis more widely. This process must be to some extent formalised so that the Centre is able to justify how it has selected the evidence that is presented. In other words, the Centre needs a system that makes best and transparent use of available evidence. Given the relatively smaller size of Centre of Government research units and the volume of material that needs to be passed to Cabinet, the ability of most Centres to undertake this rigorous analysis is limited.

**Strategic planning and foresight**

Governments have an obligation to manage uncertainty in the economic, social and political spheres of society. This is particularly true with respect to external events over which citizens have limited or no control, such as disasters or economic crises. This, in turn, implies (i) that the State acts as the steward of the public interest, with foresight capacity and (ii) that its actions are consistent and predictable. The financial crisis was a severe test of the ability of governments to play this important stewardship role, raising a number of important questions that have implications for trust in government:

- Is the government able to identify challenges and assess risks for society? Does the government have mechanisms to manage such risks?
- Are the strategies of public bodies aligned to a more general strategy that takes into account challenges and risks?
- Does the public service have the competencies to deliver programmes and services effectively, efficiently and economically?

The OECD survey of Centres of Government confirms that this strategic planning role is seen as an important task in many countries. However, strategic planning has not always been a priority, is not always clearly separable from other shorter term activities and does not result in the creation of a genuine, long-term, strategic vision document. It appears that few countries have a specific strategic planning unit. While such units were more common in the past, they lost their prominence over time and saw their resources decrease. The reasons for this vary from country to country, but relatively long periods of robust economic growth may have been a motive for governments to downplay the need for horizon scanning and contingency planning. In countries where the Centre of Government is involved in preparing or co-ordinating a strategic document for the government, it is often a relatively short-term vision statement: for 60% of the countries surveyed, the document has a time horizon of between one to five years, which appears to cover little more than the government’s term in office. The government’s work programme, prepared or updated on an annual basis, is clearly different from “foresight”. In the aftermath of the crisis, which exposed the low priority that had been given to strategy and anticipation, this is an area of work that preoccupies many governments.
The role of the Centre in strategic planning includes diverse elements that range from direct contribution to foresight studies and risk assessments, to “mainstreaming” of strategic priorities in operations, notably:

- ensuring that the government’s deliberations on its strategic priorities take place with the benefit of a broad assessment of the current and anticipated economic, political and social situation;

- ensuring that the strategic priorities are harmonised with other strategic documents of the government, such as economic and fiscal strategies, and other key policy and reform strategies;

- ensuring that the budget preparation process and ministry work plans take account of, and reflect, strategic priorities; and

- ensuring that the Prime Minister, President or Cabinet is regularly briefed on new developments affecting the strategic priorities and annual work plan, and possible responses or adjustments where warranted.

Centres of Government advise and guide the Prime Minister, President or Cabinet. As such, their strategic thinking feeds directly into decision making at the highest level. In most cases, the contribution of the Centre to the analysis underlying the strategic vision is limited. However, their role in ensuring political buy-in for strategic priorities, and ultimately allocation or reallocation of resources to align with priorities, means that they need to be fully convinced by the evidence.
Co-ordination, monitoring and evaluation of policy implementation

Another key role of the Centre of Government is to ensure coherence in the way the government manages horizontally across its departments and agencies. Governments are subject to divergent policy tensions, often epitomised in the occasionally conflicting sectoral interests of line ministries, while the budget ministry characteristically seeks to control outlays. In all countries, important trade-offs between diverging interests usually have to be made at the highest level. The Centre of Government helps to facilitate this arbitrage. Inconsistent policies can lead to a higher risk of duplication, inefficient spending, a lower quality of service, contradictory objectives and targets and, ultimately, a reduced capacity to govern. At the same time, the task of the Centre is to balance this ideal against the political and practical limits on coherence in the real world.

The need to do more with less has led to a new emphasis on monitoring policy outcomes and ensuring that government programmes are being implemented effectively and in a co-ordinated manner. This coincides with the new public management trend toward better benchmarking policy and programme performance against value for money. What is new is that the effort puts more emphasis on policy alignment and impact than only on tracking expenditures. In the past, monitoring of spending by departments was primarily the responsibility of departments themselves, tracking their own spending for accountancy and reporting purposes. Today, the Centre of Government seems to play a more direct role in following the implementation of the policies themselves and ensuring good co-ordination, particularly in the increasing number of cross-disciplinary policy initiatives. Institutional coherence in the Centre of Government aims at explicitly linking budget and strategy, and linking budget and strategy to performance, or achieving strategic results through effective and efficient management of the government’s fiscal and human resources.

Governments are trying to take a more co-ordinated and coherent approach through whole-of-government projects that seek to improve horizontal ways of working better across organisations in the design, delivery and evaluation of policy, programmes and services.

Enhancing co-ordination

Co-ordinating complex policy strategies now constitutes a key function of the Centre of Government. The OECD survey found that the number of cross-departmental policy initiatives has increased in most countries (Figure 7.3). They play this role in several ways:

- promoting co-ordination of activities directly included in the government’s direction;
- facilitating co-operation between ministries at the senior level (minister, state secretary, director);
- supporting the work of specialised co-ordination bodies established to cover a particular policy field (economic advisory bodies); and
- specifying the follow up and cross-departmental roles in actions approved in Cabinet decisions.
A key issue for the Centre regards the ability to set agendas and work with other government institutions. This often involves applying rules in the name of the head of government. The survey indicates that most Centre of Government officials consider that they exert only a moderate degree of influence over ministries to promote co-ordination (18 countries, moderate influence; 9, high influence; and 3, low influence) (Figure 7.4). This is partly a result of the general institutional problem of co-ordination in any large organisation. However, in some cases this might also derive from information asymmetries.

The need for the Centre to provide accurate information to the political level on progress with implementation assumes some mastery of the detail of spending and results across a large range of policy areas. While most departments have relatively large units to track spending, this is a relatively new task for the Centre of Government and the resources available are limited. Despite some progress related to digital governance, Centres have some problems with the following:

- The flow of information becomes too great and transaction costs are larger than the benefit to policymakers;
- There is a knowledge asymmetry between large teams in departments who provide the data and the non-specialist teams in the Centre that try to process it; and
- The information delivered might not be entirely objective given that departments know that their performance – and possibly resources – will be judged on the basis of it.
Monitoring and evaluating government-wide performance

Monitoring policy implementation and co-ordinating government-wide performance evaluations from the Centre of Government helps bring greater horizontal coherence in achieving a government’s policy objectives. While monitoring and evaluation most often remain at a ministerial level, cross-ministerial sectoral information-gathering and assessments exist as well. Using a government-wide approach can help establish more coherent and government-wide evidence-based decision making.

