Background
This paper has been written on the initiative of the INTOSAI Capacity Building Committee’s working group in support of Supreme Audit Institutions (SAIs) operating in complex and challenging contexts. Its purpose is to give parliaments, especially parliamentary financial oversight bodies, an overview of the expectations and challenges which SAIs face when implementing international auditing standards for supreme audit institutions (ISSAIs). A separate paper has been produced for those SAIs which have jurisdictional powers.

Introduction
• Supreme Audit Institutions (SAIs) are key partners in helping parliaments hold governments to account for the way they use taxpayers’ money. In challenging and complex contexts, they can play an important role in improving the resilience of the state and society and the way public services are delivered.

• When parliaments, especially financial oversight committees such as finance and budget committees or public accounts committees, consider SAI audit reports while examining the use of public funds, this improves the management of public finances, saves money, reduces waste, strengthens citizens’ trust in democracy, and helps the fight against corruption.

• SAIs across the world are committed to improving the quality of their work and progressively carrying out their audits using international standards.

• Adopting and implementing the ISSAIs can be a major challenge for SAIs, especially those in complex and challenging contexts.

• Support from parliaments is vital in helping SAIs adopt and implement the ISSAIs.

Why are SAIs important
Provide confidence to parliaments, citizens and donors that:
• Government financial statements can be trusted;
• Public money is accounted for properly;
• Taxes are being raised and properly accounted for;
• Robust controls are in place to combat fraud and corruption;
• Public resources are being used economically, efficiently and effectively; and
• Governments are publicly accountable.

This confidence can be provided by:
• Conducting high quality financial, performance and/or compliance audits;
• Delivering public judgments on accountable individuals, civil servants and/or politicians;
• Putting the audit reports into the public domain; and
• Following up and documenting impacts – e.g. money saved, programmes improved, waste
What do SAIs need to be able to do their work?
SAIs should be key players in a country’s overall public financial management systems. To do this they need to be independent and trustworthy organisations able to employ competent, professional staff working to the highest levels of integrity. They need to work cooperatively with parliaments, the public sector organisations they audit, the judiciary as well as citizens, civil society organisations, business and the media.

What are key issues facing SAIs in complex and challenging contexts?
In complex and challenging contexts, the public sector in general, and SAIs in particular, may face many difficult issues, often at once. These may include:

- **Political**
  - lack of full independence
  - distrust of SAI

- **Economic**
  - low and unstable funding
  - poor infrastructure

- **Societal**
  - lack of citizen awareness
  - ethnic, regional divisions, endemic corruption

- **Environmental**
  - power supplies
  - natural disasters

- **Security**
  - no go areas
  - threats to staff
What are the International Standards for Supreme Audit Institutions?

- SAIs are part of an International Organisation called INTOSAI – the International Organisation of Supreme Audit Institutions. This organisation has developed and endorsed the INTOSAI Framework of Professional Pronouncements - IFPP to guide what is expected of SAIs. The principles, standards and guidance cover not only auditing but organisational issues such as independence, ethical requirements, and transparency issues.

- There are three main groups of ISSAIs covering the three main types of audits carried out by SAIs – financial, performance and compliance audits.
  - The financial audit standards incorporate the international standards adopted by the private sector, with additional explanations related to the unique characteristics of the public sector. They use a comprehensive risk-based approach to financial audit resulting in the preparation of an auditor’s opinion.
  - The performance and compliance audit standards have been developed and endorsed independently by the community of INTOSAI members, as these forms of public audit are unique to the public-sector.
• Further information on the different forms of activities are in Annex A.

• However, it is up to each SAI to decide whether it wishes to, and can legally, adopt these standards – they are not mandatory.

• To support the SAIs, the Capacity Building Committee has developed a guide on Implementing the ISSAIs with special focus on the strategic considerations preceding the first steps towards implementation. In addition, the INTOSAI development initiative (IDI) has developed two main tools which can be used to help assess the extent to which a SAI is compliant with the ISSAIs:
  • the SAI Performance Measurement Framework (SAI PMF) (link);
  • the ISSAI Compliance Assessment Tools (iCATs) (link);
  • the ISSAI 140 Gap analysis tool (link).

Why are SAIs adopting the ISSAIs and what does implementation mean for a SAI?

