



# Auditing donor funds: study findings and draft good practices

## **Introduction**

### **Aid effectiveness, use of country systems and SAIs**

For the past two decades, enhancing aid effectiveness has been a priority for donors, following the Paris Declaration and the Accra Agenda. Central to aid effectiveness is the use of country systems which refers donors relying on national structures and processes for public financial management (PFM), including accounting and auditing. The rationale behind these principles is that by using country systems and respecting the partner country's ownership of their own development, aid provided will be more effective. This approach strengthens national ownership, aligns aid with local priorities, and enhances the sustainability of development efforts.

However, the definition of country systems remains relatively broad<sup>1</sup>, and there is significant variation in how donors implement their efforts to increase the use of country systems.<sup>2</sup> Donors can use country systems to a greater or lesser degree: they can use some or all of the PFM components for any, or all of the aid modalities they use. They can also use each component fully or supplementary. In terms of audits, a "supplemental use" occurs when donors use the country Supreme Audit Institution (SAI), but require specific audits of donor projects, usually based on donor-specified terms of reference. Such additional audits may be carried out by SAI's staff, or by a private firm approved and quality-assured by the SAI. "Full use" occurs when donors are satisfied with the audit coverage, approach, and frameworks of the SAI and do not require any additional, duplicative audits.<sup>3</sup>

Motivated by this approach, an increasing number of donors engage SAIs to audit donor funded projects. This implies great opportunities in terms of development effectiveness and country ownership. Auditing donor funds enable SAIs to ensure that the donor funds their government receive are used for the intended purpose and to the benefit of the public. Unlike private sector auditors, SAIs have access to the broader public sector, including the government's financial statements, and a deep understanding of their country context, which adds both quality and efficiency.

However, for development to be sustainable and country-owned, country systems must be used responsibly, and supplemental use of country systems presents significant risks. Donors frequently impose conditions influencing key aspects of the audits such as scope, methodology, and reporting processes. This can create substantial risks, potentially undermining SAIs in fulfilling their mandate as independent external auditors. Central to a SAI's independence, and thus the integrity and credibility of its work, is their right to choose what to audit, based on an

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<sup>1</sup> According to the Paris Declaration "country systems and procedures typically include, but are not restricted to, national arrangements and procedures for PFM, accounting, auditing, procurement, results frameworks and monitoring". OECD/DAC, Paris Declaration, p. 4

<sup>2</sup> Piatti-Funfkirchen, Moritz; Hashim, Ali; Alkenbrack, Sarah; Gurazada, Srinivas. 2021. Following the Government Playbook? Channelling Development Assistance for Health through Country Systems. © World Bank, Washington, DC. page 8.

<sup>3</sup> Using Country Public Financial Management Systems – A Practitioner's Guide, 4th High Level Forum on Aid Effectiveness, 29 Nov-1 Dec 2011, Busan, Korea, page 13.

objective assessment of risk and materiality, rather than on priorities by donors and other national or international stakeholders.

As donors share their success and encourage others to use SAIs in the audit of their programs, the negative long-term effects of this practice are likely to increase. SAIs are central institutions to ensure democratic development, transparency and accountability in society. It is therefore important to raise awareness of the possible challenges related to the use of SAIs in the audit of donor funds and how to address them in a responsible way.

## **Purpose and methods**

This study has been prepared by the CBC workstream on the audit of donor funds with the purpose of providing a clearer understanding of SAIs' practices in auditing donor funded projects and programs. It also aims to identify the most frequent challenges and advantages associated with SAIs' audits of donor funds.

## **Good practices**

This study also seeks to establish a foundation for developing good practices intended for use by SAIs and donors as a means of supporting informed decision-making in the audit of donor funds. The study concludes with a set of proposed good practices on which feedback is sought from SAIs to ensure that they accurately reflect practical realities and are both relevant and applicable.

## **Methods**

The study is based on an online qualitative survey sent to SAIs in countries receiving Official Development Assistance (ODA). The survey consisted of 10 questions, including general inquiries about auditing donor funds and open-ended questions addressing the advantages and challenges of auditing donor funds (see Annex A). 31 SAIs responded to this survey. It is also based on follow-up interviews with representatives of 8 SAIs.

Each advantage and challenge is supported by quotes from the survey and/or interviews to ensure the study accurately reflects the experiences of the SAIs. Some quotes have been slightly edited to prevent the identification of the specific SAI that provided the response.