In some countries there is a push toward developing and using key national performance indicators for a more comprehensive and fairer view of how well the country is doing. This is meant to educate policymakers and the public about the appropriateness, affordability and sustainability of the government’s policies, and to help with making future policy choices. Measuring performance using key national performance indicators can feed into strategic planning, budgeting, policy analysis and programme evaluation, while enhancing government accountability through reporting and enhanced oversight by the Legislature and the public (GAO, 2004). National performance indicators can also stem from the international arena, such as the Millennium Development Goals championed by the United Nations. These measures can be used to check the pulse of government effectiveness in achieving government objectives. Where programmes are ineffective, governments can correct course or shift priorities to other more effective means.

As Centres grapple with how best to ensure a coherent horizontal approach, better use of information generated through an independent body may be useful. This is the case for SAIs, which already evaluate spending at the ministry level to verify conformity with accounting rules as well as, increasingly, benchmark outcomes against targets.

Source: OECD (2013a), Centre of Government Survey (unpublished), OECD Public Governance and Territorial Development Directorate
The role of SAIs in supporting Centres of Government

Given the need for objective government-wide information and a well-functioning Centre, three opportunities for SAI engagement with the Centre of Government emerge:

- SAIs could provide valuable information at a whole-of-government level for the Centre’s oversight and co-ordination functions, to enable quality policy formulation, policy co-ordination, monitoring and evaluation.

- In conjunction with Section 6 on budgeting, SAIs could provide the Centre with useful information about risks, implementation challenges and performance, which can feed into the budgeting process, thereby allowing the Centre to guide budgeting decisions with helpful, objective information.

- The Centre could itself become the subject of assessment by SAIs to ensure that it is well-positioned to guide governments in achieving strategic objectives and responding effectively to government-wide challenges. To this end, SAIs can examine the institution(s) at the Centre to determine whether they are well structured, have effective processes and are contributing to overall good governance across the whole-of-government.

While SAIs are well positioned to provide these assessments, in theory, many do not currently have a systematic approach to supporting or assessing the Centre, as it may fall outside of their traditional remit. To the extent that SAIs have been engaged with the Centre, it has been on an ad hoc basis. Nevertheless, as the following examples demonstrate, some SAIs are able to provide valuable whole-of-government assessments, which could form the basis of further development of SAI work.

Assessments at the whole-of-government level

By taking a whole-of-government approach, SAIs could provide Centres of Government with a bird’s-eye perspective on the effectiveness of governance mechanisms and on policy performance so that Centres can better use this credible and objective information to inform their budgeting, policy planning, implementation and evaluation processes. Examples of the types of whole-of-government audits are detailed in Box 7.2 from the experience of the UK’s SAI.

The SAI of the Netherlands has taken a whole-of-government approach to auditing the performance of the central government. Recent audits published in May 2012 and a follow up report in June 2013 looked across ministries to their evaluations of policy effectiveness (Algemene Rekenkamer 2012a; 2013). These audits focussed on investigating whether ministries evaluated the effectiveness of policies with a social objective.

The 2012 audit focussed on evaluations of policies amounting to €51 billion (or 46% of government expenditure in 2010) that was spent to achieve social objectives. While the audit did not focus on the quality of the evaluations, it recommended that ministries should improve their scans of policy effectiveness and that a comprehensive programme of policy scans should be introduced in line with budget regulations. By way of follow up, the SAI published the Minister of Finance’s response on its website stating where the government agreed with its recommendations and undertook to make improvements, as well as where the Minister did not respond. The non-response related to ensuring there were comprehensive advance evaluation programmes in place, which led the SAI to note that this situation risks depriving the Legislature of adequate information.
Box 7.2. Audit of whole-of-government issues by the United Kingdom National Audit Office

During the last several years the United Kingdom National Audit Office (NAO) has conducted a number of audits to address whole-of-government issues as a means of supporting strategic agility within government. These audits have included:

- the maturity of risk management in public entities, the ability of the Centre of Government to identify and meet its skill requirements
- the capacity of the Centre of Government to define the expected benefits and to measure the actual benefits of reorganisations of public entities
- the effectiveness of the Centre of Government’s communication and engagement with local governments
- the capacity of the Centre of Government to take early action in health and social policies, to use a strong evidence base, to link evidence to long-term planning and to co-ordinate the response across government
- the capacity of the Centre of Government to identify and implement opportunities to integrate service and programme delivery


In 2013, the SAI of Netherlands conducted a follow-up audit after finding that the effectiveness of half of the government’s policy expenditures relating to social objectives in 2006-2010 had not been evaluated. The 2013 conclusions highlighted areas that were still of concern, particularly in light of spending cuts that were underway. The SAI found that policy effectiveness was not evaluated in many policy fields, including in areas where the government was cutting expenditure, which meant that the impacts of the cuts could not be determined. It impressed upon the need not to evaluate the effectiveness of all policy at all times, but to have a reasoned evaluation programme in each Ministry that specifies what kinds of evaluation are to be carried out, when and what kinds have the most added value. By providing this type of whole-of-government perspective, the SAI is able to inform the Centre of the weaknesses that exist across ministries in specific policy areas so that it can address the problem in a horizontal and co-ordinated manner.

Another example of a whole-of-government approach taken by the Dutch SAI pertains to government personnel strategy and planning. In May 2012, the SAI published its audit on the strategic personnel plans of the Centre of Government in anticipation of over 60% of its personnel retiring within ten years (Algemene Rekenkamer, 2012b). It found that the majority of government institutions do not have a plan in place to deal with this outflow of personnel, which poses a risk to government performance in the long term, particularly given the ongoing spending cuts that include to personnel. It
concluded that the government’s requirement of establishing a plan by the end of 2012 was not realistic for a number of reasons, and made recommendations on how to approach issues of planning. By providing this type of objective assessment, governments are better positioned to respond using a whole-of-government approach.