CREDIBILITY - provide assurance to parliaments, governments, and citizens that what the SAI is doing is in line with international best practices

CONSISTENCY - to achieve comparable quality in the work conducted by different audit teams, leading to the production of more reliable information for auditees and stakeholders.

EFFICIENCY - audits can be targeted at major risk areas, focusing audit resources where they are best needed.

When a SAI has decided to implement the ISSAIs, the road to compliance is greatly dependent on its context. What are the main risks and challenges facing the public sector in general in the country? What is the legal framework governing the SAI? Which government entities, public sector processes and policy areas can be audited? How can the audit activities be carried out and reported? Which control systems are working and which kind of audits are relevant in this environment?

To become compliant with the ISSAIs, a major change programme is often needed, involving such matters as:

• Rigorous gap assessments to show how far current audit practices are from being compliant with the ISSAIs. The assessment should also consider whether changes need to be made to the laws governing the SAI to enhance its independence, to enable it to incorporate and report freely and promptly in line with the ISSAIs, and to be able to follow up and report on implementation of recommendations;

• Development of a detailed implementation plan with realistic costs and timelines, including a strategy for managing the changes while continuing to ensure the delivery of the mandated audit programme;
• Translation of the ISSAIs into national languages – the ISSAIs are in the five official INTOSAI languages and are being progressively translated into other languages by individual SAIs (see the issai.org website);

• Production of new audit manuals – can usually initially be borrowed but then will need to be adapted to the SAI’s mandate and context;

• Development of new skills – focus on risks, understanding financial statements, improved documentation, knowledge of laws and legal processes, understanding root causes of weaknesses, guidance on internal controls, capacity to interact with stakeholders;

• Changes to internal SAI systems – stronger human resource management, strengthened quality control process, greater focus on efficiency of audits, more engagement from managers, creation of specialist performance audit teams;

• New resource allocation and planning arrangements – more planning time in comparison with field work;

• New communications strategies – so staff, auditees, parliamentarians, and others understand the need for the changes and resistance to change is confronted; and

• Strengthening of internal and external quality assurance – a SAI must be able to prove it is applying the ISSAIs not just claim it.

It is worth keeping in mind that in complex and challenging contexts it may take longer to implement the ISSAIs than elsewhere. Progress may not be linear – perseverance and small victories may be key and need to be celebrated. Audit is a cyclical process so it can take many years before staff can apply the ISSAIs consistently. It is also important to recognise that the ISSAIs themselves are subject to periodic revisions so SAIs will need to have in place systems for ensuring regular updates of staff.

What does this mean for parliaments?

• Audit reports will be better structured and easier to understand.

• Audit reports will focus on key issues leaving minor details to be fixed in subsequent audits.

• Audits will be more efficient saving time carrying out unnecessary checks in the field.

• It will be easier to see what the auditees need to do differently – what controls to strengthen, what waste to curb.

• Clearer recommendations will make it easier to follow up to check previous recommendations have been implemented and to report to parliament on progress. This can help parliaments effectively monitor implementation of recommendations of audits.

• It will be easier to trust the audit reports as they will have been prepared using well tested internationally acceptable approaches.
Parliaments, especially financial oversight committees, can more clearly demonstrate to citizens that they are holding governments and their administrations to account.

Parliaments will need clear and transparent procedures for receiving, reviewing and responding to SAI audit reports.

Where the SAIs do not report directly parliaments, then the parliaments can still review the new audit reports and encourage implementation of recommendations.

**What can parliaments do to help the SAI?**

- Strengthen the legal framework ensuring the SAI’s independence and ensure that the SAI has the authority to conduct all its activities using the international standards.
- Consider SAI audit reports promptly so that there are no delays in exercising oversight.
- Follow up SAI audit reports to ensure that recommendations are implemented, and impacts achieved.
- Resource SAIs appropriately and ensure that they have the independence and capacity to recruit and retain professionally qualified staff.
- Help the SAI access external help and advice which may include capital and security support as well as conventional capacity development.
- Encourage the SAI to lead by example, including through the production of clear annual reports demonstrating that the SAI is using its resources effectively and efficiently, and through being subjected to annual external independent audits.
- Encourage the SAI to undergo periodic, independent reviews to assess progress in applying the ISSAIs.
- Be patient – achieving change in complex and challenging contexts can take many years before substantial impacts are evident.

