OECD Public Governance Reviews

Supreme Audit Institutions and Good Governance

OVERSIGHT, INSIGHT AND FORESIGHT



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Preface

This is the perfect moment to launch a broader and more inclusive discussion on the role Supreme Audit Institutions (SAI) have in promoting good governance. In the paper *Integrating Governance in the Post-2015 Development Framework,* the United Nations highlights the vital link between good governance and development. This concern has led to the inclusion of Goal 16 – commonly referred to as the governance goal – amongst the Sustainable Development Goals (SDGs) approved in September 2015. This goal establishes the need to "promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

SAIs fulfill a crucial role as key democratic institutions and we strive to exercise our constitutional duties in an even more comprehensive and effective manner. We are determined to innovate: so we seek inspiration from OECD, our long-standing partner, and from the SAIs participating in our study. With input from 11 countries and the European Union, we are confident that any gaps in our operations, in comparison with our partners, can be filled, and that this process will further motivate our entrepreneurship and innovation. We are glad to see that this report is full of good ideas upon which we can advance.

The proper use of these potential building blocks requires the ability to identify and support initiatives likely to improve public governance, without, however, inducing excessive controls – transforming our own institutions into another cause of bureaucracy and paralysis. This risk must be properly detected and avoided. We must foster the construction of a government that has a long-term, strategic vision; one that is grounded on evidence-based decision making and makes proper use of key indicators and expert evaluations of complex problems. At the same time, we must keep in mind the healthy space and agility that public officials often need in order to deal with inevitable crises and political disruptions.

The best practices and initiatives presented here shall also inspire the search for solutions that provide more effectiveness and higher value to the global community of supreme audit institutions, especially the International Organisation of Supreme Audit Institutions (INTOSAI). We strongly believe that promoting change in our governments by keeping ourselves aware of new technologies and methods used by audit professionals around the world to improve public policies, management and governance is a highly effective and mutually beneficial approach.

The continued existence of supreme audit institutions, often based on constitutional provisions, should not establish comfort zones that limit progress or innovation. If, on the one hand, our independence is essential to properly exercise our duties, on the other, we must have passion, vision and empathy with the *res publica*, thereby keeping us motivated and relevant. This work provides many promising insights for SAIs leaders and technical staff. Enjoy!



Aroldo Cedraz,
President of the Brazilian Federal Court of Accounts (TCU)

Foreword

How can governments better learn from the past, make sound choices in the present, and think strategically about the long-term and the future? How can citizens be more confident that policy decisions are taken with their needs in mind? In a demanding and increasingly complex fiscal and policy environment, it is critical to consider the value-added of all stakeholders in the Executive, Legislature and civil society, including independent actors like supreme audit institutions (SAIs), when answering these questions.

In an era that emphasises "doing more with less", governments are being held accountable not only for the execution of the public budget, but for the effective, efficient, and economical use of taxpayer's money. Through their traditional role in external oversight of government accounts, SAIs form a critical link in a country's accountability chain. Yet, this is not the only avenue through which SAIs can support good governance.

There is untapped potential in the evolved role of SAIs to go beyond their traditional oversight role and link their work into policy making and policy decisions. It is through this process that SAIs can provide insight to improve the functioning of processes and programmes, and foresight to aid governments in adapting to future trends and risks. Such evidenced-based contributions to addressing systemic issues can lead to better policy formulation, implementation and evaluation.

Leading SAIs from across four continents, including Brazil, Canada, Chile, France, Korea, the Netherlands, Poland, Portugal, South Africa and the United States shared insights on how SAIs make valuable contributions to the policy cycle and good governance. This report provides examples and case-studies of innovative audit approaches that use cross-cutting perspectives to provide oversight, insight and foresight. For instance, SAIs provide insight to reduce duplication, fragmentation and overlap in government, and others assess the preparedness of government to address long-term policy challenges, such as climate and demographic change.

SAIs can contribute to a policy delivery chain that withstands the weight of short, medium, and long-term challenges. Insight and foresight activities are often ad-hoc, as this study shows, and SAIs can face both endogenous as well as exogenous factors that can limit such contributions to the policy cycle. This report offers forward-looking recommendations on ways for SAIs to evolve as well as to overcome such limitations, thereby reinforcing a whole-of-government approach to establish better policies for better lives.



Angel Gurría, OECD Secretary-General

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This report benefited from the insights and review of a strong team of public policy experts in the Governance Directorate, including from the Budgeting and Public Expenditures Division, the Regulatory Policy Division, the Governance Reviews and Partnerships Division and the Director's Office. Early insights were also provided by colleagues of the OECD Internal Audit and Evaluation Directorate.

This report is indebted to representatives of the peer supreme audit institutions (SAIs) from selected OECD and partner countries for providing invaluable insights, examples and data through a time-consuming survey and peer review. For all of their contributions and efforts, we thank our colleagues at the SAIs of Brazil, Canada, Chile, France, Korea, the Netherlands, Poland, Portugal, South Africa and the United States. We also thank our colleagues from the SAIs of the European Union, of Mexico and of the United Kingdom for their support through consultation. Special thanks also go to international expert José R. Oyola and Vincent Tophoff of the International Federation of Accountants for their insightful reviews and commentary on the draft version.

This report was made possible with the valuable contributions of the initiative's sponsor, the SAI of Brazil - the Tribunal de Contas da União (TCU). In particular, we extend our gratitude for the leadership of President Aroldo Cedraz, and Minister Augusto Nardes, and for valuable guidance of Rainério Rodrigues Leite, General Secretary of External Control; Felício Ribas Torres, Joint General Secretary of External Control; Marcelo Barros Gomes, Coordinator-General for Social Policies Sector; Claúdio Souza Castello Branco, Coordinator-General for Core Public Management Services; Luis Aktutsu, Coordinator-General for National Development; Leonardo Rodrigues Albernaz, Secretary of Government Macro Analysis; Ana Paula Silva da Silva, Secretary of External Control - State Management; Dagomar Henriques Lima, Secretary of Methods and Support for External Control; and to External Control Federal Auditors of the TCU including Rodrigo Araujo Vieira, Leonardo Naves Sousa, Cristina Monken Mascarenhas and Maridel Piloto de Noronha.

This report is a landmark in the evolution of multi-year dialogues on the role of SAIs in good governance amongst SAIs and between SAIs and executive representatives. Peer SAIs participated in policy dialogues with executive representatives held in June 2014, in Paris, and in November 2014, in Brasilia. Through these dialogues, and taking into account the work of the OECD's Public Governance Committee, this reports aims to provide balanced considerations for SAIs to make in view of the broader governance architecture. Particular thanks are extended to centre of government representatives of Brazil, the Netherlands and the United States for sharing their counterpoints and considerations.

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Acronyms and Abbreviations

AGSA	Auditor General of South Africa (SAI of South Africa)
ANAO	Australian National Audit Office (SAI of Australia)
ASF	The Superior Audit Office of Mexico (SAI of Mexico - Auditoría Superior de la Federación)
BAI	Board of Audit and Inspection (SAI of Korea)
CoG	Centre of government
CGR	Comptroller General of the Republic of Chile (SAI of Chile - Contraloría General de la Republica)
ECA	European Court of Auditors (SAI of the European Union)
GAO	Government Accountability Office (SAI of the United States)
HRM	Human resource management
ICT	Information and communications technology
INTOSAI	International Organisation for Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
OAG	Office of the Auditor General (SAI of Canada)
OMB	Office of Management and Budget
NAO	National Audit Office (SAI of United Kingdom)
NIK	National Audit Office (SAI of Poland - Najwyższa Izba Kontroli)
PFM	Public finance management
PPP	Private-public partnership
RIA	Regulatory impact assessment
SAI	Supreme audit institution
TBS	Treasury Board Secretariat
TCU	Federal Court of Accounts (SAI of Brazil - Tribunal de Contas da União)

Executive summary

New strategies for public governance, catalysed by the financial crisis, economic deceleration and the need for governments to do more with less, have compelled countries to take introspective reviews of government processes and their outcomes. Moreover, a decline in citizens' trust in government, coupled with a surge in inequality, underscores the need for public programmes to be more effective and responsive to citizens' needs.

A more systemic understanding of what is effective and efficient is critical to addressing long-term and complex economic, social and environmental policy challenges. Effectively selecting the programmes and policy tools that bring value-for-money, and making strategic trade-offs, is not an ad hoc process and should involve consideration of evidence and analysis. However, in a resource-constrained environment, governments can face challenges in implementing a broader vision in the face of cross-governmental initiatives and varying policy priorities.

Supreme audit institutions (SAIs) have untapped potential to help governments meet these challenges and can provide critical evidence to inform what works and what does not in public governance. Independent and professional SAIs are traditionally known and trusted for holding government to account for the use of public resources. However, their activities have evolved over recent decades to provide a broader, more cross-cutting view of how processes and programmes function across government. There is potential for SAIs, through their external and objective analysis, to strengthen the evidence base on which policy decisions are made and complement assessments of value-for-money.

This report maps how ten leading SAIs are assessing policies and programmes related to key stages of the policy cycle. It focuses on the experience of SAIs from Brazil, Canada, Chile, France, Korea, the Netherlands, Poland, Portugal, South Africa and the United States. By matching SAI activity with government good practice and policy challenges, the report highlights that the goal of delivering value-for-money is shared between the legislature, the executive branch and SAIs, and could be better addressed by leveraging all actors' potential.

Key findings:

- **Participating SAIs are proactively investing expertise and resources into activities that provide insight and foresight**. The promotion of accountability through oversight remains a core activity of SAIs' work. However, SAIs are taking a systemic view in order to pinpoint cross-cutting issues and trends in the short term (insight), and to forecast policy implications and predict risks in the medium and long-term (foresight). For instance, some SAIs in the study provide insight into duplication, fragmentation and overlap across government, while others assess the preparedness of government to address long-term policy challenges, such as climate and demographic change.

- **The ten participating SAIs are active in assessing the functions required for the formulation, implementation and evaluation of public policies and programmes**. The SAIs surveyed tend to be more active in assessing the achievement of good practice principles in traditional areas, including budgetary planning and execution and internal control. They are less likely to assess the efficiency and effectiveness of processes required for strategic whole-of-government steering or for communication and co-ordination across government.
- **SAIs in the study are employing a range of approaches and methodologies to provide insight and foresight.** SAIs conduct financial, compliance and performance audits, as well as assessments that integrate value-for-money criteria. Moreover, SAIs are relying on more than traditional audit reports to communicate results, and are developing guidance, manuals, information seminars with audited entities and testimonials to relevant legislative committees.
- **SAIs' adoption of insight and foresight activities is largely ad hoc**. Some SAIs in the study have strategically and systematically expanded their audit portfolio to include insight and foresight activities. However, these activities are often being undertaken in an ad hoc manner, whether at the request of the legislature or in response to high profile or sensitive cases.
- **The SAIs surveyed face internal challenges and limitations that can limit their assessments of certain policy functions.** Internal challenges include a lack of resources and skills. However, SAIs also reported that external challenges, such as a lack of leadership in the executive branch, have also affected their ability to effectively assess key policy functions.
- **SAIs should consider their broad governance role and prepare for strategic trade-offs that may be necessary to remain relevant and responsive to complex policy challenges**. The experiences of the ten participating SAIs are used to provide key considerations for SAIs regarding the relevance of their existing, and any new, activities. Considerations centre around the strategic trade-offs that may be required internally (on skills and between activities), the need to ensure the quality and timeliness of audit work, the contributions of SAIs' work on the broader governance architecture and the roles of other public institutions.

The ten participating SAIs come from different SAI models and domestic environments. Nonetheless, their experiences present options and insights for all forward-looking SAIs on how to strengthen the link between their valuable work and the needs of the legislature, executive and citizens, while retaining their independence.

Chapter 1

Supreme Audit Institutions' input into the policy cycle

This chapter outlines the motivation for exploring the role of supreme audit institutions (SAIs) in the 21st century, and the main objectives and methodological approach followed throughout the report. The main findings are synthesised based on survey data and case studies of ten SAIs that assess and support policy formulation, implementation and evaluation (Chapters 2, 3 and 4 respectively). Good practices and limitations in SAI activities are drawn together to outline key considerations for SAIs when assessing their relevance in the 21st century. In particular, this chapter outlines SAIs' evolution from providing oversight to contributing insight and foresight for improved governance across the policy cycle. This chapter explores the potential for SAIs, as well as the executive and legislature, to enhance their current and potential impact on improving the broader governance architecture.

Why is the OECD undertaking this work? *Integrating evidence into the policy cycle*

The current governance climate

New trends in public administration and continuing fiscal consolidation efforts have compelled countries to take introspective reviews of government processes and their outcomes. Trends at the beginning of the 21st century showed the state expanding further into the realm of service delivery, where it became more active in employing third parties and Private-Public Partnerships (PPPs) to meet citizens' needs. While heads of government focused on weathering financial pressures, a spotlight was shone on centre of government (CoG) institutions that were trying to prove decisive and smart in the co-ordination of a larger, more complex public service (OECD, 2015a; OECD, 2014a).

More recent programme cutbacks and fiscal consolidation have scaled back public investment and largely affected social welfare, pensions, health, and infrastructure investment (OECD, 2015b). At the same time, evidence is mounting that social inclusion is linked to sustainable economic growth (OECD, 2015c), with an estimated 4.7 percentage points of cumulative growth flattened by the rise in inequality between 1985 and 2006 (OECD, 2015b). Over the same period, there has been a decline in the trust of citizens in their governments (OECD, 2015c, 2015d). Social movements around inequality and corruption, and a focus on transparency and citizen rights of access to information, compound the demands for trade-offs made by governments to be more responsive to citizen needs. Furthermore, the instantaneity of communication has increased societies' expectations that governments make responses more transparent and efficient.

Fiscal consolidation plans of OECD member countries between 2009 and 2015 largely focused on cutting programme expenditure, whereas approximately 25% of cuts were aimed at operational expenditure (OECD, 2012). Governments remain under pressure to make difficult choices between programme funding and the tools and mechanisms used to deliver these programmes and services efficiently and effectively. In many OECD countries this has required a frank acceptance of the limitations of previous public management trends, and a willingness to overhaul its operations in the name of value-for-money.

Public management trends that predated the financial crisis placed emphasis on "letting managers manage", focusing on managerial capacities, flexibility and discretion. Emphasis then shifted to "making managers manage" though more pronounced accountability and control mechanisms. OECD countries have expressed frustration over the ripple effects brought on by these trends, which include a lack of strategic policy direction, the prioritisation of political competency development over technical policy skills and, as a result, frequently poorly designed policies and programmes (OECD, 2015e.

Where the trend towards compliance and outcomes-based accountability coincided with an excessive focus on the use of key indicators rather than their usefulness, a risk arose that the attention of managers would be distorted towards narrow outcomes not established in accordance with broader aims.[1] Creating an innovative and high-performing, yet adequately accountable, policy-making environment remains a difficult task. Governments struggle to apply a measured set of regulations and controls that foster the achievement of policy objectives while simultaneously cultivating an innovative and competitive environment that works together to generate more inclusive growth.

The executive and legislature require reliable insights and objective inputs in order to decipher key messages from performance-related information. At the same time, there has been a renewed interest by OECD member countries' legislatures in reasserting their role in accountability and in becoming more engaged throughout the budget process (Santiso, 2013). However, there may be gaps between the intentions of the legislature to influence proceedings and the technical capacity to do so in a meaningful way. The need for, and in some cases a lack of, technical expertise has been highlighted by technological advances, which have placed emphasis on rapidly responding to client needs with more complex analysis.

The response of government: Towards a more strategic policy-making environment

Efforts to streamline the machinery of government to create and demonstrate value-for-money predated the financial crisis and have since continued. Evidence shows that dealing with financial problems in the short term does not come at the expense of becoming more adaptable and flexible in order to tackle policy challenges in the medium and long term (OECD, 2015e). A government more capable of responding to challenges is a strategic and agile state that can move from a reactive to proactive approach in order to identify challenges and risks in a timely manner. This type of government ensures there is a solid evidence base on which it can make decisions that will capitalise on programmes and processes that work, and be more open to scaling down those that do not. It has the capacity and willingness to mobilise actors across a strengthened delivery chain and recognises that the public sector's strength is the sum of its parts, where all actors know their role and are empowered to participate in an efficient, effective and economic way (OECD, 2015a, 2014b).

But what does a more strategic and open state look like in practice? OECD governments are building on lessons learned from the era of new public management (1990-2005), to de-bulk and rebuild a simpler more streamlined government in the name of value-for-money. Key trends since 2005 include: smaller core ministries, a focus on capacity for analysis and evaluation; an increase in cross-ministry initiatives; amalgamation of executive agencies (horizontal integration); integration of regulatory and supervisory units (inspectorates) and risk based supervision; and concentration of standard setting for operational management (finance, internal audit, HR, procurement, ICT, etc.) in one or two ministries (OECD, 2015e, 2014a). Evaluation alone has been transformed to include performance-based budgeting and multi-year fiscal planning linked to broader policy objectives; feedback loops to inform next-generation policy; and a focus on using transparency to engage and respond to citizens' demands for accountability.

These trends mirror the transition towards adopting a stronger steering function that brings greater coherence across government. The capacity of the CoG has become critical to developing a more strategic and agile state that is driven in a common direction. Government strategy should be reflective of a longer-term vision for the country that is independent from electoral cycles and implemented and evaluated in an effective, efficient and economical way. A state that adequately equips itself for appropriate government scrutiny, through a functional linkage between parliament and those providing objective insight into its practices and performance, should be complemented by a well informed legislature (Santiso, 2013).

The objective: *Leveraging the value-added of SAIs*

A strategic and agile state employs policy-making functions and tools to best deliver on intended outcomes. There are three key stages of the policy cycle: formulation, implementation and evaluation. The formulation stage prepares the public sector for success by aligning plans, resources and rules to increase the likelihood of achieving goals through effective implementation. The implementation stage involves communication and co-ordination, exercise of rules and controls as well as sound budget execution. To improve and to understand how to make difficult trade-offs, and what actions correspond with success, mechanisms for monitoring and evaluation need to be integrated into the stage of formulation and fed back in to future planning processes. Evaluation coupled with transparency remains a core yet underperformed responsibility of government. These stages are elaborated upon in Table 1.1.

Transitioning to a more agile state requires that governance actors are open to sources of relevant information that will facilitate better decision-making and more targeted prioritisation and improvement. This may mean integrating benchmarks, international principles and insight from non-executive actors. In this, SAIs can play a unique role.

In addition, governments have a need for objective and external views on policy formulation, implementation and evaluation and outcomes. When those responsible for evaluating successes and failures are the same as those who designed the programme in question, there may be a risk that evaluation becomes an administrative task or produces biased results. Programmes that carry political weight or are citizen-sensitive may become institutionalised, even if they are inefficient, ineffective and costly. SAIs contribute to a more robust evidence-base by complementing government-led evaluation with external assessments. Their external oversight, insight and foresight becomes even more pertinent in view of a lack of trust and rising intolerance to waste and abuse of public resources.

Box 1.1. What is a supreme audit institution?

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. A SAI is responsible for overseeing and holding government to account for its use of public resources, together with the legislature and other oversight bodies. SAIs have different models and institutional arrangements regarding the legislature, executive and judiciary. 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).

In line with their status as independent external bodies, SAIs require full discretion and sufficiently broad mandates (INTOSAI, 2013), 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).

In order for a SAI to effectively hold 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, 2013). 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.

Box 1.1. What is a supreme audit institution? *(continued)*

The UN General Assessmbly emphasised the value-added of supreme audit institutions through Resolution 69/228 on 19 December, 2014: "Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions" (UN, 2014). This act built on Resolution A/66/209 of December 2011, and emphasises the link between efficient, accountable and transparent public administration with the implementation of internationally agreed development goals.

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INTOSAI (1997), *Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls*, INTOSAI Guidance for Good Governance, 9110, Copenhagen, www.intosai.org/issai-executive-summaries/view/article/intosai-gov-9110-guidance-for-reporting-on-the-effectiveness-of-internal-controls-sai-experienc.html.

United Nations General Assembly (2014), *Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by sregtnhening supreme audit institutions*, Resolution A/RES/69/228, www.intosai.org/fileadmin/downloads/downloads/0_news/2014/EN_Resolution_69_228.pdf.

The objective of this report is to explore how SAIs contribute to the formulation, implementation, and evaluation of policies (i.e. the policy cycle). It maps how SAIs provide oversight, insight and foresight, primarily to CoG institutions, but also to other entities responsible for co-ordination and implementation of the government's agenda. In doing so, this report supports the broader purpose of informing and encouraging dialogue within and between SAIs, as well as new dialogue between SAIs and key governance actors. These country-based discussions can help to identify how SAIs can contribute to the government's delivery of more effective, efficient and economic policies, programmes and services, while maintaining their critical traditional roles of promoting accountability.

The report is also meant to provide the executive and the legislature with a better understanding of the importance, relevance and usefulness of SAIs' function and their existing audit and counselling work. Similarly, it aims to provide SAIs with a better understanding of the challenges that the executive branch faces. This report provides numerous examples of audit and advisory work that SAIs may consider relevant regarding the governance challenges in their country, as well as the strategic, cost-effective steps it can take to integrate these challenges.

This report promotes discussions between SAIs and the executive and legislature on the basis that SAIs have a unique birds-eye view of government and remain one of the most trusted public institutions, despite a decline in confidence in government and legislature. SAIs' trustworthiness among citizens is largely a result of its traditional oversight role. Although this report highlights the potential for SAIs to take on different functions, this should not come at the expense of their oversight role of promoting accountability in government.

The approach: *Integrating perspectives of SAIs and the executive*

In order to present realistic insights for SAI engagement in supporting and enhancing good governance, this report uses a collaborative approach that relies on expertise and input from SAIs and executive representatives. The ten peer SAIs that provided detailed input for this report are the Tribunal de Contas da União (TCU) of Brazil, which is the sponsor of the report, and Canada, Chile, France, Korea, the Netherlands, Poland, Portugal, South Africa and the United States. The SAIs of the European Union (EU), Mexico and the United Kingdom have also lent their expertise. These leading institutions are members of various committees and groups of the SAI community, representing both OECD member countries and key partners on five continents. While the ten peer SAIs of this report are not meant to provide a representative sample, this report shows an array of auditing practices that draw a common thread between participating SAIs, regardless of the model of the SAI or of assumptions of an SAIs' traditional role.

This report recognises that countries differ in terms of the legal environment, political economies, audit models, and other factors that could influence the application of certain concepts in various countries. Notwithstanding differences between countries, a constructive dialogue depends on the openness of countries to benefit from the lessons learned of others, many of which are provided in this report. This report includes the perspective of the executive branch through relevant OECD networks, and consultation with representatives from participating countries.

The methodology: *Rooted in international principles*

The following chapters (2, 3 and 4) represent the formulation, implementation and evaluation stages of the policy cycle, respectively. **As shown in Table 1.1 below, each policy stage is broken down into key functions**. These policy functions are described with their "key elements", rooted in international principles, that are required for their implementation, as well as challenges and good practices in doing so.

Each SAI was asked whether it had assessed particular "key elements" of each policy function. The survey questions were not based on assumptions of the traditional role of SAIs in each policy stage. The summary results of this are shown in Table 1.2. Chapters 2, 3 and 4 report on how many SAIs assessed particular elements, and provide examples of the innovative ways that SAIs have done this. Each chapter provides information on the format of these SAI activities (whether a particular type of audit, evaluation or guidance) and the limitations that SAIs experienced in performing that activity.

Further, the end of each chapter includes a set of case studies, provided by the SAIs themselves as part of a survey, which offer more in-depth information on particular audit initiatives. Where possible, links to further reading are provided. Case studies are structured by: type of activity, objective, scope, methodology, criteria, resources, benefits, good practices, lessons learned and further reading.

Table 1.1. Key functions of the policy cycle in a strategic and open state

Stages of the policy cycle		Key functions and elements of a strategic and open state
The feedback loop	**Policy formulation** *Setting the public sector up for success by: 1) defining roles and responsibilities; 2) considering resources and budgets; and 3) developing rules and guidance.* **(Chapter 2)**	**Key function 1** **Strategic whole-of-government steering** and planning Government programmes are responsive to future needs, clear plans are established for their rollout and improvements to existing services are based on performance results.
		Key function 2 **Budgetary planning** Financial assumptions are sound and outline a realistic budget framework that shows how multi-annual objectives can be achieved.
		Key function 3 **Establishing regulatory policy** Ensuring good regulatory governance aimed at effective implementation of public policies.
		Key function 4 **Creating risk management and internal control policies** Ensuring that risk management and internal control is an integrated part of strategic planning.
	Policy implementation *Ensuring co-ordination and communication, efficient execution of the budget and application of regulations and controls to deliver on objectives.* **(Chapter 3)**	**Key function 5** **Co-ordinating and communicating** Effective horizontal and vertical co-ordination exists to rollout government programmes and to drive success in cross-cutting initiatives.
		Key function 6 **Implementing the budget** Faithful implementation of the budget with appropriate oversight and transparency is ensured, but allows for flexibility as needed.
		Key function 7 **Implementing and enforcing regulatory policy** Regulatory processes are risk-based, accessible and coherent in a way that increases the likelihood of realising intended objectives of regulation, while minimising undue burden.
		Key function 8 **Exercising internal control and risk management** Functional guidance is provided on internal control and risk management at the whole-of-government level, while public sector managers assess, report, monitor and review risk and controls in order to achieve objectives.
	Policy evaluation and oversight *Checking the pulse of government and using it objectively to promote high standards, good governance and effective, inclusive policies.* **(Chapter 4)**	**Key function 9** **Evaluating for results** There is an integrated and open system for evaluating government-wide performance, as well as incorporating feedback and lessons learned, as ways of improving performance of policies, programmes and institutions.
		Key function 10 **Oversight and accountability** Effective and objective mechanisms exist to ensure governments are responsive to citizens, are transparent in processes and outcomes, and promote integrity within the public sector.

Source: OECD Survey of Peer Supreme Audit Institutions.

The report's main findings: *SAIs are active in assessing functions of the entire policy cycle*

The detailed findings and examples provided in Chapters 2, 3 and 4 are aggregated here to show the common thread between the activities and limitations that SAIs experience as they provide oversight, insight and foresight across the policy cycle.

SAI activities in supporting the policy cycle

The survey asked whether the ten peer SAIs have assessed (i.e. audited or provided advisory services) particular elements of key policy functions. For instance, the survey asked whether the SAIs had assessed a particular element of strategic steering (key function 1 of the policy formulation stage): "The existence or development of government-wide evaluation criteria." This was repeated across the policy cycle.

These survey questions and responses (Table 1.2) show that the participating **SAIs are assessing key functions across the entire policy cycle**. For all 48 questions at least half (five of ten) of SAIs surveyed said they look at all except one of the particular elements put forth.[2]

Survey questions that reflected more traditional SAI activities, such as auditing of public accounts and overseeing financial allocation, received the highest number of affirmative responses from SAIs. In these areas, SAIs have built on decades of experience and are more likely to have incorporated these elements of government good practice into their auditing scope. However, SAIs are also active in assessing areas that are not as engrained in the traditional mandate of a SAI, such as the assessment of government strategic planning processes, or communication and co-ordination capacities of the CoG.

Several survey questions focused on whether SAIs are assessing transversal issues. **Responses indicated that SAIs are tracking, formally or informally, cross-cutting issues that help to explain deficiencies and shortcomings in the value-for-money of programmes and policies**. Recurring and risky issues have, as a result, been made the focus of many audits. More broadly, the case studies in each chapter show that SAIs are targeting costly programmes and policies that have implications for society and inclusivity.

By assessing the entire policy cycle, SAIs follow the chain of delivery, from assessing the capacity of the CoG to set and steer, down to the application of controls at the ministry level to achieve CoG goals. This work reflects their understanding of how important are the effective and efficient performance of the processes and institutions responsible for formulating, implementing and delivering policy.

Table 1.2. Select SAI activities across the policy cycle

Policy stage	The survey asked the 10 participating SAIs, "Has your SAI assessed…"	"Yes" (out of 10 SAIs)
Policy formulation	**Key function 1: Strategic whole-of-government steering and planning**	
	The use of a reliable evidence base in planning processes. This may include looking at the reliability and breadth of inputs; the mechanisms for using performance-related and output data; the mechanisms for integrating future trends and risk	9
	The openness of government-wide strategic planning processes, including the existence of consultation in the planning process	8
	The division of responsibilities between key actors involved in strategic planning	7
	The existence or development of government-wide evaluation criteria	6
	The capacity and/or efficacy of central government units (ex. Centre of Government), including: in ensuring the long-term vision is harmonised with other key documents (fiscal plans); in ensuring the long-term vision is reflected in ministries work plans	6
	Key function 2: Budgetary planning	
	The adequacy of budgetary planning processes, including: to facilitate an alignment between budgeting and strategic objectives; to ensure reliability and quality of tools that underlie the budget; to manage public debt; to assess long-term sustainability; to guide the multi-annual process of resource allocation	9
	The soundness and quality of the overall national framework of budgetary governance in promoting optimal resource allocation, implementation, evaluation and review	9
	The comprehensiveness, reliability and accuracy of the budget document and the conformity of budgetary information with accounting standards	8
	The openness of budgetary planning processes including: the existence and/or adequacy of participative and realistic debates on budgetary choices; whether it is fit inform citizens, Legislature and key stakeholders of the true position of the public finances	6
	Key functions 3 and 4: Establishing rules and controls*	
	Processes for the development of regulations and regulatory policy, including: the clarity of objectives of regulatory policy frameworks; the incorporation of a risk management; the openness and consultation of the process; the alignment of regulatory policy with international principles	10
	Processes for the development of internal control guidelines, including; the incorporation of a risk management; the openness and consultation of the process; the alignment with international principles	9
	The effective and efficient application of regulatory tools, including: diagnosis of regulatory issues that cut across levels of government; impact assessments; ex post review of regulatory stock; reporting on performance of regulatory outcomes	7
	The flexibility of the rulemaking and internal control systems to adapt to future risks and trends	6
	The clarity and delineation of roles and responsibilities of actors involved in creating and implementing regulations and internal controls	6

Policy stage	The survey asked 10 participating SAIs, "Has your SAI assessed…"	"Yes" (out of 10 SAIs)
Policy implementation	**Key function 5: Co-ordinating and communicating**	
	Mechanisms for effective information sharing and transparency: between levels of government; within entities; and across entities	8
	Mechanisms for effective co-ordination for implementation; between levels of government; within entities; and across entities	8
	Mechanisms for co-ordination around regulatory and control reform activities	7
	The separation of roles functions/roles of relevant actors, in terms of co-ordination and/or overlap of functions in regulatory management, budgetary management and internal control	6
	The effectiveness of central co-ordination bodies in communicating and co-ordinating, including: in ensuring senior management of ministries are aware of trends/risks; providing guidance to departments and line ministries	6
	The efficiency of senior management in ensuring the government vision or related indicators are understood and integrated	2
	Key function 6: Implementing the budget	
	The effectiveness of the procedures in place for managing, monitoring and overseeing financial allocations, including: the compliance and consistency of in-year budget reallocations; the adequacy of in-year budget execution reports	10
	The accuracy and probity of annual public accounts of public bodies and of the government as a whole	10
	Whether there are adequate mechanisms to generate and capture quality performance information during the phase of budget execution	8
	The adequacy of other mechanisms for determining the quality and reliability of budgetary forecasts and fiscal plans, and managing accordingly	8
	The clarity in authority of public entities to reallocate funds in-year	7
	Key functions 7 and 8: Implementing rules and controls**	
	The effective, efficient and economic application of risk management, through risk based approaches, including: to internal control, to regulatory policy, to budgetary management	10
	The effective and efficient application of internal control mechanisms at the entity level, including: for reliability of reporting; for achievement entity level objectives; for deterring and detecting fraud and corruption within public sector entities	10
	Public sector entities for compliance with applicable regulations for internal control and financial management (including regulators)	9
	The independence and/or capacity of audit and control entities, including: internal audit units; audit committees	9
	Public entities' application of integrity policies (conflict of interest, asset disclosure, whistleblowing mechanisms, etc.)	9
	Public sector entities' leadership in establishing a culture of control and risk-management	7
	The effectiveness of policies/programmes for regulatory management capacity and internal control capacity	7

Policy stage	The survey asked 10 participating SAIs, "Has your SAI assessed…"	"Yes" (out of 10 SAIs)
Policy evaluation and oversight	**Key function 9: Evaluating for results**	
	The existence of clear lines of reporting on outputs and performance outcomes from entities to authorities and to users/stakeholders (including citizens)	9
	Government's achievement of government-wide or mission-oriented objectives	8
	The existence of an effective government-wide evaluation system, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating government-wide monitoring and evaluation with strategic planning; alignment with international good practices; alignment with key national indicators	7
	The existence of a reasoned evaluation programme in each ministry, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating performance information in objectives; coherence between objectives, outcomes and government vision	7
	The performance of central co-ordination bodies inco-ordinating a comprehensive government-wide evaluation	7
	The accessibility and reliability of data systems for collecting, storing and using performance information, accessible for various levels of government	6
	The existence of performance-related budgeting as inputs into the policy process, including; the quality, availability and auditability of performance-related budgeting information; the soundness of the programme logic models in place	5
	Key function 10: Oversight and accountability	
	The design and quality of anti-corruption and anti-fraud frameworks at a whole-of-government level	9
	The performance of auditees against entity-level objectives and/or national objectives	8
	The adequacy of reporting mechanisms for accessibility of citizens	8
	The independence, capacity, effectiveness and efficiency of oversight bodies (audit institutions, regulatory oversight, ombudsman etc.)	8
	The compliance with access to/freedom of information laws	8
	The effectiveness and efficiency of the government-wide internal control system, including: in achieving government-wide objectives; for application of a government-wide anti-corruption framework	8
	The performance of regulation in achieving objectives	7
	The existence of stakeholder consultation on experiences with programmes and services	7
	The performance of strategic planning and co-ordination units, control institutions and units, and regulators in achieving their operational objectives and facilitating achievement of government-wide objectives	6

Notes: * for the purposes of the survey, key functions 3 (Establishing regulatory policy) and 4 (Creating risk management and internal control policies) were aggregated.
** For the purposes of the survey, key functions 7 (Implementing and enforcing regulatory policy) and 8 (Exercise of internal control and risk management) were aggregated.
Source: OECD Survey of Peer Supreme Audit Institutions.

Table 1.3 shows the various activities that SAIs undertake, whether a type of audit or through other approaches, when assessing the policy cycle.[3] Assessments of functions that are common to the peer SAIs (implementing the budget, budgetary planning, and accountability and oversight) were more likely to be in the form of compliance and performance audits. When SAIs assess the policy cycle in "non-traditional" areas (strategic steering, evaluating for results, and communication and co-ordination), they tend to do so as performance auditing or compliance auditing with value-for-money criteria. Depending on the function, there is not a large variance of the type of audit used. In addition to audits, surveyed SAIs often provide written guidance, and, in some cases, verbal guidance, on key functions of the policy cycle.