In 2012 the Polish SAI performed an audit on the preparation of government strategic documents in relation to the government’s preparedness to use its EU financial resources of 2014-2020. The audit also included reviewing elements of national development policy, strategic planning and covered innovation and efficiency of economy, transportation development, energy and environment, regional development, human and social capital development, sustainable development of rural areas, agriculture and fisheries and the efficiency of state and national security. 28

SAIs, collectively through INTOSAI and individually, are considering how they can enhance their impact with respect to government-wide performance evaluation (INTOSAI, 2010). Whether countries are developing or already using key national performance indicators and internationally generated performance measures, SAIs could:

- Consider using insight and foresight to assist in the development of a key national performance indicator system;
- Assess the development process and effectiveness of the national performance indicator system;
- Use national performance indicators to audit whether and how government-wide objectives are being achieved; and
- Use national performance indicator data to identify opportunities for how to improve achieving objectives.

The benefit of using national performance indicators would be to acquire information government-wide that would feed into future decision-making processes using a coherent approach toward achieving government-wide policy objectives.

**Feeding into the budgeting process**

Another area in which SAIs can support government-wide planning is in budgeting. The Brazilian SAI uses performance and compliance audits to evaluate the whole-budget process, and subsequently reports on quality, gaps and issues to be addressed (OECD, 2014).

Every two years, the SAI of the US carries out a risks assessment before a budget cycle to provide the government with insights on performance and vulnerabilities (GAO, 2013). Following a government-wide scan, the SAI highlights programmes that are high risk due to their vulnerabilities to fraud, waste, abuse and mismanagement, or those that are in need of transformation. The SAI’s 2013 high-risk list includes areas for strengthening specific programmes’ efficiency and effectiveness, ensuring public safety and security, managing contracts more effectively and modernising and safeguarding insurance and benefit programmes. The report contains the SAI’s views on progress made and what remains to be done to bring about lasting solutions for each high-risk area. The report is targeted at the Executive branch to implement its recommendations, recognising that the continued oversight by the Legislature is essential to achieving progress.
Assessing the Centre of Government

Given the large differences in structures of Centres of Government, the mandate for and scope of SAIs’ assessments of institutions within those structures would largely depend on country-specific set-ups. Where possible, as a starting point, SAIs could examine the functions fulfilled by the Centre in relation to other bodies to assess synergies and overlaps as a way to understand how effectively the Centre is functioning in terms of advancing the government’s policy agenda.

OECD research suggests that despite significant diversity in institutional structure, the Centre of Government can be assessed on the basis of its effectiveness in carrying out its core functions. The “output” of the Centre can be difficult to quantify, particularly identifying performance targets for the Centre. However, SAIs generally have experience in assessing outcomes that are difficult to measure. Thus, SAIs’ assessments could help to “demystify” the Centre, which often lies outside the usual scope of performance measurement because of the somewhat intangible nature of its output.

In this regard, the added value that an SAI could bring would be in reviewing the responsibilities of the Centre of Government institutions to verify that they are clear and understood, that all key functions are covered with no significant gaps, and that the processes that govern the functioning of the institutions at the Centre are codified in some way, either through legislation or rule of government procedure. SAIs could review the clarity of the Centre’s institutional architecture, the application of important procedures in practice, including respect by others for the Centre’s role and its own adherence to its principles, and also assess the outcomes of major initiatives led by the Centre.

Assessing the Centre through the three stages of the policy cycle would be a helpful way of determining the value added by the Centre in contributing to good governance. While overlapping, these stages include some discrete tasks that should be identifiable within the institutional structure of the Centre and to which assessment criteria could be assigned. This includes evaluation of its prioritisation among tasks and the allocation and efficient use of resources to achieve these tasks. Among the core functions, SAIs could assess the Centre’s role in policy formulation, including in:

- co-ordinating the appraisal of policy proposals from ministries and ensuring appropriate citizen engagement;
- issuing good practice guides on policy formulation;
- performing a solid challenge function on policy proposals from ministries and their associated programme designs in terms of coherence, affordability, risk and expected results;
- ensuring the coherence of sectoral policies across the government;
- ensuring conformity of policies with the government’s strategic plan and legal frameworks;
- co-ordinating the preparation and approval of the government’s strategic priorities and work programme, including the associated budget; and
- co-ordinating preparation of the sessions of government and supporting Cabinet decision making.

SAIs could assess the Centre’s role in policy implementation, including in:

- ensuring programmes are implemented consistently with their programme design; and
ensuring integrity in programme delivery, such as in the award of contracts.

SAIs could assess the Centre’s role in monitoring and evaluation, including in:

- advising ministries with respect to monitoring and evaluation good practices;
- actively monitoring programme implementation across ministries;
- having a whole-of-government understanding of the results and use of programme evaluations;
- taking a whole-of-government approach to policy performance and achieving key objectives, and linking these with the government’s overall strategic plan; and
- overseeing the government’s communications strategy, including the relationship with key stakeholders including Legislature, sub-national governments, private actors and the public.

Assessing the Centre’s policy making can also lead to developing guidance for effective policy-making. For example, the Brazilian SAI has developed a framework for assessing the governance of sectoral public policies in general, which has included discussions with the Centre of Government and the Legislative Branch. In its work, it was clear that the SAI’s role was to help improve the framework for the policy-making process without entering into a discussion to the merits of public policies. The framework is comprised of eight elements: Institutionalisation, Plans and Objectives, Participation, Organisational Capacity and Resources, Co-ordination and Coherence, Monitoring and Evaluation, Risk Management and Internal Control and Accountability.
Notes

27 OECD (2013), Centre of Government Survey (unpublished) countries surveyed: Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, Germany, Iceland, Japan, Korea, Latvia, Lithuania, Morocco, New Zealand, Norway, Portugal, Slovak Republic, Slovenia, South Africa, Sweden, Switzerland, United States, European Commission.

28 Information provided by the SAI of Poland through a peer review process, May 2014.
References


Algemene Rekenkamer (2012b), *Central government personnel: strategy and planning*, Algemene Rekenkamer, the Hague, [http://www.courtofaudit.nl/english/Publications/Audits/Introductions/2012/05/Central_government Personnel_strategy_and_planning](http://www.courtofaudit.nl/english/Publications/Audits/Introductions/2012/05/Central_government Personnel_strategy_and_planning).