**What can parliaments do with others to help the SAI?**

- Make sure members of parliament and their staff, especially those serving on financial oversight committees, understand the ISSAIs.
- Make sure that parliamentarians and their staff understand that audit findings and recommendations are useful input to improving the services provided to citizens.
- Ensure that all new parliamentarians and their staff, especially new members of financial oversight committees, receive training on the role and proceedings of the SAI.
- Ensure that the parliament has clear and transparent procedures for receiving and reacting to SAI reports.
- Encourage Ministries of Finance or Accountant Generals in their efforts to strengthen public financial management across government including ensuring that government bodies can produce proper, timely annual accounts.
• Produce press releases and conduct press conferences to promote the work of the SAI, its findings, and recommendations.

• Conduct workshops with key national stakeholders – the media, civil society organisations and business – so they better appreciate the importance of the SAI.

• Support the development of training in accountancy and audit, and the professionalisation of the accountancy profession. This is important for strengthening the SAI but also the broader public sector.

• Encourage international development organisations to rely on the work of the SAI and avoid unnecessary duplication of audits.

• Encourage the consolidation of public external auditing arrangements, promoting the most independent institution in case of duplication of external audit responsibilities and reducing duplication if possible.

Where can I find more information?

• www.issai.org – the INTOSAI Professional Standards Committee (PSC) leads the efforts within INTOSAI to provide to the Supreme Audit Institutions (SAIs) relevant, professional and clear standards and guidance that add credibility to the work of the individual auditor and the resulting audit reports.

• www.intosaicbc.org – contains useful materials on SAI capacity development and a specialist section on auditing in complex and challenging contexts, including access to webinar recordings and short stories with relevant examples from SAIs.

• www.idi.no – offers a wide range of support as SAIs start to implement the ISSAIs including through initial assessments, e-training courses, training and guidance materials.
The audit processes of a Supreme Audit Institution

The core business of a SAI is auditing. The three audit types; performance audit, financial audit and compliance audit all follow the main basic cycle; starting with planning, moving on to conducting and then reporting. Follow-up is outside the audit cycle but still part of the SAI’s core business. The SAI may have a mandated obligation to perform all audit types but can often choose what audit type should be used.

A financial audit will focus on whether the financial statements of the audited entities are true and fair, and in line with the accounting framework of the country.

A compliance audit will consider whether the audited entity or entities have followed the laws or regulations chosen as subject matter for the audit.

A performance audit focuses mainly on performance. It will cover at least one of the three E’s, economy, efficiency and/or effectiveness, and may also include compliance, to some extent.

Financial audit

Financial audit is conducted in four main phases: prerequisites; planning; conducting; and reporting.

The first phase – prerequisites – is where the team establishes whether there are conditions to perform a financial audit. As an example, if the entity does not produce a financial statement, or there is no financial reporting framework, it may not be possible to conduct a financial audit.

The second phase - planning the audit - is the most central part of a financial audit, because this is where the focus of the audit and what audit work to perform is determined. The planning is documented in an audit plan, describing the risks and the audit measures to perform to capture those risks.

The third phase - conducting the audit - is where the actual audit work is done, based on the audit plan. The conducting phase includes (statistical or judgmental) sampling, collecting audit evidence, concluding on the audit work performed and evaluating findings. The final step is to evaluate if the audit evidence collected is sufficient to support the conclusion on the financial statements.

The fourth phase - reporting – is where the conclusion of the audit is made. The auditor’s report should only include findings with an effect on the opinion, other findings should be left out in order to give a clear message to the users.
**Compliance audit**

Compliance audit is performed in four steps: preparation; planning; conducting; and reporting. Some steps are like financial audit while others are closer to performance audit. One important decision is to decide, from the start, on how the audit will be reported. This is usually indicated in the SAI’s mandate.

When conducting the audit, the auditor gathers audit evidence to corroborate the conclusion on whether the auditee has complied with the relevant audit criteria. Before concluding on the audit, the auditor must evaluate the audit evidence to determine if they are sufficient, and appropriate.

Reporting is the final phase of the audit. Depending on the SAI’s mandate and the initial decision on how to report on the audit, the format and content of the report will vary.

**Performance audit**

Most SAIs decide independently what performance audits to conduct, as well as when and how to carry them out. Performance audit follows the four general main steps of planning, conducting, reporting and follow-up. Performance audits are oriented mainly towards problems, systems, or results. The audit is presented in a performance audit report that should be comprehensive, convincing, timely, reader friendly, fair, and balanced.