**Draft**

**Discussion paper for the INTOSAI CBC Work Stream on Supporting SAIs in Fragile Situations**

**Implementing the ISSAIs in fragile situations**

**Introduction:**

During the work to prepare, the INTOSAI CBC report on *Supporting SAIs in Fragile Situations* some respondents mentioned challenges they were facing in adopting and implementing the ISSAIs. To better understand the nature of these challenges, and to ascertain whether the challenges lay with the ISSAIs themselves, the understanding SAIs had of the ISSAIs or broader developmental challenges, a further series of interviews were held with a sample of SAIs operating in complex situations and with international experts engaged in supporting such SAIs.

Overall, the SAIs and others who have been interviewed do not see major problems with the ISSAIs themselves though there may be a need to make the practice notes easier to use. The problems are much more to do with implementing the ISSAIs in tough institutional environments.

This note discusses some further activities which INTOSAI could take forward which may make it a little easier for SAIs in fragile situations to implement the ISSAIs.

**What are the challenges SAIs are facing in implementing the ISSAIs and what are they doing to address these challenges?**

The issues SAIs in fragile situations are facing in implementing the ISSAIs tend not to be related to the ISSAIs themselves, nor the concept of the ISSAIs as international standards. However, SAIs are finding it difficult to fully implement the ISSAIs because of their own organisational and professional capacity and the external environment in which they operate. Accounting skills are in short supply and SAIs in fragile situations face difficulties in training and retaining enough staff with the requisite skills, knowledge and experience. Many are investing heavily in building such capacity and are highly dependent on the donor community to fund external expertise to help guide the SAIs as they gradually build their capacity.

Externally SAIs in fragile situations are facing many challenges in persuading governments, parliaments and others of the importance of producing credible, reliable, consistent and timely financial statements, having them audited to international standards, and using the results of such audits to improve the management of public finances. Some SAIs are managing these external difficulties by:

* concentrating on compliance audit rather than financial audit – considering that the production of relentlessly negative opinions on financial statements will undermine and demoralise public bodies whereas a focus on compliance with rules and regulations related to specific areas such as recruitment or procurement may contribute more easily to bringing about beneficial change;
* providing encouragement and help to government ministries on how to produce proper sets of accounts, including seconding staff to financial roles in Ministries; and
* producing reports to parliaments which are clear about the reforms needed to public internal financial controls and how these can be introduced.

**Where next:**

INTOSAI has many building blocks in place to help SAIs implement the ISSAIs, including: the standards themselves and the practice notes; the package of training, guidance and support produced by IDI as part of the 3i programme; the development by INTOSAI regions, such as AFROSAI-E, of model audit manuals; and the capacity building support provided by individual SAIs and private sector consultancies, and funded, in most cases, by the international development community. However, this investigation has highlighted more work which could be done to help speed up the implementation of the ISSAIs and better support the efforts of individual SAIs, of those providing advice and support, and of in-country donor staff.

1. **Updates to ISSAI practice notes:**

As the ISSAIs, practice notes and other related guidance documents are updated, this could provide an opportunity to provide clearer guidance on dealing with common problems identified by SAIs in fragile situations and the inclusion of case study examples. For example:

* ***On missing records*** – many SAIs operating in the aftermath of civil unrest or natural disaster face undertaking their audits with poor or incomplete records. Some SAIs affected in this way are using ISSAI 1705/ISA,modifications to the opinion in the independent auditor’s report, which says that if the auditor has not been able to obtain audit evidence due to for example to a fire or natural disaster the auditor should disclaim the opinion if the possible misstatement is pervasive or if not qualify the opinion. However, the accompanying practice note could provide more examples of the alternative sources and methods which could be pursued to obtain assurances including the use of analytical methods and records from 3rd parties.
	+ ***On internal controls*** – in many fragile situations auditee internal controls are likely to be weak or non-existent. ISSAIs, such as ISSAI 1315 and its practice note (see P14), provide a broad indication of the checks which auditors need to consider but provide insufficient detail for inexperienced auditors. Better guidance on what controls an auditor should expect to find in place in such areas as managing cash, paying wages, or approving procurement invoices, might be useful (does this exist?)
	+ ***On fraud and corruption*** - the current INTOSAI guidance lacks focus, covers too much ground, and it is difficult for auditors to know precisely what they should do when they encounter suspicions of fraud and corruption. When the guidance is updated, it should be made much clearer what auditors need to do – with the discursive aspects in an annex or separate publication.
1. **Quality assurance**

In the early stages of implementing ISSAIs, SAIs lack enough internal expertise to quality assure their work. Thought needs to be given to finding affordable, responsive ways to provide such assurance externally. Options for providing it could include:

* twinning with a larger SAI, ideally one which understands the context of the SAI seeking assistance, to provide a quality review service at a distance (via emails and teleconferences); and
* donors establishing a contract with a group of external experts who could be called on to provide quality assurance reviews of individual audits and/or fledgling quality assurance units at a distance.
1. **Case studies on the early stages of ISSAI implementation**

SAIs can often find it difficult knowing where exactly to start with implementing the ISSAIs. Suggestions have been made that such SAIs should begin by identifying a few major risk areas – for example, wage bills, accounting for revenue raised, routine procurements, cash handling – and apply the ISSAI approach on a few substantial areas of government activity. Documenting some of the steps which are being followed in some detail might be a way of helping others identify where and how to begin.