8. INTERNAL CONTROL

Within the public sector, effective internal control is a critical element in maintaining public confidence in a government’s ability to manage public resources, meet its public policy objectives and deliver public services. For the purposes of this analytical framework, internal control refers to the processes through which governments can reasonably assure the effectiveness and efficiency of their operations, the reliability of reporting and compliance with applicable laws, regulations and policies such that they deliver on their mandates. Internal control includes mechanisms for safeguarding public resources against loss, misuse and damage, including fraud and corruption (INTOSAI, 2004; UNODC, 2004).

INTOSAI asserts that the objective of internal control is to execute orderly, ethical, effective, efficient and economical operations that are consistent with the organisation’s mandate (INTOSAI, 2004). Part of this is ensuring that resources are used judiciously, meaning that the least possible effort and expenditure deliver the greatest output and secure desired outcomes in achieving the objectives of the organisation. Organisations should balance detective and preventative controls, and take corrective actions when necessary to achieve objectives (INTOSAI, 2004).

**Organisation and components of internal control**

Internal control systems of government can be structured in two main ways. In some countries, special internal control institutions exist that are independent from those that they monitor. They have a role in evaluating internal control, meaning that internal control assessment functions are centralised. In others, internal control assessment is decentralised, and is the responsibility of respective line ministries. In this case, the internal control system is an integrated, yet independent, part of the administration. In all cases, establishing, maintaining and reforming the internal control system is the responsibility of senior management, and not of a staff or audit department. In contrast, the role of auditors, both internal and external, is to provide independent and objective advice on and assessment of the efficiency and effectiveness of the internal control system.

The international industry standard on internal control, as espoused by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), articulates the components of effective internal control as involving the following elements: the control environment, risk assessment, control activities, information and communication, and monitoring activities (Table 8.1) (COSO, 2013). All these elements are essential and must be able to operate together seamlessly for an effective internal control system.
Table 8.1. The components and principles of effective internal control processes

<table>
<thead>
<tr>
<th>Component</th>
<th>Principles</th>
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</thead>
<tbody>
<tr>
<td><strong>1. Control Environment</strong></td>
<td>1. Demonstrates commitment to integrity and ethical values</td>
</tr>
<tr>
<td>• Established by senior management</td>
<td>2. Exercises oversight responsibility</td>
</tr>
<tr>
<td>• Set of standards, processes and structures</td>
<td>3. Establishes structure, authority and responsibility</td>
</tr>
<tr>
<td>• Represents integrity and ethical values of the organisation</td>
<td>4. Demonstrates commitment to competence</td>
</tr>
<tr>
<td>• Enables management oversight</td>
<td>5. Enforces accountability</td>
</tr>
<tr>
<td>• Processes to ensure a competent workforce</td>
<td></td>
</tr>
<tr>
<td>• Performance measures, incentives and rewards</td>
<td></td>
</tr>
<tr>
<td>1. Demonstrates commitment to integrity and ethical values</td>
<td></td>
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<tr>
<td>2. Exercises oversight responsibility</td>
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<tr>
<td>3. Establishes structure, authority and responsibility</td>
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<tr>
<td>4. Demonstrates commitment to competence</td>
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<td>5. Enforces accountability</td>
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<tr>
<td>6. Specifies relevant objectives</td>
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<tr>
<td>7. Identifies and analyses risk</td>
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<tr>
<td>8. Assesses fraud risk</td>
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<tr>
<td>9. Identifies and analyses significant change</td>
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<tr>
<td><strong>2. Risk Assessment</strong></td>
<td>10. Selects and develops control activities</td>
</tr>
<tr>
<td>• Dynamic and iterative process</td>
<td>11. Selects and develops general controls over technology</td>
</tr>
<tr>
<td>• Establishes risk tolerance against clear organisational objectives</td>
<td>12. Deploys through policies and procedures</td>
</tr>
<tr>
<td><strong>3. Control Activities</strong></td>
<td>13. Uses relevant information</td>
</tr>
<tr>
<td>• Performed at all levels of an entity</td>
<td></td>
</tr>
<tr>
<td>• May be preventative or detective</td>
<td>14. Communicates internally</td>
</tr>
<tr>
<td><strong>4. Information and Communication</strong></td>
<td>15. Communicates externally</td>
</tr>
<tr>
<td>• Using relevant quality information to carry out internal control responsibilities</td>
<td>16. Conducts ongoing and/or separate evaluations</td>
</tr>
<tr>
<td>• Continual, iterative process of providing, sharing and obtaining necessary information</td>
<td>17. Evaluates and communicates deficiencies</td>
</tr>
<tr>
<td><strong>5. Monitoring Activities</strong></td>
<td>18. Conducts ongoing and/or separate evaluations</td>
</tr>
<tr>
<td>• Scope and frequency partly depends on assessment of risks and management considerations</td>
<td>17. Evaluates and communicates deficiencies</td>
</tr>
</tbody>
</table>

Source: Adapted from COSO’s Internal Control – Integrated Framework, Executive Summary, May 2013

Regardless of whether in a centralised or decentralised internal control assessment system, internal control processes should permeate an entire ministry’s activities and is most effective when integrated into the infrastructure of the ministry’s activities, management frameworks, information technology infrastructure, decision-making processes, operations and accountability as a means of strengthening public governance.10

Internal control activities span all stages of the public policy cycle, and are particularly useful during the policy implementation phase. As internal control policies and procedures are designed to manage risks to achieve an organisation’s objectives, it is important that programme design and implementation takes into account controls that ensure achievement of those objectives and that public resources are used efficiently and properly. This can be done through internal control activities such as appropriate authorization and approval procedures, clear codes of conduct for officials, adequate verification processes, reviews of operations and procedures and sufficient supervision. A well-controlled organisation is better equipped to meet government programme and policy objectives.
Using a risk-based approach

Effective internal control processes require a risk-based approach to exercising control functions in order to achieve a ministry’s objectives. In other words, internal control processes should be tailored to reduce risks to an acceptable level within the specific contexts of the organisations in which they are situated.

