State building in fragile situations: The role of Supreme Audit Institutions and their international partners
A discussion paper

1. Introduction

Supreme Audit Institutions (SAIs) operating in fragile situations can make a substantial contribution to state building, including increasing the capacity of the state, promoting security and strengthening the relationship between citizens and government. Progress in these areas can lead to greater stability and improve the resilience of the state and society to further shocks. However, SAIs might be themselves affected by the fragile situation and thus can benefit from international assistance and cooperation to build their capacity and strengthen their role.

This paper briefly reviews how international partners and donors are currently supporting fragile states more broadly; assesses the challenges facing SAIs and how they are addressing them; analyses the role SAIs can play in fragile contexts; identifies priority areas for support; and explores how donors, peers and INTOSAI could support these SAIs. This paper is based on a literature review and interviews with senior representatives of SAIs in fragile situations and other key stakeholders[1].

The purpose of this paper is to provide background information and guidance for the discussion among SAIs and international partners at the synergy session between the INTOSAI Capacity Building Committee and the INTOSAI Donor Cooperation at their annual meeting in Washington 2017. The paper contains points for reflection which will be expanded on during the meeting so that it can contribute to the identification of actions to be pursued by the INTOSAI Capacity Building Committee Project group on SAIs in fragile situations.

2. What are fragile states?

The States of Fragility 2016 OECD[2] report identifies five dimensions of fragility:

1. Political (weaknesses in political processes leading to a lack of political inclusiveness, transparency, corruption and political oppression);

2. Societal (a lack of social cohesion arising from inequality amongst different cultural and ethnic groups);

3. Economic (weak economic foundations leading to exposure to macro-economic shocks and/or high unemployment and limited human capacity);

4. Environmental (climatic and health risks leading to disasters and pandemics); and

5. Security (due to both political and social violence).

The 2016 report focuses especially on the fifth dimension, security, which was traditionally linked to war but is now increasingly related also to post conflict and criminal violence. This has led to the inclusion of some new countries in the list of fragile states.

The different dimensions of fragility are often interrelated and fragility results from the inability of the state, systems and communities to manage, absorb or mitigate the consequences of risks. Indeed, it is the exposure to risks and especially of multiple risks occurring at the same time, in combination with the lack of capacity and coping mechanisms of the state and society that can result in violent conflict, humanitarian crises, breakdown of

security and the collapse of institutions and other types of emergencies which characterize fragile contexts.

The list of fragile states utilised by the international community varies year on year although a core group of 23 countries have a continuous presence. For many countries, however the list is contentious as states do not like to be referred to as fragile states. In response to this and in recognition of the fact that fragility is not always confined within state boundaries and is based on risks which lead to fragile circumstances, the term "fragile situations" is now preferred to fragile state.

3. Why are fragile states being targeted?

One of the main reasons why fragile states are targeted by several donors and international partners is because, although they include middle income countries, they are home to 43% of the world population living under $1.25 a day. This concentration of absolute poverty is predicted to reach 62% by 2030 and this is focusing the attention of many organisations working to reduce poverty including USAID, DFID, the WB and the UN[3]. In addition to poverty reduction there are increasing concerns that the impact of fragility can spill over into other countries in the region and more globally with a negative impact on global public goods including transnational security, environmental impact, conflict, mass migration and the spread of communicable diseases.

Although targeting fragile situations and states is becoming a common agenda, financial flows to fragile states are still significantly smaller than those to non-fragile countries. This is because of the risks, complexity and absorptive capacity of fragile states and, in some cases, the limited capacity of international partners[4]. Recent reviews have identified that to make progress in fragile contexts requires: a deeper understanding of the risks in the five dimensions of fragility; the identification of priorities; the development of joined up strategies; donor coordination; longer-time horizons and flexible approaches; interventions which merge technical and political actions; and acceptance that progress might be slow and often non-linear.

4. Current thinking on working with fragile states

It is widely recognised that one of the key responsibilities of international partners working with fragile states is to ensure that the impact of the intervention or support provided does not cause harm, for example, by strengthening the position of an oppressive regime or of specific powerful groups within the society. To minimise the risk of doing harm, responsible international partners gain an in-depth knowledge of the context and, specifically, of the political settlement which underpins the balance of power and make every effort to support inclusive political processes and agreements[5].

