



Achieving Audit Independence in the Pacific (Part 1)

This blog is the first in a series of two blogs to provide public auditors with an introduction to the concept of audit independence. It also contains information about how to measure audit independence – including the four dimensions of ‘Audit Independence’ within the INTOSAI Supreme Audit Institution ‘Performance Measurement Framework (SAI PMF)’ and the Public Expenditure and Financial Accountability (PEFA) tool used to examine the external audit function of a public financial management system of a country.

PASAI Secretariat’s work on audit independence is funded by the ‘Strengthening of Public Finance Management and Governance in the Pacific Project’ (PFM). This project aims to strengthen oversight over public financial management in the Pacific region, through improving the budgetary scrutiny, public financial oversight and accountability capacities of parliaments, supreme audit institutions and civil society within the region, aligning with international public financial oversight and accountability standards, and fostering citizen engagement and oversight. This project is funded by the European Union (EU) and implemented by the United Nations Development Programme (UNDP) in partnership PASAI.

Introduction

Audit independence is crucial to ensure the SAIs (also known as Offices of the Auditor-General or Public Auditors) and their work is credible trusted. As countries and economies move towards improved and increasingly sophisticated systems of Public Financial Management (PFM), driven by the latest technologies, the crucial role of the Auditor-General in providing independent audits, and peer reviews to substantiate audit quality, must receive equal focus.

Without proper audit independence, questions remain about whether the Auditor-General accomplished their tasks objectively and effectively? Does their office and its work add value? Does the public have trust in their work? Audit independence is fundamentally important to government efforts to promote accountability and transparency in the management of public resources. Therefore it is vital that governments of the Pacific move towards amending and passing legislation to make the SAIs and offices of Auditors-General and Public Auditors truly independent.

Defining Independence

Independence is defined as **“free from outside control; not subject to another's authority and is not depending on another for livelihood or subsistence”**. An auditor must maintain independence from the audit client to uphold the objectivity and integrity of the audit process. Auditor independence is the cornerstone of the auditing profession and it is the foundation of the public's trust in the accounting and auditing profession.

At the country level, the independence of the Auditor-General is fundamentally important in its role as an agent auditing the government. It is the basis of the public’s trust in its work to ensure accountability and transparency. The work of the Auditor-General should give Parliament and the public ‘independent assurance’ that public entities are operating and giving an account of their operations and performances.



United Nation Resolution A/66/209 of 2011 states "**Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions**". This resolution highlights the **importance of SAI independence**. This resolution states explicitly that SAIs "can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence".

How is Audit Independence measured?

This section outlines the two tools to measure audit independence.

1. **The SAI Performance Measurement Framework (PMF) tool** has been developed by INTOSAI to define and assess SAI independence against the following criteria or dimension in the **SAI PMF (Performance Measurement Framework) tool**¹:

- i. **Dimension 1: Appropriate & Effective Constitution Framework:** The establishment of the SAI and its independence should be laid down in the country's Constitution, including provisions guaranteeing the SAI a high degree of initiative and autonomy. The appointment of the SAI Head position, the term of office and independence of decision making should be guaranteed in the Constitution along with adequate legal protection against interference with SAI independence.
- ii. **Dimension 2: Financial Independence/Autonomy:** SAIs should have available, necessary and reasonable resources, and should be allowed to manage their own budgets without interference or control from the Executive. Financial independence should encompass the whole budget process, meaning that the Executive should not unduly interfere with the SAI's budget proposal, and after the budget has been adopted by the Legislature, it should not control the funding allocated, for example by hindering the disbursement of resources. This indicates that the Auditor General should have the authority to submit its budget directly to Parliament without any interference from the government of the day.
- iii. **Dimension 3: Organisational Independence:** In order for the SAI Head and officials to fulfil their mandate effectively should enjoy autonomy in the organization and management of their offices. This means they should be able to manage their organizations and organize and plan their activities without interference from executive bodies. Importantly this must include the full authority to manage all aspects their own human resources.
- iv. **Dimension 4: Independence of the Head of SAI & its Officials:** The conditions for appointment of the Head of the SAI should be specified in legislation. The term "Head of SAI" refers to those who are responsible for the SAI's decision-making and are answerable for these decisions to third parties. Their independence can only be ensured if they are given appointments with sufficiently long and fixed terms and if appointments and cessation of functions happens through a process that ensures their independence. This allows them to carry out their mandate without fear of retaliation. Any re-appointment where this is applicable and in accordance with the law, should take place in the same independent and transparent manner.

¹ SAI PMF tool is an INTOSAI framework developed to support SAIs to evaluate their performance. The framework is based on the objectives set out in the International Auditing Standard - ISSAI 12 which sets out how SAIs strengthen the accountability, transparency and integrity of government and public sector entities, showing relevance to citizens, Parliament and stakeholders.



Independence of the Head of SAI and its officials means their appointment should not be subject to the government in power. Regardless of any sophisticated provisions in the legislation to state that the work of the SAI is independent, if the SAI Head and officials are appointed like all the other public servants (that is through Cabinet or any public entity under the control of the Prime Minister and Cabinet) the SAI is not fully independent..

2. The Public Expenditure and Financial Accountability (PEFA)² program provides a framework based on Standards and good practices, for assessing and reporting on the strengths and weaknesses of PFM. Pillar 7 of the PEFA tool examines the external audit function of a public financial management system of a country. It examines and assesses the areas of audit coverage & standards, submission of audit reports to Parliament, external audit follow-up and SAI independence. With a SAI independence indicator, they allocate an overall score based on the following dimensions:

| Score | Minimum Requirement for Scores |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A | The SAI operates independently from the Executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI’s budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information. |
| B | The SAI operates independently from the Executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, and the approval and execution of the SAI’s budget. The SAI has unrestricted and timely access to records, documentation and information for most audited entities. |
| C | The SAI operates independently from the Executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI’s budget. The SAI has unrestricted and timely access to the majority of the requested records, documentation and information. |
| D | Performance is less than required for a C score. |

Overall, audit independence under the PEFA tool focuses on the independence of the appointment and removal of the SAI head and officials, having the independence to plan and complete audits, have independent access to financial resources to deliver its mandate as well as having unrestricted access to information. The ability to publishing audit reports without fear or influence from the Executive government is also considered crucial.

What’s next?

Our next blog looks at SAI PMF results for audit independence in the Pacific region and shows a clear picture of the current state of audit independence in the Pacific. Strategies to strengthen and achieve SAI independence are discussed. The PASAI Secretariat’s initiatives to support SAIs in the region to achieve audit independence are also outlined.

We welcome your feedback and look forward to hearing about other priority topic areas of interest to you. Please email: secretariat@pasai.org

The Pacific Association of Supreme Audit Institutions (PASAI) is the official association of supreme audit institutions (SAIs) in the Pacific region, and a regional organisation of INTOSAI and promotes

²PEFA Tool, <https://www.pefa.org/resources/pefa-2016-framework>



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transparent, accountable, effective and efficient use of public sector resources in the Pacific. It contributes to that goal by helping its member SAIs improve the quality of public sector auditing in the Pacific to recognised high standards. Due to the global coronavirus pandemic (COVID19), this has restricted PASAI's delivery of our programs to our Pacific members and in lieu of this PASAI will be providing a series of blogs on various topics that may help auditors think about some implications to service delivery as a result of COVID19.

For more information about PASAI refer www.pasai.org