Risk can be defined as the probability of a negative outcome that would adversely affect the achievement of organisational objectives. Risks can be considered qualitative in nature (e.g. reputational risk) or quantitative (e.g. financial risks). Risk management is thus the identification, evaluation and mitigation of risks such that the government’s objectives are still achieved.

According to INTOSAI, risks must be identified comprehensively against key organisational objectives, from which key risks can be isolated and prioritised for mitigation (INTOSAI GOV 9100). Objectives can include operational, reporting and compliance. According to COSO, these can be understood as follows (COSO, 2013):

- **Operational Objectives** pertain to effectiveness and efficiency of the entity’s operations, including operational and financial performance goals, and safeguarding assets against loss.

- **Reporting Objectives** pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency or other goals as set forth by regulators, recognized standard setters or the entity’s policies.

- **Compliance Objectives** pertain to adherence to laws and regulations to which the entity is subject.

An additional set of objectives according to INTOSAI is considering strategic objectives, which are the high level goals linked with the organisation’s mission (INTOSAI, 2007).

Prioritising risks includes taking factors such as the likelihood and severity into consideration, and rating them (for example, as high, medium or low) in order to highlight key exposures and focus the attention of managers. Prioritisation includes weighting the probability of a negative event occurring against the impact it would have on the organisation, programme or ability to achieve the government’s objective. Specific risk management actions can then be planned to mitigate the key risks, in line with the appetite for risk acceptance within the organisation. Risk management is also geared towards ensuring that the mitigation measure is proportionate to the costs associated with risk itself (INTOSAI, 2004). Risk appetite is essential to consider before establishing how risks can be addressed as it sets out the level of risk that is tolerable and justifiable should they materialise. It is the senior management’s responsibility to set and evaluate the risk appetite for the entire organisation.

Recognising that all risks cannot be eliminated, risk management within ministries aims to provide reasonable, but not absolute, assurance against the probability of an untoward risk materialising. Effective risk management can lead to better delivery of programmes and services, more efficient use of resources, and overall performance enhancement, while reducing exposure due to factors such as waste, fraud and corruption.

Appropriate controls should be put in place to modify risk so that the level becomes acceptable. Important considerations for adequate selection, implementation and operation of controls include (IFAC, 2012):
• The characteristics (causes, consequences and their likelihoods) of the corresponding risks;

• The organisation’s limits for risk taking;

• The various types of controls, for example, managerial or transactional controls, preventive or detective controls, and manual or automated controls;

• The suitability of the mix of controls, taking into account the organisation’s size, structure and culture;

• The costs compared with the benefits of more or different controls; and

• The continuous changes in risk that can make existing controls ineffective or obsolete and drive the need for periodic assessment of controls.

Organisations and governments should also consider the need to remain agile, avoid excessive control and bureaucracy. Internal control should enable, not hinder, the achievement of organisational objectives (IFAC, 2012).

Consideration also needs to be given to the costs associated with putting in place control processes. This helps to ensure that the cost of internal control does not exceed the derived benefit (INTOSAI, 2004). A cost-benefit analysis is required to determine the optimal level of control processes that can facilitate achieving a ministry’s objectives in delivering its services. This analysis should balance the cost of the controls against the consequences of fraud, waste and abuse, as well as the impact on those whom the government serves. This is an important balance, as excessively burdensome controls can lead to a greater risk of circumvention of control processes, inefficiencies or unnecessary delays in delivering public services.

Leadership is required to create a culture of risk management that is focussed on prevention rather than as a means to assign blame. In order to be effective, risk management must be an ongoing, iterative process, requiring risk profiles and related controls to be regularly revisited and reconsidered to ensure risk profiles remain relevant and that responses and risk mitigation measures continue to be appropriate and effective (INTOSAI, 2004).

Oversight over an internal control system is key, and requires a clear delineation of roles and responsibilities for risk management to avoid duplication or redundancies. All members of an organisation must know their role and the limits of their authority, with senior management providing direction and oversight (INTOSAI GOV 9100). The Institute of Internal Auditors (IIA) take the position that risk management is strongest when there are separate and clearly identified actors and roles. The IIA promulgates a Three Lines of Defence Model, which provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and responsibilities (IIA, 2013a). In this model, management control is the first line of defence in risk management. The various risk control and compliance oversight functions established by management are the second line of defence. Independent assurance, typically through internal audit, is the third. Each of these three “lines” plays a distinct role within the organisation’s wider governance framework:

1. First Line of Defence – Operational Management:

As the first line of defence, operational managers own and manage risks. Operational management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Operational management identifies, assesses,
controls and mitigates risks, guiding the development and implementation of internal policies and procedures while ensuring that activities are consistent with goals and objectives.

2. Second Line of Defence – Risk Management and Compliance Functions:

Management establishes various risk management and compliance functions to help build and/or monitor the first line of defence controls. The specific functions may vary by organisation, but typical functions in the second line of defence include a risk management function (and/or committee), a compliance function and a controllership function.

3. Third Line of Defence – Internal Audit:

Auditors provide the governing body and senior management with assurance regarding performance assertions made by management based on the highest level of independence and objectivity within the organisation. This high level of independence is not available in the second line of defence. Public sector auditors provide assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives.

The IIA recommends that these lines of defence be co-ordinated to ensure effectiveness and efficiency, including by sharing information, to assist all functions in accomplishing their goals (IIA, 2013a).

To be effective, risk management frameworks must be integrated in the organisation’s governance, management and operations, and not conducted in silos or limited to discrete parts of an organisation. Governments have developed integrated risk management frameworks to be applied within ministries, such as Canada’s Framework for the Management of Risk (TBS, 2010). It is a policy instrument that contains a principles-based approach to risk management for all federal ministries and is complemented by numerous guides and tools to enable its application. For example, there is a guide on integrated risk management that provides guidance on designing, implementing, practicing and continuously improving risk management approaches and processes. They have also developed a corporate risk profiles guide addressing how to manage corporate risks and inform decision making.

The United Kingdom SAI has developed a guide to managing risks in government, which includes six principles to influence departments to embed good practice approaches to risk management to promote better decision making (Box 8.1) (NAO, 2011).

