INTOSAI
CAPACITY BUILDING COMMITTEE

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Issues paper – CBC webinar on SAIs auditing donor funds (6-7 October 2020)

The aim of the webinar

Through this webinar, the INTOSAI Capacity Building Committee would like to facilitate a discussion which will help all parties identify issues, dilemmas as well as good practices, opportunities and conditions for success for a sustainable role for Supreme Audit Institutions (SAIs) in auditing donor funds. We hope the outcomes of the webinar can help us learn from experiences and contribute to a mutually beneficial engagement between SAIs and donors on the audit of donor funds, in both the short and long term. We aim to start answering questions like,

- What can individual SAIs do to benefit from potential opportunities and avoid potential risks involved in taking on the audit of donor funds?
- What can donors do to both support SAIs and benefit from their audits?
- What can INTOSAI do to support SAIs in their engagement with donors?
- What can regional organizations do to support their members?

Background

The international development community has agreed on principles for aid- and development effectiveness, in an effort to enhance the impact of international development cooperation. A central component of the principles is the 'use of country systems' as defined in the *Paris Declaration on Aid Effectiveness, Accra Agenda for Action*[1] and the *Busan Partnership for Effective Development Cooperation*[2] and further explained by the OECD in a policy brief[3]. The basic premise is that international development partners should use and support existing institutions, systems and processes in the country, and not build parallel systems to manage, implement or follow up the use of donor funds.

If country systems are fully used in relation to Supreme Audit Institutions (SAI), it means that the SAI has the full mandate to audit any donor funds or projects which are on budget, i.e. channelled through the national treasury. It also means that the SAI decides what and how to audit, based on their own assessment of risk and materiality, and that donors benefit from the publicly available audit reports, much like the government does.

[1] https://www.oecd.org/dac/effectiveness/34428351.pdf
[2] https://www.oecd.org/dac/effectiveness/49650173.pdf
[3] https://www.oecd.org/dac/effectiveness/48780917.pdf

The full use of country systems would appear to have many benefits, and yet much of donor funding remains off-budget and in the form of separate funds and projects. In recent years, there has been an increasing interest among donors to engage SAIs in the audit of these funds and projects as an additional, separate activity to the SAI's mandated scope of audits[4]. This is what is considered "supplemental use of country systems". Agreements between donors and SAIs vary greatly, some are made between donors and the government without the SAI's involvement and others are made directly with the SAI. Some, but not all, include some form of payment directly to the SAI or through the treasury, and some include an agreement on training or other forms of capacity development for the SAI. Some are long-term agreements, integrated into the SAI's planning processes, and others are short-term assignments with little advance notice.

Full vs. supplemental use of country systems

The concept of "use of country systems" is well known among donors as it has been a central pillar of all high level forums on aid effectiveness since 2003 when the *Rome Declaration on Harmonisation* identified harmonization of donor policies, procedures and practices with the partner country systems as one important aspect of improving the effectiveness of development assistance.[5] The concept was further developed in the *Paris Declaration on Aid Effectiveness* (2005)*, the Accra Agenda for Action* (2008) and *the Busan Partnership for Effective Development Cooperation* (2011) and is well defined in the Paris Declaration:

"Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament." (p. 6)

The Paris Declaration and subsequent agreements all include commitments by both donors and partner countries on how to manage donors' use of country systems in a responsible way, including partner countries using diagnostic reviews to ensure the country systems are reliable and effective, and donors establishing safeguards to strengthen rather than undermine country systems, where they cannot fully rely on the country system. The importance of the partner country taking the lead in the development of such systems is underlined, as is the importance of donor support for reforms.

In Busan, donors also agreed on a practitioners' guide on using country PFM Systems.[6] In this guide, the concept of "supplemental use of country systems" is developed. In relation to audit, "supplemental use of country audit systems occurs when donors use the country SAI, but require specific audits of donor programs, usually in terms of donor-specified terms of reference." (p.8)

[4] Previously these projects and funds would have been audited by the private sector or the internal and external auditors of the donor. This is still the case for many donor funds.
[5] https://www.oecd.org/dac/effectiveness/31451637.pdf
[6] https://www.oecd.org/dac/effectiveness/49066168.pdf

Some issues to consider

Potential benefits

Some of the arguments used to support the use of country systems, include the following:

- At the core of the use of country system is the intention to develop the system by using it.
- It is a cost-effective approach which increases country ownership and avoids doubling up on audits by donors and the SAI.
- The SAI possesses local knowledge of the broader public sector context and can take a 'whole of government' perspective in the audit, in line with the interrelated Sustainable Development Goals. This adds both quality and efficiency to the audits, as opposed to audits carried out by SAIs as stand-alone activities or by international audit firms.
- As SAIs (unlike private sector auditors engaged by donors) report to parliament, their audit reports become integrated into the national processes and thus promote transparency and accountability.
- SAIs generally engage in close follow-up of audit findings and recommendations, which benefits both donors and the partner country.

Where SAIs are engaged by donors in separate, additional audit assignments, there may be an opportunity for SAIs to negotiate the terms and conditions of the audit assignment to include some level of cost-recovery for the additional audit work, capacity development programmes funded by the donor, and being able to work closely with private sector firms under the SAI's supervision.

Potential risks and challenges

Potential risks for the SAI of the full use of country systems are increased budget and expenditure to be audited without additional resources.

For donors the perceived disadvantages are not being able to address specific questions in the audit, a lack of alignment of the national audit reports and accountability calendars with their own accountability requirements.

Some of the risks involved in SAIs being engaged by donors in separate, additional audit assignments, include:

- Undermining SAI independence – If donors directly, or via agreements with the government, place conditions on SAIs regarding the audit of donor funds and programs, the SAIs' right to decide what and how to audit is undermined.
- Causing a resource drain – Only a SAI that is sufficiently well-resourced, financially and professionally, can take on additional duties without compromising the quality of its core responsibilities or the delivery against its mandate.
- Causing a brain drain – When the audit work is paid for by an external party (the donor) the SAI is likely to put their best auditors to work to deliver

against that contract, thus leaving fewer and possibly less qualified auditors to live up to the SAI's national mandate to the benefit of citizens in their country. Even if there is funding that would allow additional recruitments the SAI may not have the right to recruit its own staff, and qualified staff may not be available in the short term.