Table 1.3. Types of assessment of key functions of the policy cycle, by 10 surveyed SAIs

Policy stage	Key functions	Types of audits	Other activities
Policy formulation	Strategic whole-of-government steering	Financial audit (3) **Compliance audit (7)** Performance audit (6)	**Written guidance (5)** Verbal guidance (3) Research (4) Web-based tools (1)
	Budgetary planning	Financial audit (5) **Compliance audit (8)** Performance audit (7)	**Written guidance (5)** Verbal guidance (3) Research (3) Web-based tools (1)
	Establishing rules and controls*	**Financial audit (8)** **Compliance audit (8)** **Performance audit (8)**	**Written guidance (6)** Verbal guidance (3) Research (5) Web-based tools (1)
Policy implementation	Co-ordinating and communicating	Financial audit (7) **Compliance audit (8)** **Performance audit (8)**	Written guidance (2) **Verbal guidance (3)** Research (2) Web-based tools (0)
	Implementing the budget	Financial audit (3) Compliance audit (8) **Performance audit (9)**	**Written guidance (4)** Verbal guidance (3) Research (2) Web-based tools (1)
	Implementing rules and controls*	Financial audit (8) **Compliance audit (9)** Performance audit (7)	**Written guidance (3)** **Verbal guidance (3)** Research (2) Web-based tools (0)
Policy evaluation and oversight	Evaluating for results	Financial audit (6) Compliance audit (7) **Performance audit (8)**	**Written guidance (4)** Verbal guidance (1) **Research (4)** Web-based tools (1)
	Accountability and oversight	Financial audit (5) **Compliance audit (8)** Performance audit (7)	**Written guidance (5)** Verbal guidance (1) Research (4) Web-based tools (2)

Notes: This study refers to SAI "assessments", which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

*Sub-functions related to regulatory policy and internal control were aggregated in the survey for the purposes of this particular data on type of activity.

Source: OECD Survey of Peer Supreme Audit Institutions.

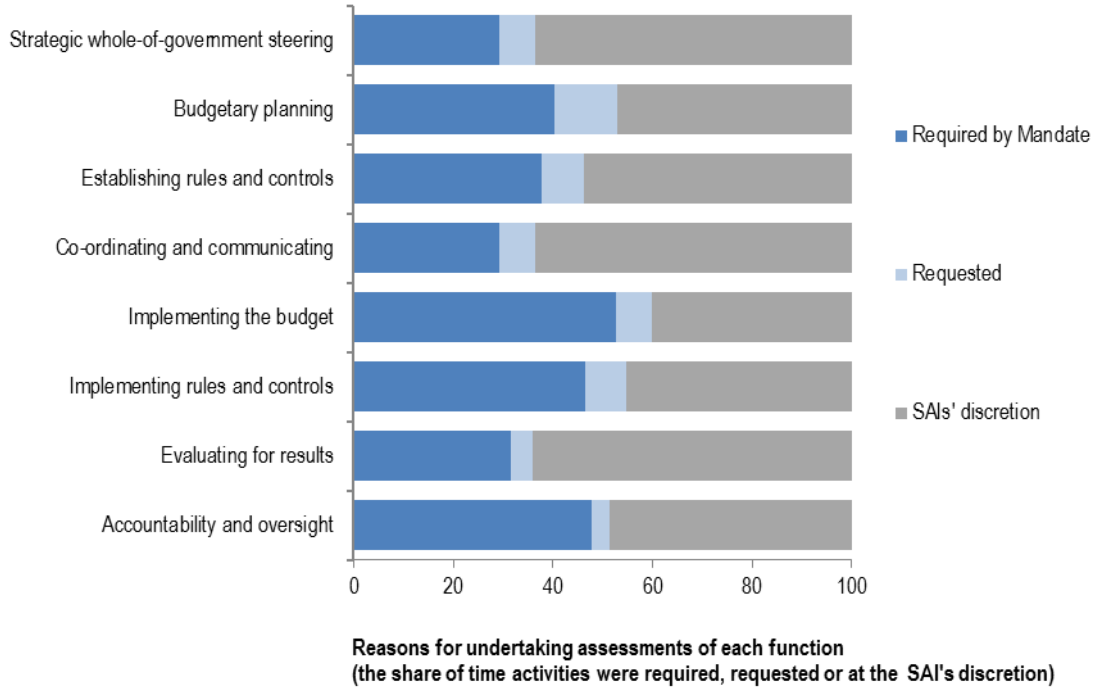
Most participating SAIs vary the types of activities across different stages of the policy cycle, with the exception of Chile's SAI, which does not undertake performance audits. More recent ways that SAIs apply value-for-money criteria include, where

resources allow, using research initiatives to explore areas that may not be within their mandate, but that can further their knowledge base and develop internal skills, capacity and expertise. This is useful as a lack of skills is one of the greatest limitations for SAIs undertaking the activities presented. Examples of research initiatives include that of the Superior Audit Office of Mexico (ASF), which has been drawing together risk mapping to provide guidance for the executive for strengthened internal control; and Korea's Board of Audit and Inspection, where research is formalised in its research body: the Audit and Inspection Research Institute (AIRI).

The SAIs in this report occasionally use follow-up audits to check progress against previous audit recommendations. As good practice, some SAIs publish the responses to findings and recommendations of those audited so that citizens and the legislature can also follow-up and track implementation progress. Annual audit reports often track government progress of previous initiatives. Other longitudinal approaches include reviewing audit subjects over time and tracking accounts or achievements against indicators over time.

Figure 1.1 outlines the reasons that SAIs undertook select activities – whether required by mandate, requested, or at the SAI's discretion.[4] Traditional areas of SAI activity are more likely to be mandated or requested than driven by the SAIs own discretion.

Figure 1.1. Impetus for SAI assessments of key functions of the policy cycle



Note: Sub-functions related to regulatory policy and internal control were aggregated in the survey.

Source: OECD Survey of Peer Supreme Audit Institutions.

Many SAIs assess what is considered "good" budget implementation or accountability of government because they are mandated to do so. The results most often appear in year-end audits and SAIs' annual reports. Audits can be required by mandate or

requested by external actors. This report shows that surveyed SAIs are most likely to have audit activities required or requested of them in areas of budgeting and control (either in their formulation or implementation). SAIs in this study are more likely to use their own discretion when assessing functions that are not historically in a SAIs remit, such as strategic steering, evaluating for results and co-ordination and communication.

Limitations on SAIs' activities in supporting the policy cycle

SAIs reported that they experience limitations in assessing the functions of the policy cycle, particularly in assessing strategic steering and planning and evaluating for results and performance (Figure 1.2). These are the non-traditional areas where SAIs are less active and where they are more likely to undertake performance audits at their own discretion.

Figure 1.2. Number of challenges SAIs faced in assessing particular policy functions

Policy stage	Key Functions	Total number of challenges reported per function
Formulation	Strategic whole-of-government steering	21
	Budgetary planning	15
	Establishing rules and controls	16
Implementation	Co-ordinating and communicating	14
	Implementing the budget	8
	Implementing rules and controls	12
Evaluation and oversight	Evaluating for results	17
	Accountability and oversight	12

Source: OECD Survey of Peer Supreme Audit Institutions.

Figure 1.3 demonstrates the variety of specific limitations that SAIs experience in these areas and shows that across all stages of the policy cycle, skills, resources, and leadership are the key factors that pose challenges and influence the engagement of SAIs.

Figure 1.3. Factors that limit select activities in assessing the policy cycle

Limitations	Total number of times reported as a challenge in assessing the policy cycle
SAI resources	24
Skills of SAI staff	20
Skills of executives/those audited	20
Lack of executive and high-level leadership	20
Not a risk area	7
Internal structure	5
Other	4
Lack of SAI leadership	4
SAI mandate	3
Role of another	3
Not material in nature	3
Not applicable in country context	2

Source: OECD Survey of Peer Supreme Audit Institutions.

The findings show that the limited ability of SAIs to assess key functions are more likely to be a result of a lack of resources or skill sets and a lack of buy in of the executive or leadership, rather than other external limiting factors, such as a restrictive mandate or the activity being the role of another actor. As indicated in Figure 1.3, surveyed SAIs are limited to undertaking activities related to key functions of the policy cycle either because it is perceived to be, or is in fact, the role or responsibility of another entity; or because topics related to the policy function are deemed to not be material or risky in nature. The integration of materiality and risk processes into the development of the audit programme is critical to the audit portfolio's relevance.

The findings suggest that peer SAIs have sufficient independence and autonomy to exercise discretion in the selection of activities that enable them to be active across the entire policy cycle. This suggests that SAIs are controlling their activity portfolio based on existing resources, but also emphasises the potential for adjustment if they were to acquire, develop or reallocate skills or resources. The findings also suggest that the surveyed SAIs are aware of their own limitations and are not entering new assessment areas in a haphazard way. Where expertise is lacking internally, many SAIs are strategically leveraging external expertise.

This report found that peer SAIs were less likely to engage in areas that were assigned as low priority. This reflects the good practice of SAIs using risk and materiality assessments to specify the topics covered in their annual programme (INTOSAI, 2013). In view of capacity constraints, SAIs need to be selective and strategic in their work, and should do so in line with the greatest needs of citizens and society.

The outcome: *Considerations for all governance actors*

SAIs' traditional role of verifying government expenditure and providing oversight for accountability and transparency is well established. The existence and independence of SAIs are provided for in constitutions around the world, with supporting legislation specifying the scope, the specific subject matter and audit criteria, the conclusions to be drawn, and the intended users (INTOSAI, 2010). The burgeoning community of SAIs is strong and active. SAIs are generally well respected and trusted as overseers that lead citizen perception studies on integrity in the public sector, as is the case in Chile (OECD, 2014c).

However, the findings of this report, and of the OECD's work on governance, show that changes to SAIs' portfolios beyond their traditional role are not fully apparent or understood. While the integration of performance auditing into SAIs portfolios is widely recognised, there has been little attention paid to the value of a wide range of other activities.

From this report a new audit approach emerges where surveyed SAIs are regularly complementing their oversight function by providing insight and foresight on a range of traditional and non-traditional subjects throughout the policy cycle. In some cases, this role includes providing inputs for decision-making early in the policy cycle and is recognised by the legislature and the executive. In other cases, this role is only beginning, or has not yet been recognised.

This report shows that peer SAIs are active in evaluating the entire policy cycle in non-traditional areas and in non-traditional ways. A greater awareness of the portfolio of activities of the SAI in the 21st century, and a better understanding of the impact on society and the broader role that it is has been assumed to play, should now be fostered.

Having open discussions between governance actors will help to discern how a SAI can have a greater impact on both public sector accountability and performance, while limiting the potential adverse effects of making trade-offs between the two. As part of this dialogue, the **value-added** of an independent and professional SAI should be taken into account:

- SAIs provide objective oversight, and often insight and foresight, that is increasingly rooted in a whole-of-government perspective (see Box 1.2 for more on oversight, insight and foresight).
- Participating SAIs enjoy substantial discretion in selecting their audit programmes. They are tracking high-risk, material programmes that have a social impact on society. They also benefit from the ability to invoke international good practices and benchmarks to hold the government to higher account.
- Audit institutions are collaborating with other bodies of expertise, including international agencies and regulators, to use the best audit criteria and promote better governance.
- SAIs are using innovative criteria for traditional financial and compliance auditing, including statistical sampling techniques and longitudinal assessments, as well as new evaluation-based approaches that the private sector has recognised as providing learning opportunities (ACCA, 2010).[5]
- To facilitate transparency and improvements in both professional relations and government functioning, SAIs are hosting workshops with those audited to raise awareness of risks detected across audits and to share good practice.
- The international SAI community, driven by INTOSAI, is strong with 192 full and 5 associated members (INTOSAI, 2015). Through this community, international standards and guidance are issued and peer reviews are undertaken. Increasingly, SAIs are undertaking joint audits that align audit criteria to provide a comprehensive oversight of initiatives that cut across national and international boundaries.

The examples and case studies in this report identify the added value that SAIs' work can provide. However, there is **untapped potential** for SAIs' work to be properly integrated into policy formulation, implementation and evaluation.

The extent to which a SAIs' potential is realised depends on the strategy of the SAI and the quality, timeliness and relevance of its work. Considerations for SAIs to make in providing objective oversight, insight and foresight, are made below.

Leveraging the potential of SAIs also depends on the willingness of the legislature and the executive branch to: 1) work more constructively with the SAI; and 2) integrate its audit results more clearly into next-generation policy and service design and delivery. The findings of this study show that SAIs often experience limitations because of a lack of leadership, skills or capacity of auditees and executive representatives. It is important that auditees are open to learning and developing on the basis of not only audit results, but also from interactions throughout the audit cycle. Examples in Chapters 2, 3 and 4 show that it is possible for SAIs to work closer with the legislature and the executive branch, while at the same time maintaining their autonomy.

Box 1.2. From oversight to insight and foresight: SAIs in the 21st century

Governments are in need of quality, timely and reliable information to act as inputs to decision-making and to back understanding of the value-for-money of government processes and programmes. A key issue has become not only acquiring information, but also sifting through this information to extract pertinent issues and identify viable solutions. It is important for SAIs and governments to think strategically about how SAIs can leverage oversight, insight, and foresight activities to support a more effective and efficient policy cycle.

With a focus on work that has already been undertaken, SAIs have typically looked backwards while governments tend to look forwards. However, SAIs are periodically, if not systematically and strategically, providing insight and foresight, thinking strategically and providing commentary on preparedness for the future. They do this through various mediums (reports, workshops and testimonials) that take place before, as well as after, policies have been implemented.

While this contributes to accountability and oversight, activities that provide insight and foresight are more likely to bolster value-for-money than a sole focus on oversight. Table 1.4 provides indications of how SAIs may acquire the capabilities to provide oversight, insight and foresight, as well as examples from this report on how this is already taking place.

Table 1.4. Oversight, insight and foresight: Capabilities and activities

Perspective	Strategic capabilities	Drawing upon activities	Accessing information	Examples of SAI activities
Foresight	Anticipation of, and preparation for, foreseeable and disruptive trends affecting the role of government and the state	Continuous scanning and consultation; pattern recognition; analysis of "weak signals"; futures studies; consensual views	Futures reporting; horizon scanning; long-term fiscal projections; scenario planning	Assessing government's preparedness to address population ageing and workforce management (Chapter 1)
Insight	Anticipation of, and preparation for, foreseeable changes in government policies, institutions and management practices	Analysis of historical and trend data; comparable information and analysis across government; comparison of national and international trends	Government programme; medium-term budget framework; spatial and capital investment plans; comparative international government data	Providing synthesis of cross-cutting issues with duplication, gaps and overlaps in government-wide initiatives (Chapter 2)
Oversight	Identification of current risks affecting governance and accountability, and identification of good practice within the administration	Understanding of government programmes, functioning of internal control	Executive action; annual budget; findings of past audit work and follow-up activities	Assessing the compliance, as well as effectiveness and efficiency of, internal audit in supporting a more robust system of internal control (Chapter 3)

Source: OECD (2014b), *Chile's Supreme Audit Institution: Enhancing strategic agility and public trust*, OECD Public Governance Reviews, OECD publishing, http://dx.doi.org/10.1787/9789264207561-en.

Table 1.4 represents a spectrum of SAI approaches. At one end of the spectrum are the SAIs that have taken an intentional approach to providing oversight, insight and foresight, as in the case of the US GAO. At the other end are SAIs that remain focused on compliance and control. In the middle are those that incorporate effectiveness and efficiency in a more ad hoc manner. For instance, while the Chilean SAI does not undertake performance audits formally, there are elements of value-for-money woven into the majority of its work.

Source: *OECD Survey of Peer Supreme Audit Institutions.*

Key messages to SAIs: *Being aware and prepared*

SAIs remain dedicated to their role as overseers of accountability and transparency. Compliance, regularity and financial audits – the mandate of a supreme audit institution – are critical for verifying the accounts of government and for integrity and better financial management in the public sector. The rise in insight and foresight activities, such as performance auditing, has not necessarily come at the expense of compliance controls but has led to more, and varied, types of control (OECD, 2005).

Lessons learned from the era of new public management showed that a focus on compliance and control had, in some cases, unintended consequences of stifling innovation (OECD, 2015e, 2012), distorting the behaviour of public managers towards matching output targets, and creating an over-reliance on the audit function. This can come at the expense of strengthening the mechanisms responsible for promoting integrity, accountability and value-for-money (Humphrey and Owen, 2003; Mendez and Bachtler, 2011; Power, 1996). In the EU, the rise in auditing of cohesion policy took the form of compliance auditing at the turn of the 21st century. Although this was originally meant to improve the performance of programmes, it actually undermined the performance of the policy itself and threatened its sustainability (Mendez and Bachtler, 2011).

Governance challenges of the 21st century have placed large demands on SAIs to both play a role as an accountability institution and be a source of management improvement. While balancing both can be a difficult task, SAIs surveyed are responding to this challenge. SAI portfolios have changed remarkably in recent decades, but an understanding of the resulting impacts seems to be lagging.

SAIs need to be more aware of the role they are or could play and be prepared to fulfil this role by planning strategically, managing resources effectively and ensuring the quality and timeliness of their work. The following considerations relate to all SAIs – whether they retain a strong compliance and control oriented approach or are starting to focus on evaluation and value-for-money:

- **Making a plan of action**. SAI activities that have had an impact appear to have been as a result of an intentional focus and devotion of efforts and resources to improving governance and value-for-money. These SAIs ensure their audit activities are rooted in a long-term vision and strategic plan that provides flexibility in the annual audits, but maintains a consistent thread that may include transparency, policy fragmentation or duplications, or specific bodies such as those in the centre of government.
- **Managing resources**. A lack of resources was the greatest obstacle to undertaking audits across the policy cycle. While providing oversight, insight and foresight has meant varied and more controls, there are also trade-offs to be made. SAIs cannot provide absolute assurance or integrate all material or risky subjects into an annual programme. Audit programmes should therefore be established in accordance with a SAIs' strategic plan, taking into consideration the resource trade-offs that are involved in particular activities. Integration of value-for-money criteria, and even more so of evaluation techniques, may require a different skill set. It may be beneficial to explore the development of SAI expertise on complementary subject matters in order to avoid an over reliance on external experts.
- **Quality and timeliness**. The usefulness of audit work depends on its relevance to governance challenges, its quality and clarity, and its timeliness. To this end,

INTOSAI has established the Performance Measurement Framework (2012) for SAIs' introspective reviews. SAIs are also considering enhancing impact by getting involved earlier in policy interventions through concomitant auditing and providing advisor services before and during the implementation of policies and programmes. SAIs that focus on clarity and drawing cross-cutting conclusions will help to focus the minds of policy and decision makers. Useful SAI tools could include sector-based reports, systematic use of executive summaries, tagging key words for issues around co-ordination and providing findings in a systematic way that allows for text and data mining.

In addition to the actions above, SAIs should bear in mind the following considerations when reflecting on their role in the policy cycle and proactively working to ensure their relevance and impact:

- **Successful programmes, and reforms, may take time to demonstrate impact**. Consideration should be given to the fact that before some policies and programmes are successful, they may need time to flourish. In the rollout of reforms to Australia's performance-evaluation system, the Ministry of Finance of Australia engaged the Australian National Audit Office (ANAO) constructively and early to seek advice. Together with the legislature, the ANAO and Ministry of Finance are giving the reforms space to develop before being subjected to rigorous evaluation.
- **The relevance and impact of SAI work regarding governance challenges is not guaranteed, nor static**. SAI independence and autonomy enables them substantial discretion in determining their annual audit programme, which has a broader impact on the SAI's role in the governance architecture. It is considered good practice by INTOSAI (2013) to establish the audit programme against the risk and materiality assessments of audit subjects in the public sector. However, in some countries the extent to which the external environment is taken into account varies (INTOSAI, 2014). Audit programmes should be considered through a robust, risk-based process that integrates issues of key concern to society, in addition to considerations of materiality. In the case of the US GAO, ensuring a high level of relevance to tackling key policy challenges meant adjusting the audit portfolio to prioritise required and requested audits, which comprise 90% of its work. This has required maintaining autonomy in a selection of audit subjects, but also an openness to be more flexible and responsive to the requests of Congress, which has rendered the GAO an invaluable source of information. There may be room for autonomous SAIs, when reporting to the legislative branch, to consider the responsiveness of the audit programme to external demands.[6]
- **The SAI should not be expected to exercise functions that should or are already being carried out by another expert body or institution.** SAIs cannot and should not be expected to 1) compensate for a lack of maturity in other processes, including internal control; or 2) provide absolute assurance. Similarly, a SAI's role should support, but not displace, the proper role of other public sector bodies. This is of particular importance for internal control and audit, where the role of the SAI should not come at the expense of improvements in internal controls and the ownership of public managers for risk management and control. Furthermore, taking a narrow focus to auditing has shown, in some cases, to distort the behaviour of managers towards satisfying the criteria of an audit.

This can dissuade them from accepting the challenges that come with innovation and stop them piloting new and potentially successful ideas.

Some of these considerations would require a change of culture within the SAI, to move from a compliance-oriented perspective, to a more systemic view that aims to understand what does and does not work. It may also require internal changes to staff competencies or to the internal structure of the SAI. While some of the suggestions may not be possible for all SAIs, they are synthesised from SAIs of various models and mandates that have made strides to ensure their relevance in the 21st century.

Notes

1 Themes discussed in the Symposium on Achieving Broad Performance Outcomes, 51st session of the Public Governance Committee, April 2015.

2 Only two of ten SAIs had assessed the efficiency of senior management in ensuring the government vision or related indicators are understood and integrated (key function 5: co-ordinating and communicating).

3 This study refers to SAI "assessments", which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

4 "Requested" refers to situations in which an SAI has been asked to undertake a specific activity by another body (usually Legislative branch, but could also be requested by civil society, for instance). In the case of the United States, the Government Accountability Office has considered "requested" to be captured under "required", as mandated activities and Congressional requests comprise 90% of its work. For other countries, a distinction has been made between audits which SAIs are required to perform, versus those that are requested in a more ad-hoc manner.

5 The Association of Chartered Certified Accountants' study, entitled "Enhancing External Audit: learning from the public sector", pointed out that public sector external audit has been particularly innovative in audit techniques and enjoys a wider scope of audit. It argues that "audits that undertake assessment of the bigger picture are much better placed to detect potential failings earlier" (ACCA).

6 In the case of the United States, the Government Accountability Office has considered "requested" to be captured under "required", as mandated activities and Congressional requests comprise 90% of its work. The remaining 10% is done under its own initiative under the Comptroller General Authority (CGA).

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Chapter 2

Supreme Audit Institutions' input into policy formulation

This chapter assesses the role of supreme audit institution (SAIs) in supporting policy formulation and its key functions: strategic steering and planning, budgetary planning, establishing regulatory policy, and setting internal controls and managing risk. It maps SAI activities that assess and support the achievement of good practices in policy formulation, and illustrates with case studies how SAIs are looking at the adequacy of the executive and legislature's preparations in decision and policy making. Moreover, this chapter presents examples of SAIs that contribute to evidence-based policy making by assessing government entities' use of evidence and indicators in decision making, analysing risks and creating projections on cost savings.

The formulation of a government-wide programme, of policies and of individual programmes aims to achieve success in the public sector. At the central government level, formulation refers to the process through which governments formulate a long-term vision and assign the resources, risk-based rules and clear responsibilities to undertake the work. The responsibility of policy formulation primarily lies with the institution within the centre of government (CoG) in the executive branch. The following functions are considered key to the policy formulation stage of the policy cycle.

- Whole-of-government **strategic steering and planning** by the CoG should guide government in a common direction towards clear and carefully selected goals. Formulation involves making well-informed, evidence-based decisions and selecting the tools and mechanisms to achieve this vision in an effective, efficient and economical way. Decisions should be rooted in reliable evidence of past performance, or through thorough analysis of proposed benefits, using both sound quantitative and targeted qualitative information in a balanced and unbiased way.
- Strategic and **budgetary planning** processes should be linked in a way that allows for coherence between government priorities and the country's fiscal framework. The budget should provide government with the fiscal framework that establishes the limits within which trade-offs and difficult, often competing, decisions need to be made. Similarly, strategic human resource management (HRM) should work to align capacities and competencies needed to support priorities, within the projected fiscal limitations.
- **Setting out regulations and internal controls** should use a risk-based approach to avoid excessive burden, while managing risk to achieving the government programme. This requires explicit whole-of-government regulatory and internal control policies, rather than a series of disjointed regulatory policies or internal controls.

OECD countries' experiences have identified difficulties in integrating feedback from other stages of the policy cycle (namely, evaluation), into the formulation phase to make trade-offs on budget allocations and instruments that will facilitate the achievement of government objectives. This poses a challenge for linking strategy and budget. Current and pressing issues may reduce the ability of government to plan for longer-term issues.

Key Function 1: Strategic whole-of-government steering and planning

Setting a whole-of-government vision gives strategic planning a purpose. This sub-section focuses on the process through which government sets a long-term strategy and establishes the necessary plans for its operationalisation. Key elements of strategic steering are outlined in Table 2.1.

Table 2.1. Key elements of strategic whole-of-government steering and planning

Stage of the policy cycle	Key functions of a strategic and open state
Policy formulation	**Strategic whole-of-government steering** A. Foresight activities lead to the development or reorientation of a long-term vision that spans electoral cycles and that is rooted in broader good governance principles of transparency, integrity, accountability, rule-of-law and openness (establishing access to information laws, for example). B. Centre of government institutions fulfil all functions critical to a well-organised consistent and competent policy making system. C. There is a clearly defined role and capacity for the centre of government, or appointed strategy and co-ordination unit, to verify that the government programme is harmonised with other strategic/key policy documents (fiscal plans, growth strategies, etc.) and is reflected in departmental/entity work plans. D. Appropriate steps and responsibilities for implementation, monitoring and evaluation of policies and programmes established in pursuit of the government vision are outlined. E. Measurable indicators on performance at the national level (e.g. key national indicators or development indicators) are established. These are clearly cascaded and empower the development of objectives at the entity level. F. Strategic whole-of-government steering and planning is evidence-based and responsive to the external environment. It integrates findings from monitoring and evaluation processes, foresight activities and stakeholder consultation as much as possible. G. There are national standards for openness and consultation throughout the policy cycle that line ministries integrate into their operational objectives. H. There is a dialogue between political leadership and senior civil service at each stage of the translation of the government programme to a plan of action. I. Workforce planning, attention to competencies, and the employment of traditional human resource management tools are included.
	Budgetary planning
	Establishing regulatory policy
	Creating risk management and internal control policies

Sources:
OECD (2014)a, *Centre Stage: Driving better policies from the Centre of Government*, OECD Publishing, Paris, www.oecd.org/gov/Centre-Stage-Report.pdf;
OECD (2014b), *Principles for Public Administration*, SIGMA, OECD Publishing, Paris, www.sigmaweb.org/publications/Principles-Public-Administration-Overview-Nov2014.pdf.
OECD (2013a), *Colombia: Implementing Good Governance*, OECD Public Governance Reviews, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264202177-en.

Implementing better policies requires a collective commitment whereby policies and programmes are built, developed, discussed and agreed upon by relevant actors as part of a delivery chain. Some countries have recognised the need for a central steering function

to effectively and efficiently orchestrate the network of institutions and processes around a common end goal. This is underway in Finland, where the government has established comprehensive reforms to better link strategy and budget, and to disseminate a government-wide plan (Box 2.1).

Box 2.1. The Government of Finland's OHRA "Steering System Reform Effort"

Background

In December 2013, the Finnish Ministry of Finance, in co-operation with the Office of the Prime Minister of Finland, launched a new project that aimed to formulate a single strategy process for the Finnish Government. This initiative was part of the government's Reform Project on Central Government in Finland (KEHU).

Objectives

The government of Finland recognised that it had significant resources at its disposal: policy bodies, the civil service and organisations. However the work accomplished by these different groups did not always result in the best possible outcome from the perspective of the government.

Steering frameworks had previously been developed separately, leading to a silo approach whereby the policy, regulatory and budgeting resource planning did not match. This strategy process is designed to more closely link the government steering process of legislation, budgeting and implementation, so that policy and regulatory planning are complementary and matched with the resources necessary to accomplish the set objectives.

Key recommendations going forward

The civil servant led project group, OHRA, presented its report of recommendations to the Prime Minister in November 2014. The report recommended a new method of achieving government objectives that includes steps for the government to set forth its programme of priorities (policy packages). A government action plan is then developed with civil servants to detail how the programme will be implemented over the parliamentary term. This step also includes time for the Ministry of Finance to prepare budgetary frameworks to support the priorities and action plan.

In support of this new process, new methods of sharing knowledge and the development of a systematic knowledge base of the current and future state of the economy, society and operational environment of the ministries should be developed. This knowledge base would be overseen by the Ministry of Finance and the Prime Minister's Office, and summarised for the reconciliation of the government action plan and budgetary/resource frameworks. Finland's Minister of Transport, Communication and Local Government has established an independent committee that is working to turn the recommendations from the report into a concrete process.

Sources:

OHRA Project Group (2014), *From Decisions to Changes: Reforming the Government's Steering Framework – Report and recommendations of the OHRA Project*, Report of the OHRA Project Group, VM1442:00/2013, Finnish Government, Helsinki, http://valtioneuvosto.fi/documents/10184/1190126/OHRA-raportti-en.pdf/79db9e53-6929-475b-90fa-87fb7aae508f.

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Through their audit activities, SAIs assess the adequacy of processes for long-term vision setting, planning for translating goals into actions, and disseminating these actions. SAIs do not provide commentary on the merit of priorities established in strategic documents, but rather on the value-for-money of the processes that operationalise them once on the agenda.

At their most basic, SAIs rely on a knowledge base accumulated over years of auditing in specific sectors and programmes to extract cross-cutting trends and issues related to planning and steering. However, SAIs also target planning and steering functions as the main or prominent audit focus at both the ministry and whole-of-government level. They offer perspectives of oversight, insight and foresight to provide a retrospective review of the deficiencies in policies and programme planning, the integration of government-wide objectives into current strategies and planning, and the preparedness of government to tackle future goals. SAIs' activities that assess and support key functions in strategic whole-of-government steering are explored below.

SAI activities that assess and support:

Foresight and the long-term vision (Table 2.1, key element A)

Based on a long-term vision, CoGs can help to identify priorities and goals and assign present and future collective actions or policies to achieve those goals. Outputs at this stage include a range of strategic documents such as futures reports, government programmes, medium-term budgeting framework, and workforce planning. A long-term vision allows for coherence between strategic documents, as future capacities are aligned and reflective of actual financial resources as much as possible. This also establishes coherence between policy tools and enables greater flexibility to allocate and reallocate human and financial resources during later phases (implementation and evaluation).

Single government-wide policy documents are common, but vary in terms of their period of coverage.[1] In countries where the CoG is involved in preparing or co-ordinating a short-term 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 and five years, which covers little more than the government's term in office (OECD, 2014a). However, some governments have been able to undertake foresight activities to preview a country's long-term needs, regardless of the electoral cycle. For example, Poland's long-term strategy: *Poland 2030: the Third Wave of Modernity; a long term National Development Strategy*.[2]

Through their annual reports, SAIs complement findings on the regularity and compliance of public expenditure with value-for-money criteria; systematically highlighting cross-cutting trends and risks identified through the whole-of-government perspective. SAIs are identifying and raising awareness of cross-cutting issues that were experienced in the past, are pervasive in the current time, and may occur in the future. This work is being used as a benchmark to assess whether and how governments are dealing with the current challenges and the adequacy of preparation for future challenges.

Examples of SAI work in this area include:

- Poland's National Audit Office, NIK, has undertaken a comprehensive assessment of long-term strategic planning, looking at the preparation of government strategic documents in relation to the government's preparedness to use its European Union (EU) financial resources of 2014-2020. In the context of

the EU financial framework, NIK assessed the relevant medium and long-term strategies for growth and development, covering the Prime Minister's Office and seven ministries. NIK found that the lead ministry was lacking the tools for the effective co-ordination of a cross-cutting endeavour. Through the performance audit process, NIK brought its findings to relevant parliamentary committees (case study, Box 2.4).

- As part of its work on innovation in the public sector, the Australian National Audit Office (ANAO) releases its *Intergenerational Report* every five years to provide an authoritative, long-term perspective on challenges to Australia's future, as well as possible solutions. It has been instrumental in supporting agencies' considerations of long-term solutions and in the Treasury's influence in centre of government policy advising (ANAO, 2007).
- The US Government Accountability Office (GAO) has used its oversight and insight to synthesise its findings on government challenges in its report: *Views on the Progress and Plans for Managing Government Wide Challenges*. The GAO outlined opportunities for decision-makers to address performance management related challenges. These opportunities included: developing a comprehensive inventory of federal programmes, enhancing the use of collaborative mechanisms, effectively implementing strategic reviews, and improving capacity to gather and better use performance information (GAO, 2014a).
- Korea's Board of Audit and Inspection (BAI) has reviewed the entire policy cycle through assessments of major government policies and programmes to uncover the basic causes of deficiencies and to recommend alternatives to correct them. For example, BAI's audit of central government's housing policy for middle and lower income families (case study Box 4.4) reviewed the formulation, implementation, and feedback stages of the policy execution. It recommended alternatives to planning, rules and controls, and to correct deficiencies found through the assessment in other key areas.

The centre of government (Table 2.1, key elements B and C) and clarity in rules and responsibilities (Table 2.1, key element D)

The CoG comprises the core institutions that support decision-making by the head of government and plays a pivotal role in ensuring that the vision of a more strategic state is translated into better and more coherent policies on the ground. The CoG should be able to draw out and clearly disseminate the "big-picture" objectives that both shape and reflect public sector and societal values (OECD, 2015b; 2014a). For the CoG of a strategic and open state, setting out strategy is not a stagnant process but involves consultation and foresight activities, and the analysis of trends and outcomes of monitoring and programme evaluation. These ongoing processes can be used to orient and reorient policies through short-term actions that are considered against the longer-term vision.

The CoG is expected to lead ever more complex policy agendas and co-ordinate responses that advances a whole-of-government perspective. The CoG is usually responsible for the majority of time spent in the following functions: policy co-ordination (69%), preparation of government programme (59%), monitoring its implementation (53%) and strategic planning (50%). The remaining functions are shared between the CoG and other actors. The CoG 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 (OECD, 2014a).

Despite playing an increasingly decisive role in policy-making, CoG institutions often suffer from limited capacity. Resource justification for strategic and steering activities can be difficult, particularly in a context of financial crisis. In times of fiscal prosperity, however, there may not be a focus on foresight and contingency planning. On average, OECD member countries' CoG expenditure is an average of only 0.045% of government expenditure, and accounts for less than 0.1% of central government employment (OECD, 2014a). A lack of capacity limits the CoGs ability to systematically identify and assess risk, which highlights the need for a coherent and measured system of controls and regulations. Central steering may also be inhibited by the fact that CoG staffing, particularly at the top, is often linked to the electoral cycle. This emphasises that a long-term vision based on foresight is important for times of prosperity as well as times of constraint.

SAIs have recognised the increasing pressure that has been either assigned to or accepted by CoG institutions to ensure coherence across government. While CoG institutions fall under the audit scope of SAIs, some SAIs are moving beyond the basic requirement of auditing for financial regularity and compliance and are looking at the capacity and efficacy of CoG institutions. In doing so, SAIs are filling a critical need within resource-constrained CoGs by providing information and insights about strategic planning.

6/10
Of peer SAIs have looked at:

The capacity and/or efficacy of central government units, including: ensuring the long-term vision is harmonised with other key documents (fiscal plans), and ensuring the long-term vision is reflected in ministries work plans.

7/10
Of peer SAIs have looked at:

The division of responsibilities between key actors involved in strategic planning

Examples of SAI work in this area include:

- Brazil's Tribunal de Contas da União (TCU) has looked at the executive's multi-year planning system, the PPA, from various angles. An evaluation of the department of planning and strategic investments, and other related entities, was undertaken to analyse the adequacy of programmes and indicators listed in the PPA from 2008-2011 against objectives of government policy (TCU, 2009a). Later, a performance audit was used to describe and analyse how the PPA was structured for the period 2012 to 2015. This audit checked the extent to which new concepts introduced would incorporate innovation and seek to correct deficiencies identified in previous plans.
- The UK's NAO synthesised years of work on centre of government institutions to create a centre of government report (NAO, 2014a). Recognising its critical role, the NAO examined the centre of government (HM Treasury and Cabinet Office) and changes in recent years, touching on the effectiveness of the CoG's strategic planning, leadership and co-ordination functions.