<table>
<thead>
<tr>
<th>Box 8.1. United Kingdom National Audit Office’s Principles of Risk Management</th>
</tr>
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<tbody>
<tr>
<td>1. An engaged Board focusses the business on managing the things that matter</td>
</tr>
<tr>
<td>2. The response to risk is most proportionate when the tolerance of risk is clearly defined and articulated</td>
</tr>
<tr>
<td>3. Risk management is most effective when ownership of and accountability for risks is clear</td>
</tr>
<tr>
<td>4. Effective decision-making is underpinned by good quality information</td>
</tr>
<tr>
<td>5. Decision-making is informed by a considered and rigorous evaluation and costing of risk</td>
</tr>
<tr>
<td>6. Future outcomes are improved by implementing lessons learnt</td>
</tr>
</tbody>
</table>
The role of internal audit

Internal auditors are a critical part of an organisation’s internal control structure (INTOSAI, 1997). Internal audit is concerned with the effectiveness, efficiency and economy of the internal control system. Within government organisations, the internal audit function should be established as an independent, objective assurance and consulting activity designed to add value and assist the organisation in achieving its objectives by bringing a systematic and disciplined approach to evaluating risk management, control and governance processes. Governing bodies and senior management rely on internal auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes.

Within ministries, internal auditors provide reasonable assurance that these processes are functioning in a manner that minimises the probability of errors, inefficiencies and uneconomic practices, and fraud. Internal auditors can assess the adequacy of controls in the overall internal control system and should, based on globally recognised standards, conduct their work in line with the organisation’s risk-based approach (INTOSAI, 2010). To be most effective in the fulfilment of their mandate, internal auditors should provide reasonable assurance and advice to leadership on the adequacy of governance, the sufficiency of control and the risk management processes and activities.

As with SAIs, the independence of the internal audit unit from the rest of the ministry is paramount to its ability to carry out its function effectively. Additionally, internal audit’s activities and outputs are expected to be objective and unbiased. Core internal audit roles with respect to risk management are (IIA, 2009):

- to review the management of key risks;
- to evaluate the reporting of key risks;
- to evaluate risk management processes;
- to give assurance that risks are correctly evaluated; and
- to give assurance on the risk management processes and activities.

Additionally, internal auditors can make pronouncements relating to the achievement of value for money and the prevention and detection of fraud and corruption (IFAC and CIPFA, 2014).

Oversight of internal control processes

A number of bodies can play a role in providing oversight of internal control, including SAIs, audit committees and the Centre of Government. These bodies should actively monitor and periodically review whether the organisation is able to achieve its objectives effectively, or whether there are changes in the internal or external environment that warrant redefining objectives or approaches to achieving its objectives (IFAC and CIPFA, 2014).
Audit committees are comprised of members who are independent from the controlled ministry’s senior management. They are responsible for the independent oversight of internal control, risk management and the internal audit function, and enhance the independence of the internal audit function insofar as internal audit units report to the audit committee. The existence of an audit committee can strengthen the independence of internal audit and the overall transparency of an organisation. The audit committee represents an important oversight body interested in ensuring that integrated risk management and control processes are effective in order to assist the management’s overall governance duties. The IIA recommends that to be effective, audit committees should have at least three members, the majority of whom should be independent from the ministry, including the chair. Also, members should collectively possess relevant public sector, risk management, financial, and audit competencies, and their remuneration should be commensurate with audit committee workload, experience and personal exposure (IIA, 2013b).

Audit committees’ functions should enhance organisational independence of internal audit through activities such as: making recruitment, remuneration and dismissal decisions pertaining to the chief audit Executive; determining the scope and budget of internal auditing on the recommendation of the head of audit; considering key issues raised by internal auditors, concurrently with senior management; and meeting with the head of audit without the presence of management (IIA, 2013b). The audit committee can also play an important role in the inter-relationship between internal auditors and external auditors from SAIs, by being a point of contact for both (Gilchrist et al., 2013).

Countries differ in how their internal control and audit functions are set up. The following table provides data on institutional arrangements for internal audit in selected countries. It shows that most countries surveyed have internal audit units, but most do not have a formal audit committee. In some countries, such as in Chile, Costa Rica, Denmark, Korea and Peru (Table 8.2), their respective national SAI provides an oversight role over internal audit functions.

<table>
<thead>
<tr>
<th>Country</th>
<th>Existence of internal audit units</th>
<th>Existence of audit boards/committees</th>
<th>Internal audit co-ordination body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Yes</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>Brazil</td>
<td>Centralised within the Office of the Comptroller General; individual audit units exist for indirect administration</td>
<td>No</td>
<td>Secretariat of Federal Internal Control, Office of the Comptroller General of the Union (CGU)</td>
</tr>
<tr>
<td>Chile</td>
<td>Yes, internal audit units</td>
<td>No</td>
<td>Office of the Comptroller General of the Republic (CGR); Council of Government’s General Internal Auditors (CAIGG)</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>..</td>
<td>No</td>
<td>Office of the Comptroller General of the Republic</td>
</tr>
<tr>
<td>Denmark</td>
<td>Yes, but only in some public entities</td>
<td>No</td>
<td>National Audit Office of Denmark</td>
</tr>
<tr>
<td>Israel</td>
<td>Every public body</td>
<td>No</td>
<td>..</td>
</tr>
<tr>
<td>Italy</td>
<td>Yes, provided by independent performance evaluation bodies</td>
<td>No</td>
<td>Independent Commission for the Evaluation, Integrity and Transparency of Public Administration (CIVIT); Ministry of the Economy and Finance; State General Accounting Department</td>
</tr>
<tr>
<td>Korea</td>
<td>Internal audit units</td>
<td>No</td>
<td>Board of Audit and Inspection (BAI)</td>
</tr>
<tr>
<td>Mexico</td>
<td>Internal control offices</td>
<td>No</td>
<td>Ministry of Public Administration</td>
</tr>
<tr>
<td>Peru</td>
<td>Yes, institutional control bodies – some in the Office of the Comptroller General and in some public entities</td>
<td>No</td>
<td>Office of the Comptroller General of the Republic</td>
</tr>
</tbody>
</table>
A 2011 OECD survey on internal control collected data from 73 ministries across 12 countries to examine how professional standards, internal control standards and internal audit activities help strengthen accountability and integrity in the public sector (OECD, 2011). One key finding was that 91% of respondents reported having adopted an internal control framework comprising control activities, control environment, risk assessment and monitoring. The existence of a formal and comprehensive internal control framework was ranked as being most important for the enhancement of internal audit contribution to preventing, detecting and reporting fraud and corruption.