## **Limitations**

This study includes 31 SAIs across diverse countries and governance contexts, each with different roles within their respective systems. The scope is restricted to the audit aspect of the use of country systems approach. As a result, the findings are not fully generalizable to the auditing practices of donor funds in every ODA-recipient country. However, the responses from different SAIs reveal recurring themes regarding the practices as well as the advantages and challenges they face when auditing donor funds.

## **Overview of legal mandates, practices and key donors**

All responding SAIs stated that they are legally mandated to audit donor funds with certain variations according to local jurisdictions. In most cases, donor funds audited by the SAI are channelled through the government, thereby falling within the legal mandate of a SAI.

The number of audits of donor funds conducted annually by each responding SAI varies significantly, ranging from 240 audits to as few as one. All 31 SAIs participating in the survey reported conducting financial audits of donor funded projects, while 68 percent have conducted compliance audits, and 58 percent have conducted performance audits of such projects.

The auditees comprise a wide range of multi- and bilateral donors. The most frequent are World Bank, followed by USAID, African Development Bank (AfDB), International Fund for Agricultural Development (IFAD) and the European Union (EU).

## **Advantages of auditing donor funds**

### **Requirement of the law/constitution**

When asked about the advantages of auditing donor funds, the majority of SAIs primarily referred to their mandate to audit public funds. Donor funds that are disbursed through the government will fall within the mandate of the SAI.

“SAI is legally mandated to audit all funds disbursed in the state's name. The motivation is therefore to carry out our mandate and assure our donor that the funds are used for their intended purpose”.

### **Improved public financial management and aid effectiveness**

Improved public financial management, enhanced accountability, and greater transparency are commonly cited by the responding SAIs as key advantages of auditing donor funds. Many SAIs noted that auditing donor funds enables them to cover a larger part of the state's budget while providing improved oversight of public finances. Additionally, several SAIs highlighted their broader mandate compared to international audit firms, allowing them to gain a more comprehensive understanding of their countries' financial systems. This broader scope also enables them to address issues such as duplication of funding activities more effectively.

Another common category of responses was related to the Sustainable Development Goals (SDGs) and improved aid effectiveness. Considering the significant inflow of funds from various donors to the countries concerned, many of the SAIs responding to the survey view the audits of these funds as a critical opportunity to contribute to improving the lives of their countries' citizens. SAIs provide assurance to the public that the funds received are being used effectively and for their intended purposes. In this way, the SAI also contributes to promoting accountability and transparency in the management of donor funds, extending its impact beyond audits of government funds.

Another advantage highlighted was related to public awareness and that (unlike the private sector) the information found in the audits of donor funded projects are, with some exceptions, reported publicly, for example they may form part of the Auditor General's report to parliament. The SAI serves as a “mouthpiece” through the Auditor General's report to provide the government with advice on areas needing attention.

“By auditing both government-funded and donor-funded components of programs and projects, SAI gets the advantage of capturing a complete picture on project financials, compliance, and performance. This enhances the understanding of SAI regarding all aspects of financing related to development projects and enables SAI to contribute better to the effective functioning of donor-funded initiatives.”

“SAI mandate is broad to include public sector scrutiny, something missing in private audit firms”

“(…) through the audit of these projects, we give assurance to the public that the funds received are used for the intended purpose and the effectiveness and efficiency of the project implementation unit/government entity responsible to carry out the project.”

“Donor projects achievements are keenly taken by Parliament through our AGs reports”

### **Increased trust, reputation and recognition**

Some SAIs also highlighted, that auditing donor funds, increases trust in the SAI from the government, parliament, and citizens of their respective countries. Donors’ confidence in the quality of the SAI’s work and its ability to ensure the responsible use of funds validates the SAI’s legitimacy and enhances good reputation. This trust strengthens the SAI’s credibility and reinforces its position as a key institution for accountability and transparency.

“Some of the audits (...), were requested by the donors themselves and others by the beneficiary ministries, that is perceived as reliability and trustworthiness of the SAI in the eyes of the stakeholders.”

“It also reassures donors of the responsible use of their contributions, potentially encouraging continued or increased funding, and bolstering international reputation, which can attract more global partnerships and aid.”

### **Capacity building, learning opportunities and financial support**

Some SAIs receive different types of support from donors when auditing donor funded projects. This was also cited as an advantage among respondents. The support can include training, access to specific technical expertise, financial assistance, or provision of equipment. For example, training might focus on areas related to the subject matter of donor projects, such as extractive industries, infrastructure, or healthcare, as well as on donor specific processes and financial systems.