The literature points also to the importance of understanding the causes and effects of all the dimensions of fragility and of focusing on prevention and on building the resilience of government and society to mitigate and manage the risks they are facing. For example, if macroeconomic policies and tax collection systems are weak, efforts should be made to strengthen these areas. Debt management and revenue collection are common challenges in fragile states and most international partners are acutely aware of governments' dependency on donor funding and the need to strengthen overall public financial management systems including budget setting, reporting and oversight[6].

Two newer dimensions of fragility which have gained attention in recent times are security and societal fragility. International partners' support to strengthening the security sector is growing alongside support for strengthening the relationship between citizens and the state through a variety of approaches. These include:

1. Supporting legitimacy and accountability of the state by promoting democratic governance, civil society engagement and peacebuilding;

2. Strengthening the capability of core state functions to reduce poverty and inequality by ensuring security and justice, strong economic performance, quality public services and employment generation;

3. Responding to public expectations and perceptions to effectively build thrust between citizens and the state[7].

Central to providing effective assistance to states in fragile situations is the understanding of the links between political, security and developmental aspects and the need to manage the tensions within these areas and accept trade-offs to achieve results. For example, a focus on peacebuilding might be necessary before addressing more developmental objectives.

Finally, good practice in development assistance are essential to working with states in fragile circumstances including: client led programmes; alignment with local priorities to avoid setting up parallel systems; whole government approaches to ensure all dimensions of fragility are addressed coherently; and joined-up transparent donor policies, strategies and plans.

5. Challenges SAIs facing in fragile contexts

The five dimensions of fragility affecting the state and society often have also an impact on the SAI's capacity and its ability to effectively deliver its mandate and positively contribute to state building. The interviews conducted with senior representatives of the SAI community identified different challenges facing SAIs in fragile situations and a variety of actions taken to address them.

	CHALLENGES	ACTIONS TAKEN BY SAIs
Political	▪ SAI's role poorly understood – e.g. independence not guaranteed ▪ Political structures unresponsive to critical feedback – e.g. SAI seen as a threat ▪ High levels of corruption including in some cases in the SAI ▪ Weak rule of law – e.g. cases of fraud and corruption not pursued ▪ Few checks and balances – e.g. ineffective parliament ▪ Lack of information provided by auditees ▪ Appointment to Auditor General highly politicized – frequent changes ▪ Internal audit focus on inspection rather than adding value to management ▪ Public Service Commission controlling recruitment and salaries	➢ Concerted effort to build alliance with reformers ➢ Education campaigns to inform public sector of benefits of good audit ➢ Balanced audit reports ➢ Build relations with government including considering non-publication of critical reports ➢ Training for parliamentarians and staff ➢ Lobbying to bring legislation in line with international standards including gathering information from other SAIs to bolster arguments ➢ Clear focus in the organisation on integrity to lead by example ➢ Negotiating greater control on recruitment and wages with Public Service Commission

Economic	▪ Weak public financial management inability to produce annual financial statement and to put in place proper controls ▪ Weak human resource capacity in public finance skills in the country – difficult to recruit and retain quality staff ▪ Insufficient and unpredictable budget including high donor dependency ▪ Highly bureaucratic environment and large public sector – difficult to reform ▪ Poor infrastructure	➢ Start with a focus on compliance audit ➢ Develop capacity in key macroeconomic audit areas ➢ Recruit human resources from the private security and diaspora ➢ Major investment in human resources development including professionalization ➢ Produce strong evidence base budget submission ➢ Develop longer term partnership with donors including support for infrastructure ➢ Target performance audit on efficiency issues
Societal	▪ High level of citizens' distrust of the state ▪ Lack of democratic spaces for, and dialogue with, civil society in some cases which make reaching these groups difficult for the SAI ▪ Exclusion and/or under-representation of some groups e.g. women, ethnic minorities	➢ Promote transparency and accountability to citizens of government services and actions – strengthen communication ➢ Engage with citizens' groups to respond to public concerns and conduct performance audits in areas of high public interest ➢ Implement inclusive human resources policies and practices
Environment	▪ Unreliable energy supply ▪ Disasters including pandemics ▪ Poor management of natural resources ▪ High level of pollution	➢ Back-up generators ➢ Business continuity planning ➢ Performance audit targeting management of natural resources ➢ Building capacity on key environment areas
Security	▪ Not able to operate in many parts of the country because of violence ▪ In some cases, especially remote areas, staff receiving threats ▪ Destruction of financial record	➢ Build alliances with local leaders and strengthen engagement with community ➢ Provide security in dangerous areas ➢ Rotate staff regularly and provide psychological support to staff