Three-quarters of respondents stated that internal audit units within their ministries report to the highest authority within the ministry, which is intended to enhance their independence in terms of defining their work plan, the execution of their work and transparency of their reports. These internal audit units also facilitate prevention, detection and reporting of fraud and corruption within ministries.

The survey also found that the involvement of management is a key component of countries’ internal control and risk management systems. For 87% of respondents, management is assigned responsibility for internal control, 84% for risk management and only 75% for the prevention of fraud and corruption. Thus internal audit has a key role to play in advocating the formalisation of an internal control and risk management framework applying not only to purely financial controls, but also to the wider environment including codes of ethical conduct, and fraud and corruption prevention plans.

In line with the previous discussion on the Centre of Government, central government agencies can play an important overarching role in ensuring coherence across ministries internal control processes. Recognising the need for organisation specific particularities, central agencies are well placed to advise line ministries on best practices with respect to internal control, internal audit and risk management.

For example, the aforementioned Canadian Framework for the Management of Risk was developed by the Treasury Board Secretariat, a central government agency, to be used by all federal government organisations. This type of framework informs ministries’ structures and processes around risk management while, in turn, helping the central agency to carry out its management, enabling and oversight roles over federal entities.

Internal control systems have seen changes over the past 10 to 15 years in various countries. In Europe, internal control reforms have led to increased attention being placed on objectives and performance management and risks as well as governance as a whole, including accountability and the quality of service delivery and cost efficiency (SIGMA, 2012). The functional independence of internal auditors has increased, and the programme of audit work has developed, focussing more on effectiveness, efficiency and economy and on the provision of information and assurance with regard to system operations. Practitioners of internal control, including internal auditors, have become, or are becoming, a professional category of staff with formal qualifications and special, long-term training programmes.
SAIs’ contributions to effective internal control systems

SAIs have the responsibility to conduct the external audit of the ministries or public entities in which internal control processes are embedded and over which internal control systems preside. Given that SAIs interact with internal control at these two levels, SAIs can contribute to more efficient and effective internal control processes at the ministry level, as well as at the whole-of-government level.

Collaborating with internal auditors

A constructive, professional and mutually beneficial relationship between SAIs and internal audit units within line ministries can lead to a more coherent contribution from public sector audits to public governance, as is recognised in INTOSAI’s standards relating to Co-ordination and Co-operation between SAIs and Internal Auditors in the Public Sector (INTOSAI, 2010). External and internal audit functions perform a full range of audits, while offering distinct insights. SAIs also have the responsibility to evaluate the effectiveness of the internal audit function, as their external audit relies on internal audit units to provide credible and reliable information as inputs to their work.

Although internal auditors and SAIs report to different entities, the INTOSAI standards set out guidance on how SAIs and public sector internal auditors can co-ordinate and collaborate while performing their distinctive functions toward their collective goal of promoting good governance. There is recognition that co-ordination and co-operation between internal and external auditors can increase efficiency in their work through an exchange of knowledge and by minimising duplication of work (INTOSAI, 2010). In particular, dialogues on the risks facing the organisation can help to focus respective audit work, resulting in more useful recommendations and more effective audits (INTOSAI, 2010). Mutual benefits derived from a professional relationship can be achieved in a number of ways, and determining the appropriate modes of co-operation is case specific. These modes may include holding joint planning sessions, developing mutual consultation procedures, communicating audit reports, having common training programmes or seconding staff across audit functions (INTOSAI, 2010).

In most EU member states, internal and external audit entities have working relationships, including internal audit providing audit plans and reports to the SAI, audit organisations co-operating on methodological and training matters, and the SAI having the possibility, as an advisor or observer, to take part in regular meetings of the heads responsible for internal audit (SIGMA, 2012). Half of the European SAIs recently reported that they experienced the following benefits of co-ordination and co-operation between SAIs and internal auditors (Table 8.3).

**Table 8.3. Benefit of co-ordination and co-operation between SAIs and internal auditors**

<table>
<thead>
<tr>
<th>Benefit of co-ordination and co-operation between SAIs and internal auditors</th>
<th>Responding SAIs %</th>
</tr>
</thead>
<tbody>
<tr>
<td>More efficient audits based on better co-ordinated internal and external audit activity resulting from co-ordinated planning and communication; refined audit scope for SAIs and internal auditors</td>
<td>90</td>
</tr>
<tr>
<td>Reducing the likelihood of unnecessary duplication of audit work (economy)</td>
<td>85</td>
</tr>
<tr>
<td>Improving and maximising audit coverage based on risk assessments and identified significant risks</td>
<td>85</td>
</tr>
<tr>
<td>Mutual support on audit recommendations which may enhance the effectiveness of audit services</td>
<td>80</td>
</tr>
<tr>
<td>Minimising disruption to the audited entity</td>
<td>75</td>
</tr>
</tbody>
</table>

*Source: EUROSAI-EClIA Joint Paper, Co-ordination and Co-operation Between Supreme Audit Institutions and Internal Auditors in the Public Sector, May 2014*
The Australian SAI has developed a “Better Practice Guide” for public sector internal audit, which recognises that a professional relationship between internal audit and external audit creates mutual benefits. For example, internal auditors can often be the primary liaison with the SAI and co-ordinate to ensure the SAI’s work is facilitated when auditing that ministry. Furthermore, the guide encourages internal and external auditors to consult with each other during the work-planning phases, for both financial audits and performance audits. However, it also reiterates the importance of SAI’s evaluation of the adequacy of internal auditors’ work for both internal control processes and as inputs to external audit (ANAO, 2012).

**Assessing internal control processes**

SAIs can have a greater impact on good governance by taking a whole-of-government approach in evaluating internal control and in providing guidance on effective and efficient internal control systems and activities. This would entail broadening the scope of current SAI internal control assessments, which, according to 64 SAIs that responded to an INTOSAI survey, are primarily focused on assessing compliance with applicable laws and regulations, cases of fraud and corruption and reliability of financial statements. About half analyse the effectiveness of the implementation of objectives and tasks set by the organisation (INTOSAI, 2013).