Additionally, SAIs noted that auditing donor funded projects offers valuable learning and capacity building opportunities for their staff, through on-the-job training, for example exposure to new financing systems.

A few SAIs cited that the fact that they receive payment for carrying out audits of donor funded project as an advantage and motivator. However, the financial arrangements for conducting these audits vary significantly among the surveyed and interviewed SAIs. While some SAIs receive fees for their services, others receive no payment at all, and some are reimbursed only for expenses incurred during field visits. In situations where the full cost of the audit is covered, the payment often comes from the government as part of its contractual agreement with the donor.

“(…) while auditing donor funds its mutually beneficial for both sides. The SAI can receive different types of support from that donor (financial, technical, expertise etc.)”

“The opportunity in auditing donor funds is the availability of funding to carry out the audit and secondly SAI uses the audit to build capacity of staff”.

“(…) there is no monetary return. But there is a return in terms of other things like capacity building and process improvement.”

## **Challenges of auditing donor funds**

### **Exclusion from agreements and limited ownership**

Several SAIs refer to limited influence over the audit process and exclusion from audit agreements as challenges they face when they audit donor funds. Interviews suggest that donors rarely request audits directly from the SAI. The decision to engage the SAI in an audit is typically initiated by the donor and government. When donors seek to appoint the SAI as auditor of their funds, this is usually formalized in the project agreement between the donor and the responsible ministry. Furthermore, many SAIs first become aware of the audit requirement when the responsible ministry formally requests their involvement.

These types of exclusions from agreements, negotiations and at the planning stages of the donor project have an impact on the SAI's ability to negotiate the terms and conditions of the audit as well as planning and staffing their audit teams. In the survey and interviews, many SAIs emphasized the need for improved coordination among donors and government. SAIs tend to become third parties in these agreements, and many stressed the importance of involving the SAI at an earlier stage of the project agreement.

“Donor agreements are signed by government excluding the SAI's involvement to incorporate it in the annual audit plans”.

“There are forums where the donor demand that the project team meet and want the government to come as an overseer, but the Auditor General is missing. This ends up just going for the financial output, forgetting the bigger picture of what the donor wants to achieve because we have been missing in the stakeholder engagement. Because we are not there, we are third parties. The value that we need for the citizens according to our SAI benefit is not there”

### **Time constraints, limited resources, and capacity challenges**

Most of the responding SAIs stated that donors' timelines and deadlines lead to significant challenges. The timelines for completing the audits many times overlap with national audit cycle deadlines. This places a significant strain on the SAI and its staff to the extent that, in some instances, resources are diverted from auditing the government budget to focus on donor funded projects. The fact that the burden placed by donors potentially can compromise the SAI's capacity to meet national deadlines and carry out its responsibilities effectively is concerning.

This challenge is further exacerbated by ongoing resource constraints. The majority of the SAIs in the survey report that limitations in terms of human and financial resource constraints are major challenges related to audit of donor funds. Only a SAI that is sufficiently resourced, financially and professionally, can take on additional duties without compromising the quality of its core responsibilities or the delivery against its mandate.

Some SAIs view auditing donor funds as an opportunity for capacity development. However, much training is narrowly focused on specific donor processes or the subject matter of the

audited project, rather than comprehensive institutional growth. This is a concern, particularly since many SAIs already face resource constraints before taking on the additional responsibility of auditing donor funds. Rather than piecemeal training on isolated topics or donor-specific procedures there is a need for strengthening the overall capabilities of SAIs and for building sustainable capacity. This would enable them to effectively fulfil their mandate while maintaining independence.

The survey did not specifically examine whether donors pay SAIs for auditing their funds, but individual interviews provided some insight. Payment arrangements vary widely, making it difficult to determine how common financial compensation is. Given the resource strain donors may place on SAIs, financial incentives for auditing donor funds range from beneficial to potentially detrimental for SAIs.

When asked in interviews whether they ever declined a request to audit donor funds, only one SAI reported having done so. While many SAIs theoretically have the authority to decline such requests, this appears to be rare. This is despite several challenges, such as staff and resource constraints, as well as donor deadlines often conflicting with national reporting timelines. To address these challenges, some SAIs outsource audits to private firms while retaining responsibility for quality assurance of the final output.

“The challenges for auditing donor funds are the timing of such audits is usually not aligned to our annual plans and puts pressure on the office”.

“The SAI is challenged by limitation of resources (both human and material/financial) and the resource sharing of donor funded audits becomes additional burden”.