1. **Develop a simple clear guide on good public financial management which could be shared with auditees, parliament and others**

Many SAIs are finding that they need to educate auditees so that they understand what is needed to properly manage public funds. They may understand elements but not the overall picture and how the parts come together to create a strong framework of public accountability. Producing such a simple framework which individual SAIs could easily adapt for their own unique context could save resources. One such guide on public internal financial controls (PIFC) was developed by the EU as part of the widening of EU membership and this could be a starting point. Useful material is also contained in some of the INTOSAI gov publications. The guide could be accompanied by a simplified model set of financial accounts prepared on an IPSAS cash basis to show prospective end users what they could expect.

1. **Produce a simple guide for donors and parliaments on implementing ISSAIs**

SAIs are having to explain to parliaments and some donor agencies the importance of ISSAI implementation. An accessible flier or set of slides could be of assistance for SAIs wishing to explain to 3rd parties the importance of the ISSAIs. This is likely to exist in embryonic form in some of the materials produced by IDI and by AFROSAI-E so may be fairly easy to collate and disseminate.

1. **Develop guidance on planning ISSAI compliant audits and the resource implications**

# Implementing the ISSAIs in a SAI changes the nature of the work being done by auditors – for example by placing a greater focus on planning audits and documenting evidence. Yet few SAIs are recognising this impact early enough and making clear plans for changing the way audits are resourced and the way individual audit staff are allocated to different audit tasks. There is scope to develop a more detailed note for SAI management on how to resource their audits and how to allocate staff. Such a note could utilise the experiences of IDI and the Resource Planning Model for SAIs produced by the UK NAO and available on the INTOSAI CBC website.

1. **Produce a guidance note for those SAIs and individuals providing advice and support on implementing the ISSAIs**

There is a shortage of people and SAIs with a strong background in helping SAIs implement the ISSAIs. To help address this shortage, it would be helpful for INTOSAI to consider development of guidance, and potentially other forms of learning and development, for those who wish to become short-term experts and help build ISSAI capacity in SAIs in fragile situations. At the same time, there is potentially a need to provide more in-depth training and support to those who take on roles as full-time advisers to SAIs. Many will have a wide experience of working in SAIs and or some experience of organisational development, but many are unaware of the growing knowledge of how to introduce the ISSAIs effectively, what kinds of institutional assessments are needed up front and what kinds of sequencing of activities work. Building on the work of IDI, it should be possible to identify core skills, knowledge and attitudes needed to partner SAIs in fragile situations and deliver effect capacity strengthening programmes. The outcome of this work could be a combination of written guidance and workshops/seminars delivered either face to face or via webinars.

1. **Develop a short introduction to ISSAIs for new Heads of SAIs who are not from an audit background**

Heads of SAIs often arrive in post with distinguished careers in politics, public administration and/or business. They are not always familiar with audit and accounting let alone international standards. There may need to be a simplified paper for such leaders to introduce them to the ISSAIs, why they are important, why it takes time to introduce them, the importance of professional judgement, what opposition a SAI may face when adopting the ISSAIs and how to progressively improve practice. In compiling such a document, a series of interviews could be held with Heads of SAIs, who do not have accounting backgrounds, to ground the guidance on their experiences.

1. **Expand donor support at regional levels**

Some regions – in particular the Caribbean and Pacific - rarely obtain sufficient donor support to make a difference at the level of the individual SAI. Instead, support can be more effectively targeted at the regions. Donors could re-examine the scope for funding regional experts to promote and support ISSAI implementation in their regions.

These suggestions emerge from the conversations I have held with experienced SAI leaders and experienced trainers. They are my personal reflections on what are some of the gaps and what might be done to fill some of the gaps at a global level. Many of the suggestions, can be undertaken using, or adapting, existing materials and taken as a whole would add to the current materials which are available. It would be for the Work Stream to consider which it deems most useful and to test out with other key groups – for example IDI and the PSC -which should be taken forward. This paper does not elaborate in detail how individual proposals would be undertaken but if INTOSAI and the Work Stream have such an appetite then more detailed proposals could be developed. For each project taken forward, it would be important to identify key contributors across INTOSAI and agree a process for realising the work.

These tools might help SAIs in their struggle to implement the ISSAIs in difficult situations, but the real work is done by individual SAIs in fragile situations and the slow constant slog to improve the practice of audit often against a backcloth of war, civil unrest, grand and petty corruption, and broken states. There is no template which guarantees success but a need to adapt external practices and experiences to deal with the unique challenges facing each SAI.

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**Development Action**

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