From a bird’s-eye view, SAIs can identify systemic areas for improvement in the design and formulation of internal control systems and can highlight practices and procedures that are working well so that all ministries can benefit from the SAI’s review. By taking a government-wide approach to systematically and periodically evaluate the robustness and adequacy of internal control functions and procedures put in place by the Executive SAIs could:

- provide credible and relevant information on the roll-out of internal control processes at the ministry level, particularly on risk management and internal audit good practices, with reference to achieving government objectives;
- provide insights on the Executive’s current and future internal control strategies and oversight; and
- contribute to the government’s internal anti-corruption and anti-fraud activities.

In evaluating the robustness and adequacy of internal control processes, SAIs could also assess the adequacy of the oversight mechanisms over internal control and internal audit across government. Where audit committees exist, SAIs could evaluate the level of independence of such committees including whether there is a majority of audit committee members recruited from outside the ministry and, ideally, some from outside the public administration. They could also review an audit committee’s mandate to see whether it covers the monitoring of risks exposure, including those relating to fraud and corruption, and to check if there is periodic reporting of cases of fraud and corruption to the audit committee.

The South African SAI’s analysis of internal control systems includes discussion on root causes of weaknesses, such as senior management vacancies, lack of training and a lack of consequences for non-compliance with laws. This root-cause analysis is more effective in clarifying the situation, which gives impetus to addressing the issues by the government.

SAIs could follow up on these audits to report on progress and highlight areas of risk as a way to ensure accountability and enhance good governance. For example, the 2013 *Fall Report of the Auditor General of Canada* included an audit on internal controls over financial reporting that was a follow up
to a 2011 audit on financial management and control and risk management (OAG, 2013). In the follow-up report the Auditor General concluded that the majority of entities that were audited in 2011 had made unsatisfactory progress in response to the 2011 recommendations. It also commented on the entities that had fully addressed the recommendations.

**Providing information and guidance**

Government-wide assessment audits on internal control can be used to inform the Centre of Government on the effectiveness of internal control across the government. Internal control should be a dynamic rather than a static process that adapts in order to address adequately changing risks to an entity’s objectives. Thus, from a bird’s-eye view, SAIs can draw upon their knowledge of internal control processes to bring coherence and effectiveness to the public sector’s internal control activities on an on-going basis. Depending on the context, SAIs may simply package the information in a way that is useful for those who are responsible for coherence, namely the Centre of Government.

Based on COSO’s elements of effective internal control processes (Table 8.1), a synthesis of information can support planning of effective internal control processes by using its information to construct good practices on:

- control environments, so that the standards and structures that are necessary for effective internal control at the ministry level are put in place; that management oversight and clear responsibilities are established; and that processes are in place to establish a competent workforce;
- processes for establishing risk tolerance, prioritisation and criteria; and
- planning of control activities of specific policies and procedures.

The information that SAIs generate could also be used to support effective implementation of internal control processes by informing on good practices related to the conduct of risk assessment and by adding to the accumulation of relevant and quality information needed to conduct control activities. By auditing ministries and evaluating internal audit, SAIs are part of the monitoring and evaluation stage of internal control processes, as per the fifth COSO element.

The Centre, assuming it is adequately resourced, would then be better equipped to guide ministries’ internal control systems in a coherent, whole-of-government manner. In addition to the Centre’s guidance, or in place of it where it is absent, SAIs can develop good practice guides, as the SAIs in Australia and the United States have done.

The Australian example above demonstrates that SAIs can synthesise findings of evaluations and audits in order to identify good practice and trends in internal control processes, as well as to detect risks to internal control systems more broadly. By being cognisant of this potential and of its usefulness, SAIs could package the information that it gathers through audits in such a way that it strengthens the government’s formulation, implementation and monitoring and evaluation of more effective internal control processes.

The SAI of the United States is in the process of updating its standards for internal control for federal agencies, which were first drafted in 1983 (GAO, 2013). The standards are intended to provide management criteria for designing, implementing, and operating an internal control system and to reinforce management’s accountability for internal control.
Officials in the Executive should consider welcoming SAI advice and guidance on internal control matters. Almost half of the ministries surveyed by the OECD in 2011 indicated that it would be useful for SAIs to make recommendations for specific controls to better address the risks of fraud and corruption. To this end, SAIs could evaluate the design, implementation and effectiveness of an organisation’s ethics-related objectives, programmes and activities, and determine whether they include effective ethics awareness and training. SAIs could perform periodic audits of the design and quality of anti-corruption and anti-fraud frameworks and make recommendation for establishing and strengthening the field of ethics, integrity and conflict-of-interest policy.

SAIs could also play a formal role in the development of national anti-corruption strategies, as they do in Brazil, Chile, Costa Rica, the European Union, Italy and South Africa (OECD, 2014). In Brazil, the National Strategy for Combating Corruption and Money Laundering involves approximately 60 public entities and civil society organisations, directly or indirectly, in preventing and combating corruption and money laundering. The Brazilian SAI is an active member of the National Strategy for Combating Corruption and Money Laundering and is responsible for, or participates in, several actions. In Costa Rica, the Comptroller General of the Republic, the Office of Ethics and the Costa Rican Institute on Drugs have an anti-corruption agreement that defines the national strategy on the topic. One of the European Court of Auditors’ tasks is to screen major anti-fraud and corruption legislation and systems to ensure that they provide adequate protection against fraud and corruption and do not open up opportunities for fraud within the EU.

Notes

29 Adapted from the Committee of Sponsoring Organisations of the Treadway Commission (COSO) definition of Internal Control. www.coso.org

30 In part from INTOSAI GOV 9100.

31 Derived in part from IIA definition of Internal Auditing.

32 Formulated from INTOSAI definition contained in ISSAI 9150, 3.2.1.

33 Australia, Brazil, Bulgaria, Canada, Finland, France, Japan, the Netherlands, South Africa, Sweden, the United Kingdom and the United States.
References


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INTOSAI (2013), Research paper on reporting on internal control in the light of the results of the global survey of 2012, Internal Control Subcommittee (ICS).