In assessing the maturity of government processes related to steering and those responsible for steering, SAIs, and other evaluation institutions, may refer to the TCU's *Framework to Assess Public Policies* (Box 3.1), the *OECD's Centre Stage Report* (OECD, 2014a) and the IADB's (2014) *Framework for the Centre of Government.*

The establishment of measurable indicators (Table 2.1, key element E)

Some governments have been integrating measurement criteria into planning documents so that programmes and policies can be evaluated against their original objectives in a way that provides a true picture of their strengths and weaknesses. However, national indictors in most countries appear to focus on establishing macro-economic national indicators, which do not necessarily illustrate public sector progress towards inclusive growth (INTOSAI, 2010). Establishing relevant and targeted criteria during the planning phase that can be evaluated at a later phase, and fed back into future iterations of planning remains a difficult task. There is little evidence that evaluation currently feeds into policy-making processes and decisions, as countries struggle to streamline quality and clear performance information in a systematic way. Guidance exists on how to develop criteria, for example, the OECD's seven steps for indicator development (OECD, 2014c).

6/10
Of peer SAIs looked at:

The existence or development of government-wide evaluation criteria

Examples of SAI work in this area include:

- In accordance with its mandate to assess the US Government Performance Management Modernization Act (GRPAMA), the GAO employs innovative tools to foster linkages between ministries' planning and performance information and Congress, who use this information for decision-making. The GAO's *Congressional Briefing* on opportunities to address government performance issue, the *Guide on Using GPRAMA* to help inform Congressional decision-making, and the index on *Use of Performance Information at the Agency Level*, are discussed in more detail in Box 2.6. These activities are particularly notable as they have been largely at the request of Congress, who has recognised the value of GAO's cross-cutting insight and foresight on these critical topics.

A reliable evidence base (Table 2.1, key element F)

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 evaluation at a government-wide level helps to ensure coherence across government and provides a good understanding of whether government-wide objectives are being met. It clarifies the reality of the costs associated with government objectives and gives governments the tools to help prioritise competing objectives. There are numerous channels available to a head of government for policy related decision making, however the cabinet remains the principal vehicle.

As part of high-level government meetings, one important objective of the centre of government's management role is to ensure that harmonised consultation processes have been followed and that appropriate analytical tools have been used. These twin activities help to ensure that basic issues regarding the usefulness and cost-benefit analysis of an 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 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 to the objectives and resistance to the policy. While individual departments might focus on their own evidence-gathering, sometimes through large internal research units, the CoG is obliged to canvass opinion and analysis more widely (OECD, 2014a).

Ensuring public sector success in the policy formulation stage requires having a thorough understanding of the nature of the problem that a policy or programme is designed to tackle. However, understanding how a policy or related programme will work in practice continues to be a challenge. Governments are employing new strategies in policy formulation to allow more space for innovation and piloting. Collaborations and sources of inspiration may come from outside government, particularly from the fields of science and academia where, for example, experiments aimed to fight poverty have incurred great success (Box 2.2).

Box 2.2. Innovative and joint approaches to policy-making: Peru's "Edu-Lab"

With a view to designing innovative evidence-based policies for education in Peru, the strategic planning secretariat of the Peruvian Ministry of Education teamed up with the Adbul Latif Jameel Poverty Action Lab (J-PAL) and the Innovations for Poverty Action (IPA), to create an innovation lab for education – the "EduLab".

The EduLab was created to identify problems and design potential innovations to implement low-cost interventions with big impact, merging the expertise of researchers with the political and operational experience of policy makers.

The strategic planning secretariat has worked collaboratively with J-PAL and IPA, as well as with Ministry units required to implement interventions, throughout the EduLab policy cycle of: designing cost effective interventions, implementing cost-effective interventions, impact evaluating using administrative data, scale-up of effective interventions, and identification of problems to be solved.

One intervention proposed seeks to improve the management of school maintenance resources (cash transfers) that are provided to schools to guarantee a minimum standard of safety, hygiene and comfort. Following lab research findings that carefully constructed SMS messages is an effective way to supervise and motivate school personnel, the EduLab is elaborating on the design, implementation and evaluation stages of an intervention that would rollout the use of SMS messages. The impact of the intervention can be monitored through the ministry's administrative data on the execution of school maintenance budgets.

Source: JPAL (2015), *Bringing Innovation to Education Policy in Peru*, Adbul Latif Jameel Poverty Action Lab (-JPAL) and the Innovations for Poverty Action (IPA), www.povertyactionlab.org/doc/edulab-publication, (accessed 1 October, 2015).

SAIs have recognised the challenges that the executive and legislature face in linking evidence on the value-for-money of policies, programmes and processes to planning processes and decisions. SAIs have been assessing whether and how evidence generated from many actors, mainly ministries, is used or not used. Difficulties stem from challenges that are a result of a lack of accurate or reliable evidence, or from the wealth of information that is not able to provide meaningful insights into how to improve a policy or programme.

9/10
Of peer SAIs have looked at:

The use of a reliable evidence base in planning processes. This may include looking at the reliability and breadth of inputs, the mechanisms for using performance-related and output data, and/or the mechanisms for integrating future trends and risk.

SAIs provide commentary on the link between performance management and evaluations, and decision-making on a whole-of-government level, as well as what concerns ministries. For example, the Netherland's Court of Audit used a performance audit to assess whether the merger that created the Netherland Food and Consumer Product Safety Authority (NVWA) would generate intended savings, and whether the entire process was founded on reliable evidence. The Court found that the pros and cons, including the risk assessment, were not sufficiently robust to legitimise the savings that were anticipated. As a result, the intended savings have not yet been realised, which has implications for the projected use of those funds in the long-term (Box 2.5). This was considered an innovative audit for the Court, as it was able to link unsatisfactory results of a decision to causes, and make recommendations that were immediately tackled by the new entity.

There may also be room for SAIs to consider not only the existence of evaluation and evidence in planning, but also whether targeted evaluation or audit criteria are established in the first place. Only six out of ten peer SAIs reported looking at the development of evaluation criteria directly. As governments consider integrating the piloting and testing of policy alternatives in a more scientific way, for example through innovation labs, there may be scope for SAIs to promote this type of policy work in the scope of their assessments.

Openness and consultation in formulation (Table 2.1, key element G)

SAIs can use their vantage point to provide insight on the rollout of government-wide goals and their integration into entities' strategies and action plans. SAIs also look at whether entities' plans have adequately integrated government-wide goals and if central institutions are effectively communicating and monitoring.

8/10
Of peer SAIs have looked at:

The openness of government-wide strategic planning processes, including the existence of consultation in the planning process.

Examples of SAI work in this area include:

- The GAO has been active in assessing the United States' interim *Cross-Agency Priority (CAP) Goals* (GAO, 2012). As the GPRAMA, under which the CAP goals were established, requires comprehensive consultation between the Office of Management and Budget (OMB) – a central government institution – the GAO has looked at the functional linkages between the OMB and ministries, and areas for improvement. More information about GAO's work in these areas can be found in the document: *OMB Should Strengthen Reviews of Cross-Agency Priority Goals* (GAO, 2014b) and in Box 2.6 of this report.
- The National Audit Office of Finland devoted a section of its 2014 Annual Report to management and steering. It commended the implementation of recommendations made in the 2013 Annual Report and reiterated the need for more robust economic analysis and planning regarding strategic preparations of agencies (NAO, 2014).
- In a 2013 sectoral audit on *the housing stabilization policy of the middle and lower income families*, Korea's BAI pointed out the inconsistency of objectives in various levels of the plans, highlighting a lack of steering and co-ordination. The BAI reported that the Ministry of Land's yearly short-term plan and the 10-year medium-term plan were inconsistent with the 20-year comprehensive national territorial long-term plan. The inconsistency was in the expected demand and supply of housing, which resulted in the oversupply of apartments (BAI, 2013).

Workforce planning (Table 2.1, key element I)

Being reactive to external challenges requires flexibility in human and financial resources. This is a key element of strategic agility. Governments benefit from ensuring that the right capacities can be acquired, developed, and deployed in line with shifting priorities. Investment in human resources suffered after the financial crisis as governments tried to downsize and save costs. Since 2008, two-thirds of OECD member countries reduced staff numbers, and three-quarters began reforms in remuneration schemes (OECD, 2015c). Increasing value-for-money by cutting public sector staffing should not come at the expense of the quality of the policy process and thus of its outcomes (OECD, 2015c). Successful management of human resources requires strategic workforce planning, attention to competencies in the workforce and the employment of traditional tools (competency, recruitment, etc.).

SAIs use their bird's eye view to assess planning and preparation for wide-reaching policy challenges, such as population ageing. The Auditor General of Canada's 2012 Fall Report included a chapter on the long-term fiscal sustainability of Canada in light of the growing proportion of elderly Canadians and the resulting pressure on the health care and pension systems. The SAIs of Korea and the Netherlands also addressed similar issues:

- In 2012, the Korean BAI conducted an audit on the management practices of the Government Employee Pension Service (GEPS) and Teacher's Pension (TP), with the goal of determining the stability of the systems and restoring public trust. With low fertility and an aging population, BAI recognised that the effective operation and the stability of the public pension affect the public as well as pension holders. BAI actively used its foresight, as well as its insight and oversight, to address to these issues in the audit. As a result it found deficiencies in asset management and operations of the GEPS and TP, including inaccurate

measuring of the value of assets, overpayment for management services compared to other pension systems, and overstated revenues. The audit also found that ineligible recipients had received pension and severance payments. BAI provided recommendations for the GEPS and TP to better manage its assets, and notified the relevant ministries of the ineligible recipients of pension payments so that they could begin actions to recollect the money (Box 2.7).

- In 2012, the Netherlands Court of Audit undertook a review of human resource management that focused on the strategy and planning for central government personnel. The audit analysed the preparedness of central government for the increases in retirement and turnover in personnel predicted over the 10-year period from 2012 to 2022. The Court of Audit concluded that the lack of a strategic personnel plan significantly undermined its ability to anticipate and oversee the consequences of the changes. Planned spending cuts to the civil service between 2012 and 2014 compounded the need for strategic planning to ensure that staff necessary in the future retained their positions. The lack of planning prevented central government from steering the development of staff and responding to evolving needs (NCA, 2012).

Key Function 2: Budgetary planning

Against the backdrop of the difficult economic and fiscal contexts experienced internationally over recent years due to the financial crisis or economic deceleration, the role of Public Financial Management (PFM) and budgeting is being reassessed to underscore the necessary linkages and inter-connections with other areas of public governance. This includes whole-of-government medium-term planning, performance-related budgeting, full transparency and accessibility of budgetary information, identification and management of fiscal risk, and enhanced quality assurance throughout the different phases and functions of the budget cycle.

Table 2.2. Key elements of budgetary planning

Stage of the policy cycle	Key functions of a strategic and open state
Policy formulation	Strategic whole-of-government steering
	Budgetary planning A. Budgets are managed within clear, credible and predictable limits for fiscal policy, including the application of top-down budgetary management to align policies with resources for the medium-term. B. Budgets are closely aligned with the medium-term strategic priorities of government. C. Budget documents and data are open, transparent and accessible. D. Provisions are made so that debates on budgetary choices are inclusive, participative and realistic. E. Budgets represent a comprehensive, accurate and reliable account of public finances. F. Longer-term sustainability and other fiscal risks are identified, assessed and managed prudently.
	Establishing regulatory policy
	Creating risk management and internal control policies

Source: OECD (2015d), *Recommendation of the Council on Good Budgetary Governance*, www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf.

In this context, countries have intensified their introspective reviews of budgetary tools, mechanisms and processes that can be used to support governments and public administrations in budgetary planning. 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 comprehensive reform of the public sector and of public governance more broadly.

As understanding of the role of budgeting widens, and as governments review budgetary processes and tools, SAIs traditional strengths of being independent, objective and rigorously scrutinising PFM concepts in application are extending to the new areas of budgeting.

This section focuses on the broader concepts that extend beyond the basic financial work of SAIs. It also explores other activities that tackle issues governments face in the budgetary process and, particularly, in linking budgetary and strategic planning in order to achieve broader good financial management.

SAIs are involved in the budgetary planning stage through providing insights from oversight activities to budgetary debates, when timing allows. Increasingly, SAIs are active in using foresight to assess the reliability of fiscal projections in order to ensure that underlying assumptions of the budget are sound.

SAI activities that assess and support:

Clear limits of fiscal policy (Table 2.2, key element A), reliability of the budget (Table 2.2, key element E) and longer-term sustainability (Table 2.2, key element F)

The budget is a central policy document of government, and the processes that govern and set it should be effective and efficient. The processes should also ensure that the budget is rooted in robust and transparent analysis, and that it will show decision-makers and citizens how annual and multi-annual objectives are prioritised and will be achieved.

In this context, there are approaches and tools being considered by countries reviewing and reforming their budgetary governance structures. In the 1990s, many OECD countries began using "top-down budgeting", whereby fiscal targets were determined by the central budget authority from the outset, with annual and multi-annual budgetary policies subsequently determined in conformity with these overall levels. This marked a shift in budgetary roles, responsibilities and relationships. OECD member country experience shows that spending reviews can be an important tool to focus governments on improving expenditure prioritisation and to find fiscal space available for new spending priorities (Box 2.3).

In more recent years, OECD member countries have increasingly sought to develop a focus on the results achieved with the appropriations allocated through various approaches as part of "performance budgeting". In an attempt to better link national strategy to spending, performance budgeting has usually required that centre of government institutions co-ordinate more closely on an ongoing basis and work more closely with line ministries.

There is currently no settled consensus on how to optimally use performance information within the budgeting context, and countries struggle to establish performance information of sufficient quality, robustness and reliability to serve as a sound basis for informing resource-allocation decisions. Challenges in this area range from the level of

information being used, to the problems inherent in the measurement of public performance. In Chapter 4, selected approaches towards holding policy makers to account for their performance are discussed in further detail.

Box 2.3. Spending reviews: Australia, the Netherlands and the United Kingdom

As government resources have been subject to increasing pressures following the financial crisis, public officials have sought ways of ensuring money is spent most effectively. One way of doing this is through the addition/inclusion of spending reviews in the budgeting process.

Spending reviews are valuable tools by which governments can improve control over the level of (total/aggregate) expenditure and improve expenditure prioritisation. They can help create fiscal space by reallocating or reducing expenditure for programmes or organisations.

There are two key types of spending review: efficiency reviews and strategic reviews. Efficiency reviews aim to save resources by identifying ways of delivering government services at a lower cost. Strategic reviews aim to save resources through prioritisation and reducing or eliminating services of transfer payments that are ineffective at achieving their objectives, or low-priority when compared to other services or programmes.

Spending reviews can be carried out in three different ways: bottom up reviews, where the spending ministries undertake the reviews themselves; joint reviews, where the spending ministries and ministry of finance representatives carry out the reviews together; or top down, where the ministry of finance undertakes the review with limited or no participation by the spending ministries.

Scope

Spending reviews can focus on efficiency or strategic savings, or both. They can also be limited in scope to certain areas, such as budget expenditure, mandatory expenditure (such as social security systems and healthcare), tax expenditure, or a combination.

Country examples

Australia

Australia introduced its Strategic Review Framework in 2007 to support the decentralised departmental programme evaluation and review frameworks. These reviews focused on six key measures: 1) appropriateness; 2) effectiveness; 3) efficiency; 4) integration; 5) performance assessment; and 6) strategic policy alignment.

Ministers agree on the scope of the review, and the reviews are conducted jointly between the Ministry of Finance and staff from relevant agencies. Affected agencies are given the opportunity to comment on the draft review reports, after which the final review is presented to the government. The Ministry of Finance and the spending agency may present their own separate documents and make recommendations for consideration during budget preparation.

Examples of the reviews undertaken include: the Government Grant Programs, the Geoscience Australia agency, organisation of its Natural Disaster Relief Programme, and a review of agencies under the Attorney-General of Australia.

United Kingdom

The UK 2010 Comprehensive Spending Review (CSR) was a "roots and branches" review aimed at achieving large reductions in public expenditure for fiscal consolidation purposes. The CSR was an efficiency and strategic review. The UK CSR was not limited by a forecasted list of spending review topics and covered nearly all government expenditure: budget, mandatory and transfers to subnational government, and tax expenditures. The CSR process was primarily bottom-up, in which the main source of savings options were spending ministries ("departments" in UK terminology) themselves.

Box 2.3. Spending reviews: Australia, the Netherlands and the United Kingdom
(continued)

These were required to conduct their own internal spending reviews and then present formal submissions detailing savings options to the Treasury. After receiving departmental submissions, Treasury officials added savings options of their own. The whole process was presided over by the Treasury's newly created Public Expenditure (PEX) Committee of Cabinet.

Netherlands

The Netherlands carried out a Comprehensive Expenditure Review (CER) in 2010. The CER examined 20 review topics and was primarily a strategic review. Each topic review was carried out by a review task force, with uniform terms of reference and processes set by the Ministry of Finance and agreed on by the Cabinet. Following a well-established Dutch tradition, review task forces are comprised of representatives from the spending ministry and the Ministry of Finance (MoF). The involvement of MoF officials in the development of concrete savings measures, particularly those from the Inspectorate of Budget who had strong policy skills and detailed portfolio knowledge, has been essential to the success of the spending review.

During the 2010 CER, each review task force was required to develop options capable of delivering at least a 20% reduction in expenditure over four years in the programme under review. These options were then presented to the political leadership for decision. They played a key part in both the 2010 election debate about budgetary savings measures, and in the subsequent Coalition Agreement on expenditure ceilings. The CER process built on lessons learned from two decades of spending review processes in the Netherlands. The cross-party agreement on the benefits of spending reviews led Parliament to implement the new rule that all the ex post evaluation of policies on the national budget should identify measures for 20% reduction in expenditure over four years of the policy under evaluation.

Sources:
Australian Government (2013), *Expenditure Review Principles*, Department of Finance, Australian Government, www.finance.gov.au/budget/budget-process/expenditure-review-principles.html.
OECD (2013b), *Spending Review, 3rd annual meeting of OECD Senior Budget Officials*, Spending Reviews, OECD Conference Centre, Paris, 3-4 June 2013, GOV/PGC/SBO(2013)6.

The OECD recommends that budgetary tools for medium-term expenditure frameworks or top-down budgeting are accompanied by prudent macroeconomic assumptions, sensitivity and risk analysis, and appropriate fiscal rules. These can help to orient spending and revenue policies within sustainable levels in the short and medium term. For a more forward-looking perspective, long-term fiscal projections that incorporate demographic and socio-economic trends are a useful analytical tool. Sensitivity and fiscal risk analysis can be useful tools in hypothetically testing the sensitivity of outcomes to changes in assumptions that underlie public finances.

Scrutinising the budget and verifying compliance are traditional activities of SAIs that will be discussed in Chapter 3 on budgetary execution and implementation. However, as part of their annual audits on budget execution, SAIs draw on their knowledge base to consider the tools and functions used to formulate the budget. In particular, SAIs are increasingly active in presenting, in person, the findings of the previous year's audit so that it can be considered during budget formulation for the following year.

8/10 *Of peer SAIs have looked at:*	*The comprehensiveness, reliability and accuracy of the budget document and how budgetary information conforms to accounting standards.*
9/10 *Of peer SAIs looked at*:	*The soundness and quality of the overall national framework of budgetary governance in promoting optimal resource allocation, implementation, evaluation and review.*

Recognising that EU Member States' gross national income (GNI) comprises the most significant share of revenue of the EU budget, the European Court of Audit issued the following special report: *Getting the gross national income (GNI) data right: A more structured and better-focused approach would improve the effectiveness of the Commission's verification Special Report* (ECA, 2013). This special report assessed the Commission's verification mechanism of GNI data submitted by member countries and found that although the verification process improved the reliability of GNI data, there was room for improvement in its effectiveness. The Court recommended that the verification take a more structured, risk-based approach.

SAIs draw on their knowledge base to assess a government's capacity to finance its activities and debt obligations in the medium and long term by assessing how fiscal sustainability analyses are prepared and reported. In some cases, audits focusing on other subject matters shed light on issues with forecasting and their implications on outcomes. The UK's NAO found that between 2010 and 2014, 71 audits raised issues related to forecasting. As a result, they made forecasting the subject of its audit in 2014.

Examples of SAI work in this area include:

- In 2012, The Superior Audit Office of Mexico (ASF) assessed the assumptions on which decisions related to the deficit were made. *The Fiscal Policy and Budget Balance* (2012) report criticised the 2012 budget deficit increase on the basis that the economic situation did not justify the decisions made. It outlined five criteria for deficit increases and provided recommendations to avoid future discrepancies.
- The UK's NAO issued *Forecasting in government to achieve value for money* in response to consistent findings on the deficiencies of forecasting and high profile evaluation errors that had led to increased costs for taxpayers. The report highlighted that poor forecasting by government departments was an entrenched problem and caused poor value-for-money. It was also found that this issue was not taken seriously or driven by policy agendas and the desire to meet annual expenditure targets. The NAO recommended that the centre of government institution – HM Treasury – work more closely with the NAO and Parliament to enable more informed scrutiny of departments' forecasts (NAO, 2014c).
- In 2004, the GAO used long-term budget simulations to show that without large-scale change in tax and spending policies, the United States would face escalating and persistent deficits. Their subsequent report, *Budget Process: Long-Term Focus is Critical*, recommended that the budget process incorporate new metrics and mechanisms that better reflect the long-term commitments of the government and focus the minds of policy-makers on financial sustainability (GAO, 2004).

- The GAO's Overview of the *Strategy, Execution, and Evaluation Budgeting Process* report examines how well the National Oceanic and Atmospheric Administration (NOAA) has implemented the Strategy Execution and Evaluation (SEE) budget development process. It also describes the seven steps of the SEE process, including suggested practices for budget submission and planning (GAO, 2013a).
- In its 2007 budget, the federal government of Canada committed to publishing a comprehensive and intergenerational report on Canada's fiscal sustainability. As this report remains unpublished, Canada's Office of the Auditor General (OAG) has repeatedly encouraged the government to make projections public in line with the practice of many OECD countries. In a 2011/2012 audit, the OAG looked at how long-term fiscal sustainability analyses are prepared and reported in order to determine whether spending and tax measures had been taken into account by the Department of Finance when considering new policies. The audit concluded that the Department of Finance had analysed and informed the Minister of Finance about the long-term fiscal impact of budget measures and that the long-term projections were sound, noting that these analyses were yet to be published (OAG, 2012).
- In 2014, Brazil's TCU issued a compliance and monitoring report, *Follow-up: Revenue forecast evaluation of the federal budget bill 2015*, to assess the estimates of revenue contained in the Budget Bill of the Union for 2015. This report showed that projected revenue estimates did not match the market expectations (TCU, 2014).

Useful reference for materials for SAIs in relation to international standards and principles include the OECD's *Recommendation of the Council on Budgetary Governance* (OECD, 2015d) and the ANAO's *Developing and Managing Internal Budgets Guide* (ANAO, 2008), which discusses good internal budget practices and how to embed them into overarching organisational planning and management and monitor performance over time.

Alignment between the budget and medium-term strategies (Table 2.2, key element B)

There has been an increased focus in recent years on the multi-annual dimensions of budgeting. Medium-term expenditure frameworks (MTEFs), or fiscal frameworks, strengthen the ability of the government to plan and enforce a sustainable fiscal path. Almost all OECD countries report having a medium-term expenditure framework in place, with half having enshrined the MTEF in law. MTEFs improve the quality and certainty of multi-annual fiscal planning by combining prescriptive yearly ceilings with descriptive forward estimates.

If properly designed, an MTEF should require stakeholders to consider the medium-term perspective of budgeting and budgetary policies, rather than adopt an exclusively year-by-year approach. MTEFs are increasingly relevant in a context where many policies require an extended time horizon and savings options often involve more than one year to reap their full benefits. Prior to the advent of medium-term frameworks, such savings options were often not considered as the time horizon only extended to the next budget year.

9/10
Of peer SAIs have looked at:

The adequacy of budgetary planning processes, including: facilitating the alignment between budgeting and strategic objectives; ensuring reliability and quality of tools that underlie the budget; managing public debt; assessing long-term sustainability; guiding the multi-annual process of resource allocation.

Nine out of ten peer SAIs have looked at the adequacy of the budgetary planning process and the characteristics needed for its reliability. For example, the SAI of Portugal considers the adequacy of the budgetary planning process as part of its annual Opinion on the General State Account. Additional examples below highlight other ways in which SAIs are assessing the adequacy of the budget and its characteristics:

Examples of SAI work in this area include:

- The Auditor General of South Africa (AGSA) is mandated to undertake an annual *Budgetary and Strategic Review*. Although this activity is formally considered as a financial and compliance audit, it also incorporates a broader assessment of pre-determined objectives laid out in the budget. Specifically, AGSA reviews the relevance and measurability of pre-determined objectives and the measurability of targets to help ministries understand shortcomings in their planning. The Auditor General presents findings to relevant parliamentary committees (case study Box 2.8).
- Korea's BAI conducted a performance audit on budget system reforms in 2008. Beginning in 2003, the Korean government introduced four major budget system reforms, including: National Fiscal Management Planning, Top-down Budget System, Self-Assessment System of Financial Programme, and Digital Budget and Accounting System. The changes aimed to streamline financial management and to cope with a decrease in tax revenues and a rapid increase in demand on spending, including for welfare. BAI conducted a performance audit on budget system reforms early on in order to support their establishment. The audit found that the medium-term (five year) fiscal plan (The National Financial Management Plan) did not fully reflect ministries' work plans, did not have the international budget classification system, and did not have an effective check-and-balance system to prevent ministries from formulating medium-term plans without consultations with the budget authority.[3]

The openness and transparency of budget documents (Table 2.2, key element C) and inclusive budgetary debate (Table 2.2, key element D)

The OECD believes that an effective legislature is a key ingredient for establishing and maintaining fiscal discipline, and also provides a necessary link with civil society and fosters accountability of the executive. 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 ways, including committee reviews, plenary debates, and parliamentary questions and interpellations. There is a great variation in legislative influence over the budget in OECD countries, as demonstrated by a legislature's amendment powers.

In order to engage meaningfully in the budget process, rather than simply serving as a rubber stamp, legislatures require reliable, unbiased information and strong analytical

capacity. 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 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. Adequate time to reflect upon and debate budget documentation prior to approval is particularly important for ensuring that legislative committees (which exist in all OECD legislatures and provide the most in-depth scrutiny of the budget) have sufficient time to review, debate and propose amendments. However, challenges remain in establishing appropriate transparency and open debates on budgetary choices.

Integrating reliable information that sheds light on the priorities included in previous budgets is a challenge when trying to link strategic and budgetary plans. As discussed above, SAIs use audit activities to promote how ministries can provide more user-friendly evaluations to the legislature and to help the legislature become more accustomed to using evaluations.

6/10
Of peer SAIs have looked at:

The openness of budgetary planning processes, including: the existence and/or adequacy of participative and realistic debates on budgetary choices; whether it is fit to inform citizens, legislature and key stakeholders of the true position of public finances.

Examples of SAI work in this area include:

- A report by GAO, *Budget Formulation Process Emphasizes Agency wide Priorities, but Transparency of Budget Presentation Could Be Improved*, analysed the budgeting formation process of the US Army Corps of Engineers (Corps) and recommended ways to increase the transparency of decision-making procedures to enable project prioritisation (GAO, 2010).

Key Function 3: Establishing regulatory policy

The public sector uses regulations to create "the rules of the game" for government, businesses and civil society. Regulations are an important tool that governments can apply in pursuit of broader economic, social and environmental goals. However, regulations can also cause undue burden and generate inefficiencies, and their use should be justified, particularly in the context of fiscal constraints (OECD, forthcoming).

The 2012 OECD *Recommendation of the Council on Regulatory Policy and Governance* provided a benchmark for regulatory reforms geared towards cross-cutting and coherent regulatory governance. Increased attention has been placed on using regulatory tools, such as regulatory impact assessments (RIA), stakeholder engagement, and evaluation, to feed into and improve regulatory design, enforcement and review processes (OECD, 2015e). These regulatory tools are critical for improving the quality of regulations at the micro level, as well as for formulating or reformulating government-wide regulatory policy. Measurable indicators should be established in this phase of the policy cycle, so that ex ante or regulatory impact assessments and ex post evaluations can provide a coherent storyline between the objectives and outcomes of regulatory policy.

Table 2.3. Key elements of establishing regulatory policy

Stage of the policy cycle	Key functions of a strategic and open state
Policy formulation	Strategic whole-of-government steering
	Budgetary planning
	Establishing regulatory policy A. An explicit regulatory policy is established with clear objectives of regulatory policy and frameworks for implementation. B. An explicit regulatory policy is established with transparency and engagement (openness) through consultative processes to maximise the quality of information, including in regulatory design to maximise quality of information used as inputs C. Regulatory design integrates ex ante impact assessment and risk management as well as ex post reviews of the stock of significant regulation, to improve regulatory design, efficiency and effectiveness
	Creating risk management and internal control policies

Source: OECD (2012a), "Principles 1, 2, 4, 5, 7", *Recommendation of the Council on Regulatory Policy and Governance*, C(2012)37, 22 March 2012, OECD, Paris, www.oecd.org/gov/regulatory-policy/49990817.pdf.

The examples in this section demonstrate how some SAIs support key elements required for the formulation or reformulation of regulatory policy and of regulations (Table 2.3). SAIs appear to be responding to government efforts to improve regulatory policy and the quality of regulations through, for example, assessing regulatory reform and government processes for burden-reduction programmes. However, the coverage of SAI work on these subjects appears to be more piecemeal than systematic.

SAI activities that assess and support:

An explicit regulatory policy (Table 2.3, key element A) and regulatory design that incorporates ex ante and ex post assessment (Table 2.3, key element C)

The OECD's *Recommendation of the OECD Council on Regulatory Policy and Governance* (OECD, 2012) outlines as its first principle commitment at the highest political level to an explicit whole-of-government policy for regulatory quality, with clear objectives and frameworks for implementation (OECD, 2012a). OECD members, and many other countries, have established their own regulatory policies and there has been some application of a variety of regulatory tools (OECD, 2015e)). However, these policies are often a series of disjointed regulatory policies rather than one coherent policy (OECD, 2015e).

The executive does not typically consider SAIs as a key actor in any particular stage of the regulatory governance cycle. An OECD study of 24 member countries showed that only 5 executives considered SAIs to have a role in evaluating regulatory governance (OECD, 2015e), and none considered SAIs to have a role in the design or enforcement stages.

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.[4]

However, the ten SAIs involved in this report all looked at the processes for the development of regulations and regulatory policy. In France, Korea, Portugal and South Africa, these activities are covered periodically in either sectoral audits (Portugal) or in other audits of relevant bodies (France).

10/10
Of peer SAIs looked at:

***Processes for the development of regulations and regulatory policy**, including: the clarity of objectives of regulatory policy frameworks; the incorporation of risk management; the openness and consultation of the process; the alignment of regulatory policy with international principles.*

Examples of SAI work in this area include:

- Brazil's Programme for the Strengthening of the Institutional Capacity for Regulatory Management (Pro-Reg) was established by presidential decree 6062 in 2007 to reinforce the government-wide regulatory system. Measures included: formulating capacity-building and public policy analysis in regulated sectors; improving co-ordination and strategic alignment between sectorial policies and the regulatory process; strengthening the autonomy and performance of regulatory agencies; developing mechanisms of accountability and transparency in the regulatory process. Through Pro-Reg, impact analysis has been integrated into 10 federal regulatory agencies. The TCU audits Pro-Reg related activities and provides recommendations based on international good practices of regulatory agencies. Consultation with centre of government officials in Brazil suggests that the TCU's periodic reviews have been useful in improving CoG's capacity to implement, monitor and evaluate regulatory processes. Of particular use have been: the recommendations in the annual report, the *TCU Basic Governance Reference Guide*, meetings and exchanges between senior officials of the TCU and the CoG, and findings from audit activities related to particular sectors (TCU, 2013; 2008).

OECD reviews, surveys and roundtables on regulatory reform confirm that 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 (OECD, 2014c). Persistent challenges to measuring the performance of regulation, and to better regulation practices, stem from: 1) a lack of clarity as to what countries should aim to measure in regulatory governance; 2) confounding factors that impact the outcomes in society that regulations aim to improve; and 3) a lack of information as to whether regulatory practices are being undertaken correctly, or even implemented and enforced (OECD, 2014d). Challenges in implementation and enforcement are discussed further in Chapter 3.

In view of these challenges, regulatory tools (ex ante assessment and ex post evaluation) should be integrated into the design phase to ensure that there are reasoned and measurable criteria on which to evaluate the impact and effectiveness of regulation as a policy tool. The main functions of regulatory oversight actors include: systematic improvement of regulatory policy, co-ordinating regulatory tools, and providing guidance and training. Actors' main inputs therefore come at the formulation stage of the policy cycle. The role of oversight bodies in providing quality control and identifying areas for improved efficiency of regulations is discussed in Chapter 4.

5/10
Of peer SAIs looked at:

***The effective and efficient application of regulatory tools**, including: diagnosis of regulatory issues that cut across levels of government, impact assessments, ex post review of regulatory stock, and reporting on performance of regulatory outcomes.*

The examples below show that peer SAIs also contribute to the evaluation of regulatory tools, for example, in assessing burden reduction programmes and the adequacy of RIA. . SAIs work may be complementary to that of regulatory oversight bodies or to the executive's own regulatory management. Their contribution may be particularly useful in providing broad expertise on financial controls to contextualise how regulatory processes (ex ante or ex post) are functioning in the face of fiscal constraints.

Examples of SAI work in this area include:

- In 2013, France's Cour des Comptes released *The tax administration's relationship with private individuals and businesses* (*Les relations de l'administration fiscale avec les particuliers et les entreprises*). This report explored the relationship between the tax administration, businesses and private individuals and highlighted the complexity of the administration's regulations (Cour des Comptes, 2012).
- Under the banner of administrative burden simplification, the UK's NAO released a report (NAO, 2012) that examines case studies of departments attempting to reduce the burden of regulation in order to improve performance. It describes efforts to streamline procedures in the United Kingdom, in the context of the "one-in, two-out" policy and the "Red Tape Challenge".[5] The report also assessed the UK's regulatory impact assessment (RIA) system in 2012, focusing on the processes for departmental control of regulations in select government departments, in a similar manner to the exercise of controls on spending. The NAO found that departmental processes to manage proposed regulatory interventions functioned well and met the Better Regulation Executive guidance and Regulatory Policy Committee requirements. However, it also found that departments are trying to manage the flow and burden of regulations rather than seeing them as a resource, that, similar to financial resources, should be managed to support the achievement of departmental objectives (OECD, forthcoming; NAO, 2012).
- Another NAO report, *Using alternatives to regulation to achieve policy objectives*, presents findings relating to the assessment and consideration of alternative approaches to regulation, and the barriers in certain departments that impede their adoption, such as prejudice against new and innovative solutions (NAO, 2014b).
- BAI is in practice of auditing government regulatory reforms in order to support their effective implementation and execution. A range of audits have focused on the appropriateness and implementation of systems, management, and tools of regulation policy as well as regulation in major sectors such as education, finance, establishing factory and facility safety, for instance (BAI, 2006; 2007; 2009a; 2009b; 2015a; 2015b).

Key Function 4: Exercise of internal control and risk management

In a strategic state, internal control is the "invisible hand" that allows public sector entities to focus on setting objectives and deliver value, while complying with legal, regulatory, and societal expectations. By managing risk and establishing controls as part of objective setting and performance management, as opposed to making it the focus, the entity can better respond and adapt to surprises and disruptions in the pursuit of goals. Thus, developing robust internal control mechanisms is seen as an iterative process that involves improving performance and governance, rather than as an additional system with additional procedures and resource requirements. As such, effective internal control mechanisms may be indistinguishable from day-to-day activities. In this sense, risk management and internal control, even when integrated, are the means to the end of achieving public policy objectives (IFAC, 2015).

The effects of risk can never be completely eliminated, and internal control and audit can only provide relative assurance of the adequacy of risk management. Ministry management should establish an accepted level of risk in the pursuit of policy objectives. The "risk appetite" of the organisation will determine the amount of risk the entity is prepared to be exposed to before any action is taken. Public sector entities need to build both resilience and agility in all their activities so that they can adequately respond to changes in circumstances or deal with the consequences of unforeseen events. A challenge in this endeavour is to overcome the disconnect between those responsible for achieving the goals and those responsible for managing risk. Integrating risk management and strategic management should mean that the management of risk is fully integrated in the overall line management of an entity. While many of these concepts have been borrowed from the private sector, there is a plethora of guidance to help public sector entities apply integrated risk management. These are explored below.

In recent decades, OECD countries have developed stronger internal control arrangements as they moved from ex ante to ex post control. This approach marks a cultural shift and provided the management of public entities greater flexibility in financial and non-financial resource allocation decisions, meaning that they would be checked after the fact, as opposed to approved before execution. This has put pressure on the accountability characteristic of ex post evaluation, as findings of irregularity in management still result in improvements and, where necessary, repercussions. This change has not meant fewer compliance-oriented controls, but has layered together a more comprehensive system of control. Being aware and striking a measured balance between the two may help realise policy objectives.

Risk management and internal control should not take a compliance-only mentality that is overly focused on external financial reporting or that is seen as solely procedural. Providing control in relation to financial reporting is important in the detection and prevention of fraud and ensures financial reports are accurate. However, effective controls should address all material risk to help a public sector entity achieve its objectives, create sustainable value, and avoid loss. Table 2.4 summarises key elements of how a strategic and open state can set internal control policy and manage risk.

Table 2.4. Key elements of setting internal control policy and managing risk

Stage of the policy cycle	Key functions of a strategic and open state
Policy formulation	Strategic whole-of-government steering
	Budgetary planning
	Establishing regulatory policy
	Creating risk management and internal control policies A. Guidance for risk management and internal control exist across government and can be tailored to individual entities. B. Internal control requirements and guidelines are consistent with the legislation governing public financial management, and public administration in general, and integrate international standards. C. The autonomy, roles, responsibilities and powers of audit and control actors (e.g. their scope of control) are clearly established. They are defined between the centre of government and public sector entities, and within entities. D. A government-wide anti-corruption framework is established. E. Those responsible for setting and achieving an entity's objectives are also responsible for setting controls to effectively own, manage and oversee risks related to those objectives, as well as risk tolerances. F. Entity-level decisions are based on high-quality information about the performance of the entity.

Sources:
COSO (2013), *An Update of COSO's Internal Control – Integrated Framework*, Committee of Sponsoring Organisations of the Treadway Commission, www.coso.org/documents/cosoicifoutreachdeck_05%2018%2012.pdf.
IFAC and CIPFA (2014), *International Framework: good governance in the public sector*, International Federation of Accountants, New York, and The Chartered Institute of Public Finance and Accountancy, London, www.ifac.org/publications-resources/international-framework-good-governance-public-sector.
IIA (2013a), *IIA Position Paper – Three Lines of Defense in Effective Risk Management and Control*, The Institute of Internal Auditors, Altamonte Springs, www.theiia.org/goto/3Lines.
OECD (2014b), *Principles for Public Administration*, SIGMA, OECD Publishing, Paris, www.sigmaweb.org/publications/Principles-Public-Administration-Overview-Nov2014.pdf.

Traditionally, SAIs' compliance and financial audits have aimed primarily at assessing financial expenditure and financial conduct in accordance with controls. The role of SAIs in assessing the implementation of rules and controls is covered in Chapter 3. SAIs' audit scopes cover how controls are set in an attempt to ensure that controls facilitate the achievement of the policy goals they are aiming to protect. The below examples show how SAIs support the establishment of risk based approaches and government-wide arrangements for internal control.

SAI activities that assess and support:

Guidance on internal control and risk management (Table 2.4, key elements A and B) and evidence-based decision making at the entity level (Table 2.4, key element F)

In many cases, CoG institutions are at the centre of the internal control system. This is the case for Canada's Treasury Board Secretariat's Office of the Comptroller General, and for New Zealand's Treasury. While leading the dissemination of the strategic vision is a core responsibility of CoG institutions, it is important that a central "command and control" situation does not paralyse the public sector. Instead, central functions should oversee and provide guidance, and clarify the responsibilities of the actors involved in the establishment, implementation and evaluation of policies in order to facilitate ownership and accountability for their success (OECD, 2015a).

Countries tend to customise their supervisory functions around international principles (OECD, 2015b). The international industry standard on internal control is supported by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) (2013). New trends in public administration show a noticeable increase in the adoption of international principles of internal audit in national laws and regulations (OECD, 2015b). A commonly used framework for internal audit is produced by the International Institute of Internal Auditors (IIA): the Three Lines of Defence Model. This promotes an internal audit function that is established as an independent and objective assurance and consulting activity. This activity is 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.[6]

An ongoing challenge for public sector entities is ensuring the independence of internal auditors, which should be laid out in supporting regulation or secondary legislation. In addition, as governments are attempting to streamline and bring more efficiency and effectiveness to operations, they are also challenged with defining the criteria for internal audit units; trying to balance large bureaucratic units with those that are smaller but potentially less effective (OECD, 2015b).

In looking at the efficiency and effectiveness of internal controls and risk management, SAIs have been able to gather insight into what does and does not work. SAIs are also actively assessing processes for the development of guidance around internal control and risk management; some SAIs are even responsible for developing guidance themselves, as discussed below. A forthcoming OECD study (2016) shows that out of ten SAIs responsible for auditing state-owned enterprises, eight include a review of their risk-management system (OECD, forthcoming).

6/10 *Of peer SAIs looked at:*	*The flexibility of the rulemaking and internal control systems to adapt to risks and future trends.*
6/10 *Of peer SAIs looked at:*	*The clarity and delineation of roles and responsibilities of actors involved in creating and implementing regulations and internal controls.*
9/10 *Of peer SAIs looked at:*	*Processes for the development of internal control guidelines, including: the incorporation of risk management, the openness and consultation of the process, and the alignment with international principles.*

Examples of SAI work in this area include:

- Canada's OAG has undertaken a series of audits on financial management and control and risk management. In 2003, OAG's *Integrated Risk Management* audit (OAG, 2003) showed that much remained to be done regarding integrating the risk-management mechanisms of departments. Progress had been made by the 2006 status report, *Managing Government: Financial Information*, but the OAG recommended improving financial controls to ensure that decisions were based on reliable information (OAG, 2006). The 2011 status report tracked progress against previous recommendations in seven large federal departments, and considered whether the Treasury Board Secretariat (TBS) (a CoG institution) had evolved in leading and developing strengthened financial and risk management portfolios in these departments. The report found that the institutions had made satisfactory progress, and that the TBS had demonstrated leadership through innovation. However, there was still room for the TBS to adopt a stronger leadership position to guide departments further (OAG, 2011).
- As part of a series on the sustainability of public finances following the crisis in 2008, the Netherland's Court of Audit began promoting the importance of accurate risk assessments to parliament. The Court repeatedly tried to put this topic on the political agenda, in one activity it developed factsheets to summarise the risks involved with Netherland's ties with eight financial institutions. The Court mapped these sources of risk, and their potential effects, in a way that was easy for parliament to understand. It also encouraged the Minister of Finance to think thoroughly about what and how information is presented and the implications for decisions made. More information about this audit is provided in Box 3.3.
- GAO's (2013b) report, *Hurricane Sandy Relief: Improved Guidance on Designing Internal Control Plans Could Enhance Oversight of Disaster Funding*, examined the Hurricane Sandy disaster relief internal control plans made in response to the 2013 Disaster Relief Appropriations Act in accordance with the Office of Management and Budget (OMB) guidance. It concluded that the OMB's guidance was not sufficiently robust and, consequently, was not consistently used by agencies when preparing their internal control plans.

Examining internal controls has always been a traditional task of SAIs, and depending on the audit and control architecture, SAIs may also be responsible for setting internal control guidelines and oversight. Even when another entity (usually a centre of government body) is responsible for developing and co-ordinating a whole-of-government control system, SAIs have an active role in promoting good practice in the development, implementation and evaluation of risk management and internal control arrangements. To carry out this role they rely on the wealth of information gathered from years of experience in auditing public entity controls.

The role of SAIs goes beyond assessing controls ex post, and nine out of ten SAI peers have looked at processes for the development of internal control guidelines. In France, these elements are systematically integrated into the financial auditing framework. Over half of peer SAIs have looked at the overlaps and synergies between actors involved in creating and implementing those controls.

Examples of SAI work in this area include:

- In response to pervasive issues in establishing a coherent whole-of-government system for internal control and audit, the US GAO adopted international COSO principles and applied them to the public sector to create *Standards for Internal Control in the Federal Government,* known as "the Green Book". The GAO works with state level audit offices to disseminate good practice and build the capacity of auditors to integrate this good practice into their own audit work and then share it with relevant co-ordinating bodies (such as the Office of Management and Budget at the federal level). The Green Book has been considered internationally as a useful guide as it is free and accompanied by supporting guidance documents (GAO, 2014c).

The clear establishment of autonomy, roles and responsibility of audit and control bodies (Table 2.4, key element C)

SAIs have a unique role in relation to establishing effective internal control mechanisms as they are both the overseer of control execution (discussed in Chapter 3), and, in some cases, responsible for developing guidance on implementation of internal control measures. Six out of ten peer SAIs provide written guidance on establishing rules and controls, and five out of ten undertake research in this area.

SAIs base their guidance and assessments of internal controls on internationally accepted principles,[7] in addition to national legislation. This helps them to build subject matter expertise regarding integrated risk management and internal control techniques.

SAIs can play a vital role in the execution of controls by providing an external independent assessment on the quality and impact of internal control mechanisms across all entities. In a context of fiscal consolidation and austerity measures, it is important for SAIs and the government's principal financial management agency (Ministries of Finance) to co-operate in order to achieve the most comprehensive and effective system for managing and controlling the budget.

Some SAIs collaborate with international agencies in order to access the best audit criteria and promote better governance. Guides that may be of use for SAIs, and for the public sector more broadly, include:

- *Internal Audit in Practice*: A series of case studies produced in collaboration with the National audit Office. The NAO teamed up with the Chartered Institute of

Internal Auditors to develop this guidance, which features good practice case studies on internal audit in both public and private sector organisations. The guidance recommends ways to establish a cohesive standard of internal audit, promote effective leadership in control systems, and ensure that services provide value for money (NAO and CIIA, n.d).

- *Public Sector Internal Audit*: An investment in assurance and business improvement. This ANAO (2012) guide recommends good practices for planning, resourcing and monitoring internal audit functions. It provides a model internal audit charter and example questionnaires for internal audits.
- *General Criteria for Internal Control in Public Administration*: This TCU study (TCU, 2009b) explores role models for internal risk management and controls, and shows how surveyed countries have addressed this issue in their legal systems. The study's goal was to support federal senate discussions concerning a bill to define the general criteria of internal controls, risk management and governance in the Brazilian government. The study revealed that the Brazilian internal control system did not comply with international standards.

In addition to the above-mentioned guidance on integrating the management of risk, other international guides include:

- *From Bolt-on to Built-in: Managing Risk as an Integral Part of Managing an Organization*. This resource positions risk management and internal control as a highly relevant and useful process for decision and execution support. It states that these are the processes that boards and management naturally use to ensure their organisation makes the best decisions and achieves its objectives (IFAC, 2015).
- *International Framework: Good Governance in the Public Sector*. This resource was jointly developed by the The International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) to help improve and encourage effective public sector governance. The framework encourages better governed and managed public sector organisations by improving decision making and the efficient use of resources. The oversight of those responsible for determining an entity's strategic direction, operations, and accountability, as well as enhanced stakeholder engagement and robust scrutiny, leads to more effective interventions and better outcomes for the public at large (IFAC and CIPFA, 2014).

Taking Stock: SAI activities in supporting policy formulation

The data in Table 2.5 below shows a slight variation in the extent of assessment that SAIs make of particular functions of policy formulation. The majority of SAIs have assessed each element put forth in the survey, however, SAIs were slightly less likely to have assessed elements of government-wide steering, and were more likely to have assessed key elements of budgetary planning.

Table 2.5. SAI activities in assessing policy formulation

Policy stage	The survey asked the 10 participating SAIs, "Has your SAI assessed…"	"Yes" (out of 10 SAIs)
Policy formulation	**Key function 1: Strategic whole-of-government steering**	
	The use of a reliable evidence base in planning processes. This may include looking at the reliability and breadth of inputs; the mechanisms for using performance-related and output data; the mechanisms for integrating future trends and risk	9
	The openness of government-wide strategic planning processes, including the existence of consultation in the planning process	8
	The division of responsibilities between key actors involved in strategic planning	7
	The existence or development of government-wide evaluation criteria	6
	The capacity and/or efficacy of central government units (ex. Centre of Government), including: in ensuring the long-term vision is harmonised with other key documents (fiscal plans); in ensuring the long-term vision is reflected in ministries work plans	6
	Key function 2: Budgetary planning	
	The adequacy of budgetary planning processes, including: to facilitate an alignment between budgeting and strategic objectives; to ensure reliability and quality of tools that underlie the budget; to manage public debt; to assess long-term sustainability; to guide the multi-annual process of resource allocation	9
	The soundness and quality of the overall national framework of budgetary governance in promoting optimal resource allocation, implementation, evaluation and review	9
	The comprehensiveness, reliability and accuracy of the budget document and the conformity of budgetary information with accounting standards	8
	The openness of budgetary planning processes including: the existence and/or adequacy of participative and realistic debates on budgetary choices; whether it is fit inform citizens, Legislature and key stakeholders of the true position of the public finances	6
	Key functions 3 and 4: Establishing rules and controls*	
	Processes for the development of regulations and regulatory policy, including: the clarity of objectives of regulatory policy frameworks; the incorporation of a risk management; the openness and consultation of the process; the alignment of regulatory policy with international principles	10
	Processes for the development of internal control guidelines, including; the incorporation of a risk management; the openness and consultation of the process; the alignment with international principles	9
	The effective and efficient application of regulatory tools, including: diagnosis of regulatory issues that cut across levels of government; impact assessments; ex post review of regulatory stock; reporting on performance of regulatory outcomes	5
	The flexibility of the rulemaking and internal control systems to adapt to future risks and trends	6
	The clarity and delineation of roles and responsibilities of actors involved in creating and implementing regulations and internal controls	6

Note: * for the purposes of the survey, key functions 3 (Establishing regulatory policy) and 4 (Creating risk management and internal control policies) were aggregated.

Source: OECD Survey of Peer Supreme Audit Institutions.

SAIs are more likely to undertake research activities here than in the other stages of the cycle. This may be because SAI assessments of this stage of the policy cycle is newer or less explored, compared to other stages. Surveyed SAIs are also more likely to give verbal or written guidance, which may reflect the newness of engagement in this area and the fact that the formulation stage may lend itself more to the provision of guidance than to auditing. This highlights potential opportunities for SAIs to inform policy formulation in ways that are more informal and potentially less resource-intensive than audits. As noted, SAIs are just as likely to undertake performance and compliance audits in activities related to formulation than in other stages of the policy cycle. They are less likely, however, to undertake financial audits during the formulation stage. Table 2.6 provides a categorisation of the types of activities that SAIs have undertaken in each function.

Table 2.6. Types of assessment of key functions of policy formulation, by 10 surveyed SAIs

Key functions	Types of audits	Other activities
Strategic whole-of-government steering	Financial audit (3) **Compliance audit (7)** Performance audit (6)	**Written guidance (5)** Verbal guidance (3) Research (4) Web-based tools (1)
Budgetary planning	Financial audit (5) **Compliance audit (8)** Performance audit (7)	**Written guidance (5)** Verbal guidance (3) Research (3) Web-based tools (1)
Establishing rules and controls*	**Financial audit (8)** **Compliance audit (8)** **Performance audit (8)**	**Written guidance (6)** Verbal guidance (3) Research (5) Web-based tools (1)

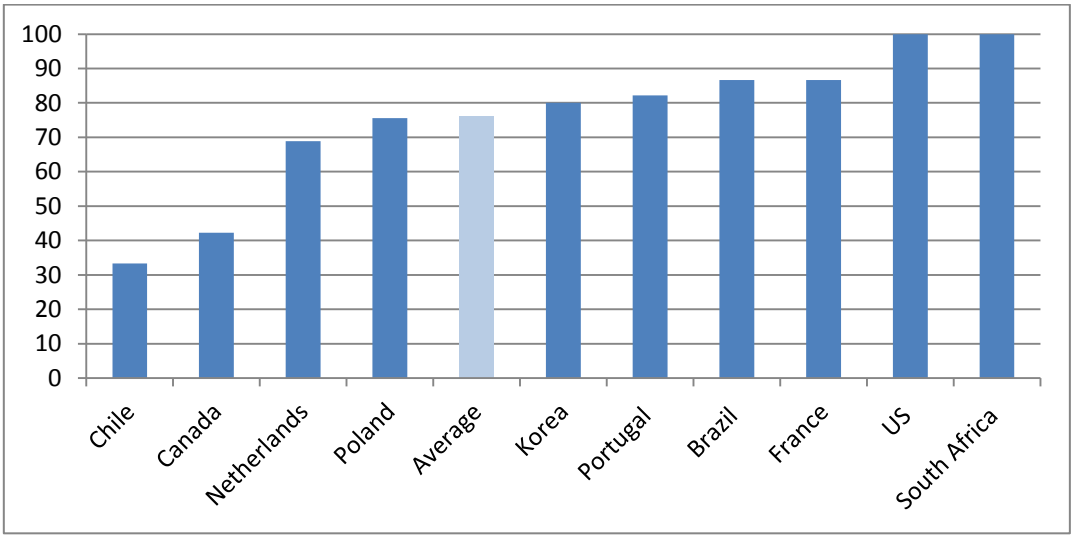
Notes: This study refers to SAI "assessments", which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

*Sub-functions related to regulatory policy and internal control were aggregated in the survey.

Source: OECD Survey of Peer Supreme Audit Institutions.

Figure 2.1 shows the activity level of participating countries regarding policy formulation by aggregating the affirmative responses to questions about whether SAIs assessed this stage of the policy cycle. Of the countries with lower levels of activities in the policy formulation stage (Chile, Canada, Poland and the Netherlands), there are no striking similarities in models or mandates that would account for their lower level of activity. However, these countries more often reported that activities are more likely to be at the SAI's discretion than other countries.

Figure 2.1. Level of SAI activity in assessing key elements of policy formulation, by country

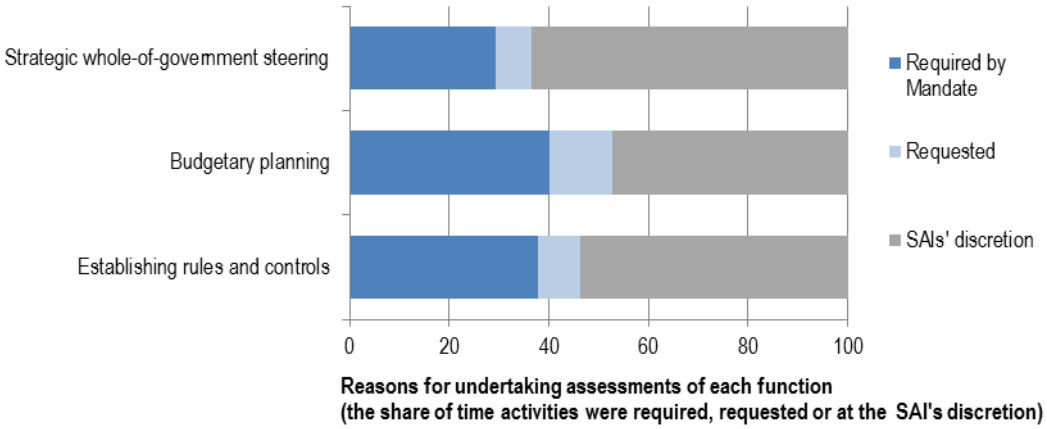


Note: Sub-functions related to regulatory policy and internal control were aggregated in the survey.

Source: OECD Survey of Peer Supreme Audit Institutions.

Figure 2.2 below shows the estimated share of time that SAI assessments in this stage are required, requested or at the discretion of the SAI. The impetus for undertaking activities to assess and contribute to the formulation stage is, on average, equivalent to other stages of the policy cycle. SAI's work related to the policy formulation stage, when undertaken, is more likely to focus on budgetary planning and the establishment of rules and controls. These are the traditional areas for SAI involvement. Support for budgetary planning is more likely to be provided in response to a mandate or a request. For strategic planning, almost 65% of SAIs' activities are carried out at their own discretion, the highest throughout the policy cycle.

Figure 2.2. Impetus for SAI assessments of key functions of policy formulation



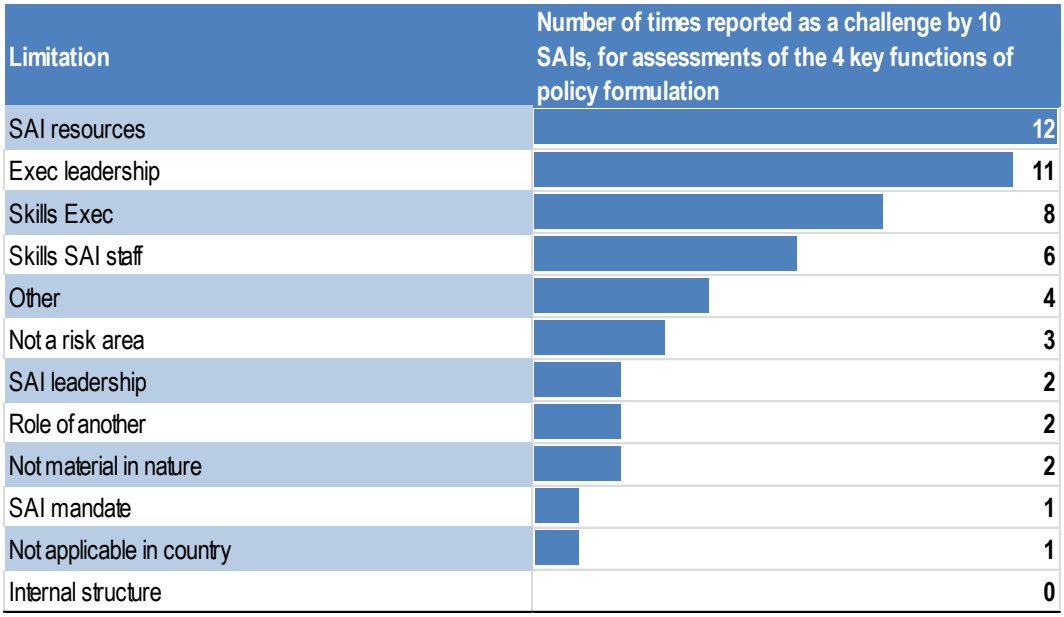
Note: Sub-functions related to regulatory policy and internal control were aggregated in the survey.

Source: OECD Survey of Peer Supreme Audit Institutions.

Challenges and limitations to SAI participation

Among the SAIs surveyed, resources and top-level Executive commitment were identified as key factors that limit SAIs involvement in select functions of policy formulation (Figure 2.3). Skills deficiencies of both SAI staff and executive staff also posed issues in engaging with policy formulation. For SAIs, this is likely to be because of a lack of expertise in these audit subjects. These are factors that are within the control of the SAI and can be strategically addressed if SAIs aim to play a bigger role in the policy formulation stage.

Figure 2.3. Factors that limit select activities in assessing policy formulation



Source: OECD Survey of Peer Supreme Audit Institutions.

Conclusions on the role of SAIs in supporting policy formulation

As autonomous bodies, SAIs are not involved in setting the government agenda or selecting policy tools. However, this chapter shows that SAIs work in this stage involves providing oversight, insight and foresight.

SAIs provide oversight on the institutions and processes through which governments undertake this work. They look "upstream" at the adequacy of preparations in decision and policy-making – including the use of evidence, assessments of costs and risks, and projections for cost savings – in order to better explain shortcomings in cost savings and ineffectiveness of programmes and policies. They assess the effectiveness and efficiency of tools that are in place to make difficult decisions, such as regulatory burden reduction activities.

SAIs provide insight when supporting strategic planning and budgetary planning. SAIs report being less active in undertaking insight activities that support strategic planning than those that aid the CoG in budgetary planning or in establishing rules and controls (the latter two of which are more traditionally in their remit). Peers SAIs did not report that their mandate or other external entities posed great limitations to undertaking assessments of policy formulation. SAIs' reporting on internal limitations suggests that

there is room to strategically decide how SAIs can provide additional inputs into the formulation stage of the policy cycle.

SAIs provide foresight when validating whether long-term projections of government are robust and reflective of the reality. This helps to determine whether current plans are suitable to address longer-term challenges. While many audit activities do not intentionally look at long-term projections, their findings often identify shortcomings in the planning stage of policies and programmes that impact on the outcomes and the achievement of broader goals. Examples of this are discussed in Chapter 3.

Case studies of SAI activities supporting policy formulation

Key Function 1: Strategic whole-of-government steering and planning

Box 2.4. The SAI of Poland – preparation of government strategic documents for 2014-2020

Objective

Poland's supreme audit institution, the Najwyższa Izba Kontroli (NIK), examined the government's preparedness to allocate funds distributed to Poland through the EU's Multiannual Financial Framework. The performance audit focused on medium- and long-term strategies for continued economic and social development. The main audit objective was to assess the preparation of strategic documents by the Polish administration in relation to the European Union's Financial Perspective; 2014-2020.

Type

Performance audit.

Scope and methodology

The audit scope included the Prime Minister's Office and seven ministries: Regional Development, Administration and Digitisation, Economy, Culture and National Heritage, Transport, Construction and Maritime Economy, Labour and Social Policy, and Agriculture and Rural Development.

The audit looked at the:

- Implementation by the Prime Minister and Council of Ministers of the obligations arising from the provisions of laws and governmental documents relating to strategic programming, including the execution of policy development.
- Implementation by the Minister of Regional Development of the obligations arising from laws and governmental documents concerning the medium-term programming of social and economic aspects, spatial planning and co-ordination of development policies.
- Implementation by Minister-coordinators of tasks related to the development of integrated strategies.
- Implementation by the heads of all controlled entities of tasks related to the preparation of programming and document implementation for absorption of EU funds by Poland in the framework of the Financial Perspective 2014-2020.
- Implementation of recommendations and suggestions made in a previous audit on "programming and planning investments financed from the state budget" (P/09/180) by the Prime Minister and the Minister of Regional Development.

Box 2.4. The SAI Poland – Preparation of government strategic documents for 2014-2020 *(continued)*

Audit criteria

Country laws and regulations (including internal government regulations, orders and correspondence between those audited) and other (EU financial framework).

Resources

The audit was conducted by seven organisational units of the SAI (co-ordinated by the regional branch in Warsaw), with each unit corresponding to an assigned audited line ministry. The audit activity was carried out between September 2012 and April 2013.

Outcomes and benefits

The audit report revealed some weaknesses in the government's strategic planning model, the main one being a lack of institutional strength and a lack of co-ordination among the entities involved in planning, which was assumed in governmental documents. NIK found that the Ministry of Regional Development had taken the lead on strategic planning, but was not equipped with the tools necessary for effective co-ordination.

As a result, NIK recommended establishing a separate strategic planning centre dedicated and equipped to leading this work. This unit would help to tackle the discrepancy between strategic planning, the Long-term Budgetary Perspectives and the Performance Budget, which became pronounced during the audit. NIK considers bridging gaps between these three spheres as critical, underlining that this gap has created a great vulnerability in the public administration system as a whole.

Good practices used

The performance audit required a broad approach and a careful assessment of the cross-cutting activities of various entities involved in the strategic planning system. NIK relied on internal expertise and demonstrated its value-added to the debates around strategic planning. It participated in relevant parliamentary committees. This process contributed to its internal understanding of the issues and emphasised the need to continue strictly monitoring and analysing the government's progress in strategy fulfilment.

Lessons learned

As NIK did not use external experts to solidify its own opinion, it did encounter some difficulties in identifying competent staff to participate in the complex and cross-cutting audit on the thematic issues.

Further reading

www.nik.gov.pl/kontrole/P/12/181/
www.nik.gov.pl/kontrole/P/12/039/

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 2.5. The SAI of the Netherlands – linking evidence-based decisions with efficiency gains

Objective

The Netherlands Food and Consumer Product Safety Authority (NVWA) was created on 1 January 2012 through the merger of three inspectorates: the General Inspectorate (AID), the Netherlands Plant Health Authority (PD) and the original Food and Product Safety Authority (VWA). The government had foreseen two opportunities to make savings with the new supervision methods of the NVWA:

1. The three merger partners' development and the introduction of new supervision methods was looked upon as a potential source of cost savings. By using risk-based working methods and giving more responsibility to the private sector, the NVWA would need fewer people.
2. As inspections, knowledge development, personnel and premises/operational management could be combined following the merger, economies of scale were anticipated.

The SAI of the Netherlands - Algemene Rekenkamer (NCA) - assessed whether the merger was evidence based, and whether it produced the desired efficiency gains.

Type

Performance audit.

Scope and methodology

The Court of Audit assessed the merger between the VWA, the AID and PD by looking at 1) the cost savings ex post; and 2) the underlying premises of the merger.

Criteria

Country laws and entity objectives.

Timing and resources

650 working days.

Outcomes

The audit determined that the government had failed to make a thorough analysis of the pros and cons of the merger before it decided to merge the inspectorates in 2007. The government had based its decision on general considerations and assumptions about potential efficiency gains. The conditions under which new supervision methods could cut expenditure, how much money would be saved and over what time period, had not been studied in advance. The inability to apply the new methods of supervision across the board meant that foreseen major savings were not realised in recent years. The new supervision methods are also unlikely to produce significant savings in the next four years because they will first require the investment of time and money. The expected economies of scale from the merger also proved too optimistic. Foreseeable risks, for example in the field of IT, were not taken fully into account. Furthermore, the overlap between the three organisations was never quantified, but was estimated to never be greater than 13%.

The considerable savings expected of the merger have so far failed to materialise, resulting in inevitable consequences for the feasibility of the planned savings. The intended structural saving of €50 million as from 2012 has not been achieved. The target of a further saving of €31.6 million as from 2018 was lowered by €11.8 million in 2013. The Court deemed it unlikely, however, that even this lower savings target will be achieved.

Box 2.5. Netherlands – linking evidence-based decisions with efficiency gains *(continued)*

Following the audit, the State Secretary for Economic Affairs began implementing the NCA's recommendation to consider social risks and human resources before taking any decision on further changes to the NVWA's tasks and budget. The SAI received no response on its recommendation to monitor the achievement of savings, and has since encouraged the ministry to provide a clear overview of the initial budget, the savings targets and the price level in the annual budget and accounts.

Good practices used

This was an innovative performance audit for the NCA as it not only evaluated the results of the decision (in this case, the savings) but also looked at the assumptions for the decision (the merger). Auditing if the assumptions of a decision were plausible helps to determine the causes of unsatisfactory results. Analysing the wording of relevant documents, figures, and interviews with those directly involved, broke down general concepts (such as "synergies") on which the decision was based into more operational concepts. The audit included a quantification of the overlaps – or lack of synergies – that existed between the merged entities.

At a very basic level, the Court found it useful to study the figures of the intended budget cuts. There appeared to be considerable uncertainty within the Ministry of Economic Affairs about the reference level from which the cuts had to be realised. Moreover, the effect of inflation is important in such long-term policy intentions and was not made explicit. Determining the causes helped to strengthen the Court's recommendations.

Lessons learned

In this study the Court tried to uncover whether the new organisation (NVWA) had enough resources for their tasks and, to this end, conducted many structured interviews with staff. At the end of the study, the Court considered much of the interview information as unreliable. The Court now views the reliability of information from interviews as a methodological problem to be solved by further integrating other scientific approaches with qualitative analysis.

Further reading

www.courtofaudit.nl/english/Publications/Audits/Introductions/2013/11/Supervision_of_the_Netherlands_food_and_consumer_product_safety_authority_following_the_merger.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading link above.

Box 2.6. The SAI of the United States – linking performance to decision-making in Congress and the Executive

Objective

"As Congress creates, modifies, and funds federal programs and activities, it needs pertinent and reliable information to adequately assess agencies' progress in meeting established performance goals, ensure accountability for results, and understand how individual programs and activities fit within a broader portfolio of federal efforts."

The US Congress updated the statutory framework for performance management in the federal government, the Government Performance and Results Act of 1993 (GPRA), with the GPRA Modernization Act of 2010 (GPRAMA), to foster a more co-ordinated and whole-of-government approach to achieving meaningful results.

Box 2.6. The SAI of the United States – linking performance to decision-making in Congress and the Executive *(continued)*

The GPRAMA puts the Office of Management and Budget (OMB) – a centre of government institution – in a leading role of disseminating and integrating a results and performance based approach to public administration.By requiring agencies to consult with Congress when establishing or adjusting government-wide and agency goals, the GPRAMA provides Congress with more opportunities to be involved in performance planning at the agency level. Members of Congress, congressional committees, and staff can use these opportunities to assess whether existing agency strategies are the most efficient and effective ways for agencies to meet their goals.

Mandated with reviewing the implementation and use of the GPRAMA, the GAO fields requests from Congress to support the application of the GPRAMA. GAO produces reports and recommendations targeted to both the executive and to Congress. Many of GAO's innovative activities in this area, some of which are highlighted in various guides, briefings and indexes, came at the specific request of Congress.

Scope and methodology

The GAO's work in this area spans all of government. The scope and methodology of individual activities are provided for in corresponding reports. All activities related to the assessments of the GPRAMA can be found at the weblink below, where recommendations and their status are tracked.

Criteria

Country laws and regulations; government wide indicators (in the case of the United States, these are the cross-agency priority goals); public sector entities' objectives/indicators; foreign laws and regulations (used to identify good practice for possible application to the United States); standards and guidance from international organisations (used to identify good practice for possible application to the United States).

Resources

GAO has approximately ten full-time staff working on assessments of the GPRAMA per year. However, given that many other GAO activities touch on related aspects, the actual resources dedicated is difficult to estimate.

Benefits and outcomes

Approximately 60% of GAO reports include recommendations, of which 79% are implemented within four years. More information about the benefits of GAO's work can be found here: www.gao.gov/about/perfaccountreport.html.

General lessons learned

GAO's activity in assessing the GPRAMA has highlighted the biggest challenge and opportunity facing performance audit, which is evolving from looking at a single "unit of analysis" (e.g. one programme). Traditionally, SAIs started with an individual programme and then applied the typical "logic model" by looking at the inputs, process, and outputs, and then making judgments about the efficiency and effectiveness of the programme, often commenting on the degree to which outcomes are being achieved. The value in this approach means that it will remain a core part of the SAI portfolio.

In order for SAIs to understand cross-cutting arrangements, they need to systematically begin by selecting an outcome as the unit of analysis and then work back to the various programmes that are intended to contribute to achieving that outcome. Once SAIs are able to adopt the outcome as the unit, new analytic opportunities and findings emerge related to possible overlap, duplication and fragmentation among programmes in a given policy area. These findings would not typically emerge if a single programme was the unit for analysis.

Box 2.6. The SAI of the United States – linking performance to decision-making in Congress and the Executive *(continued)*

Outcomes

Congressional briefing: Opportunities for Congress to Address Government Performance Issues (2011)

In response to the request to support congressional use of performance information, the GAO developed, as a first step, a set of briefing materials to 1) describe provisions of GPRAMA that provide Congress with opportunities for involvement in agency performance planning; and 2) illustrate instances of Congress's use of agency performance information in its decision making.

This activity better informed Congress on the opportunities for it to provide input on the following: what results agencies should seek to achieve; how those results will be achieved, including how an agency's efforts are aligned and co-ordinated with other related efforts; how to measure progress given the complexity of federal programmes; and how to report on results.

The briefing used three case studies from prior GAO work that could clarify the link between entities' provision of performance information and Congress' use of this information. The executive summary and report can be found here: www.gao.gov/products/GAO-12-215R.

Guide: Using the GPRAMA to help inform Congressional decision-making (2012)

The GAO developed a guide to assist members of Congress and their staff in 1) ensuring the consultations required under GPRAMA are useful to Congress; and 2) using performance information produced by executive branch agencies carrying out various congressional decision-making responsibilities, such as: authorising programmes or provisions in the tax code, making appropriations, developing budgets, and providing oversight. The guide was requested by Congress, who recognised the value that GAO brings in transforming its cross-cutting perspective on similar issues across areas into a checklist for Congress. The guide targets executive agencies and encourages them to present their performance information in a way that is clearer and easier to interpret and use. The executive summary and guide can be found here: www.gao.gov/products/GAO-12-621SP.

Index: Use of performance information at the agency level (2007 and 2013)

The GAO has consolidated an index to track the reported use of performance information within agencies. The index was created from a set of surveys in 2007 and 201, which reflects managers' use of performance information in their decision-making and other managerial activities. The GAO found that between 2007 and 2013, two agencies achieved a statistically significant increase in the application of performance information, while four experienced a significant decline. The index dashboard, highlights and the full report are available here: www.gao.gov/products/GAO-14-747.

Further reading

www.gao.gov/key_issues/managing_for_results_in_government/issue_summary#t=0.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading link above.

Key Function 2: Budgetary planning

Box 2.7. The SAIs of Canada, Korea and the Netherlands – using foresight to assess workforce sustainability and population ageing

In 2012, the Netherlands Court of Audit undertook a review of Human Resource Management that focused on the strategy and planning for central government personnel. The audit analysed the preparedness of central government for increases in retirement and turnover in personnel predicted between 2012 and 2022. The Court of Audit concluded that the lack of a strategic personnel plan significantly undermined its ability to anticipate and oversee the consequences of personnel changes. Planned spending cuts to the civil service between 2012 and 2014 compounded the need for strategic planning to ensure that jobs necessary in the future were not cut. Lack of planning prevented central government from steering the development of staff and responding to evolving needs.

In 2012, the Korean Board of Audit and Inspection conducted an audit on the management practices of the Government Employee Pension Service (GEPS) and Teacher's Pension (TP), with the goal of determining the stability of the systems and restoring public trust. As a result it found the deficiencies in asset management and operations of the GEPS and TP, including inaccurate measuring of the value of assets, overpayment for management services compared to other pension systems and overstated revenues. The audit also found that ineligible recipients indeed received pension and severance payments. BAI provided recommendations for the GEPS and TP to better manage its assets, and notified the relevant ministries of ineligible recipients of pension payments so they could begin actions to recollect the money.

It found issues with the status of the assets managed by these systems, including inaccurate measuring of the value of assets held, overpayment for management services compared to other pension systems, and overstated revenues. The audit also found that some persons who were not eligible for the pension were allowed to receive pension and severance payments. The Board of Audit and Inspection provided recommendations for the GEPS and TP systems to better manage its assets, and notified the relevant ministries of ineligible recipients of pension payments so that they could begin to recollect the improper disbursements.

The Auditor General of Canada delivered its Fall Report in 2012, which included a chapter on the long-term fiscal sustainability of Canada. It looked particularly at the growing proportion of elderly Canadians and the resulting pressure on the health care and pension systems. The Auditor General focused on whether Finance Canada had analysed and publicised these long-term sustainability issues, as well as made decision makers aware of their findings. The Auditor General concluded that Finance Canada had made long-term sustainability analyses where appropriate, but made recommendations regarding the analysis of future proposed budgets to help decision makers better understand the long-term implications of budget decisions before the budget is finalised.

Further reading

www.courtofaudit.nl/english/Publications/Audits/Introductions/2012/05/Central_government_personnel_strategy_and_planning.

www.oag-bvg.gc.ca/internet/English/parl_oag_201210_07_e_37351.html.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 2.8. The SAI of South Africa – budget and strategic plan review

Objective

In South Africa, the portfolio committees of parliament and the provincial legislatures are required to undertake a budget review, recommendation and reporting process on all budgets prior to submission to parliament and provincial legislatures for approval. The SAI of South Africa, the Auditor General (AGSA), adds value through a budgetary and strategic plan review that uses the knowledge and insights gained from the previous year's audit, including the performance of the department. Feedback is provided to accounting officers and presentations are made to the relevant parliament or legislature portfolio committees.

Type of activity

Financial audit, compliance audit and providing guidance.

Scope and methodology

AGSA incorporates all national and provincial departments in its budget and strategic plan review. It complements the findings from previous years financial and compliance audits, and mid-year audits, with each department's financial accountability records, assessments of internal controls, and delivery on service objectives, to provide insight on the adequacy of departmental budget preparations. AGSA's process broadly involves the following checks on departments: 1) appropriation account statements; 2) budget compliance; and 3) the relevance and measurability of pre-determined objectives.

i. Procedures related to appropriation account statements - year-end

At year-end, AGSA audits the final appropriation, the actual funds received, any variance over/under, and the total appropriation for each programme. It undertakes the following: inspects the rollover of entities' unspent funds; verifies the current year adjusted estimate against the appropriation statement; checks for unauthorised expenditure; determines whether virements were applied; assesses actual expenditure; recalculates figures on the Appropriation Statement; verifies approval for any shifting funds; inspects the Estimates of National Expenditure Budget (for applicable year); and inspects the presentation and disclosure in the financial statements.

Procedures performed on the budget process – year-endAs part of the compliance audit, AGSA reviews compliance with the Public Finance Management Act of South Africa in the areas of: current annual budget, virements,[8] rollovers, adjustments and reporting.

ii. Procedures performed on the pre-determined objectives – interim audit

The procedures below are performed by AGSA as part of the interim auditing. The results are discussed with the chair of the portfolio committee before submission of the strategic plan to the oversight committee.

- In assessing the measurability of objectives, AGSA asks: Does the indicator/measure have a clear unambiguous definition? Is the indicator/measure defined so that data will be collected consistently? Based on discussions held with senior management and relevant information inspected, is the indicator/measure well-defined? Is it possible to verify the processes and systems that produce the indicator? Based on discussions held with senior management and information inspected, is it possible to conclude whether the indicator/measure is verifiable?

Box 2.8. The SAI of South Africa - budget and strategic plan review *(continued)*

- In assessing the measurability of targets, AGSA asks: Is the planned target specific? Is the planned target measurable? Is the planned target time-bound?
- In determining the relevance of objectives, AGSA interviews relevant senior managers/officials to determine how indicator/measurement relates logically and directly to an aspect of the institutions mandate, and the realisation of strategic goals and objectives. The following questions are used as the basis of the discussion: Why are the predetermined objective and indicators important? How are the indicators/targets used to manage service delivery? AGSA then provides a conclusion.

Criteria used

Country laws, entity objectives, other: monetary policy (of the South African Reserve Bank and performance and monitoring unit in the presidency)

Resources

The review process and presentation to the portfolio committees utilise approximately 1% of total resources.

Outcomes

The output is a presentation to parliamentary and provincial legislature portfolio committees on the departments' budgetary preparation. The presentations synthesise findings from prior year audits, the latest interim audit findings, the departments' financial accountability record, internal controls, and delivery on service objectives. While AGSA does not set the performance criteria, part of this work includes making recommendations on whether established criteria are specific, relevant, measurable, reliable and linked to timelines.

Good practices used

The presentations empower the portfolio committee members by making them aware of financial, capacity, delivery and other shortcomings in departments. It provides an independent assessment of the budget preparation and compliance with recommendations.

Lessons learned

The success of AGSA's initiative and AGSA's indirect involvement in budgetary planning has led to portfolio committees expecting work that exceeds what AGSA is able to provide with existing resources.

Sources: OECD Survey of Peer Supreme Audit Institutions.

Key Function 3: Establishing regulatory policy

Box 2.9. The SAI of Korea – comprehensive audit and inspection to support the success of regulatory reform in Korea

Objective

The "Framework act of administrative regulation" was enacted in 1998[9] as excessive regulation had hindered the efficiency of economy and potential of growth. Following repeated claims by stakeholders of the lack of effectiveness of reform activity, Korea's SAI, the Board of Audit and Inspection (BAI), examined the appropriateness of system and management and the status of implementation and execution of the economic regulatory reform.

Type

Other (comprehensive) audit, performance audit.

Scope and methodology

The scope included: review the quality of the implementation process of regulatory reform committee activities, the regulatory impact analysis system, and the regulatory register system, including *sunset-regulation.*[10]

Criteria

Country laws, key national performance index (KNIs), entity objectives.

Resources

Twenty-eight auditors over 55 days (total of 1540 days).

Outcomes

BAI had two main findings: 1) When the regulatory reform committee chose the evaluation regulations, or tasks, to evaluate, they did not select "core task" but "regular task", as this was usually considered easier to assess; and 2) the contents of analysis reports of regulatory effectiveness were insufficient and biased, creating a misrepresentation of the true picture.

BAI work in this area is detailed in two main reports: *Korea (BAI – Korean Board of Audit and Inspection): Regulatory Reform Policy 1125/2009* and *Korea (BAI): Economic Regulation Reform 0813/2007*.

Good practice used

This case comprehensively considered the regulatory management structure and the adequacy of regulatory tools simultaneously (e.g. regulatory impact analysis system, sunset regulation), providing a more comprehensive assessment of the potential link between management and effectiveness.

Further reading

http://english.bai.go.kr/bai_eng/cop/bbs/listBoardArticle.do?mdex=bai_eng19&bbsId=BBSMSTR_200000000004

BAI (2006), *Impact Assessment System*, Board of Audit and Inspection, Seoul, http://english.bai.go.kr/bai_eng/cop/bbs/detailBoardArticle.do?bbsId=BBSMSTR_200000000004&nttId=11510&searchCnd=7&searchWrd=&searchBgnDe=&searchEndDe=&searchYear=&searchCate=&mdex.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Key Function 4: Setting internal control and managing risk

Box 2.10. The SAI of Portugal – strengthening controls in state owned enterprises

Objective

Portugal's SAI, the Tribunal de Contas (TCU), assessed the internal audit function within state owned enterprises for the year 2008, with a view to strengthening overall governance of the selected entities.

Type

Performance audit, guidance.

Scope and methodology

Looking at 20 state owned enterprises, the performance audit sought to: evaluate the internal audit function in public sector enterprises, compare it to international best practices, and assess the influence of governance models of entities on the effectiveness of the internal audit function.

Criteria

Country laws and regulations, government wide indicators, public sector entities' objectives/indicators, foreign laws and regulations, standards/guidance from international organisations.

Resources

Four auditors (managers and economists) and over 300 man-hours.

Outcomes

Of the 20 entities that were involved in the audit and that responded to the survey, 16 reported having an internal audit unit, and others expressed their intent to establish one. Of the 16 with an internal audit unit, only 5 were aware of, and applied, the full breadth of internal audit concepts. Half of the entities' internal audit units reported to the board, although some boards did not include non-executive members, which risked compromising the independence of the internal audit function. The Tribunal de Contas quantified the costs of the surveyed companies at 15.9 million euros. Given the costs involved, the Tribunal recognised that there was room for value-for-money to be integrated into the function. The Court recommended that the companies' boards of directors revived the internal audit function and provided the necessary skills for it to play a significant role in evaluating the effectiveness of risk management and control and governance. It identified the Institute of Internal Auditors' internationally recognised principles as guidance for the company boards to follow.

Good practices used

Following the audit, principles of good governance applicable to state-owned enterprises were integrated in a legal diploma (Decree Law 133/2013 of 3 October). In 2014, a Code of Corporate Governance (article 229 of Código dos Valores Mobiliários) was issued, requiring that all entities belonging to the public enterprise sector have a benchmark of good governance, regardless of their scope.

Lessons learned

This was an innovative approach adopted by Portugal's SAI as only a few companies had addressed this issue at the time of the audit. Through a cross-sectional evaluation of the internal audit function in public sector enterprises, this audit enabled the Tribunal to synthesise information and guidance in order to inform the government of the effectiveness of internal controls in state owned enterprises.

Further reading

www.tcontas.pt/en/reports/audit_report_08-2011-2s_abstract.pdf.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Notes

1 INTOSAI's Working Group on Key National Indicators survey of 47 countries showed that 32 have a single government-wide planning document, but that the period of coverage varies considerably (INTOSAI, 2010).

2 *Poland 2030. The Third Wave of Modernity,* was adopted by the Council of Ministries on the 05 February 2013 with perspective from 2015 until 2030. For more information on Poland's 2030 perspective, please see Box 3.6, OECD (2013a), *Colombia: Implementing Good Governance*, OECD Public Governance Reviews, OECD Publishing, Paris, DOI: http://dx.doi.org/10.1787/9789264202177-en.

3 This document is not made available to the public. Please contact Korea's BAI for more information.

4 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).

5 The Government of the UK's initiatives in this regard are found at: www.gov.uk/government/collections/better-regulation-red-tape-challenge; www.gov.uk/government/collections/one-in-two-out-statement-of-new-regulation;.

6 Derived in part from the IIA definition of internal auditing.

7 Standards and guidance often used include: INTOSAI standards & guidance (ISSAIs), the COSO Framework and ISO standard 31000.

8 The utilisation of a saving under a main division towards the defrayment of excess expenditure under another main division within the same vote.

9 For more information about Korea's Regulatory Reform Act, and progress in its implementation, please see the OECD's Reviews of Regulatory Reform "Korea: Progress in Implementing Regulatory Reform" www.oecd-ilibrary.org/docserver/download/4207111e.pdf?expires=1437920147&id=id&accname=ocid84004878&checksum=A8FCB9224A06B4D8167DBFDF6702951C.

10 "Sunsetting" refers to the automatic repeal of regulations a certain number of years after they have come into force.

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Chapter 3

Supreme Audit Institutions' input into policy implementation

This chapter looks at the role of supreme audit institutions (SAIs) in supporting policy implementation and its key functions: co-ordination and communication, budget execution, implementation and enforcement of regulatory policy and the exercise of internal controls and risk management. In this stage of the policy cycle, SAIs are active in carrying out traditional activities, such as audits of budgetary processes or compliance with policies. This chapter explores opportunities and limitations for SAIs to integrate value-for-money criteria into such activities. The discussion is supported by examples from SAIs that have developed initiatives and products in this area that cut across both sectors and line entities. This chapter explains how SAIs can offer a unique overarching perspective in support of policy implementation to help decision makers spot trends and understand trade-offs.

Policy implementation in the public sector is the operationalisation of policies through delivery of programmes and services. Policy implementation can be difficult as there may 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. Multiple actors mean that it can be a challenge for government wide plans, and accompanying guidelines or requirements, to be consistently integrated into individual entities. Generating efficiency across the whole of government can be hindered by variances in capacity and resources and a lack of communication. In the past five years, OECD countries have seen an increase in cross-governmental initiatives, which require greater coherence in the processes used to deliver the policy goals.

Policy implementation requires extensive **communication** and consultation between the relevant parties, as well as **co-ordination** with other government actors, to avoid the duplication of effort or redundancies. **Implementation of the budget** should coincide with the implementation of effective internal controls. Implementation requires a certain level of trust and support from inside government and from the public. This can be bolstered by openness, accountability and transparency (OECD, 2015a).

It is key for governments to ensure a balance between central co-ordination and the autonomy of ministries. Barriers erected to protect ministry autonomy (in some cases also the barriers to communication and co-ordination) must not hinder the government's ability to be flexible in maximising resources where needed most (i.e. for the greatest benefit). With the effective **implementation of controls and regulations**, governments should be confident that risk is adequately managed, controls are applied, and regulations are measured and balanced (i.e. in-year reporting is reliable and can be used to check, in real time, the pulse of government initiatives, their success or failures, or value-for-money.)

Key Function 5: Co-ordinating and communicating

Effective horizontal (across government) and vertical (within entities) communication and co-ordination are required for the development of coherent policies and programmes that aim to achieve the government vision. Effective communication and co-ordination mean that clear information on programmes and services is communicated to citizens. They also allow various actors to work together to develop and deliver policies and programmes, which is particularly important where cross-government initiatives are being implemented. Cross-ministerial initiatives in OECD member countries increased between 2008 and 2012 for 59%, decreased for 3% and remained stable for 38% (OECD, 2014a). Table 3.1 draws on internationally accepted principles to summarise the key elements of what horizontal and vertical communication and co-ordination look like in a strategic and open state.

Table 3.1. Key elements of co-ordinating and communicating

Stage of the policy cycle	Key functions of a strategic and open state
Policy implementation	**Co-ordinating and communicating** A. Communication and co-ordination around the government vision or programme. B. Co-ordination bodies monitor the dissemination and implementation of government programmes/strategies (e.g. through specific units in the centre of government) in order to: - Verify that the long-term vision is harmonised with other strategic/key policy documents (fiscal plans, growth strategies, etc.), and is reflected in departmental/entity work plans. - Specify follow-up and cross-departmental roles in actions approved in cabinet decisions. - Facilitate co-operation between ministries at the senior level. C. Communication and co-ordination around specific sectors, frameworks or cross-governmental initiatives (e.g. budgetary governance for internal control and for regulatory governance or appointed leaders of a cross-governmental programme): - There are mechanisms that work to identify overlaps and gaps between actors. - There are mechanisms for sharing information for efficiency and to overcome asymmetries of information. - There is a common understanding of risks to entities involved in cross-governmental initiatives, and of the capacity of each involved entity to manage those risks. - Mechanisms exist to share information related to risks within and across entities, including direct reporting lines for high-risk cases. D. Communication with citizens on policy development and programme and service implementation is clear. E. Transparency and openness mechanisms are effective (i.e. access to information requests are dealt with in a timely manner).
	Implementing the budget
	Implementing and enforcing regulatory policy
	Establishing processes for risk management and internal control

Sources:
OECD (2015b), *OECD Public Governance Reviews: Estonia and Finland: Fostering Strategic Capacity across Governments and Digital Services across Borders*, OECD Public Governance Reviews, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264229334-en.
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SAIs have not traditionally been active in assessing elements of co-ordination and communication, however, there are many instances covered below where the SAI has been able to provide insight and foresight on communication and co-ordination in practice.

SAI activities that assess and support:

Communication and co-ordination around the government vision (Table 3.1, key element A) and the dissemination of the government programme (Table 3.1, key element B)

An OECD study on centres of government (CoG) found that the CoG is fully responsible for policy co-ordination 70% of the time, and shares this responsibility 30% of the time (OECD, 2014a). The aim for CoGs is to ensure coherence in the way that government manages policy horizontally across its departments and agencies. There are often divergent policy tensions within governments, for example, sectoral interests of line ministries may conflict with the budget ministry seeking to control outlays. In all countries, important trade-offs between diverging interests usually have to be made at the highest level, and 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. The task of the centre is to balance the ideal of coherence against the reality of political and practical limits. While CoGs have a critical role in this endeavour, collective commitment to achieving broader goals also means that ministries and senior public officials must work to ensure coherence in policies and programmes.

Monitoring of spending by departments has primarily been the responsibility of departments themselves, who are required to track their own spending for accountancy and reporting purposes. However, the centre of government is playing an increasingly direct role in following the implementation of the policies and ensuring good co-ordination, particularly for the increasing number of cross-disciplinary policy initiatives. The OECD survey found that the number of cross-departmental policy initiatives has increased in most countries. The CoG is involved in several ways: promoting the co-ordination of activities directly included in the government's plan, 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 involved for actions approved by cabinet.

A key issue for the CoG 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 CoG 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) (OECD, 2014a).

The need for the CoG to provide accurate information to the political level on implementation progress assumes some mastery of spending and results information across a large range of policy areas. While most departments have large units to track spending, this is a relatively new task for the CoG and the resources available are limited. However, central functions have made some progress related to digital governance.

Despite this progress with digital governance, CoGs have problems when: 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 who try to process this data; and the information delivered may not be entirely objective as departments know that their performance, and possibly resources, will be judged on the basis of this information.

CoG leadership is needed to design and implement reforms through clear dissemination and management of interdependencies across government. This collaboration should be the default and not the exception (OECD, 2015b).

As part of their audit work, some SAIs have considered the mechanisms for effective co-ordination, which appears to be a thematic area distilled from audits on a range of other topics. However, the majority of SAIs focus on elements that build the capacity and ability of leaders to manage increasingly cross-cutting policy interventions.

6/10
Of peer SAIs looked at:

The effectiveness of central co-ordination bodies in communicating and co-ordinating, including: ensuring senior management of ministries are aware of trends/risks; providing guidance to departments and line ministries.

SAIs rarely consider channels of communication around common goals, or the responsibility or ownership of public managers to disseminate information around goals. In the case of South Africa, this communication is the responsibility of the performance evaluation unit in presidency.

2/10
Of peer SAIs looked at:

The efficiency of senior management in ensuring the government vision or related indicators are understood and integrated.

Examples within other chapters of this report show that issues with communication and co-ordination often arise in explaining deficiencies of programmes and processes. For example, in 2009, the Belgian SAIs' report, *Implementation of the Kyoto protocol by the federal government*, examined the government's efforts to meet Kyoto targets (Cour des Comptes, 2009). It criticised the lack of co-ordination at the federal level and called for more concrete measures to reduce carbon emissions. Issues surrounding communication and co-ordination appear to feature in audit work that touches on the separation of rules of different actors. As a result, communication and co-ordination, or the avoidance of overlaps and duplications, has become the main subject of some audits.

Examples of SAI work in this area include:

- The UK's National Audit Office (NAO) (2014), mentioned briefly in Chapter 2, compiled a report on the centre of government that documented years of audit findings. These findings touched on the role of the centre in order to draw out successes and opportunities for strengthening its co-ordination role. This work is part of NAO efforts to improve the management of centre of government institutions after consistent findings through other audits that cross-cutting issues detected in the public sector could be better managed by the centre.
- SAIs may undertake applied assessments of communication and co-ordination in areas such as regulatory reform. For example, the Office of the Auditor General (OAG) of Canada has looked explicitly at mechanisms for co-ordination around regulatory and control reform activities (OAG, 2013); and Korea's BAI is conducting a compliance audit on the effectiveness of the co-ordination mechanism of central co-ordination bodies, such as the regulation reform committee.

Communication around specific sectors, frameworks or cross-governmental initiatives (Table 3.1, key element C)

Some SAIs are auditing and assessing the handling of intra- and inter-ministerial conflicts in an effort to support the CoG in understanding how to overcome tensions between ministries and how to make trade-offs.

8/10 *Of peer SAIs looked at:*	*Mechanisms for effective information sharing and transparency: between levels of government, within entities, and across entities.*
8/10 *Of peer SAIs looked at:*	*Mechanisms for effective co-ordination for implementation; between levels of government, within entities, and across entities.*
7/10 *Of peer SAIs looked at:*	*Mechanisms for co-ordination around regulatory and control reform activities.*
6/10 *Of peer SAIs looked at:*	*The separation of functions/roles of relevant actors in terms of co-ordination and/or overlap of functions in regulatory management, budgetary management and internal control.*

Examples of SAI work in this area include:

- The US Government Accountability Office's (GAO) annual reports on duplication, overlap, and fragmentation highlight cross-cutting challenges to dealing with performance information, including its limited provision or lack of existence. Where a great deal of performance information does exist, it does not always reach the interested parties in Congress, or may not be timely or presented in a manner that is useful for congressional decision making.
- The SAI of Denmark issued a report (Rigsrevisionen, 2014) on state-level planning and co-ordination of preparedness measures for major emergencies and disasters. This report discusses how ministries plan and co-ordinate policy measures for emergencies and disasters. It concludes that although some ministries are well prepared for emergencies, few have sufficient action plans. It calls for a coherent set of measures to be established in all ministries to respond quickly and effectively to unforeseen situations.
- The Netherlands Court of Audit took an innovative approach to auditing in an attempt to test the evidence-base on which the decision for a government merger was made. It quantified the overlap between entities before they merged and found that the overlap to be only 13%. The assumptions made in the decision-making phase suggested that the overlap was greater and the projected savings were generated on that basis (case study, Box 2.5).

- Brazil's Tribunal de Contas da União (TCU), together with state-level audit institutions, undertook a co-ordinated audit on the management of the Amazon. The same criteria were applied across the board to understand whether there has been effective co-ordination and management of a cross-cutting environmental goal for different regions of Brazil. Assessment criteria for communication and co-ordination are outlined in the TCU's framework for assessing public policies, discussed in Box 4.2.
- Under the banner of "across-boundary innovation", the Australian National Audit Office's (ANAO) *Better Practice Guide* (ANAO, 2009), *Innovation in the Public Sector: Enabling Better Performance, Driving New Directions*, explores the benefits of cross-agency co-ordination activities that are channelled through defined liaison contacts and better information-sharing systems. The report discusses the importance of a holistic, national approach to cross-cutting problems, and comments on the utility of the Council of Australian Governments (COAG) in co-ordinating policy measures across the Australian federal system. It states that improved "cross-fertilisation of ideas will facilitate lateral thinking and innovative ideas."

Key Function 6: Implementing the budget

Budget execution in a strategic and open state refers to the full and faithful implementation by public bodies of the budget allocations authorised by the legislature. There is oversight on an on-going basis by central budget authorities, line ministries and other agencies, as appropriate. The budget should be executed alongside internal controls and measured regulation to ensure effective and efficient allocation of resources and to mitigate corruption and fraud. Key elements of good budget execution are provided in Table 3.2.

In view of their role in verifying accounts, and in some cases certifying accounts, SAIs are traditionally active in budget execution.

Table 3.2. Key elements of implementing the budget

Stage of the policy cycle	**Key functions** of a strategic and open state
Policy implementation	Co-ordinating and communicating
	Implementing the budget A. There is active management, monitoring and oversight of budget execution. B. Longer-term sustainability and other fiscal risks are identified, assessed and managed prudently. C. Integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation are promoted through rigorous quality assurance, including independent audit.
	Implementing and enforcing regulatory policy
	Establishing processes for risk management and internal control

Source: OECD (2015c), *Recommendation of the Council on Good Budgetary Governance*, OECD Publishing, Paris, www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf.

It is important for governments to remain agile in the face of competing priorities, and top down budgeting should help line ministries be flexible in the allocation and reallocation of the budget. For top down budgeting to be implemented effectively, rigorous and prudent economic forecasts must be combined with complementary fiscal management practices, such as medium-term expenditure frameworks. Some factors that affect budget flexibility are: the number and detail of budgetary line-items (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; freedom to reallocate appropriations during the budget year, subject to certain restrictions; and freedom to carry over unused appropriations from one budget year to the next (although the appropriateness of carry over remains subject to debate).

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 includes parliamentary budget offices [PBOs]) as a means of enhancing independent oversight and accountability regarding 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. Typical tasks include: assessing or preparing official economic forecasts, analysing the executive's budget proposals, monitoring compliance with fiscal rules or official targets, costing of legislative proposals, and analytical studies on selected issues.

Another trend within OECD countries has been to increase cross-cutting arrangements, however, the central co-ordination body is lagging behind as a leader in this regard. Central government has limited influence on the co-ordination between ministries and often struggles to establish lead ministries with responsibility for co-ordination. Evidence suggests that fiscal rules can assist governments to achieve fiscal consolidation, however, practices vary and there is no academic consensus on what design features are most effective. The effectiveness of fiscal rules is 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).

Budget execution is supported, in some cases, by periodic in-year reporting on budget execution, and revision of budget estimates helps to detect and manage the impact of economic developments on the budget in a timely manner. Reporting 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 occurred during the fiscal year.

The year-end report is a key accountability document of government. The OECD's *Best Practices for Budget Transparency* (OECD, 2002) recommends that this document should be: audited by SAIs in accordance with generally accepted auditing practices, 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 regarding the date by which the audited annual report is disclosed after the end of the fiscal year. For example, while the United States produces an audited year-end report within 3 months of the end of the fiscal

year, Germany and Greece's year-end reports are published 11 to 12 months after the end of the fiscal year. In Portugal, the government produces the year-end report within 6 months of the end of the fiscal year, and the Court of Auditors presents its opinion and audit results within the next 6 months. Spain publishes the audited report 16 months after the end of the fiscal year (6 months after the audit institution receives the accounts).

SAI activities that assess and support:

Monitoring of budget execution (Table 3.2, key element A), managing fiscal risks (Table 3.2, key element B) and ensuring quality assurance and audit (Table 3.2, key element C)

Traditionally, public budgeting was primarily concerned 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. Undertaking financial and compliance audits to provide a check-and-balance on the expenditure of government remains a core task, illustrated by the high participation of peer SAIs in the activities described below.

10/10 *Of peer SAIs looked at:*	*The effectiveness of the procedures in place for managing, monitoring and overseeing financial allocations, including: the compliance and consistency of in-year budget reallocations, the adequacy of in-year budget execution reports.*
10/10 *Of peer SAIs looked at:*	*The accuracy and probity of annual public accounts of public bodies and of the government as a whole.*
8/10 *Of peer SAIs looked at:*	*Whether there are adequate mechanisms to generate and capture quality performance information during the phase of budget execution.*
8/10 *Of peer SAIs looked at:*	*The adequacy of other mechanisms for determining the quality and reliability of budgetary forecasts and fiscal plans, and managing accordingly.*
7/10 *Of peer SAIs looked at:*	*The clarity in authority of public entities to reallocate funds in-year.*

Examples of SAI work in this area include:

- In Brazil, according to the 1988 Federal Constitution, one of the TCU's roles is to examine the annual accounts of the president of republic and release an annual report at the end of every fiscal year. Additionally, a fiscal management report is generated every four months during the fiscal year to analyse budgetary and financial execution, legality and conformity, and other relevant issues.1

- In Canada, The November Report of the Federal Government's Expenditure Management System analyses Canada's Expenditure Management System (EMS) to determine how efficiently state funds are allocated to promote an efficient, responsive and accountable government (OAG, 2006).

  The Auditor General of Canada undertook a performance audit of tax expenditure in 2013. It examined whether the Department of Finance and Canada Revenue Agency properly managed tax expenditure and reported clear and useful information on this expenditure to parliament and the wider public. The OAG concluded that several improvements were necessary to ensure effective parliamentary oversight, such as including projected cost estimates for programmes in future years, and better indexing of expenditures to direct programme spending. In addition, the Auditor General recommended that the Department of Finance publish more complete information on all tax-based expenditure programmes that have been evaluated (OAG, 2015).

- *Public Expenditure and Outcome-Based Budgeting*. This report by the Auditoría Superior de la Federación (ASF) of Mexico (2012a) analyses an unauthorised increase in net government spending and recommends the creation of stronger mechanisms to oversee budgeting procedures in federal institutions.

  Mexico's *Financial Statements of the Federal Government* (2012ba) by ASF discusses the federal government's accounting procedures and compares them to the existing normative framework and best practices in the field.

- In 2011, Poland's *Najwyższa Izba Kontroli* (NIK) performed a special audit: *Implementation of the performance budgeting: the assessment of planning, monitoring and reporting processes*. Issues relating to performance budgeting have been audited in relation to state budget execution audits since 2007 (this concept has been implemented in Poland since 2006). Indicators and measures put in performance budgets are also taken into account by NIK during current budgetary audits. The 2011 audit looked at 48 entities (the Ministry of Finance, 16 other ministries and 16 further public finance sector bodies) in order to assess the implementation status of public tasks management (planning, monitoring and reporting) established in the context of the state budget. In particular, the audit paid attention to: 1) actions of the Minister of Finance, responsible for the performance budget implementation; and 2) actions of the other entities devoted to performance-oriented system implementation. The NIK identified a high risk that performance budgeting implementation had not been completed in the term foreseen in the act of public finance (the end of 2012). The auditors also raised the issue of the lack of a comprehensive reporting system that would enable the gathering, verification and processing of data related to the specified public tasks and their achievements. More information on NIK's audits in budgetary execution and the inclusion of performance information is provided in Box 3.2.

- Korea's BAI has been active in going beyond the traditional verification of accounts to support good budgetary implementation. Through financial statement audits, the SAI has been examining the verification and reliability of performance reports of all central government agencies since fiscal year 2009, as well as reviewing the appropriateness of budget execution. Through special audits, BAI conducts comprehensive analysis and evaluation of important social and economic issues. The number of special audits as a percentage of total audits at BAI increased to 63% in 2014, which is the highest rate among four audit types. Through performance audits, BAI provides a systematic diagnosis and analysis of effectiveness, efficiency and economy and detection of waste, to promote good budgetary execution. However, the rate of performance audit as a percentage of the total number of audits was 1% in 2014 (BAI, 2014, 2013, 2012).

Key Function 7: Implementing and enforcing regulatory policy

The ability of governments to achieve broad objectives depends on how well the government can uphold the regulatory framework designed to guide their achievement. Enforcement and compliance with rules and regulations is an important factor in creating a well-functioning society and trust in government (regulation enforcement). The challenge for governments is to develop and apply enforcement strategies that facilitate the best possible outcomes with high levels of compliance, while minimising burden and cost. Inadequate compliance and enforcement can threaten improvements aimed for by the reforms and new approaches set out in the design phase.

Trends in administrative regulation and supervision include the integration of risk-based approaches that have (where implemented) been driven by the potential to maintain effective supervision while reaping savings in regulatory costs (OECD, 2015d). Risk-based management and oversight are still unexplored in some countries, where an increased emphasis on regulatory design rather than implementation has come, to a certain degree, at the expense of a maturity that allows for risk or proportionality assessments.

Table 3.3. Key elements of implementing and enforcing regulatory policy

Stage of the policy cycle	Key functions of a strategic and open state
Policy implementation	Co-ordinating and communicating
	Implementing the budget
	Implementing and enforcing regulatory policy A. There is transparency and engagement in regulatory processes, which includes accessible and searchable online government regulatory databases and plain language communication on rights to parties affected by regulations. B. Application of risk management in regulatory processes to increase the likelihood of compliance goals and to protect the public and environment. C. There is regulatory coherence across levels of government, including co-ordination to adopt good practices and tools to diagnose cross-cutting regulatory issues. D. There are mechanisms for evidence and risk-based regulatory enforcement and inspections. E. An explicit regulatory policy is established with a consistent policy on the role and functions of regulatory agencies.
	Establishing processes for risk management and internal control

Sources: Adapted from OECD (2014c), *Regulatory Enforcement and Inspections*, OECD Best Practice Principles for Regulatory Policy, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264208117-en.
OECD (2012), *Recommendation of the Council on Regulatory Policy and Governance*, C(2012)37, 22 March 2012, OECD, Paris, www.oecd.org/gov/regulatory-policy/49990817.pdf.

An increasing number of OECD countries are realising the importance of the policy enforcement phase for ensuring compliance and the quality and effectiveness of regulatory policy. With previous focus largely placed on the design of regulatory policy, OECD countries are calling for assistance in the implementation and enforcement of regulations, which is considered the weakest link in the regulatory governance cycle (OECD, 2014c). Regulatory agencies play a key role in this stage.

There is potential to improve regulatory inspections and enforcement processes to foster better compliance and to reassess the burdens and costs they impose. The OECD's Regulatory Policy Committee has outlined key principles on which effective and efficient regulatory enforcement and inspections should be based.[2] Although these principles fall mainly outside of the realm of "regulating inside government", they may lend guidance to the processes of enforcing internal controls, particularly the concept of proportionality. The adoption of processes that use proportionality to weigh the allocation of resources to the level of risk can help to justify, and potentially reduce, costs and burdens.

SAI activities that assess and support:

Regulatory coherence (Table 3.3, key element C)

In addition to assessing regulatory policy tools, SAIs look at the application and management of tools that oversee and implement reforms. Half of SAIs report looking into these areas, but this is noticeably less than the activity of SAIs in implementing the budget and implementing controls. The role of SAIs in evaluating regulations ex post is discussed in Chapter 4.

Examples of SAI work in this area include:

- Korea's audits in the realm of regulatory policy have aimed to support the success of the government's regulatory reform. BAI has examined the appropriateness of the regulation management system and the execution of regulation reforms. BAI's 2007 *Implementation of Economic Regulatory Reform* assessed the performance of 12 central government agencies and 8 local governments. It examined the overall execution status of economic regulation reforms. It focused on the downstream implementation of regulatory reform, including the management system of regulatory reform, the registration and management system of regulations, financial oversight, and the appropriateness of the regulation on factory establishment. Another example is BAI's 2009 *The Implementation of Regulatory Reform in the fields of Education, Health Services and Tourism*, which examined the overall regulation management system and the execution of regulation reforms, and recommended improvement by areas of four central government agencies and five local governments.

- Chapter 4 of the *Fall Report of the Auditor General of Canada* (OAG, 2011) included; Regulating Pharmaceutical Drugs – Health Canada. This report assessed Health Canada's regulation and monitoring procedures concerning both the introduction of new pharmaceutical drugs to the Canadian market and the review of drugs that are currently available. The report found that although Health Canada's drug reviews are consistent and of high quality, it has been slow and does not publish sufficient information on its decision-making process.

SAIs may be mandated to oversee regulatory agencies. For example, under articles 70 and 71 of Brazil's Constitution, the TCU is empowered to oversee regulatory agencies. As part of this work it looked more systematically at regulatory governance through its *Performance Audit. Infrastructure Regulatory Agencies*: *Regulatory governance review*; and used a performance audit report, at the request of Congress, to verify the efficiency and effectiveness of the services provided by regulatory agencies that provide telephone answering services , by telephone, to citizens (TCU, 2013a, 2010, 2008).

Key Function 8: Exercise of internal control and risk management

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. When decentralised, the internal control framework is an integrated, yet independent, part of the administration.

In both cases, establishing, maintaining and reforming internal control arrangements are the responsibility of senior management, and not of staff or an audit department. The role of auditors, both internal and external, is to provide independent and objective advice on and assessment of the efficiency and effectiveness of internal control mechanisms. International principles related to the implementation of internal controls and risk management are summarised in Table 3.4.

The wider adoption of ex post control has placed a new burden on managers to juggle effectiveness, efficiency, and reliability with compliance. In practice, this has required trade-offs between the inefficient but relatively certain method of checking regulatory compliance of individual transactions (ex ante), with the more efficient but relative uncertain method of verifying the proper operations of systems (ex post) (OECD, 2005). Some countries began the transition from ex ante to ex post control with a heavy focus on ex ante compliance controls, while others started from a basis where the focus was already largely on ex post external control.

The move from ex ante to ex post has meant more varied controls and often more work for both audit actors and those audited (OECD, 2005). Capacity issues of internal control and audit units can pose problems, particularly when their impact is limited by controlling for risks that are not established in accordance with the real risks to an entity's objectives.

Table 3.4. Key elements in the exercise of internal control and risk management

Stage of the policy cycle	Key functions of a strategic and open state
Policy implementation	Co-ordinating and communicating
	Implementing the budget
	Implementing and enforcing regulatory policy
	Establishing processes for risk management and internal control A. Functional direction is provided for risk management and internal control across government, allowing scope for tailoring to individual entities. B. Oversight bodies (audit, anti-corruption, enforcement) operate with independence in the execution of their activities, with sufficient capacity and in line with international standards. C. Entity-level management establishes controls and assesses, treats, reports, monitors, and reviews risk in relation to the objectives the entity wants to achieve. D. Independent internal audit generates reliable information and effectively oversees internal control mechanisms. E. There are mechanisms to capture high-quality information about the performance of an entity.

Sources:
OECD (2014b), Principles for Public Administration, *SIGMA*, OECD Publishing, Paris, www.sigmaweb.org/publications/Principles-Public-Administration-Overview-Nov2014.pdf
COSO (2013), *An Update of COSO's Internal Control -Integrated Framework*, www.coso.org/documents/cosoicifoutreachdeck_05%2018%2012.pdf.
IFAC (2012), *Evaluating and Improving Internal Control in Organizations*, International Federation of Accountants, New York, www.ifac.org/publications-resources/evaluating-and-improving-internal-control-organizations-0.

Sufficiently independent and capable internal audit is only one line of defence against risk to an entity, and should be coupled with public managers taking ownership for setting objectives, determining the level of risk that is acceptable in the pursuit of results, and implementing the relevant mix of controls. When responsibility for setting and achieving objectives and establishing the right mix of controls are treated separately, there may be an ineffective over-reliance on internal and external audit to provide assurance of financial and, non-financial (where relevant) compliance.

Line managers, as the primary risk owners, should design, implement, maintain, monitor, evaluate, and report on the entity's internal control arrangements in accordance with the risk strategy and policies on internal control approved by the governing body. Staff in support functions (e.g., risk officers) or external experts can have facilitating or supporting roles, but should not assume line responsibility for managing risk or for the effectiveness of controls.

Overseeing the implementation of internal controls, or the compliance of audited entities to regulations, continues to be a core part of a SAIs' portfolio. The examples below seek to outline how SAIs are assessing select aspects of internal control and risk management in relation to the key elements outlined in Table 3.4.

SAI activities that assess and support:

Functional direction provided to entities (Table 3.4, key element A), management of risks by entity-level management (Table 3.4, key element C), and an independent internal audit function (Table 3.4, key element D)

As governments strive to cut red tape and implement more efficient and cost-effective controls and regulations, SAIs can promote a top-down and risk-based approach to internal control through the promotion of risk identification and assessment that cuts across government activities. All peer SAIs reported that they are already doing this on a ministry level, however, there appears to be scope to scale up this activity to provide commentary on the ways in which the CoG, or leading ministries, can better manage risk. Only half of SAIs report looking at leadership in this domain, which is recognised by international principles as being critical to an effective risk-based approach.

5/10
Of peer SAIs looked at:

Public sector entities' leadership in establishing a culture of control and risk-management.

10/10
Of peer SAIs looked at:

The effective, efficient and economic application of risk management through risk based approaches to internal control, regulatory policy, and budgetary management.

Examples of SAI work in this area include:

- The Netherlands Court of Audit studied the financial ties between the Netherlands and eight financial institutions following their closer integration during the financial crisis. They assessed the government's assessment of institutions' financial profiles and the measures taken to mitigate the risks. The Court prepared eight factsheets to show the financial ties between the Netherlands and the eight institutions, and the financial profiles of the institutions and the measures taken by them to mitigate risks. A case study of this innovative approach is found in Box 3.3.
- In order to assess the governance of controls, the Comptroller General of the Republic of Chile (CGR) audited the internal control systems of local governments. The CGR's report discusses the structural problems relating to authority, centralisation of power, and distribution of civil servants in a significant portion of Chile's municipalities. These problems reduce the quality of services and internal control procedures. The report proposes reorganising the structure to ensure consistency and efficiency of local government control systems (CGR, 2010).
- The UK's NAO provided an audit on risk management in the centre of government. HM Treasury's risk level was assessed as part of the 2014 to 2015 annual report and accounts of HM Treasury (NAO, 2015).
- Since the 1990s the US GAO has been compiling a "high risk list" (GAO, 2015) to identify which agencies pose high risks to the sustainability of the public sector. The list has been considered a useful tool for Congress, and is updated at

the start of the new Congress every two years.[3] The list has provided incentives for agencies to make improvements, particularly when it has implications for funding considerations.

- Brazil's TCU report, *Maturity Assessment in Risk Management in Public Administration*, classifies government agencies by the level of development of their risk management mechanisms, from low formalisation ("initial" and "basic") to fully optimised ("enhanced" and "advanced"). This allows the agencies to use the comparative data to improve their performance. This is further explored as a case study in Box 3.4.
- The *Spring Report* of the Auditor General of Canada (2012) examines the Department of Finance's debt- and risk-management strategies. It focuses on the procedures that monitor and report on debt funding strategies for interest-bearing debt (market debt and pension plan liabilities). A major point of discussion is the balance between costs and risks in the government's debt portfolio.

As discussed in Chapter 2, SAIs play a unique role in relation to internal controls. Auditing compliance with internal controls and regulations inside government is a core task of SAIs, but they are extending beyond verifying basic compliance, as shown below.

It has become common to have continuous, and in some cases elaborate, working relationships between public internal audit and SAIs. In some countries, these relationships are laid down in laws and regulations. Relationships are often based on ad-hoc initiatives taken by the audit organisations themselves in order to avoid overlap, inefficiencies, and duplication of work, as well as to facilitate the process and ensure the co-operation of the audited entity. Internal audit is well placed to provide the SAI with information on the effectiveness of the systems used. However, the SAI should have full responsibility for the conclusions drawn from such information.

8/10
Of peer SAIs looked at:

The effective and efficient application of internal control mechanisms at the entity level, including: for reliability of reporting; for achievement of entity level objectives; for deterring and detecting fraud and corruption within public sector entities.

7/10
Of peer SAIs looked at:

Public sector entities for compliance with applicable regulations for internal control and financial management (including regulators).

7/10
Of peer SAIs looked at:

The independence and/or capacity of audit and control entities, including: internal audit units; audit committees.

7/10
Of peer SAIs looked at

Public entities' application of integrity policies (conflict of interest, asset Disclosure and whistleblowing mechanisms, etc.

Examples of SAI work in this area include:

- In Poland, development of the internal control system, risk management, and international standards implementation are subjects of yearly state execution budget audits. This work is complemented by looking at the entity level, such as in the 2014 report: The adequacy and effectiveness of management control system in selected governmental units (NIK, 2015).
- Portugal's SAI, the Tribunal de Contas, assessed the internal audit function within state owned enterprises for the year 2008, with a view to strengthening overall governance of the selected entities. The performance audit sought to evaluate the internal audit function in public sector enterprises by comparing it to international best practices and assessing the influence of entity governance models on the effectiveness of the internal audit function. More information about this case study is found in Box 2.10.
- Brazil's TCU looked at the exercise of internal control in a specific government function (procurement) through the consolidation of performance audits into the report: Evaluation of internal control of bidding and contract area of university hospitals (TCU, 2013b). TCU, together with other members of the control network, also undertook an Evaluation of internal controls of Roraima's municipalities to look at the municipal level of government (TCU, 2014).
- The SAI of Sweden reported on two case studies on control functions in the report: *Kontrollfunktioner – två fallstudier*. This report covers audits performed on the Social Insurance and Labour Market Administration (AMV), the Labour Market Board (AMS), the Unemployment Insurance Fund (SO) and two selected unemployment funds (AEA and Byggnads). These audits focused on health insurance payouts and state subsidies related to unemployment benefits. The report describes shortcomings found in the internal control systems of the audited organisations and suggests mechanisms to avoid abuses of fund resources (Riksrevisionen, 2005).
- The third chapter of the Belgian Court of Accounts' report, *Services with separate management within the general Directorate for compulsory education of the French Community: Funding, Organisation and internal control* (Cour des Comptes de Belgique, 2004), analyses the internal control systems of services with separate management (*services à gestion séparée*, SGS). It points out areas of weakness in the current system that have led to mismanagement of funds in the past, and recommends that a more complete and systematic internal control system be implemented.

Taking stock: SAI activities in supporting implementation

The surveyed SAIs reported high levels of activity in the implementation phase of the policy cycle, as overseeing budget execution and rollout of controls concerns part of the SAIs' traditional role. Table 3.5 shows which elements of policy implementation have been assessed by the participating SAIs.

Table 3.5. SAI activities in assessing policy implementation

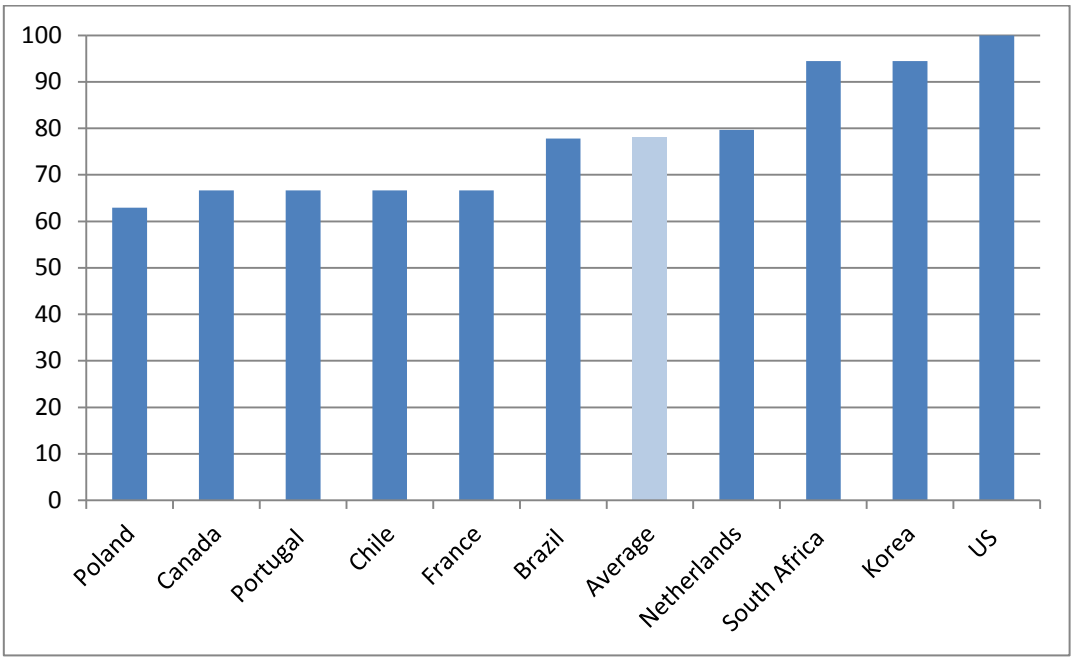
Policy stage	The survey asked 10 participating SAIs, "Has your SAI assessed…"	"Yes" (out of 10 SAIs)
Policy implementation	**Key function 5: Co-ordinating and communicating**	
	Mechanisms for effective information sharing and transparency: between levels of government; within entities; and across entities	8
	Mechanisms for effective co-ordination for implementation; between levels of government; within entities; and across entities	8
	Mechanisms for co-ordination around regulatory and control reform activities	7
	The separation of roles functions/roles of relevant actors, in terms of co-ordination and/or overlap of functions in regulatory management, budgetary management and internal control	6
	The effectiveness of central co-ordination bodies in communicating and co-ordinating, including: in ensuring senior management of ministries are aware of trends/risks; providing guidance to departments and line ministries	6
	The efficiency of senior management in ensuring the government vision or related indicators are understood and integrated	2
	Key function 6: Implementing the budget	
	The effectiveness of the procedures in place for managing, monitoring and overseeing financial allocations, including: the compliance and consistency of in-year budget reallocations; the adequacy of in-year budget execution reports	10
	The accuracy and probity of annual public accounts of public bodies and of the government as a whole	10
	Whether there are adequate mechanisms to generate and capture quality performance information during the phase of budget execution	8
	The adequacy of other mechanisms for determining the quality and reliability of budgetary forecasts and fiscal plans, and managing accordingly	8
	The clarity in authority of public entities to reallocate funds in-year	7
	Key functions 7 and 8: Implementing rules and controls*	
	The effective, efficient and economic application of risk management, through risk based approaches, including: to internal control, to regulatory policy, to budgetary management	10
	The effective and efficient application of internal control mechanisms at the entity level, including: for reliability of reporting; for achievement entity level objectives; for deterring and detecting fraud and corruption within public sector entities	8
	Public sector entities for compliance with applicable regulations for internal control and financial management (including regulators)	7
	The independence and/or capacity of audit and control entities, including: internal audit units; audit committees	7
	Public entities' application of integrity policies (conflict of interest, asset disclosure, whistleblowing mechanisms, etc.	7
	Public sector entities' leadership in establishing a culture of control and risk-management	5
	The effectiveness of policies/programmes for regulatory management capacity and internal control capacity	5

Note: * For the purposes of the survey, key functions 7 (Implementing and enforcing regulatory policy) and 8 (Exercise of internal control and risk management) were aggregated.

Source: OECD Survey of Peer Supreme Audit Institutions.

Figure 3.1 shows the activity level of participating countries regarding policy implementation. It does so by aggregating the affirmative responses to questions about whether the SAIs assessed particular key elements in this stage of the policy cycle. On average, SAIs said that they assess nearly 80% of key elements required for policy implementation that were presented in the survey. The level of activity in the implementation phase does not vary as much as it does in other phases. This may be because work in this phase is common amongst SAIs' portfolios and reflects the traditional remit they have for reviewing the implementation of policies and programmes.

Figure 3.1. Level of SAI activity in assessing key elements of policy implementation, by country



Source: OECD Survey of Peer Supreme Audit Institutions.

SAI activity in policy implementation is more likely to be undertaken through compliance auditing, as shown in Table 3.6, which categorises these activities by type. Financial audits are more likely to be employed than in other stages of the policy cycle, while performance audits are less likely to be used than in other stages. This is to be expected due to the nature of SAI assessments of implementation. SAIs are less likely to branch out into the provision of other services, including written guidance and research, compared to other areas. In the area of communication and co-ordination there is a higher use of compliance auditing, which confirms the idea that this topic often arises in audit findings as an explanatory factor, rather than as an audit subject itself.

Table 3.6. Types of assessment of key functions of policy implementation, by 10 surveyed SAIs

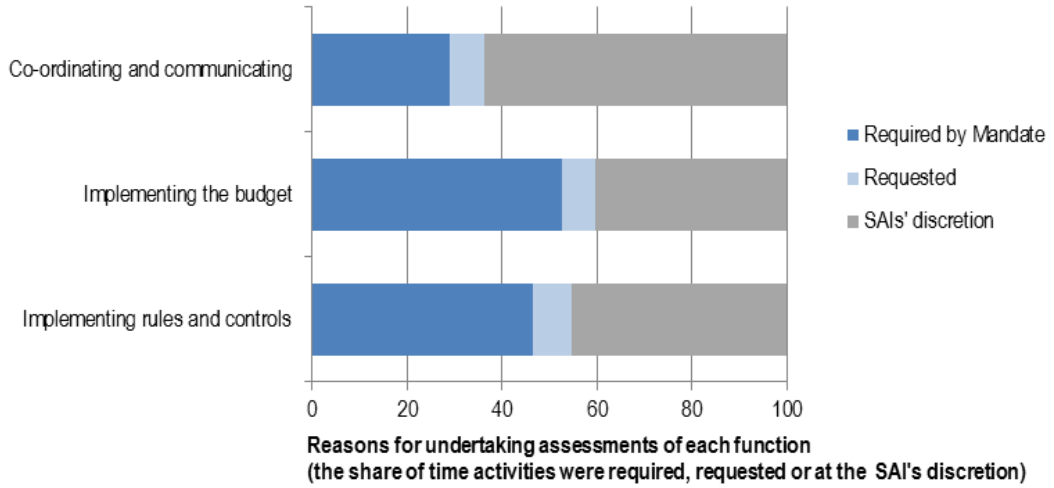
Policy stage	Key functions	Types of audits	Other activities
Policy implementation	Co-ordinating and communicating	Financial audit (7) **Compliance audit (8)** **Performance audit (8)**	Written guidance (2) **Verbal guidance (3)** Research (2) Web-based tools (0)
	Implementing the budget	Financial audit (3) Compliance audit (8) **Performance audit (9)**	**Written guidance (4)** Verbal guidance (3) Research (2) Web-based tools (1)
	Implementing rules and controls*	Financial audit (8) **Compliance audit (9)** Performance audit (7)	**Written guidance (3)** **Verbal guidance (3)** Research (2) Web-based tools (0)

Note: This study refers to SAI "assessments", which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

Source: OECD Survey of Peer Supreme Audit Institutions.

Figure 3.2 shows the impetus for undertaking activities in support of policy implementation, whether mandated, required or at the SAIs' discretion. It shows that a SAI's activities in these areas of the policy cycle are more likely to be required, particularly for activities relating to assessing the execution of the budget and the adequate implementation of controls. However, SAIs are more likely to assess at their own discretion how communication and co-ordination can facilitate the smoother implementation of policies and programmes. As in other stages of the policy cycle, less active SAIs are less likely to be mandated to undertake these initiatives.

Figure 3.2. Impetus for SAI assessments of key functions of policy implementation



Source: OECD Survey of Peer Supreme Audit Institutions.

Challenges and limitations to SAI participation

SAIs reported that the main challenges experienced in engaging in these activities within policy implementation were a lack of skills amongst SAI staff, a lack of SAI resources and a lack of skills on the part of the executive (i.e. the audited entity). Figure 3.3 shows the number of times that certain factors posed a limit on the SAIs ability to engage in select assessments. It is worth noting that SAIs were not challenged by such an assessment being the role of another entity, by a lack of SAI leadership or by the materiality of the subject matter in question.

Figure 3.3. Factors that limit select activities in assessing policy implementation

Limitation	Number of times reported as a challenge by 10 SAIs, for assessments of the 4 key functions of policy implementation
Skills SAI staff	8
SAI resources	7
Skills Exec	7
Exec leadership	5
Internal structure	3
Not a risk area	3
Not applicable in country	1
SAI mandate	0
SAI leadership	0
Role of another	0
Not material in nature	0
Other	0

Source: OECD Survey of Peer Supreme Audit Institutions.

Conclusions on the role of SAIs in supporting policy implementation

SAIs' core tasks take place during the implementation phase of the policy cycle as they fulfil their basic role of verification of accounts and compliance with relevant laws. SAIs participating in this report were more likely to undertake activities during the policy implementation phase than in other phases of the policy cycle, as discussed in Chapter 4. Furthermore, their role is more likely to be required and come in the form of financial audit than in other phases of the policy cycle.

This chapter shows how SAIs contribute to policy implementation by using their cross-cutting perspective at their own discretion to suggest improvements in key areas to enhance the effectiveness and efficiency of policy implementation. Examples highlight how SAIs incorporate value-for-money criteria into financial and compliance audits to identify improvements in performance.

In relation to the execution of the budget, SAIs use a combination of financial, compliance and performance audits, as well as financial and non-financial performance information, to verify public accounts. In addition to their year-end reports, which provide great detail on the broader successes and failures of policies and programmes,

SAIs audit tax and expenditure systems for their effectiveness, efficiency and accuracy. Through compliance audits, SAIs evaluate the implementation of controls within public entities and across government, and the effectiveness of leaders in their rollout of a wider control system. Over the years, SAIs have found many deficiencies in the implementation of controls and of the budget, which point to a lack of coherence, communication and co-ordination amongst relevant bodies. Communication and co-ordination has therefore become a focus of many SAIs, who aim to reduce overlaps across government discovered through other audit activities. SAIs have also been active in assessing the implementation of regulatory policies, their reforms, and the effectiveness of the bodies responsible: namely regulators.

Financial and compliance audits should remain a core part of a SAIs' portfolio. However, building on the examples provided in this chapter, it is clear that there are benefits to SAIs scaling up the insight gathered in these audits and leveraging existing expertise and practices to provide commentary on the effectiveness and efficiency of policy implementation. In doing this, SAIs do not necessarily have to build knowledge and expertise of a new form of auditing (i.e. performance auditing or research), but rather incorporate value-for-money criteria into existing audit processes and repackage the way that information is presented.

Case studies of SAI activities supporting policy implementation

Communicating and co-ordinating

Box 3.1. The SAI of Brazil – TCU's Framework to Assess Public Policies

Objective

Brazil's TCU has developed the Framework to Assess Public Policies as a way of assessing the governance of public policies. The framework's main purpose is to guide more comprehensive auditing of cross-cutting challenges in key areas, including: development, economic and financial stability, and increased strategic investment in health, education, technological innovation and infrastructure. The framework centres on eight components: institutionalization, plans and objectives, participation, organizational capacity and resources, co-ordination and coherence, monitoring and assessment, risk management and internal control, and accountability. Each component is supported by good practice examples.

Type

Audit guidance.

Scope and methodology

The development of the Framework to Assess Public Policies was based on adapting existing methodological models, including:

- The TCU's own National Regional Development Policy (TCU, 2009)
- Governance and Sustainable Development Policies, by Guy B. Peters, that focuses on the four pillars that comprise good public governance
- Characteristics of good governance for drug policy: findings from an expert consultation (UKDPC, 2010).
- The Coordination of Australian Illicit Drug Policy: A Governance Perspective (NDARC, 2010).
- Modern Policy-Making: Ensuring Policies Deliver Value for Money (2001)

Box 3.1. The SAI of Brazil –TCU's Framework to Assess Public Policies
(continued)

- A Practical Guide to Policy Making in Northern Ireland, OFMDFMNI (2003)
- Framework for assessing governance of the health system in developing countries: Gateway to good governance (Health Policy Journal 2009)
- Integrated Governance and Healthy Public Policy: Two Canadian Examples (NCCHPP, 2008)

Methodology

The TCU established a working group to support collaboration with the OECD. This working group developed the Framework to Assess Public Policies. To check the consistency of the framework's elements, the TCU consulted representatives from academia, Centre of Government entities, select Courts of Accounts of states and municipalities, and select states and municipal governments.

Criteria

Country laws/regulations, foreign laws/regulations, standards/guidance from international organisations.

Resources

The development of the framework involved five auditors over four months, from February to May 2014. Each worked approximately eighty days, costing a total of BRL 800 000. The competences of the team related to capacity for performance auditing, assessment of public policies and evaluation of public management.

Good practices used

Pilot audits were conducted in 2014, based mainly on the framework component of co-ordination and coherence of policies related to urban mobility, health, education, programmes and tools of public management, and administrative aspects of foreign trade. The audits provided those audited with guidance on improving co-ordination to meet policy requirements. The findings of these audits will be integrated into the President's year-end report and, once judged, available will be made available on the TCU's portal.

Further reading

http://portal2.tcu.gov.br/portal/pls/portal/docs/2686056.PDF.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading link above.

Executing the budget

Box 3.2. The SAI of Poland – the annual state budget execution audit

Objective

The state budget execution audit is undertaken annually to provide objective knowledge about the status of the state and how it functions, including the regularity of collecting and spending public funds. The main objective is to assess the implementation of the Budget Act for the year and to issue an opinion on the financial settlement of the state budget. This audit, required by the constitution and act of the SAI, is one of the basic functions of the SAI. The audit presents the status of the public finance sector by appraising the effectiveness of public expenditure in solving the most important socio-economic problems in select areas of the state.

Type

Financial, compliance, performance.

Scope and methodology

The scope of the audit includes: 1) the execution of revenues, expenditures and deficit of the state budget and its financing sources; 2) the execution of income, expenditure and outcome of the European funds budget; 3) receivables and liabilities, including liabilities under contracted loans and issued treasury bonds; and 4) the execution of financial plans of selected public sector entities. For the year 2014, the audit covered 234 units from the public sector (ministries, central offices, governmental agencies and institutions and various subordinate units).

The findings of this audit should provide an assessment of: 1) the execution of the state budget and European funds budget by main administrators (ministries, heads of central offices and public sector institutions), and the implementation of financial plans by the heads of state budgetary units (trustees second and third degree); 2) the correctness and completeness of accounting records in selected parts of the state budget, with the most significant impact on the implementation of the state budget and European funds budget; 3) the implementation of financial plans of extra-budgetary public sector entities; and 4) performance of the banking service of the state budget and European funds budget.

The last budgetary audit in 2014 was conducted in accordance with the act of the SAI. It used the methods and techniques of auditing recommended in international auditing standards, and was based on the standards of the SAI and methodological assumptions for supervising the implementation of the state budget. The scope and detail of checks carried out in different budgetary elements varied.

A detailed examination of accounting records for correctness and completeness in selected units was conducted in accordance with international standards on using a sample of accounting evidence and records. There are two statistical methods of selecting this sample: monetary unit sample (MUS - taking into account the value of the transaction) or simple random sampling method accounting documents. SAI's examination also covered accounting books, and detailed checks of the credibility of accounting records in terms of their influence on current accounts and annual statements.

The examination was preceded by an assessment of key elements of the management control system. The SAI has continued to focus its research aimed on identifying the main trends in public expenditure. The scope of the budgetary audit was extended to include the monitoring of tangible indicators, which show the performance of budgetary tasks. Audit indicators were established in areas such as: compulsory social security, transport and communications, agriculture and fisheries policy, national defence, social policy, science and higher education, public safety, health, education and upbringing, culture and protection of national heritage, and municipal economy and environmental protection.

Box 3.2. The SAI of Poland – the annual state budget execution audit *(continued)*

Criteria

Country laws, KNIS, entity objectives, foreign laws (EU regulations), international principles (INTOSAI, EUROSAI and IFAC standards).

Resources

The budgetary audit was carried out between January and May 2015, mainly by SAI auditors with experience of financial and performance audits. Auditors also needed a good knowledge in the area of management control systems in order to analyse financial statements and their individual elements. Audit activity was supported by the Computer Analysis Assisted Tool, the SAI's own software solution for statistical sampling and databases analysis. The help of external experts and specialists was not needed.

Outcomes

Audit results, presented both in the form of aggregated analysis and reports corresponding to approximately 80 budgetary elements, are discussed with relevant parliamentary committees. The analysis constitutes the basis on which Parliament issues the resolution granting discharge to the government for the financial year. Some audit results are subject to media attention.

Good practices used

The budgetary audits influence the improvement of financial management in the public sector. As a result of the last budgetary audit, Poland's SAI, NIK, recommended changes including: the implementation of performance budgeting, broadening and strengthening the internal control system, the application of international accounting standards, and IT techniques development. When taking a multi-year perspective, the soundness of financial management has been significantly enhanced.

Lessons learned

The SAI has changed its approach to budgetary audits in an attempt to apply more risk analysis and to concentrate on areas where the usage of auditing resources is the most effective. The SAI has also become more accustomed to IT advances, especially in statistical sampling processes.

General utility of the budgetary audit is connected to stakeholders' interests. It is therefore necessary to link typical financial (compliance) audits with performance audits, as these results are more interesting for stakeholders.

Further reading

www.nik.gov.pl/plik/id,6907.pdf.
www.nik.gov.pl/analiza-budzetu-panstwa/archiwum/.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Exercise of internal control and risk management

Box 3.3. The SAI of the Netherlands – assessing financial risk exposure of government

Objective

Since the 2008 credit crisis, financial ties between the Netherlands and the international institutions that are assisting European countries and banks in financial difficulties have grown considerably stronger. The Court of Audit has studied the financial ties between the Netherlands and eight of these institutions, including their financial profiles and the measures the Netherlands has taken to mitigate the risks.

The value of the guarantees the Netherlands has given to international institutions and of the interests it has taken in them to combat the European debt and banking crisis has increased in recent years from EUR 18.5 billion (3% of GDP) in 2008 to EUR 201 billion (33% of GDP) in 2012. In view of this sharp increase, parliament requires an insight into: which risks are shared, how the institutions mitigate the risks, the institutions' precautionary balances, and the risk to the Netherlands.

Type

Financial audit, performance audit.

Scope

Eight factsheets have been prepared that show the financial ties between the Netherlands and the eight financial institutions. Information includes the financial profiles of the institutions and the measures taken by them to mitigate risks. Wherever possible, public information published by the institutions and the Minister of Finance in their annual reports was used.

Methodology

The risks to public finances have increased in recent years, but they are not periodically and comprehensively mapped out. The House of Representatives therefore cannot see at a glance what risks public finances are facing, their potential consequences and how they can be controlled. In a series of reports, the Netherlands' SAI tries to present a comprehensive understanding of the situation.

Criteria

Country laws, Foreign laws, international standard.

Resources

280 days of work.

Outcomes

The minister could have informed parliament more proactively and explicitly. The SAI would have expected information on: the reasons for the proposals, the exact duration, the assets and events guaranteed, and the consequences for the institutions lending capacity. The Minister of Finance should provide parliament with timely, explicit, appropriate and concrete information on future budget proposals involving international institutions. This would also be in keeping with the Risk Arrangements Committee's recommendation that the minister pro-actively provide parliament with appropriate and concrete policy-related explanations by submitting the completed assessment frameworks for new risk arrangements.

Good practices used

The audit is part of a series of audits on the sustainability of public finances. In the last couple of years, Netherlands's SAI has repeatedly put this topic on the political agenda and tried to raise the awareness of parliament. The SAI has, with this series, made the minister of Finance more thoroughly consider what information is needed to make and monitor decisions in this field.

Box 3.3. The SAI of the Netherlands – assessing financial risk exposure of government *(continued)*

Lessons learned

Information on this particular topic can, according to the minister of finance, not always be public because of possible consequences for the creditworthiness of institutions. This hampered the implementation of an important recommendation.

Further reading

www.courtofaudit.nl/english/Publications/Audits/Introductions/2013/09/Financial_risks_to_the_Netherlands_of_international_guarantees.

www.courtofaudit.nl/english/Publications/Audits/Introductions/2012/06/Risks_to_public_finances.

www.courtofaudit.nl/english/Publications/Audits/Introductions/2011/05/Spending_Cuts_Monitor_2011.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading link(s) above.

Box 3.4. The SAI of Brazil – assessing the maturity of risk management in the Federal Government

Objective

The aim of this study was to assess the maturity of risk management in various sectors of Brazil's federal government. This was undertaken through the construction and dissemination of an indicator that would stimulate the improvement of risk management in the public sector and provide relevant information to the TCU for audit planning.

Type

Research and guidance.

Scope and methodology

The work focused on identifying observable organisational conditions that denote the maturity of risk management and the existence of best practices. The TCU developed a standard assessment of risk management based on COSO ERM, ISO 31000 and governmental models of risk management in Canada and the United Kingdom. The TCU issued a survey on risk management to 65 federal public enterprises. This audit work fell under the TCU's strategic themes of governance, risk management and internal controls, which were approved by the Court in 2012; as well as the TCU goal to "intensify actions that promote the improvement of risk management and internal controls of the Public Administration."

Criteria

International principles/standards (COSO ERM, ISO 31000 and governmental models of risk management in Canada and the United Kingdom).

Resources

- 900 working hours for a team of 2 (the construction of the questionnaire involved 5 auditors).
- 1 external consultant.
- USD 6 000 (consultant cost), in addition to the salaries of the staff members.
- The main skills/competencies required were knowledge of risk management models (e.g. COSO ERM and ISO 31000), development and implementation of surveys, and writing audit reports.

Box 3.4. The SAI of Brazil – assessing the maturity of risk management in the Federal Government *(continued)*

Outcomes

The institutions participating in the survey were classified into five groups of maturity of risk management. It was found that 67% of organisations were in the bottom two levels of maturity in risk management, and only 9% of the sample had reached the most advanced stage. The average maturity level was 43%: it was higher in the oil (61%) and financial sectors (65%) and lower in transportation (28%) and regulatory agencies (31%) sectors.

As this was a survey to gather information no recommendations were made. Each entity received a brief report indicating possible areas for improvement of risk management based on the answers they provided. However, from the 65 organisations surveyed, seven were selected for a risk management audit.

The survey revealed the situation of risk management in the consulted organisations based on responses provided by these entities without the requirement to provide evidence. The audits that have followed the survey are investigating more precisely the degree of maturity of risk management in these organisations. The monitoring of these audits will make it possible to verify the impact of the initial study. Informal feedback to TCU suggests that entities have established risk management policies or departments to help better co-ordinate implementation after participating in the TCU survey.

Good practices used

This study's auditing criteria could prove as useful guidance for public entities for their own risk management. Using this criteria to form questions about best practices in risk management demonstrated the importance of risk management for good governance to participating public organisations.

Lessons learned

A questionnaire for risk management must be accompanied by a text that explains the audit criteria (i.e. a standard that defines a mature risk management) developed. It is estimated that in some cases, the answers provided did not correspond to reality because of a failure to understand the meaning of questionnaire items.

Further reading

http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/programas_governo/areas_atuacao/administracao_publica/Relatorio_Levantamento_28062013_final.pdf.

www.tcu.gov.br/Consultas/Juris/Docs/judoc/Acord/20130916/AC_2467_35_13_P.doc.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Notes

1 The Year End audits are available online at: http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/contas/contas_governo/.

2 The key principles have informal status and apply, according the scope of the publication, to non-state operators, but can apply similarly to other actors including state-owned enterprises, NGOs and private individuals. They are the following: evidence-based enforcement, selectivity, risk focus and proportionality, responsive regulation, long-term vision, co-ordination and consolidation, transparent governance, information integration, clear and fair process, compliance promotion and professionalism. More information can be found OECD (2014), *Regulatory Enforcement and Inspections*, OECD Best Practice Principles for Regulatory Policy, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264208117-en

3 The GAO makes its High-Risk List available online at: www.gao.gov/highrisk/overview.

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Chapter 4

Supreme Audit Institutions' input into policy evaluation and oversight

This chapter looks at the role of supreme audit institutions (SAIs) in supporting policy evaluation and oversight through assessment of key government functions of evaluating for results as well as ensuring accountability. It maps the activities of ten SAIs that are active in assessing the effectiveness and efficiency of evaluation mechanisms in the executive branch. In addition, this chapter illustrates how SAIs are providing oversight and insight through audits and advisory work that can help government to determine whether outcomes of policies and programmes have been achieved. Findings in the chapter offer considerations for SAIs to make in an era of performance-based public management, including the potential trade-offs between auditing for accountability and evaluating for results.

Monitoring and evaluation involves the systematic collection of evidence on the outcomes of policies and programmes that are analysed with a view to judging their relevance, performance and alternatives. In a strategic and open state, the government establishes a coherent system to actively track programme implementation against policy objectives. This process ideally helps to better understand the impact of government initiatives on intended outcomes. Lessons learned can be used to make adaptations or abandon ineffective policies, programmes, and processes. The evaluation stage of the policy cycle includes the exercise of functions for accountability and oversight. This is traditionally the stage where governments are held to account for what they did, or did not, deliver to citizens. Proper evaluation mechanisms should be set up during the formulation phase, in accordance with the establishment of programme and policy objectives.

The evaluation stage is most useful when there are mechanisms in place to feed its results into the policy formulation stage, so that policies are designed with intended outcomes in mind. Effective evaluation requires skills, time and resources that may be lacking in some governments. It is often treated as a "tick box exercise". Even when clear criteria have been established, and when evaluations are geared to making genuine improvements, it can be difficult for the centre of government (CoG) and line ministries to leverage that information in a way that allows for meaningful change. There is also a risk of evidence being used in a piecemeal way or for politically motivated purposes.

A strategic and open state understands that acquiring performance information is not enough. Timely and reliable information must be disseminated and accessible to a broader audience than those inside government. In response to citizens' demands around what governments are doing for them, and how, with their money, OECD countries are moving towards outcome-based approaches to administrative activity. To this end, the policy evaluation phase includes two key functions: **evaluating for results** and **oversight and accountability.**

Key Function 9: Evaluating for results and performance improvement

Evaluation in a strategic and open state is results based, coherent, links entity-level strategies and outcomes to national or governmental goals, and manages the trade-offs inherent across ministries. The quality and usefulness of evaluation depends on whether it has been adequately planned. At the outset, thought should be given to the timing of evaluation and the criteria on which outcomes will be judged. Key elements of evaluation in a strategic and open state are found in Table 4.1.

Table 4.1. Key elements of evaluating for results and performance improvement

Stage of the policy cycle	Key functions of a strategic and open state
Policy evaluation and oversight	**Evaluating for results and performance improvement** A. There is clarity on the evaluation roles and responsibilities of the centre of government in relation to ministries, with awareness and a balance between top-down guidance and bottom-up expertise. B. There is a government-wide evaluation system, or series of procedural and operational guidelines, on the timing of evaluation, standards of evaluation and techniques to ensure coherence across public sector entities. C. Evaluation enables reliable, measured performance-related information to be fed into decision-making processes, which helps with making decisions and trade-offs. D. There are mechanisms for transparency and openness in the flow of performance information. E. Performance evaluation and value-for-money assessments are made integral to budget processes and provide complementary and contextual information alongside financial allocations in the budget report. F. Mechanisms and institutions oversee regulatory policy and identify areas for improvement, co-ordination of regulatory tools, and guidance and training. G. Reports on the performance of regulatory policy are published regularly.
	Oversight and accountability

Sources:
OECD (2014a), *Principles for Public Administration*, *SIGMA*, OECD Publishing, Paris, www.sigmaweb.org/publications/Principles-Public-Administration-Overview-Nov2014.pdf.
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OECD work suggests that a focus on performance is going to remain an essential part of evaluation processes (OECD, 2015a). Governments are trying to create an environment that welcomes information on results as a way to drive improvement, rather than as a political weapon or tool for scrutiny. However, it has proven difficult to establish a results-oriented culture where reliable, timely and accessible evidence is generated and used in an objective and systematic way.

A first challenge is managing the plethora of performance-related information that already exists, but that may not necessarily accurately depict "what works"[1] and what does not. This can lead to the evaluation process being ineffective and often costly. Evaluation also risks being seen as an administrative process that is unrelated to true learning and improvement. Tackling this challenge requires a clear articulation of the successes and deficiencies of evaluation. Improving the technical capacity of those generating performance information to maintain quality and promote comparability will help to ensure more objective analysis and use of information. This will also help to manage a second challenge: the use of evidence for political purposes.

In line with other government streamlining trends, one response to the challenges of evaluation has been to shift towards a whole-of-government approach. However, it has proven difficult to establish a coherent system that synthesises entity-level performance information with overall whole-of-government evaluation. This is partly to do with gaps in capacity and expertise between the ministry level and the institutions centralising the function, whether the CoG or lead agency (OECD, 2014b).

There may also exist a degree of competition between entities in whole-of-government systems. In this context, and when performance results are used to inform budgetary processes, entities may resist being held to the same standards as others. A state should be aware of the need to balance standardisation with tailoring to individual programmes and policies.

A balance should exist between using evidence for improvement and using it as a decisive factor in budget allocations or repercussions. Evaluation can help to understand what has worked, rather than simply what did not work. However, there may be benefits to providing flexibility and allowing for ingenuity in policy-making, as policies and programmes that impact society may be derived by accident or through potentially costly ideas that managers may otherwise avoid. Leaving room for evolution and piloting may have benefits as long as they are anchored in a system where internal control is robust and where ineffective pilots are dealt with accordingly.

SAIs are traditionally conceived of as performing the ex post audit of policies and programmes, however they also evaluate the efficiency and effectiveness of the processes and mechanisms that create those programmes. The results of SAI work are intended to promote improvement in governance and drive accountability. In this way, SAIs' work contributes to different challenges that governments face in evaluating to drive results.

SAI activities that assess and support:

A government-wide evaluation system (Table 4.1, key element B)

The SAIs that participated in this report assess the existence and rollout of government-wide evaluation systems. These systems may be a specific audit subject, or a SAI may make conclusions on the rollout of evaluation by scaling up findings from assessments of evaluations at the ministry level. SAIs are active in assessing the robustness of public sector evaluation that is led from the bottom up, or by ministries.

7/10
Of peer SAIs have looked at:

***The existence of an effective government-wide evaluation system**, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating government-wide monitoring and evaluation with strategic planning; alignment with international good practices; alignment with key national indicators.*

7/10
Of peer SAIs have looked at:

***The existence of a reasoned evaluation programme in each ministry**, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating performance information in objectives; coherence between objectives, outcomes and government vision.*

7/10
Of peer SAIs have looked at:

The performance of central co-ordination bodies in co-ordinating a comprehensive government-wide evaluation.

6/10
Of peer SAIs have looked at:

The accessibility and reliability of data systems for collecting, storing and using performance information, accessible for various levels of government.

9/10
Of peer SAIs have looked at:

The existence of clear lines of reporting on outputs and performance outcomes from entities to authorities and to users/stakeholders (including citizens).

Examples of SAI work in this area include:

- Brazil's TCU has been active in evaluating the evaluators. A 2011 study looked at the implementation of monitoring and evaluation activities by bodies responsible for programmes of the Federal Executive, and attempted to understand to what extent these practices are institutionalised (TCU, 2010). Through activities such as the 2011 study, as well as sector-based audits on integrating evaluations, the TCU developed a maturity index for the evaluation systems of government programmes. This is discussed in detail in Box 4.2.
- The government of Canada has had several policies on the evaluation of programme effectiveness since the 1970s. The Office of the Auditor General (OAG) of Canada has conducted audits of the evaluation function several times, most recently in 2009 with a follow-up in 2013. The objective of these audits was to determine whether the relevant central agency and affected departments were meeting needs for information on programme effectiveness, and whether they were identifying and making needed improvements to the function. This series is covered as a case study in Box 4.1.
- The Australian Ministry of Finance sought insight from the Auditor General's Office (ANAO) from the early stages of its work to implement reforms to the government-wide performance evaluation system. The ANAO and parliament worked collaboratively with the Ministry of Finance and agreed to withhold

scrutiny of the reforms and the new system to allow it time and space to flourish. This approach of delaying audits on new programmes is innovative, and may help appease concerns that auditing stifles innovation by allowing opportunities for programmes and policies to test what works.

Feeding performance information into policy-making processes (Table 4.1, key element C)

SAIs assess the mechanisms through which governments manage performance related information, including how performance information is used in the budgeting process and the systems for managing information.

SAIs' year-end or annual reports usually include performance information to complete the SAIs' assessment of the execution of the previous year's budget. For example, in Brazil, the TCU's consolidated year-end government report includes information on the federal government's financial performance and non-financial information about service delivery, as well as key factors that explain financial and non-financial performance. The Korean Board of Audit and Inspection (BAI) annually audits the financial statements of approximately 50 central government agencies, as well as assessing whether the financial and non-financial performance evaluation systems are working systematically. Through this work, BAI occasionally checks the appropriateness of financial and non-financial performance management systems.

5/10
Of peer SAIs have looked at:

***The existence of performance-related budgeting as inputs into the policy process**, including; the quality, availability and auditability of performance-related budgeting information; the soundness of the programme logic models in place.*

Examples of SAI work in this area include:

- In 2015, the UK's National Audit Office (NAO) focused its attention on the UK's "payment by results" (PbR) scheme, which, the NAO found, is an expensive method of contracting for service delivery in areas key to social well-being. Although PbR accounts for approximately GBP 15 billion of public spending, to date there are no monitoring systems by HM Treasury and the Cabinet Office. The NAO audit, *Outcome Based Payment Schemes: government's use of payment by results*, looked at a number of cases where PbR is being applied, and concluded that it is a technically challenging scheme unsuitable for all government services. The NAO recommended that commissioners establish performance expectations at the outset of each scheme to enable active monitoring and evaluation of its impact. It also recommended that mechanisms are established to evaluate the impact of the approach in its entirety (NAO, 2015).

SAIs contribution to "closing the feedback loop", whereby performance information is or is not used as inputs into policy and programme formulation, is covered in more detail in Chapter 2. There are many examples of SAIs assessing the use of evidence in policy-making and the reliability of that information.

Key Function 10: Oversight and accountability

External scrutiny is a critical part of monitoring and evaluation as it ensures that governments are held to account for their actions and expenditures against the expectations of citizens. A strategic and open state has a well-functioning system of checks and balances, whereby oversight actors are autonomously capable of fulfilling their roles in promoting integrity and combatting fraud and waste. Ideally, government-wide controls and risk-management approaches are established from the centre of government and are linked to a government-wide anti-corruption and integrity strategy. Table 4.2 outlines key elements of a strategic and open state's approach to establishing appropriate oversight and accountability.

Table 4.2. Key elements of evaluation and oversight

Stage of the policy cycle	Key functions of a strategic and open state
Policy evaluation and oversight	Evaluating for results
	Oversight and accountability A. An effective system of oversight ensures public funds are used for the benefit of citizens. B. An effective system of oversight provides assurance on the reliability and quality of disclosed information. C. Services, policies and government activities are responsive and accessible to citizens (including through freedom of information legal provisions, open data policies and accessible information systems). D. There is active disclosure of compliance and performance information on financial and regulatory compliance, as well as the efficiency and effectiveness of programmes, regulatory policy and internal controls in achieving more inclusive government-wide priorities. E. Fair and transparent systems exist for legislative and judicial review of the functioning of public administration. F. Effective tools are established and implemented to promote a culture of integrity in the public sector, including whole-of-government anti-corruption mechanisms, whistle-blower protection, integrity in public procurement, and prevention of conflict of interest. G. Affected parties are engaged in performance assessments of programmes and regulations. H. Oversight mechanisms and institutions exist to provide assurance of the quality of regulatory policy.

Sources:
adapted from various sources including the OECD's Public Governance Reviews (series), OECD (2015b), *Open Government,* the Organisation for Economic Co-operation and Development, www.oecd.org/gov/open-government.htm, (accessed 1 October, 2015).
OECD (2014a), Principles for Public Administration, *SIGMA*, OECD Publishing, Paris, www.sigmaweb.org/publications/Principles-Public-Administration-Overview-Nov2014.pdf.
Engela, Ronette and Tania Ajam (2004), "Evaluating Capacity Development: Implementing a Government-wide Monitoring and evaluation System in South Africa", *ECD Working Paper Series, No. 21*, Independent Evaluation Group, World Bank, http://siteresources.worldbank.org/EXTEVACAPDEV/Resources/ecd_wp_21_south_africa.pdf.
OECD (2012), *Recommendation of the Council on Regulatory Policy and Governance*, C(2012)37, 22 March 2012, OECD, Paris, www.oecd.org/gov/regulatory-policy/49990817.pdf (particularly 3, 4, 5, 6 and 8).

Using evaluation and internal and external audit for accountability in a strategic and open state means objectively using timely, accessible and reliable information. There is a risk of a tension between evaluation being used as a learning tool and it being used as a strict accountability or compliance tool. This risk is heightened in an environment where money or programme funding is tied to performance and results. Evaluations, like

internal controls, are often treated as administrative or mundane tasks that are unimportant to the goals of the entity. Some politicians may resist evaluation altogether.

To overcome these challenges, a strategic and open state lays the foundations for oversight in the policy formulation stage, when a commitment to openness and accountability is demonstrated. Stakeholder consultation and transparency on initiatives should exist in the implementation of programmes, with tailoring and realigning taking place on an ongoing basis. Citizens should be involved in the evaluation stage, where outputs are assessed for how they meet citizen expectations.

The impact that evaluation can have on accountability and performance depends on the power of transparency. As one of the constitutionally appointed bodies responsible for supporting transparency and accountability, SAIs have an active role to play in this area.

SAI activities that assess and support:

An effective system of oversight (Table 4.2, key element A)

SAIs provide assurance on the capabilities of oversight institutions and the reliability of disclosed results, as well as directly assessing the effectiveness and efficiency of government programmes and policies. In this sense, SAIs support government's ability to oversee and provide complementary oversight through its audit and, where relevant, evaluation discussions.

SAIs have moved towards integrating effectiveness, efficiency and economy into their auditing criteria through auditing programmes, policies, regulations and controls. In addition, they are increasingly using research activities to develop their knowledge base and employing evaluative tools, such as surveys. In addition to these activities, some SAIs have control over legality as well as enforcement functions, which can complement audit and research activities that focus more on effectiveness and efficiency. For instance, in Brazil and Costa Rica, SAIs play a legality and enforcement role related to assessments of procurement contracts and bid protests, and they also can audit the performance of public procurement processes and institutions. In the case of Costa Rica, the SAI uses its objection mechanisms (i.e. review of contracts and procedures before and after bidding) to complement audits on procurement projects.

Through these activities, SAIs are generating insight and evidence on the outcomes of the policy cycle, which complements financial and compliance-related information of other audit activities to further broaden SAIs' perspective of government performance.

8/10
Of peer SAIs have looked at:

The performance of audited entities against entity-level objectives and/or national objectives.

Five case studies provided by the SAIs of Brazil, Canada, Korea the Netherlands and South Africa, demonstrate how SAIs target evaluation at policies and programmes that are salient to citizens, and often sensitive subjects linked to government-wide goals. These case studies demonstrate the "bird's eye view" approach that SAIs can take, with each audit focusing on cross-governmental policies or initiatives. The case studies are as follows:

- From 2007 to 2013, Brazil's Tribunal de Contas da União (TCU) undertook a series of compliance audits of programmes related to the policy for national development, which had an annual expenditure of nearly BRL 10 billion. Through several audits, the TCU tried to adopt a systemic view in order to identify systemic issues that could better explain inefficiencies and ineffectiveness of the national policy. This is further explored in Box 4.7.
- In Canada, an increasing number of veterans with a recognised psychiatric disability are being assisted by Veterans Affairs. As a result, the OAG of Canada undertook a performance audit to determine whether Veterans Affairs Canada facilitated timely access to services and benefits for veterans with mental illness. This example, provided as a case study in Box 19, took an innovative client-based perspective to understand the variations in client experiences of the services received. It received wide media coverage due to the sensitivity of the matter in society.
- Korea's BAI conducted a performance audit on the management of the national government's housing policy and practices for middle and lower income families. It assessed the adequacy of each stage of the policy cycle from formulation to implementation and feedback, with the aim of targeting deficiencies to improve housing conditions. Inconsistencies were found between medium and long-term housing supply plans. More information on this audit can be found in Box 4.4.
- A performance audit by the Netherland's Court of Audit looked at the existence and effectiveness of ministers' evaluations of programmes with social objectives, which had an expenditure of nearly EUR 111 billion in 2010. The Court looked at nearly 1 200 policy evaluation reports over four years to provide insight for the legislature on the fulfilment of entities' responsibilities in evaluation. The Court supported the audit process with workshops for ministries to strengthen their evaluation practice. This example is discussed in further detail in Box 4.5.
- A 2013 to 2014 education sector report of the Auditor General of South Africa (AGSA) studied progress against Millennium Development Goals for literacy in South Africa. These goals aimed to enable 4.7 million functionally illiterate and semi-literate adults to become literate and numerate in one of the 11 official languages by 2015. AGSA worked with programme management to begin early implementation of the audit recommendations in order to readjust and target inefficiencies. More information about the audit and its outcomes can be found in the case study in Box 4.6.

7/10
Of peer SAIs have looked at:

The performance of regulation in achieving objectives.

Seven out of ten peer SAIs look at the performance of regulation in achieving objectives, as well as the system of regulatory oversight in ensuring quality of regulatory policy.

Examples of SAI work in this area include:

- The US Government Accountability Office's (GAO) *Federal Rulemaking: Regulatory Review Processes Could Be Enhanced (*GAO, 2014a) underlines the importance of oversight by the executive in formulating and co-ordinating

regulatory policies to foster coherence across government. The report recommends greater transparency and increased openness of rule-making procedures, as well as the implementation of more streamlined regulations.

- The Cour des Comptes de France (2013) report, *Labour market: more targeted policies to combat high unemployment*, analyses regulations that aim to help maintain the employment of those in precarious work situations due to the economic downturn. This report also covers attempts to train unemployed individuals and encourage them to return to the labour market.
- A report by Portugal's Tribunal de Contas, *PPP Regulation in the Water Sector* (Tribunal de Contas de Portugal, 2014), synthesises the results from audits of 27 Private-Public Partnerships (PPP) municipal water concessions that were undertaken in collaboration with the Regulatory Authority of Water and Waste Services (ERSAR, Entidade Reguladora dos Serviços de Águas e Resíduos).

As part of the oversight system, SAIs need to understand the importance of their own effectiveness, efficiency and economy. The quality and speed of their work has consequences for the impact of their recommendations and the strength of accountability. Mechanisms should exist to ensure that the SAI is independent (or autonomous), and is delivering value-for-money.

Assuring the reliability and quality of disclosed information (Table 4.2, key element B)

As the below examples demonstrate, some SAIs go beyond assessing compliance and play a role in assessing oversight bodies for their independence, capacity and effectiveness. They assess how a range of oversight bodies, regulatory agencies and central government units fulfil their functions.

8/10 *Of peer SAIs have looked at:*	***The independence, capacity, effectiveness and efficiency of oversight bodies*** *(audit institutions, regulatory oversight, ombudsman etc.).*
6/10 *Of peer SAIs have looked at:*	***The performance of strategic planning and co-ordination units, control institutions and units, and regulators in achieving their operational objectives and facilitating the achievement of government-wide objectives.***
6/10 *Of peer SAIs looked at:*	***The effectiveness and efficiency of the government-wide internal control system****, including: achieving government-wide objectives; applying a government-wide anti-corruption framework.*

Examples of SAI work in this area include:

- Chapter 5 of the *2010 Fall Report of the Auditor General of Canada* covered regulating and supervising large banks. This report discussed the regulation and supervision of Canada's six largest banks by the Department of Finance Canada

and the Office of the Superintendent of Financial Institutions Canada. It examined how information is exchanged between regulatory and financial institutions to foster effective decision-making (OAG, 2010).

- A report from the European Court of Auditors looked at the adequacy of the control system in governing the production, processing, distribution and import of organic products. This report discussed the effectiveness of the control system for organic products and noted the inherent difficulties of establishing an "organic" label without a clear scientific way of guaranteeing the organic nature of a given product. The report recommends enhanced dialogue between member states and clearer leadership from the Commission.
- The US Government Performance Management Modernization Act (GPRAMA) requires agencies to assess whether regulations are contributing to governmental cross-agency priority goals. As part of the GAO's mandate to audit the implementation of GPRAMA, it assessed the retrospective analysis of regulations and the resulting modification of regulations to align them more closely with national objectives. The resulting report, *Re-examining Regulations: Agencies Often Made Regulatory Changes, but Could Strengthen Linkages to Performance Goals*, noted that agencies often do make changes to regulations in response to ex post reviews, but recommends improved reporting standards to disseminate information on progress in regulatory reform (GAO, 2014b).

Responsive and accessible services (Table 4.2, key element C), transparent legislative and judicial processes (Table 4.2, key element E) and engagement of stakeholders in evaluation processes (Table 4.2, key element G)

At the core, SAIs' work stems from a belief in transparency and information sharing. SAIs undertake audits to understand how transparency and information sharing play out across government. In addition to making their reports open to the public, SAIs open lines of communication to citizens through online portals, social media and workshops and seminars.

7/10
Of peer SAIs have looked at:

The existence of stakeholder consultations on experiences with programmes and services.

8/10
Of peer SAIs have looked at:

The adequacy of reporting mechanisms for the accessibility of citizens.

8/10
Of peer SAIs have looked at:

Compliance with access to freedom of information laws.

Examples of SAI work in this area include:

- Brazil's TCU undertook a survey and issued a report on data openness in federal public administration. The TCU proposed solutions for the collection, storage and processing of big data in order to improve transparency and modernise public management (TCU, 2014).
- Korea's BAI's report, *Audit on the Status of Information Sharing among Public Institutions*, examined: 1) the appropriateness of information-sharing systems, human and physical infrastructure; 2) each institution's willingness to share information with other public institutions in order to promote efficiency of administration; 3) finding of sources of tax revenue; and 4) improvement of benefits. The audit found that data on the violation of laws and regulations in each jurisdiction were not shared between agencies. BAI concluded that this lack of information sharing by individual authorities not only hindered the rollout of information technology systems, but also hampered the appropriate use of information that already existed (BAI, 2013).
- Chile's Office of the Comptroller General of the Republic of Chile (CGR) introduced its innovative GEO-CGR portal in 2014. This portal provides a forum for the articulation, storage, consultation and publication of information on the investment of resources in public works. Its ultimate aim is to promote social control and citizen-driven accountability by providing reliable and timely information that is useful for analysing and monitoring resources invested in public works.

Mechanisms for integrity in the public sector (Table 4.2, key element F)

Eight out of ten peer SAIs have looked at the design of anti-corruption or anti-fraud frameworks through their work.

8/10
Of peer SAIs have looked at:

The design and quality of anti-corruption and anti-fraud frameworks at a whole-of-government level.

Examples of SAI work in this area include:

- In line with its 2015 audit programme, Poland's SAI, *Najwyższa Izba Kontroli* (NIK), is in the process of planning an audit of anti-fraud and anti-corruption activities across the entire public sector. The government's anti-corruption programme (2014-2019) is a major element of the national anti-corruption policy strategy and aims to reduce corruption by strengthening prevention and education in both society and public administration and increasing efficiency towards fighting corruption-related crime. The planned audit will seek to reveal whether performance indicators tailored in the governmental programme have been achieved, how anti-corruption mechanisms have been strengthened, and how the co-ordination of related activities amongst public entities has been enacted. The audit will encompass 13 ministries and central institutions and is expected to be completed in the first quarter of 2016.2

- The French Cour des Comptes is active in examining France's anti-fraud and anti-corruption frameworks across a range of high-risk areas. The Court has provided ongoing assessment of the services of the State in fighting international tax fraud, most recently covered in its 2016 annual report. The Court has assessed the action of customs in the fight against fraud and trafficking, as well as the frameworks for tackling fraud in social security contributions (2014), fraud in value-added taxation (2015) and fraud in urban passenger transportation (2016). Further, the Court has published in 2016 a critical report on the prevention of conflict of interest in health expertise. This transversal audit was requested by the social affairs committee of the Senate, and included assessment of five entities of which three are in the pharmaceutical chain (2016).
- The ECA's Management of conflict of interest in selected EU agencies 2012 report examines policies and procedures that aim to mitigate conflict of interest situations between four major European agencies. It calls on the European Union (EU) to develop a comprehensive regulatory framework to give agencies clearer guidelines for conflict of interest situations. See Box 4.8 for more information (ECA, 2012b).
- A report by the Netherland's Court of Audit, *State of integrity management in central government* (NCA, 2009), investigated the status of integrity management within ministries. The main audit question was: "How do they ensure civil servants are incorruptible and trustworthy?" The NCA used the audit to promote preventative, detective and repressive measures as a way of avoiding violations of integrity. The 2009 audit was a follow-up to a baseline measurement undertaken in 2004.
- Canada's OAG examined the Ombudsman for the Department of National Defence and the Canadian Forces, to look at key controls, systems and practices related to financial management, contracting, and human resource management in carrying out its mandate. The audit also looked at whether the Department for National Defence adequately carried out its oversight responsibilities in compliance with relevant legislation for its Office of the Ombudsman. National Defence and the current ombudsman agreed that the department should monitor the ombudsman's financial and staffing authorities to ensure that their activities were properly exercised. There had previously been inadequate monitoring of the administrative activities of the Office of the Ombudsman (OAG, 2015).
- The GAO in the United States developed a fraud risk management framework, which drew upon international best practices from government and international organisations. The framework serves two main purposes: 1) it illustrates leading practices for managers within the executive branch to improve their policies and practices for preventing, detecting, and responding to fraud and corruption; and 2) it serves as a tool for analysts and auditors to use as criteria for their work.

Taking stock: SAI activities in supporting policy evaluation and oversight

Table 4.3 shows how many of the ten peer SAIs assessed particular elements of policy evaluation and oversight. The SAIs appeared slightly more likely to undertake assessment activities related to accountability and oversight functions rather than evaluation for results, but overall the surveyed SAIs were active in this stage of the policy cycle.

Table 4.3. SAI activities in assessing policy evaluation and oversight

Policy stage	The survey asked 10 participating SAIs, "Has your SAI assessed…"	"Yes" (out of 10 SAIs)
Policy evaluation and oversight	**Key function 9: Evaluating for results**	
	The existence of clear lines of reporting on outputs and performance outcomes from entities to authorities and to users/stakeholders (including citizens)	9
	Government's achievement of government-wide or mission-oriented objectives	8
	The existence of an effective government-wide evaluation system, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating government-wide monitoring and evaluation with strategic planning; alignment with international good practices; alignment with key national indicators	7
	The existence of a reasoned evaluation programme in each ministry, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating performance information in objectives; coherence between objectives, outcomes and government vision	7
	The performance of central co-ordination bodies in co-ordinating a comprehensive government-wide evaluation	7
	The accessibility and reliability of data systems for collecting, storing and using performance information, accessible for various levels of government	6
	The existence of performance-related budgeting as inputs into the policy process, including; the quality, availability and auditability of performance-related budgeting information; the soundness of the programme logic models in place	5
	Key function 10: Oversight and accountability	
	The design and quality of anti-corruption and anti-fraud frameworks at a whole-of-government level	8
	The performance of auditees against entity-level objectives and/or national objectives	8
	The adequacy of reporting mechanisms for accessibility of citizens	8
	The independence, capacity, effectiveness and efficiency of oversight bodies (audit institutions, regulatory oversight, ombudsman etc.)	8
	The compliance with access to/freedom of information laws	8
	The performance of regulation in achieving objectives	7
	The existence of stakeholder consultation on experiences with programmes and services	7
	The performance of strategic planning and co-ordination units, control institutions and units, and regulators in achieving their operational objectives and facilitating achievement of government-wide objectives	6
	The effectiveness and efficiency of the government-wide internal control system, including: in achieving government-wide objectives; for application of a government-wide anti-corruption framework	6

Source: OECD Survey of Peer Supreme Audit Institutions.

Table 4.4 outlines the types of activities that SAIs have undertaken in this area. As performance audits centre on value-for-money criteria, they are commonly used for the assessment of a government's own policy and programme evaluations. The high incidence of financial audits in this phase is related to the performance information included in annual financial audits, whereby systems for reporting financial and non-financial performance information are linked.

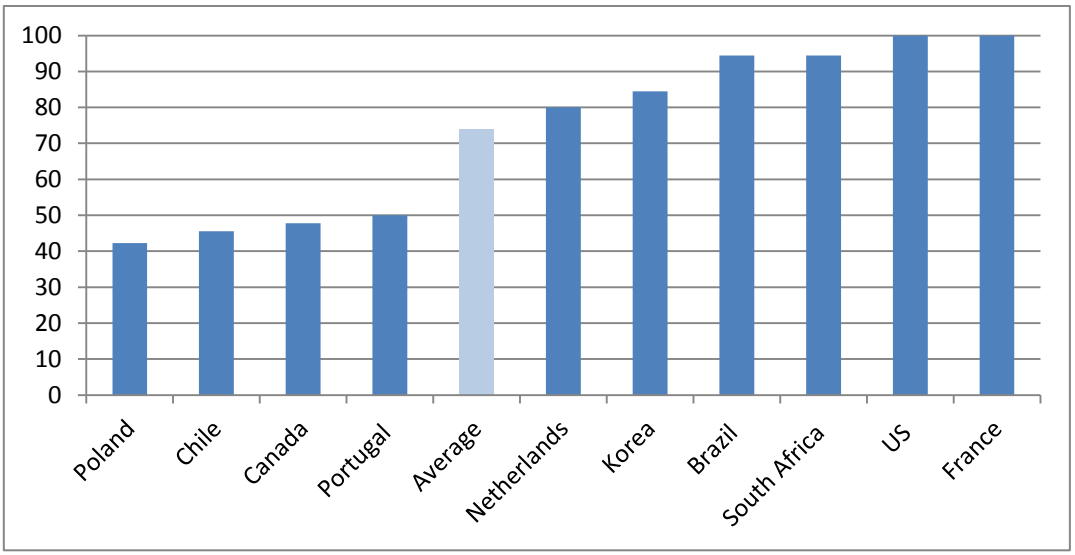
Table 4.4. Types of assessment of key functions of policy evaluation and oversight, by 10 surveyed SAIs

Policy stage	Key functions	Types of audits	Other activities
Policy evaluation and oversight	Evaluating for results	Financial audit (6) Compliance audit (7) **Performance audit (8)**	**Written guidance (4)** Verbal guidance (1) **Research (4)** Web-based tools (1)
	Accountability and oversight	Financial audit (5) **Compliance audit (8)** Performance audit (7)	**Written guidance (5)** Verbal guidance (1) Research (4) Web-based tools (2)

Note: This study refers to SAI "assessments", which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

The participation of peer SAIs in the assessments proposed in the survey (Figure 4.1) varies. Poland, Chile, Canada and Portugal are less likely to engage in auditing for results than other countries. Portugal reported being inactive in evaluating systems for results and performance, and the results shown in Figure 4.2 correspond to a higher level of activity in the core task of supporting oversight and accountability.

Figure 4.1. Level of SAI activity in assessing key elements of policy evaluation and oversight, by country



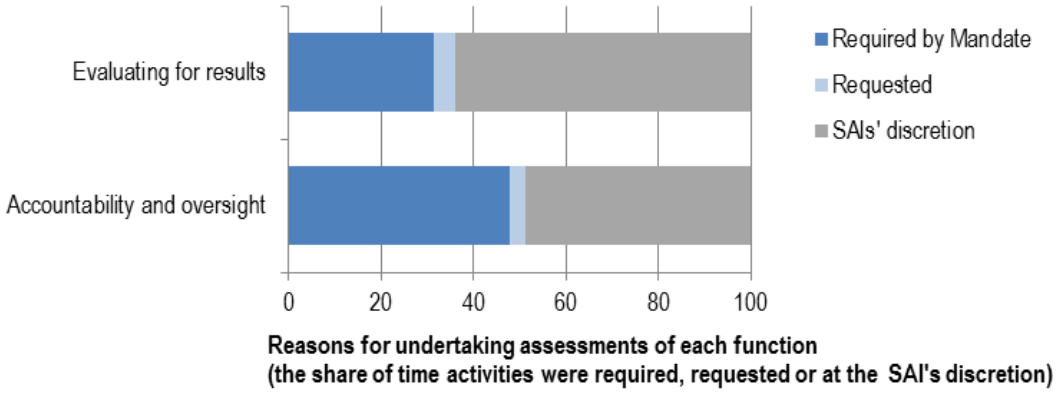
Source: OECD Survey of Peer Supreme Audit Institutions.

Figure 4.2 shows whether the SAI activities in assessing this stage are more often required, requested or at the discretion of the SAI. Activities are more likely to be required by mandate or at the SAI's discretion than they are to be requested. This may be because audit activities tend to be requested for high-risk or material areas, such as budget and controls. Audit activities related to accountability and oversight are more

likely to be required by mandate than are those activities related to assessing evaluation mechanisms, as they are more in line with the core function of the SAI.

Where SAIs report being less active in other stages of the policy cycle, activities are usually undertaken at their own discretion. This is not the case in the evaluation stage where, for example, the SAI of Chile stated that all activities in supporting oversight and accountability are required by mandate.

Figure 4.2. Impetus for SAI assessments of key functions of policy evaluation and oversight



Source: OECD Survey of Peer Supreme Audit Institutions.

Challenges and limitations to SAI participation

Peer SAIs can be challenged in undertaking assessments of policy evaluation because of a lack of skills amongst SAI staff, a lack of SAI resources and a lack of skills of the executive (or those audited). Figure 4.3 provides a summary of the factors that limit a SAIs' ability to engage in the policy evaluation stage.

Figure 4.3. Factors that limit select activities in assessing policy evaluation and oversight

Limitation	Number of times reported as a challenge by 10 SAIs, for assessments of the 2 key functions of policy evaluation and oversight
Skills SAI staff	6
SAI resources	5
Skills Exec	5
Exec leadership	4
Internal structure	2
SAI mandate	2
SAI leadership	2
Role of another	1
Not a risk area	1
Not material in nature	1
Not applicable in country	0
Other	0

Source: OECD Survey of Peer Supreme Audit Institutions.

Conclusions on the role of SAIs in supporting policy evaluation and oversight

SAIs conduct ex post assessments of the effectiveness and efficiency of policies and programmes. In doing so, they serve an oversight function in the evaluation stage of the policy cycle. SAIs also assess the effectiveness and efficiency of processes that governments use for self-evaluation. Survey data show that SAIs consider themselves more likely to undertake audit activities related to accountability than to improving results. Data also show that there are greater limitations for SAIs in undertaking activities related to improving performance.

Although tensions exist relating to SAIs moving more into the realm of performance auditing and evaluation, a lack of skills within SAIs was identified as the greatest limitation to SAIs' involvement in activities. This is a common challenge for evaluation in various entities, as programmes often require a subject-matter expertise that is not as readily available within SAIs. For this reason, SAIs commonly use external expertise to complement an audit team during audits or evaluations with value-for-money criteria. This practice has the benefit of knowledge sharing and integrating new practices and ideas. However, care should be taken to continue developing in-house expertise where desirable, and it should be ensured that external experts are held to the same standards of conduct so that they do not compromise the independence of the SAI.

The external audit function brings value to the government evaluation system by providing objective insight into the efficiency, effectiveness and economy of government programmes, policies and processes. Where there is a risk that those setting and implementing policies are biased away from the needs of citizens and the overall government vision, the external perspective can provide necessary and complementary insight.

SAIs may consider taking a less audit-like approach towards evaluating, should their mandate allow and should the institution be ready for the testing of evaluative approaches. Executive representatives consulted during this study indicated that this approach would ease confusion around the role of SAIs in assessing programmes aimed at improving them, while still taking strict compliance-based approaches.

Other representatives recommended that performance audits and evaluation should be more suggestive and less prescriptive. SAIs may be well placed to use acquired insight to help understand what does and what does not work. SAIs could consider adopting an approach that highlights successes as well as failures, and consider that compliance and financial audits alone may not identify programmes that are more broadly successful.

It is important to highlight the two related objectives of evaluation here: 1) performance improvement in policies, programmes and processes; and 2) oversight and accountability. While these objectives are linked, and performance is used as a measure for both, a strategic and open state should be aware of important differences. Focusing evaluation strictly on accountability may have distorting effects on ministry activities by incentivising behaviour towards "box ticking" or meeting evaluation criteria. Alternatively, focusing on demonstrating results, but missing opportunities for those results to be used for accountability purposes, may risks the integrity of administrative activities and reduce the need for governments to be responsive to citizens' needs.

The SAI community is addressing the important question of "who controls the controllers" and is promoting and providing guidance for peer reviews and a performance management framework for self-evaluation. To date, many SAIs have been subject to a peer review by international organisations (including the OECD) as well as their peer SAIs. SAIs' quality, objectivity and relevance of work is critical to them having impact and providing a complementary, rather than duplicative and inefficient, role in evaluating for accountability and results.

Case studies of SAI activities supporting policy evaluation and oversight

Evaluating for results

Box 4.1. The SAI of Canada – assessing programme evaluation in the Federal Government

Objective

The government of Canada has had several policies on the evaluation of programme effectiveness since the 1970s. The Office of the Auditor General of Canada has conducted audits of the evaluation function several times, most recently in 2009 with a follow-up in 2013. The objective of these audits was to determine whether the relevant central agency and affected departments were meeting needs for information on programme effectiveness, and whether they were identifying and making needed improvements to the function.

Type

Performance audit.

Scope and methodology

The audits covered the central agency responsible for the government's policy on programme evaluation (the Treasury Board of Canada Secretariat) and selected departments subject to the policy. These departments were selected to reflect a cross-section of programme types.

The initial planning phase of the first evaluation audit included broad consultations with experts in the field of programme evaluation and public administration. The decision on audit timing reflected the introduction of a revised policy on evaluation in 2009. The audit methodology included reviewing samples of completed evaluation reports, and assessing departmental compliance with the policy.

Criteria

Country laws (The Financial Administration Act requires evaluation of certain types of programmes) and key national indicators (The Treasury Board Policy on Evaluation and its associated directive and standard).

Resources

The resources committed to the initial 2009 audit were 9 100 staff-hours at a cost of CAD 1.4 million (Canadian dollars). The resources committed to the 2013 follow-up were 6 100 staff-hours at a cost of CAD 1.1 million. The team consisted of approximately six members, one of whom was an experienced programme evaluator. Consultants were rarely used.

Box 4.1. The SAI of Canada – assessing programme evaluation in the Federal Government *(continued)*

Outcomes

The six departments OAG examined followed systematic processes to plan their effectiveness evaluations, and completed most of the evaluations they had planned. However, each department's evaluations during the audit period covered a relatively low proportion of its total programme expenses: between 5% and 13% annually across the six departments. The actual rate of coverage was even lower because many of the effectiveness evaluations OAG reviewed did not adequately assess programme effectiveness. Departments had often not gathered the performance information needed to evaluate whether programmes were effective. Of the 23 evaluation reports OAG reviewed, 17 had inadequate data, which limited the assessment of programme effectiveness.

The departments OAG examined said that it remains a challenge to find experienced evaluators and that they had made extensive use of contractors to meet requirements. Departments expressed concern about their capacity to evaluate all direct programme spending from 2013, as required by the 2009 policy on evaluation. To ensure full coverage (which includes grants and contributions), departments will have to evaluate an average of 20% of their direct programme spending each year of the five-year cycle.

The Treasury Board of Canada Secretariat has introduced initiatives to address the need for improvements in evaluation across government. However, it did not provide sustained support for effectiveness evaluation. In particular, it made little progress on developing tools to assist departments with the long-standing problem of a lack of sufficient data for evaluating programme effectiveness. With the exception one department that has processes in place to identify needed improvements, the audited departments do not regularly identify and address weaknesses in effectiveness evaluation. The audit report included recommendations related to several of the findings summarised above. The criteria for this audit were set out in the audit plan accepted by the audited departments.

Good practices used

Since the beginning of evaluation audits in the 1970s, the evaluation function has had periods of comparative strength and weakness, some of which were documented by OAG audits. Overall, the function has strengthened, partly due to a more coherent policy framework and to capacity building within departments. Audit findings have been taken into account by the responsible central agency as it reviewed and refined its policies on effectiveness evaluation.

Lessons learned

Periodic attention by the SAI to the evaluation function over a 30-year period has contributed to its strengthening.

Further reading

Office of the Auditor General of Canada: Fall 2009 Report, Chapter 1, Evaluating the Effectiveness of Programs: www.oag-bvg.gc.ca/internet/English/parl_oag_200911_01_e_33202.html.

Office of the Auditor General of Canada: Spring 2013 Report, Status Report on Evaluating the Effectiveness of Programs: www.oag-bvg.gc.ca/internet/English/parl_oag_201304_01_e_38186.html.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 4.2. The SAI of Brazil – maturity index for government programme evaluation systems (iSA-Gov)

Objective

The maturity index survey aimed to evaluate the maturity of the Brazilian public administration's monitoring and evaluation systems. In 2013, the Federal Court of Accounts Brazil (TCU) carried out an audit of 27 agencies belonging to the direct federal public administration with the purpose of characterising their government programme evaluation systems and providing a diagnosis of their capacity to monitor and evaluate programmes.

Type

Performance Audit.

Scope and methodology

The focus of the survey was to identify and measure if public direct administration evaluation systems met the needs of managers and promoted improvements in the provision and supply of public outputs and services. To help with this, the iSA-Gov index was developed. This index sought to quantify the level of institutionalisation of public administration evaluation systems that monitor the performance and results of the programmes, actions and sectorial policies. It aimed to identify the level of maturity of evaluation systems, contribute to their improvement and indicate improvement opportunities.

Multicriteria Methodology Decision Support (MCDA) was used for data analysis and allowed for the construction of the maturity index of the evaluation systems. The evaluation process was conducted with the support of the Center for Advanced Studies of Government and Public Administration at the University of Brasilia (CEAG/UnB).

The maturity level of the government programme evaluation systems, iSA-Gov, expressed public managers' perception of the adequacy of the mechanisms and instruments employed to demand, produce and use the available evaluative knowledge. The evaluation model consists of four areas of analysis: 1) evaluative demands; 2) production of evaluative knowledge supply; 3) organisational learning capacity; and 4) use.

Twenty-seven ministries answered the survey. Analysis of the collected data showed how and for what purposes entities of the direct administration produce and use information about the performance and outcomes of programmes. For data analysis, preliminarily frequency tables and measures of position (mean, mode, median and standard deviation) were used to describe the general perception of respondents regarding the criteria investigated.

Criteria

Country laws (Decree 7.889/2012 - which established the principles and procedures for the management of the multi-year plan 2012-2015.), Standards and principles.

Resources

The team that participated in this study was composed of two auditors. The planning phase took place between 22 March 2013 and 28 June 2013; the implementation phase took place between 1 July 2013 and 23 December 2014; and the report stage took place between 20 January 2014 and 31 March 2014. Researchers at the Center for Advanced Studies of Government and Public Administration at the University of Braslia provided support to the project.

Outcomes and good practice

The iSA-Gov index observed that the public administration's mechanisms and instruments used to evaluate systems are partly sufficient to meet the evaluative information demands of management.

Box 4.2. The SAI of Brazil – maturity index for government programme evaluation systems (iSA-Gov) *(continued)*

The survey resulted in individualised reports being prepared for each responding agency and a consolidated general report. The general report identified several opportunities for improvement in evaluation and monitoring systems and provided a comparative analysis of participating entities, which allowed the visualisation of different maturity levels of monitoring and evaluation systems in public administration.

The survey also enabled each entity to carry out a self-analysis that was tailored to its own peculiarities, and consider suggestions on how it can contribute to improving the performance and outcomes of government programmes in order to ensure the efficiency, efficacy and effectiveness of public policies.

Work surrounding the maturity index provided a systemic view of the maturity of Brazilian public administration's monitoring and evaluation systems and enabled the monitoring and improvement of evaluation instruments in public administration.

Lessons learned

This work has shown the importance of a broader and more strategic assessment of public administration. The diagnosis of faults and opportunities for improvement at the strategic level, such as the ability of agencies to carry out monitoring and evaluation of public policies, enables problems in policy implementation to be prevented.

Further reading

http://portal2.tcu.gov.br/portal/page/portal/TCU/english/publications/institucional_publications/
www.tcu.gov.br/Consultas/Juris/Docs/judoc/Acord/20140516/AC_1209_16_14_P.doc

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 4.3. The SAI of Canada – auditing for accountability and inclusivity

There are approximately 700 000 veterans in Canada. By March 2013, Veterans Affairs Canada (VAC) had identified 16 700 veterans with a recognised psychiatric disability, including approximately 12 000 with post-traumatic stress disorder. The number of veterans with a recognised psychiatric disability being assisted by VAC increased by 63% between 2007 and 2013, and is expected to continue to increase. Parliamentary committees in both the House of Commons and the Senate have demonstrated an ongoing interest in programmes and support for veterans, and have issued a number of reports. Media interest in this issue has also been ongoing, with recurring topics including: homeless veterans, which is often linked to mental illness; lack of support for families of veterans; weaknesses of the "New Veterans Charter"; and independent groups that provide support for veterans with post-traumatic stress disorder, such as service dogs, free gym memberships, and an online support group.

Objective

The OAG undertook an audit to determine whether Veterans Affairs Canada facilitates timely access to services and benefits for veterans with mental illness. The OAG responsibility associated with this audit was to conduct an independent examination of the management of programmes and resources that aim to facilitate health care access and treatment for veterans with mental health conditions. The aim of the audit was to provide objective information, advice, and assurance to assist parliament in its scrutiny of the government's management of programmes and resources.

Box 4.3. The SAI of Canada – auditing for accountability and inclusivity
(continued)

Type

Performance Audit.

Scope and methodology

The OAG examined the management of access to mental health services for veterans. The audit primarily examined Veterans Affairs Canada, but also looked at two other areas: joint initiatives and the transfer of military records with National Defence and the Canadian Armed Forces; and information on reviews and appeals by the Veterans Review and Appeal Board. National Defence and the Canadian Armed Forces were included because they are key partners of Veterans Affairs Canada in supporting veterans with mental illness. The Veterans Review and Appeal Board were included as they are the organisation to whom veterans may seek redress if eligibility has been denied.

The audit approach included reviewing selected departmental policies, systems, and practices, as well as other relevant documents. The OAG also interviewed responsible departmental officials at headquarters and in three regions (Atlantic, Quebec, and Western), in addition to representatives of selected veteran organisations. Audit evidence was obtained by conducting file reviews and analysing the databases that contain veteran records from across Canada for the period of 1 April 2006 to 6 June 2014. Audit evidence was also collected through two surveys directed to the Royal Canadian Legion and a sample of stakeholders. The OAG provided Veterans Affairs Canada with a draft of the surveys in advance for comments. The results of this audit provided parliament with an assessment of whether VAC is meeting veterans' mental health needs and allows the department to determine whether they have the right approach to addressing these needs. This is important as the Canadian public expects that serving members of the military, veterans and their families are treated respectfully and receive the services and benefits they require.

Criteria

Country laws, and entity objectives.

Resources

Approximately 8 000 hours, including 1 full-time team member, 2 team leaders, and 2 auditors. Additional resources included a senior audit principal (approximately one-third of time), as well as significant oversight and participation of the OAG's research and quantitative analysis specialist. The participation of a team leader and the internal specialist, both of whom have extensive experience in data analysis, were critical to the success of this audit. The team leader oversaw several site visits and ensured a clear understanding of the processes underlying the data analysed. Careful review of data was required to ensure completeness, and consequently entity officials did not dispute the findings related to the data analyses. The audit covered the period from 1 April 2006 to 31 August 2014; focusing on the period from 1 April 2013 through to completion of the audit on 31 August 2014.

Outcomes

This audit highlighted reasons why veterans and departmental officials have different perspectives on access to mental health services. The OAG made seven recommendations as a result of this audit: four were directed to Veterans Affairs Canada, one to both Veterans Affairs Canada and the Veterans Review and Appeal Board, and two to National Defence. During the audit, the OAG found that despite making a commitment to assess the success of their mental health strategy, VAC did not perform well as it had not established the necessary measures. This finding can help Veterans Affairs Canada focus its resources to achieve its strategic objectives, determine whether it is achieving these objectives, and adjust its strategy to ensure that veterans receive the mental health services they need.

Box 4.3. The SAI of Canada – auditing for accountability and inclusivity *(continued)*

The OAG also found that VAC's method of calculating performance was not representative of the experience of the recipient. For instance, the OAG looked at the elapsed time from a veteran's first enquiry about mental health benefits, to the time a decision was made, and found that VAC "started the clock" not at the time of first enquiry, but from the time the department had received the benefit application and determined that the application was complete.

Good practices used

The OAG went beyond using the entities' performance criteria by comparing VAC's measurement against the perception of the benefit recipient. In doing so, the OAG challenged how VAC calculated their performance. This audit received significant media attention when it was tabled on 25 November 2014 and continues to be frequently referenced in the press as of 30 April 2015.

This audit put a focus on looking at the audited programme from the recipient's perspective, asking: "What would success look like?" and "How is the entity assessing success?" These messages resonate with citizens and thereby cover governance issues that are of wide-ranging concern.

The approach the OAG took was evidence-based and replicable by the audited entity. Considerations for replicability by other SAIs are:

- It is noteworthy and significant if the entity is found to not be tracking the information needed to assess the effectiveness of major programmes and activities, i.e. major sums are being spent without the entity assessing whether these expenditures provide meaningful results.
- It is important to undertake the work necessary to determine the integrity of the information produced by the audited entity that underlies analyses, A thorough understanding of the policies and processes underlying the data analyses is critical.

Lessons learned

Examining how the entity assesses performance against measures and targets is essential in forming an appropriate conclusion on results. The OAG's audit highlighted a lack of client focus in establishing the targets, and a lack of transparency in terms of conveying results. When assessing an organisation's performance, comparisons against the measures and targets of comparable organisations in other jurisdictions can be difficult and often impossible. The legislative basis of entitlement, and the relative significance of the activity, can vary widely depending on the jurisdiction. Therefore, the perspective of the benefit recipient is a pragmatic and beneficial approach.

Further reading

OAG Report: www.oag-bvg.gc.ca/internet/English/parl_oag_201411_03_e_39961.html.
The VAC Departmental website: www.veterans.gc.ca/eng/.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 4.4. The SAI of Korea – auditing for accountability and inclusivity

Objective

The Korean government has formulated and implemented various policies to tackle the housing shortage and to stabilise the housing of the middle and lower income families. However, according to BAI, these policies and programmes did not seem to produce the desired effects and may have caused various side effects, including: the privatisation of public development interests; destruction of comparatively favourable residences for middle and lower income families; and waste from suspension or delay of some programmes. BAI reviewed the appropriateness of the planning, implementation, and feedback stages, as well as institutional and programme performance. In *The housing stabilisation policy and key programmes for the middle and lower income families*, BAI provides alternative policy options that can contribute to housing stabilisation of middle and lower income families.

Type

Performance audit.

Scope and methodology

BAI analysed the whole process of core public housing programmes, including the programme planning stage, the implementation stage, and the feedback stage. The audit centred on the core programmes of rental housing and urban area improvement.

The main target institutions for the audit were the housing policy-formulating government agency, housing policy-delivery public institutions, and local agencies.

Criteria

Country laws/regulations (Framework Act on National Land); key national indicators on housing (housing supply rate, long-term rental rate).

Resources

Approximately 90 staff days for the preliminary study and 60 staff days for the field audit, which included 12 professional experts.

Outcomes/benefits

The audit pointed to an inconsistency between long- and medium-term housing supply plans. It found that an excess housing supply was caused by an inadequate supply plan that did not fully reflect the recent trends of low fertility and population aging. The following recommendations were made: 1) ensure consistency between medium and long term plans through efficient co-ordination; 2) take action to remedy the supply gap according to area and size; and 3) update the long-term housing policy by incorporating the changes in household type. The audit aimed to enhance the effectiveness of the government's housing policy by making housing supply plans more demand-oriented, and by specially responding to the needs of low-income families.

Good practices used

This was a unique performance audit as it reviewed the entire policy cycle of a major government programme through planning, implementing, and feedback stages. Following various recommendations to improve the performance of the programme, the government has taken action.

Box 4.4. The SAI of Korea – auditing for accountability and inclusivity *(continued)*

Lessons learned

Reviewing the entire policy cycle of a major government policy and programme (through the formulation, implementing, and feedback stage) is a valuable way of finding root causes of deficiencies in order to make recommendations to correct them and achieve the intended results.

Further reading

BAI (2013), The housing stabilization policy of the middle and lower income families (서민주거안정시책 추진실태 공개문), Board of Audit and Inspection of Korea, www.bai.go.kr/bai/cop/bbs/detailBoardArticle.do?bbsId=BBSMSTR_100000000009&nttId=1489&mdex=bai20&searchCnd=all_NTT_SJ_CN&searchWrd=%EC%84%9C%EB%AF%BC%EC%A3%BC%EA%B1%B0%EC%95%88%EC%A0%95&searchBgnDe=&searchEndDe=&searchYear=&pageIndex=1&recordCountPerPage=10, (available in Korean only).

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 4.5. The SAI of the Netherlands – auditing for accountability and inclusivity

Objective

For this audit in the Netherlands, the Court of Audit investigated whether ministers evaluated the effectiveness of policies with a social objective. The Court audited policy expenditure in 2010, when the government spent EUR 111 billion on policy with social objectives. A year later, the Court did a follow up audit that looked into the reasons why ministries did not evaluate the effectiveness of these policies.

Type

Performance audit.

Scope and methodology

The Court looked at nearly 1 200 policy evaluation reports published between 2006 and 2010 and assessed if they evaluated the effectiveness of policy. The audit included: use of public information and government information to make an inventory of reports; a checklist to assess the reports; and extensive communication with those audited concerning their interpretation of the facts.

Criteria

Country laws.

Resources

265 working days.

Outcomes

The Government Accounts Act states that ministers are responsible for evaluating the effectiveness of their policies. The Court of Audit recommends to improve the department's scans of policy effectiveness and to introduce a comprehensive programme of policy scans in accordance with central government budget regulations. If a minister thinks an effectiveness audit is neither feasible nor desirable for a particular policy measure, the reasons should be explained to the House of Representatives and the minister should reconsider the benefit and need for the policy, with the possible outcome being that the policy is terminated. Finally, ministers should improve the quality of the information they provide to the House of Representatives on the policy evaluations they carry out.

Box 4.5. The SAI of the Netherlands – auditing for accountability and inclusivity *(continued)*

Good practices used

- The audit gave new insight to the parliament about the extent to which government fulfilled their obligations in the area of evaluation. In time of strict budgets, money must be spent wisely and the evaluation of effectiveness of policy is a necessary tool.
- The audit was combined with workshops and advice to ministries on how to strengthen their evaluation practice.

Lessons learned

The Court learned that there may be good reasons not to evaluate policies. In the first audit, the Court did not explore this issue, which raised some questions by the ministries. The follow-up audit included justifications on why a policy had not been previously evaluated. .

Further reading

2012 Audit: www.courtofaudit.nl/english/Publications/Audits/Introductions/2012/05/Evaluation_of_policy_effectiveness_in_central_government.

The 2013 Follow up: www.courtofaudit.nl/english/Publications/Audits/Introductions/2013/06/Evaluation_of_Policy_Effectiveness_in_Central_Government_Follow_up_audit.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Box 4.6. The SAI of South Africa - auditing for accountability and inclusivity

The reduction of adult illiteracy is a worldwide objective of the United Nations Educational, Scientific and Cultural Organisation (UNESCO). Their Education for All (EFA) movement is a global commitment to provide quality basic education for all children, youth and adults. At the World Education Forum (Dakar, 2000), 164 governments pledged to achieve EFA and identified six goals to be met by 2015. Goal four specifically relates to illiteracy, and is as follows: "We hereby collectively commit ourselves to the attainment of achieving a 50% improvement in levels of adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults."

The main objective of South Africa's Kha Ri Gude campaign is to enable 4.7 million functionally illiterate and semi-literate adults, including people with disabilities, to become literate and numerate in one of the 11 official languages by 2015. This is intended to reduce the national rate of illiteracy by 50% by 2015, in line with the government's EFA commitment made in Dakar in 2000. Millennium Development Goals on poverty reduction, women empowerment, HIV and AIDS eradication, environmental protection, and sustainable democratisation and peace building should also be achieved. A substantial ZAR 2.5 billion (South African rand) had been invested in the campaign by 2012, however, only 2.2 million (47%) of the targeted 4.7 million unschooled adults had completed or passed the tests relating to campaign. Although the average pass rate is 99%, considering the backlog and the average dropout rate of 18%, the planned completion target will only be reached in 2018.

Type

Performance audit.

Objective

ASGA's audit set out to answer the following question: Was the Kha Ri Gude campaign economically, efficiently and effectively implemented to ensure the reduction of adult illiteracy in South Africa?

Box 4.6. The SAI of South Africa – auditing for accountability and inclusivity *(continued)*

Scope and methodology

The performance audit focused on Kha Ri Gude, and covered the six-year period from 2008 to 2013, with detailed testing focusing on 2009 to 2013. During the audit, ten Kha Ri Gude learning sites were visited. Interviews were held with co-ordinators, supervisors, volunteer educators and learners.

This audit was identified through a strategic planning process where risk and materiality were considered. The topic was approved by the performance audit advisory committee. Detailed planning then took place to identify the audit objective, researchable questions and audit criteria. Stakeholders identified were limited to the ministry concerned, the contractor managing the project, learners of the campaign and the campaign volunteers.

Criteria

Country laws, key national indicators, international standards.

Resources

The budget was ZAR 1.8 million. There were 2 185 man hours for five team members. The team consisted of a senior manager, manager and three lower level staff. All staff members were from an auditing and accounting background. Some of the team members had several years' experience working in the education sector.

Outcomes

The progress of the campaign has been inaccurately reported. In addition, the following factors also hampered achievement of the 2015 target:

- The government's treasury department reduced the campaign budget for 2014-15 and 2016-17. This will result in approximately 135 to 215 fewer learners being enrolled over the remaining period, based on the medium term expenditure framework allocations and targets. As the pool of unschooled adults decreases, its geographical spread will increase, making it more difficult to reach the targeted adults. Tackling this would require a change in the campaign strategy and approach and, coupled with inflation, could lead to higher learner costs towards the end of the campaign. The increased expense will ultimately result in fewer learners being enrolled as the total budget is fixed.

The campaign will not achieve its target of enabling 4.7 million unschooled adults to become literate and numerate by 2015.

Good practices used

This audit resulted in a management report that contained findings and recommendations on the audited area. Insights of the audit were also included in the education sector report. Benefits or impacts from supporting the area included: management started with early implementation to address the findings and recommendations before the report was issued; the ministry effected changes to the working methods in order to address the inefficiencies that were identified in reaching the target on time; performance criteria were established.

Lessons learned

As several indicators are reported by each government entity, it is very difficult to check the appropriateness of every indicator. AGSA found it necessary to check the appropriateness and reliability of major indicators that guaranteed the autonomy of each government entity.

Box 4.6. The SAI of South Africa – auditing for accountability and inclusivity *(continued)*

Further reading

Audit Outcomes in the Education Sector: www.agsa.co.za/Documents/Auditreports/PFMA20112012/PFMAreportsandpressrelease/tabid/220/ArticleID/76/Audit-outcomes-of-the-Education-Sector.aspx.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading link above.

Box 4.7. The SAI of Brazil – audit for national development policy

Objective

A series of audits took place between 2009 and 2013 that focused on national policy for regional development and aimed to understand and identify structural features that may be responsible for any successes and performance gaps.

The dedication of effort and time in these audits was justified by the amount of public resources invested in the national policy for regional development (around BRL ten billion annually) and the importance of the issue to national development.

Types

Compliance audit, guidance.

Scope and methodology

The scope included the whole governance structure for managing the national policy for regional development, including its formulation, rules, actors, monitoring and evaluations systems, transparency, plans and finance resources - as public funds dedicated to loans for entrepreneurships with favourable interest rates, tax expenditures and budget expenses.

To capture a systemic view of the policy, the TCU included the following: Usage of many teams for auditing the various public agencies and finance tools, distributed by the Brazilian regions elected by the policy, coordinated by a common guidance and audit questions provided by the preliminary audit; assessment of compliance between the actions and the legal conception of the policy; usage of many performance audit tools (indicators analysis; problem tree method; mapping the logical model of the policy; stakeholder analysis; survey; consultation to experts); a study of international models, together with the executive bodies and agents responsible for the policy management ; and a strong interaction and open debate with the executive bodies and agents responsible for the policy management

Criteria

Country laws, key national indicators, entity objectives, International standards, other.

Resources

This comprehensive work involved six audits and 214 business days at a cost of BRL 988 000 (approximately USD 325 000).

Box 4.7. The SAI of Brazil – audit for national development policy *(continued)*

Outcomes

The main findings (and related recommendations) were:

- The policy had not been assessed since it started.
- The predicted monitoring and evaluation system had not been built.
- There were no appropriate indicators of performance to guide the management and ensure transparency for the citizens.
- The formulation of the policy did not consider mechanisms to fight the major causes of the problems.
- There was no strong alignment between the diagnostic that guided the policy formulation and the regulation for using the majority of finance resources.There was a lack of co-ordination between the federal agencies concerning the policy.
- There was a lack of co-ordination between the federal, state and local level concerning the policy planning and implementation.

Many measures were adopted after the recommendations, these are listed below:

- The responsible government body promoted an assessment of the policy that covers the time between its formalisation and the year after the first audit recommendations.
- There was a stronger investment in developing the monitoring and evaluation system.
- A new set of indicators is being used and others are being developed by the government agencies.
- A new conception for the policy was formulated after intensive stakeholder participation across the country. This led to a new project of law and regulation for the policy that considers the need to improve the governance of the policy, especially regarding co-ordination issues.

Good practices used

The TCU adopted a systemic approach to assessing the policy that allowed for the identification of structural issues responsible for the results and the lack of performance.

Recommendations for improvements were made on the governance of the policy and its delivery.

Lessons learned

The capability for providing deeper insights and better foresights concerning a complex public policy depends on knowledge building during at least mid-term work, intensive interaction with experts and policy managers, and usage of a range of appropriate tools.

Box 4.7. The SAI of Brazil – audit for national development policy *(continued)*

Further reading

Preliminary Audit on the National Policy for Regional Development(TC 013 705 / 2009-6) www.tcu.gov.br/Consultas/Juris/Docs/judoc%5CAcord%5C20091204%5C013-705-2009-6-MIN-JJ.rtf.

Performance Audit on the Logic Model and Goals of the National Policy for Regional Development (TC 033 934 / 2011-8) www.tcu.gov.br/Consultas/Juris/Docs/judoc/Acord/20141211/AC_3564_49_14_P.doc.

Monitoring of Recommendations of the Preliminary Audit (TC 015 133/2011-7) www.tcu.gov.br/Consultas/Juris/Docs/judoc/Acord/20120124/AC_0042_01_12_P.doc.

Performance Audit on the Indicators of the National Policy for Regional Development (TC 037 079 / 2012-3) https://contas.tcu.gov.br/etcu/AcompanharProcesso?p1=37079&p2=2012&p3=3.

Audit on the National Policy for Regional Development in the Multi-Annual Plan (PPA) and the Annual Budgets (TC 002 976 / 2013-7) www.tcu.gov.br/consultas/juris/docs/conses/tcu_ata_0_n_2013_38.pdf.

As a topic in the Audit on the End-of-Year Government Report in 2011 http://portal.tcu.gov.br/tcu/paginas/contas_governo/contas_2011/index.html and in 2012: http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/contas/contas_governo/Contas2012/index.html.

Sources: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Oversight and accountability

Box 4.8. The SAI of the European Union – assessing management of conflict of interest in EU agencies

Type

Performance

Objective

The European Court of Auditors (ECA) assessed the policies and procedures in place, up until October 2011, for managing conflict of interest situations in four selected European agencies: the European Aviation Safety Agency (EASA), the European Chemical Agency (ECHA), the European Food Safety Agency (EFSA) and the European Medicines Agency (EMA).

The objective of the audit was to answer one overall question: "Do the selected agencies adequately manage conflict of interest situations?" and two subsidiary questions: "Are there adequate policies and procedures in place to manage conflict of interest situations?" and "Have the selected agencies adequately implemented their own policies and procedures for the management of conflict of interest situations?"

Scope

The four agencies were selected due to the vital decisions they make that affect the safety and health of consumers. The audit covered members of the management boards; members of scientific advisory panels, committees, forums, and other experts; members of boards of appeal; and stakeholder organisations. All participants play an important role in the scientific decision-making process and operational activities of the selected agencies.

The audit was limited to the application of policies and procedures and did not assess specific situations, as this would have involved an intensive examination of the circumstances as well as arbitrary judgements. The audit also did not look at the procedures for the management of conflict of interest situations in procurement and recruitment procedures, as these are subject to the annual audits of the ECA.

Box 4.8. The SAI of the European Union – assessing management of conflict of interest in EU agencies *(continued)*

Methodology

The audit included: a comparative analysis of the selected agencies' regulatory framework; meetings with management and staff; a desk review of various documents (including the agencies' policies, procedures, internal guidelines, declarations of interests, minutes of meetings, staff personnel files); and the examination, on a sample basis, of how the agencies applied their policies and procedures to the specific cases.

Criteria

The European Union's (EU) regulatory framework, and the agencies' own specific policies and procedures, were considered by the ECA as not being sufficiently comprehensive. OECD guidelines and best practices were therefore used as a basis for assessing the adequacy of the policies and procedures in place. Criteria used for part of the audit included: examining the level of implementation of conflict of interest policies, agency-specific policies, and best practice examples.

Resources

The audit required approximately 100 auditor weeks to complete.

Outcomes and benefits

The ECA found that none of the selected four agencies adequately managed conflict of interest. A number of shortcomings were identified in agency-specific policies and procedures, as well as in their implementation. Eight areas for improvement in the agencies' policies and procedures were recommended by the ECA. In addition, the EU legislator, possibly in consultation with other EU institutions, was advised to consider further developing the EU regulatory framework dedicated to managing conflict of interest situations, using the OECD guidelines and existing best practices as a reference. In December 2013, the Commission, in close co-operation with the agencies, produced guidelines to provide a clear reference for the policies to be adopted and implemented by each agency. Actions to strengthen policies and procedures and address shortcomings were also undertaken in individual agencies. The audit had an important impact not only on the conflict of interest policies of the four audited agencies, but also on all the other European agencies, including those established after the audit.

After publication of the report, the European Parliament discussed and adopted resolutions that stressed issues concerning the management and prevention of potential conflict of interests in agencies.

Good practice

The audit was the first to be performed by the ECA on conflict of interest policies, and on the broader field of ethics and integrity. In the absence of clear legal requirements and criteria, the audit successfully used internationally recognised principles and comparative analysis.

Lessons learned

Audit criteria should be suitable in terms of relevance and acceptability. By using recognised sources for the definition of the audit criteria, and taking into account the specific situations of the audited organisations, it is possible to gain acceptance of the findings and recommendations on highly complex and sensitive issues and concerns. Furthermore, audit analysis and reporting needs to keep up with the pace of developments, especially in situations where the audited organisation is quick to introduce remedial measures to address the shortcomings identified in an audit.

Box 4.8. The SAI of the European Union – assessing management of conflict of interest in EU agencies *(continued)*

Further reading

ECA (2012), *Management of conflict of interest in selected EU agencies,* European Court of Auditors, Luxembourg, www.eca.europa.eu/Lists/ECADocuments/SR12_15/SR12_15_EN.PDF

OECD (2004), "The Experiences of OECD Countries", in *Managing Conflict of Interest in the Public Service: OECD Guidelines and Country Experiences*, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264104938-4-en.

Source: OECD Survey of Peer Supreme Audit Institutions; further reading links above.

Notes

1 The "What Works" initiative, established by the UK's Cabinet Office, aims to improve how governments create, share and use evidence for decision-making. More information is available at: www.gov.uk/what-works-network.

2 As this audit is underway, information is not yet available online. NIK can be contacted for further information.

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BAI (2014), *BAI Brochures*, Board of Audit and Inspection, Seoul, http://english.bai.go.kr/bai_eng/cop/bbs/listBoardArticles.do?mdex=bai_eng14&bbsId=BBSMSTR_200000000002.

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Cour des Comptes de France (2014), The fight against fraud in social security fraud : underestimated issues, an action to intensify *(La lutte contre les fraudes aux cotisations sociales : des enjeux sousestimés, une action à intensifier*, Cour des Comptes de France, Paris, www.ccomptes.fr/content/download/73459/1911669/file/rapport_securite_sociale_lutte_fraudes_cotisations.pdf

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