“Sometimes you are not aware that a project may exist, and you are required to audit. (...) That may put a little strain on our resources given that you have made your audit plan for the year, and you have to shift resources to undertake those in order for them to meet that target in the grant agreement”.

“(...) I guess the answer is that we can refuse (a request to audit donor funds), but currently we don't. We we're taking up those audits and the government has committed because the donors also have to develop, the partners have to use the country systems. (...)”.

### **Donor specific requirements on audit process and lack of trust in SAI**

Many SAIs reported that donors expect them to adhere to their specific processes, standards, frameworks, and reporting methods. These requirements frequently conflict with the SAI's own processes, and there are very few donors who adjust their templates and reporting frameworks to align with the SAI. Additionally, donors sometimes require the use of alternative audit standards, differing from those employed by the SAI, which can involve a significant learning curve. Moreover, donors often request more than the standard audit outputs, necessitating additional work and effort from the SAI.

Due to varying donor requirements, SAIs must adapt their processes, training of staff and reporting for each donor. This creates significant workloads and places constraints on already stretched resources in terms of staff and finances. SAIs must constantly adjust to new standards, frameworks, reporting methods, and processes to meet each donor's specific expectations. This ongoing need for adaptation not only undermines the SAI's independence and their ability to fulfil their mandate but also prevents the development of sustainable capacity. In many instances, the SAI gains little from these efforts, as staff are constantly required to shift focus to meet the next donor's unique requirements.

Other examples of undermining the SAI is related to donors not fully trusting the SAI's competence to carry out the audit. This lack of trust is for example demonstrated in that donors will, in addition to the SAI, hire an international auditor to audit carry out a complementary audit. Other examples include donors demanding attestation engagements and seeking audit opinions from other firms than the SAI.

Another aspect which add on to these challenges is related to the complexity of donor funded activities. Donor funded projects may involve multiple stakeholders such as government agencies, the donor themselves and other implementing partners.

“In particular, donors often have specific requirements for audit and reporting standards submitted within project implementation, which may differ from national or international standards (ISSAI). This requires additional efforts to adapt auditing methods and processes”.

“By the end of the day, we're not building a proper capacity to audit. The varying audit standards application by the donors is an issue. It is an issue that every time we have to make sure our audit has a capacity. So, because there's no direct engagement (with the donor). That gap would actually be surfacing year in year out”.

“Donors often require that the audit be conducted by international auditing companies alongside with the audit of the SAI, which conflicts with the work of the SAI”.

## **Donor communication and coordination**

The majority of the surveyed SAIs report issues with coordination and communication from donor project officers. A significant communication challenge arises from the audit terms being set in the agreement between the government and the donor, often excluding the SAI. As a result, many SAIs reported that discussions about the audit take place only with the relevant government entity or ministry.

Another challenge faced by many SAIs relates to the donors' planning and management of funds. For instance, some SAIs describe situations where auditors arrive at a project site, only to find that no funds have been disbursed, or that the project has been delayed or closed, preventing the audit from taking place. This information is often not communicated to the auditors in advance. Such coordination issues create significant challenges for SAIs, as they hinder the completion of audits and tie up resources that could have been better utilized elsewhere.

Another related issue described by many SAIs, is the timely access to documents and the quality of financial statements. Challenges include project accountants/officers not being adequately prepared for the audit, delays in the production and submission of financial statements, which in turn delay audits and put pressure on the audit team.

“I can say that a lot of person hours can be saved through better coordination and that can lead to more focus on other types of audits”.

“We also have challenges with the implementing agency, they may be late in preparing their draft financial statements and so you know, as I said, there's a deadline. So, you have now to put in more resources and more detailed review to ensure that it is up to the quality and meet the standards”.

“The auditees readiness for the audit put pressure on SAI to complete by deadline”.

“The communication and coordination between donors and the project implementation unit are slow, hindering the timely resolution of implementation problems”.

## **Draft good practices**

The following good practices are presented as draft proposals developed by the CBC Workstream on the audit of donor funds. Our aim is to test and validate the good practices among SAIs that have direct experience auditing donor funds, as well as among donors and other relevant stakeholders. By gathering practical feedback, the CBC seeks to ensure that the final set of good practices accurately reflects real-world experiences, remains relevant and applicable across diverse contexts.

We invite SAIs, donors, and other relevant stakeholders to share insights, examples, and recommendations to further refine and enhance these good practices before their formal adoption.