6. Role of SAIs in fragile situations

SAIs operating in fragile situations can potentially make significant contributions toward state building and more specifically they can take actions in the following three areas:

a. **SAIs are well placed to understand key sources of fragility** in the state and target audit efforts where they can be most effective e.g. management of natural resources, taxation, debt management, budget setting, central bank, procurement, water schemes, infrastructure projects, health and education projects, police and military spending, judiciary, focus on ability to handle economic shocks, business regulations, pro-poor focus.

b. **SAI can be a powerful intermediary between government and citizen**. They can build citizens' confidence in the responsiveness of the state – especially by ensuring that the audits respond to the concerns of citizens, lead to demonstrable changes and are in the public domain.

c. **SAIs can promote a culture of inclusiveness, transparency and accountability** by responding to public concerns, and ensuring these are heard, and by acting as exemplary organisations.

Producing robust audits on time and ensuring that governments, citizens and others are aware of the findings and recommendations is a major contribution to state building. However many SAIs are also initiating specific activities which focus on state building. These include:

- **Developing outward facing Strategic Plans** which analyse the weaknesses of the state and identify the contribution the SAI can make to building resilience;

- **Working with the Ministry of Finance** to build financial skills of the public sector, especially of internal auditors;

- **Providing training and support to parliamentarians and staff,** especially those on public accounts committees and/or other oversight bodies;

- **Communicating the roles and benefits of SAIs to citizens** and other key stakeholders.

> **Points for reflection:**
> **What roles can SAIs play in state building?**
> **Should they be expected to take on such roles?**

7. What can donors do to strengthen SAIs in fragile situations?

As highlighted in the table above, SAIs operating in fragile contexts are taking already a variety of actions to build their capacity and establish national and international alliances in order to contribute to state building and the development of their countries. Many are receiving some international support and are accessing international knowledge and expertise to do this, but all those interviewed express the desire to be able to continue to count on this in the future.

The senior representatives of the SAIs who were interviewed were positive about the support received by international partners and identified key lessons learned and good practices including the importance of:

- **Understanding the issues**, testing potential solutions, building flexibility and the capacity to change when things do not work and setting reasonable expectations;

- **Continue what is currently good capacity building practices** - clear, consistent, coordinated support over the long haul, flexible and modest outcome expectations – small can be beautiful even if it can be costly for donors;

- **Recognising that building technical competence takes longer** – in a context where schooling may have been disrupted, or universities are overly theoretical, the training and development of staff in audit may take longer. For example, before embarking on training for performance auditors, work may be needed to ensure trainees have an understanding of such areas as organisational management, core

research skills, formulating verifiable questions, developing assessment criteria, evidence gathering and testing, and an ability to write clear reports;

- **Providing access to international knowledge and expertise** for SAI staff and helping SAIs use external web-based resources and acquire reading skills in English and/or other key global languages;

- **Placing developing people at the heart of the change process** – human resource development and learning strategy should not be an add on but integrated from the beginning;

- **Responding to the priorities set by the SAIs** and facilitating peer to peer assistance;

- **Supporting SAI leaders to manage change** and take forward reforms – through coaching, exposure to relevant practices, training on change management – including advising on possible recruitment from the diaspora;

- **Providing support for the development of alliance building and networking** – how to understand how state power operates – how to gain support from government, parliament, citizens and business to achieve reforms;

- **Supporting the SAI's out-reach work educating key stakeholders in what they can expect of SAIs** – what SAIs can contribute, why independence important, what should be done with audit recommendations; and

- **Providing capital funding to help put SAI staff in their own buildings** – and not co-located with auditees.

> **Points for reflection:**
> **What is missing?**
> **How can these be delivered?**

8. How donors can build their own capacity to support SAIs

Donors also need to build their capacity to support SAIs in fragile situations. Some of that relates to designing, managing and supporting good capacity building projects but some relates to being able to act as advocates for the SAI and seeking to optimise the impact of donor engagement with the fragile state. Work in this area could include:

- **Building donor's own expertise** – heads of country based development agencies need to understand the role of SAIs and their scope to assist with state building. Governance staff need specific training on SAIs including an appreciation of the intensely political nature of the SAI's role and especially the importance of recruiting the right people to run SAIs;

- **Recognising the complexity of operating in a hyper-politicised environment** and addressing development and political issues at the same time seeking to better understand the possible ramifications of intervention;

- **Seeking to remove or lower barriers to a SAI's progress** often related to the power to recruit their own staff and limited control over resources. Donors may need to act as advocates with Public Service Commissions, Ministries of Finance etc to identify barriers to greater independence and help develop pathways;

- **Promoting peer support between fragile SAIs** – especially on how to operate effectively with non-democratic governments and how to engage with citizens effectively while retaining trust of government;

- **Promoting audit** – internally (so that donor policy specialists engage with SAI audits) and externally (so that government ministries see the SAI is valued); and

- **Encouraging SAIs to put in place robust controls** to reduce their own risk of corruption – internal audit, external audit, integrity assessments, special controls over contracted out audits.

> **Points for reflection:**
> - **Are these roles appropriate for donors?**
> - **What is missing?**
> - **How can these be delivered?**

9. What should be the role of INTOSAI

INTOSAI has a range of strategies in place which directly or indirectly support SAIs in fragile situations. The INTOSAI Capacity Building Committee has established a work stream focusing on *Supporting SAIs in fragile contexts.* The INTOSAI Development Initiative has a range of projects which will be of benefit to SAIs in fragile situations including work on independence, corruption and stakeholder engagement. Areas for further development by INTOSAI might include:

- **Speaking up for SAIs beyond the world of SAIs** – the INTOSAI Secretary General plays a highly visible role in the UN and elsewhere – is there scope for INTOSAI and its regions, to engage more effectively with such partners as donors, regional assemblies, public service commissions, ministries of finance, international citizens organisations, the OECD, the Timor-Este group of fragile states, and a diverse range of UN agencies;

- **Creating a forum of heads of SAIs in fragile situations to share experiences** of operating in fragile situations and state building – generating bite size good practice notes for SAIs in fragile states sharing experiences on key areas identified by the forum – e.g. on how to help build financial skills across government, how to manage a SAI when the SAI's budget is volatile, how to deliver faster audits, how to audit when records have been destroyed, what does following the cash mean in practice;

- **Asking the INTOSAI Professional Standards Committee to examine the scope for providing additional or more detailed practice notes** of relevance to countries with limited skills base – especially guidance on where to start;

- **Developing more learning and development resources** aimed at developing financial, compliance and performance auditing skills for staff without formal accounting qualifications;

- **Working with a small group of parliaments** to better understand the role they can play in using the SAI as part of state building;

- **Developing guidance/training for external experts so they better understand the support needed by SAIs** – especially issues around understanding context and political economy, coaching rather than doing, building human resources, advising senior managers, common problems faced by fragile SAIs – external experts too often learn capacity building at the expense of those SAIs they are assisting; and

- **Building the capacity of the French speaking SAI network** to provide more sustained support to francophone SAIs committed to adoption of ISSAIs.

> **Points for reflection:**
> - **What global and regional fora should INTOSAI engage with?**
> - **Are these areas appropriate for INTOSAI – are there any roles which are missing?**
> - **How can INTOSAI deliver these?**

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[1] David Goldsworthy and Silvia Stefanoni of Development Action conducted xx interviews in 2017 in preparation for the INTOSAI Donor Cooperation annual meeting - Washington 2017 on Supporting SAIs in fragile States
[2] OECD State of fragility 2016
[3] OECD, 2015, ' States of Fragility 2015: Meeting Post -2015 Ambitions', OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264227699-en
[4] Laurence Chandy, Brina Seidel, and Christine Zhang Aid effectiveness in fragile states *How bad is it and how can it improve?* Brooke Shearer Series Number 5 | December 2016
[5] DFID Building Peaceful States and Societies: A DFID Practice Paper 2010
[6] Mcloughlin, C. with I. Idris, 2016, Fragile states: Topic guide, GSDRC, University of Birmingham, UK
[7] Good practice in supporting SAIs in Fragile States, INTOSAI Donor Coordination 2017