

PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC GOVERNANCE COMMITTEEPARTNERS FOR GOOD GOVERNANCE: MAPPING THE ROLE OF SUPREME AUDIT
INSTITUTIONS

Meeting of the Public Sector Integrity Network

16-17 June 2014 at OECD Headquarters in Paris, France.

This brief provides a synopsis of the OECD's ongoing 3-year project mapping the role of Supreme Audit Institutions in enhancing good governance. This paper presents the key features and processes of the first phase of the project, and the development of the analytical framework which will be available in full during the PIN meeting (GOV/PGC/ETH(2014)10). This synopsis briefs PIN delegates on the current project and wider approach to working with Supreme Audit Institutions as part of a whole-of-government approach to fostering integrity, accountability and good governance.

This brief and its accompanying questions will serve as a basis for discussion in the audit session that will be held on the morning of 17 June 2014.

- *What interactions, if any, does your organisation have with auditors (either internal auditors, or external auditors)?*
- *Is audit work taken into account in policy formulation, implementation or monitoring and evaluation? If yes, how so? If no, why not?*
- *How might any of the types of audit work detailed at the end of this brief be useful for supporting good governance in your country?*

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Background

Working with Supreme Audit Institutions (SAIs)

1. Governments can encourage public trust by demonstrating that they are accountable for delivering programmes and services that meet public needs and address the complex challenges of the 21st century. Yet this burden is too complex to be borne by the executive alone.

2. When citizens trust that their government is working in their best interest, they tend to be more willing to comply with their legal system - to pay taxes, for example. This allows the government to take a more proactive and longer-term policy approach instead of being reactionary and focussing on the short-term. The feedback loop of accountability and integrity between governments and citizens is needed for good public management and policy making, and can be further strengthened through the work of a country's Supreme Audit Institution (SAI).

3. SAIs help to hold governments to account for their stewardship of public resources through their public sector audit function, typically established in a country's constitution. An SAI's audit work detects deviations from standards of legality, efficiency, effectiveness and economy of public financial management. Through this work, SAIs importantly provide objective and credible information to a wide audience on the legality and reliability of public financial management. This verification mechanism is useful for governments that want to demonstrate their trustworthiness.

4. The OECD is working with SAIs to strengthen their capabilities to become more effective partners in a necessary whole-of-government approach to good governance, while respecting the independence and roles of other key actors. To date, the OECD has completed a review of the Brazilian SAI's consolidated year-end audit report and of the Chilean SAI. The OECD is now moving towards providing multi-country advice to SAIs through a three year study on good governance. The study takes stock of obstacles to good public management in key areas of government activity to suggest how SAI work can further support the executive in breaking down barriers to enhance good public governance. Using a collaborative approach, the study relies on the expertise of 12 peer SAIs and representatives from their respective executive branch. These actors share the common goal of working in the public interest so that governments can deliver programmes and services that benefit society. With better governance, public trust and confidence are enhanced.

5. The objective of the study is to facilitate ongoing dialogues and to spark new dialogues within SAIs, and between SAIs and the executive branch of government, in order to identify how SAIs can further contribute to the government's delivery of more efficient, effective and economical programmes and services. This dialogue is meant to be a two-way process. It is intended to provide the executive with a better understanding of the importance, relevance and usefulness of an SAI's function and its existing audit and counselling work. Similarly, it aims to provide SAIs with a better understanding of what type of audit and counselling work is considered relevant and useful by the executive in addressing 21st century challenges.

SAI potential for greater impact

6. Tackling 21st century challenges requires good public governance – the optimisation of the process whereby governments use public resources to deliver programmes and services. In essence, this means formulating, implementing and evaluating policies and programmes more efficiently, effectively and economically. It also means that the process is underlined by broader principles such as rule of law, transparency, integrity and accountability to ensure policy makers are working with citizens in mind.

7. In addition to assessing the compliance of expenditure on public policies and programmes, SAIs are increasingly using their independent oversight function to evaluate the effectiveness, efficiency and economy of government programmes and services. SAIs are looking at the way public policies and programmes are implemented and at their performance against intended objectives. Through the lens of sound financial management, audit work contributes to a more comprehensive evaluation of value for money – a necessary conduit for tackling 21st century challenges.

8. The recent financial crisis proved that addressing challenges cannot be done insularly. It requires a whole-of-government approach that respects the autonomy and roles of all actors pursuing the common goal of working in the public interest to achieve better policies for better lives. The wealth of information generated through an SAI's independent audit and counselling work can be leveraged to help governments manage public resources optimally and to support good governance. Through their independent and external vantage point, SAIs can continue or potentially introduce work that encourages value for money and discourages waste. It also requires that recipient audiences see SAI-generated information as relevant and useful, and are used by policy makers as inputs to the public policy process and by citizens to strengthen the accountability framework.

The study on SAIs and Good Governance

9. The OECD's current study on SAIs and good governance will be presented during the audit session of the PIN meeting on the morning of 17 June. The study looks at how SAI work can better support and enhance good public governance in four key areas of government activity. To better understand obstacles to effective, efficient and economic resource allocation and law-making, the study focusses on budgeting and regulatory governance. To take stock of opportunities for government-wide coherence and strategy, the study looks at centres of government and internal control.

10. Recognising that there are multiple actors in, and approaches to, good governance, the study does not attempt to create a one-size-fits-all approach. Instead it offers SAIs and governments ideas on how SAI work can enhance good governance, to be considered within their country-specific contexts. Ideas are presented with a view to strengthening three key stages of the policy cycle with respect to budgeting, regulatory policy, centres of government and internal control:

1. Policy formulation
2. Policy and programme implementation
3. Monitoring and evaluation

11. By looking at challenges to good governance in each area, and the potential opportunities for SAIs' independent audit work to be used by governments to overcome those challenges, the study provides practical inputs for dialogue between SAIs and their respective executive branch.

12. To ensure that the study presents practical and useful ideas for SAI engagement in supporting and enhancing good governance, the study uses a collaborative approach. The study relies on expertise and input from Brazil's SAI, the Tribunal de Contas da União (TCU) – the sponsor of the study – and twelve peer institutions across five continents, namely the SAIs of Canada, Chile, the European Union, France, India, Korea, Mexico, Netherlands, Poland, Portugal, South Africa and the United States. These peer institutions are members of various committees and groups of the SAI community, representing both OECD member countries and key partners. Their expertise is contributed through the provision of guidance, benchmark data and peer reviews.

13. The study also importantly relies on input from the peer SAIs' respective executive branch for feedback on various aspects of the project and for comparative data. This collaborative approach allows the study to take a critically neutral approach to understanding how best SAIs can support and enhance good governance, while respecting the roles and responsibilities of various actors.

14. The study is structured in three phases:

- **Phase I: January 2014-June 2014:** An *analytical framework* is being developed to present opportunities for consideration on how SAIs can support and enhance good public governance in three stages of the policy cycle relating to four key areas of government activity: budgeting, regulatory policy, centre of government and internal control.
- **Phase II: June 2014-June 2015:** Comparative *survey data, case studies* and *good practices* will be gathered with respect to the four areas of government activity and the three stages of the policy process, as outlined in the analytical framework. Representatives from both SAIs and executive branches of peer countries will be surveyed.
- **Phase III: June 2015-August 2016:** An *assessment of the Brazilian context* will be undertaken. It will include an analysis of the ways in which the TCU can strengthen its role in supporting and enhancing good public management in Brazil at the national level.

15. The expected outcome of the study is that both SAIs and executive branches can use the study's data and case studies to learn further about which countries experience challenges to policy formulation, implementation and monitoring and evaluation in four key areas, and how some executive branches and SAIs may be already addressing those challenges together. It will empower countries to recognise and leverage useful work that is already being produced, and will help to ensure that future work undertaken by SAIs remains relevant and useful for tackling 21st century and complex challenges that governments are facing.

16. With this in mind, a number of policy questions are presented below for consideration by PIN members to facilitate a productive dialogue with SAIs during the audit session.

Policy Questions for Dialogue between the Executive and SAIs

- What interactions, if any, does your organisation have with auditors (either internal auditors, or external auditors)?
- Is audit work taken into account in policy formulation, implementation or monitoring and evaluation? If yes, how so? If no, why not?
- How might any of the types of audit work detailed in Table 1 be useful for supporting good governance in your country?

Table 1. Suggested types of Audit Work for supporting good governance

BUDGETING	<ol style="list-style-type: none"> 1. Assessing the accuracy of fiscal forecasts 2. Checking alignment of budgeting with strategic priorities 3. Assessing the effectiveness of medium term budgeting 4. Assessing the effectiveness of capital budgeting 5. Checking openness, transparency and inclusiveness of budgeting 6. Assessing the comprehensiveness of budgetary information and accounting 7. Checking the quality of budget implementation and delivery 8. Examining identification and management of longer-term sustainability and other fiscal risks 9. Promoting integrity and quality in budgetary management 10. Assessing performance, evaluation and value-for-money
REGULATORY POLICY	<ol style="list-style-type: none"> 1. Conducting performance audits of regulatory policy and governance, regulators and regulations 2. Providing advice and sharing knowledge acquired from audit work 3. Issuing guidelines on administering regulations 4. Auditing the following: <ol style="list-style-type: none"> a) Having an Explicit Policy on Regulatory Quality b) Communication, Consultation and Engagement c) Regulatory Oversight d) Integrated Regulatory Impact Assessments e) Reviews of the Regulatory Stock – ex post Regulatory Evaluation f) Reviewing Performance of Regulatory Reform Programmes and Regulatory Policy g) The Organisation of Regulatory Agencies h) Administrative and Judicial Review i) Risk and Regulation j) Regulatory Coherence across Levels of Government k) Regulatory Management Capacity at Sub-national Level l) International Regulatory Co-operation
CENTRE OF GOVERNMENT	<ol style="list-style-type: none"> 1. Providing information at a whole-of-government level for the Centre's oversight and co-ordination functions, to enable quality policy formulation, policy coordination and monitoring 2. Providing the Centre with information about risks, implementation challenges and performance, which can guide budgeting decisions 3. Examining the institution(s) at the Centre to determine whether they are well structured, have effective processes and are contributing to overall good governance across the whole-of-government
INTERNAL CONTROL	<ol style="list-style-type: none"> 1. Contributing to more efficient and effective internal control systems at the ministerial and whole-of-government level <ol style="list-style-type: none"> a) Coordinating and collaborating with internal auditors and those responsible for internal control b) Providing information to support planning of effective internal control processes, by using its information to deduce good practices

	<p>2. Taking a whole-of-government approach in evaluating internal control by:</p> <ul style="list-style-type: none">a) Evaluating the roll-out of internal control processes at the ministry level across government, particularly on risk management and internal audit, with reference to achieving government objectivesb) Providing insights on the executive's current and future internal control strategies and assessing the adequacy of the oversight mechanisms over internal control and internal audit across governmentc) Contributing to the government's internal anti-corruption and anti-fraud activities
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