### **Overarching principle: Supporting “full use” of country systems and SAI independence**

Across all engagements, donors and SAIs should work within national frameworks, respecting the SAI’s independence and mandate. Strengthening country systems, rather than creating parallel processes, promotes sustainability, accountability, and mutual trust.

### **Promoting inclusion and strengthening SAI ownership**

1. **Transparent communication:** Donors should communicate planned audit needs well in advance to allow SAIs to incorporate these engagements into their annual audit plans. Donors should also establish clear communication channels between the donor, the implementing government entity, and the SAI to avoid misunderstandings and duplication of efforts.

### **Supporting SAIs without undermining their capacity**

2. **Fair and transparent compensation:** Where appropriate, financial compensation for audits of donor funds should be fair, transparent, and structured to support institutional capacity rather than short-term needs.
3. **Sustainable capacity development:** Training and technical support provided by donors should focus on strengthening the SAI’s overall institutional capacity and not just project-specific or donor-specific requirements.
4. **Realistic timelines:** Audit timelines should reflect the SAI’s capacity and workload, ensuring sufficient time for planning, fieldwork, and quality assurance.

### **Trusting SAIs and aligning audit requirements**

5. **Use of national audit standards:** Donors should, to the greatest extent possible, rely on the SAI’s established audit standards, methodologies, and reporting frameworks, provided they meet internationally recognized standards (e.g., ISSAIs).
6. **Harmonization of requirements:** Where donor-specific procedures are unavoidable, donors and SAIs should jointly agree on streamlined and consistent audit requirements to minimize duplication and administrative burden.

## **Improved communication and coordination**

7. **Clear communication protocols:** Establish formal mechanisms for sharing audit terms of reference, timelines, and financial statements with the SAI early in the process.
8. **Joint planning meetings:** Regular coordination meetings between donors, government counterparts, and the SAI can help align expectations, identify bottlenecks, and promote efficient audit delivery.

## **Conclusion and next steps**

The above good practices are intended to serve as a starting point for dialogue and collaboration between SAIs, donors, and other stakeholders involved in the audit of donor funds. The workstream encourages SAIs to review the proposed practices in light of their own experiences and contexts, and to share feedback on their practicality and applicability.

The feedback collected will inform the refinement and finalization of the good practices, ensuring they are grounded in real-world experience and contribute meaningfully to SAIs and donors making informed decisions when engaging in audit of donor funds.

To provide input, share your experiences or if you want to know more about the audit of donor funds, please do not hesitate to reach out to the workstream chair: Karin Nordlöf ([karin.nordlof@riksrevisionen.se](mailto:karin.nordlof@riksrevisionen.se)). For more information on the workstream, please visit our website: [INTOSAI Capacity Building Committee | Audit of donor funds](#).

## Annex A – Survey

### CBC Survey on Audit of Donor Funds

1. Which SAI do you represent?
2. What mandate does your SAI have to audit donor funds?
3. Approximately, how many audits have your SAI carried out during the past 5 years?
4. What types of audits of donor funds does your SAI carry out?
  - Financial audits
  - Compliance audits
  - Performance audits
  - Other, please specify:
5. For which donor has your SAI performed audits?  
*If possible, please indicate which donors you most frequently perform audits for.*
6. What are the advantages of auditing donor funds for your SAI?  
*Please describe what motivates your SAI to audit donor funds. If possible, please provide examples of opportunities associated with auditing donor funds.*
7. What challenges does your SAI face when auditing donor funds?  
*Please give examples. Challenges may include:*
  - National deadline challenges due to diverted resources to audit donors.
  - Limited influence in auditing process ownership.
  - Unrealistic scope, focus, or timeline expectations.
  - Donor mistrust in SAI competence.
  - Requirements for donor-specific auditing standards.
  - SAIs excluded from donor-government audit agreements.
8. What audit standards does your SAI apply when auditing donor funds?
9. Has your SAI received any financial or technical support to enhance its capacity to audit donor funds?  
*If yes, please describe the type of support and specific areas of improvement, this could for example include ISSAI-compliant audit training.*
10. What initiatives do you believe are necessary to facilitate SAIs' and donors' relations?  
What role do you think the CBC workstream should play in this process?
11. Is there anything else you would like to share about your SAI's audit of donor funds? Or auditing of donor funds in general?

12. If your SAI is willing to share experiences in a follow-up interview, please indicate relevant person to contact. Provision of contact details is voluntary.

Name:

Title:

Email:

Phone: