

U4 Expert Answer



The Role of Supreme Audit Institutions in Combating Corruption

Query:

Can you give a comprehensive overview about the role of Supreme Audit Institutions (SAIs) in anti-corruption? The answer should focus on concrete activities that SAIs can undertake, techniques to be acquired, and audit focus to be changed. In addition, I would like to know how these activities might differ when looking at the different types of audit models (Westminster, Judicial and Collegiate).

How can technical cooperation strengthen SAIs in their role and in activities mentioned above? And how are activities different under the different audit models?

Purpose:

Our agency is currently writing a policy paper on anti-corruption through SAIs.

transparency and accountability within a wider climate of good governance. Many commentators therefore assign the role of SAIs in fighting corruption to be primarily an indirect one, centring on deterrence and prevention.

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However, it is important to note that some SAIs have taken a more active role in combating corruption. Successful approaches include identifying and publicising areas of corruption risk, working closely with other institutions, and publicising the recommendations of audit reports more widely.

Summary:

Supreme Audit Institutions (SAIs) oversee the management of public finances. Broadly, they operate within one of three established institutional models (Westminster, Judicial or Board). Traditionally, the role of SAIs has been seen as promoting public sector

While there are examples of good practice in all these approaches, there is no research that directly addresses how these techniques might be best applied across the three institutional models or how technical co-operation can help to promote their use.

Authored by: Alastair Evans, U4 Helpdesk, Transparency International, aevans@transparency.org

Reviewed by: Christiaan Poortman, Transparency International, cpoortman@transparency.org

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Part 1: The role of SAIs in Combating Corruption

The Mandate of SAIs

Objectives of SAIs

Supreme audit institutions (SAIs) are national-level watchdog agencies responsible for the audit of government revenue and expenditure. By scrutinising public financial management and reporting they provide assurance that resources are used as directed by national governments. SAIs are not specialised anti-corruption agencies: on the whole they are not expressly charged with detecting or investigating corrupt activity.

The international umbrella association for SAIs is the International Organisation of Supreme Audit Institutions (INTOSAI). Seven INTOSAI regional working groups also operate to facilitate professional and technical cooperation for their members.

The Lima declaration, first published by INTOSAI in 1977, identifies four objectives of public sector auditing. (See [INTOSAI, Lima Declaration of Guidelines on Auditing Precepts](http://www.intosai.org/blueline/upload/limadeklaren.pdf) in <http://www.intosai.org/blueline/upload/limadeklaren.pdf>). These objectives are to promote:

- The proper and effective use of public funds;
- The development of sound financial management;
- The proper execution of administrative activities; and
- The communication of information to public authorities and the general public through the publication of objective reports.

Types of Audits

In line with these core functions SAIs have traditionally undertaken financial audits of organisations' accounting procedures and financial statements, and compliance audits reviewing the legality of transactions made by the audited body.

In recent decades many SAIs have expanded the scope of their audits to scrutinise the efficiency and

effectiveness of government programmes through performance or *value for money* audits. More recently some SAIs have undertaken more specialised audits such as environmental or ethical audits of public agencies.

Audit Models

In discussions of their constitutional role, SAIs are often seen to belong to one of three institutional frameworks:

- The *Westminster* model, also known as the *Anglo-Saxon* or *Parliamentary* model, used in the United Kingdom and most Commonwealth countries including many in sub-Saharan African, some European countries, and Latin American countries such as Peru and Chile. Key features include a National Audit Office headed by an independent Auditor General or equivalent, which submits audit reports to a committee of Parliament (often the Public Accounts Committee).
- The *Judicial* or *Napoleonic* model used by France, many Latin countries in Europe, Turkey, francophone countries in Africa and Asia and several Latin American countries including Brazil and Colombia. Here the SAI, often a Court of Accounts or *Cour des Comptes* forms part of the judicial system and forms judgements on the use of public funds by government officials.
- The *Board* or *Collegiate* model used by many Asian countries including Indonesia, Japan and the Republic of Korea, and some European countries, including Germany and the Netherlands. This approach has similarities to the Westminster model, except an audit board or boards produces audit reports and submits these to Parliament.

Each model has potential implications for the work of SAIs. In the Westminster model substantial power is concentrated in the position of the Auditor General, and the ability of the SAI to challenge corruption may depend on the authority commanded by this position and the extent to which the Auditor General is independent from other national institutions. In Nigeria, for example, the Office of the Auditor General (OAG) is funded by the federal government and OAG staff are civil servants, effectively making them subject to the control of the Executive. (See [Transparency International's Nigeria National Integrity System Report](#) 2004 in

<http://www.transparency.org/content/download/1685/8494/file/nigeria.pdf>).

In the Judicial model government officials are often held personally liable for the funds which they dispense in their professional capacity, where illegal payments have been made. Placing responsibility for the proper use of funds with individual officers in this way can be viewed as a potential deterrent to corrupt practice.

In the Board model there is scope for some variation in audit approaches across audit boards and their members, a diversity which may help SAIs challenge corruption where it has become normalised or institutionalised.

The UK Department for International Development (DFID) Policy Division Briefing: [Characteristics of different external audit systems](http://www.train4dev.net/fileadmin/Resources/General_Documents/Characteristics_of_Different_SAIs_PFM.pdf) (http://www.train4dev.net/fileadmin/Resources/General_Documents/Characteristics_of_Different_SAIs_PFM.pdf) includes a lengthy discussion of the features of these three audit models.

The Remit of SAIs to Fight Corruption

Deterrence and Prevention

Magnus Borge, Director General of the INTOSAI Development Initiative, has stressed that the central role of SAIs in combating corruption is the promotion of sound financial management and the encouragement of robust internal control mechanisms in public bodies. In particular, strong financial management systems, based on effective financial reporting and the disclosure of any deviations, have a dissuasive effect on those who might otherwise engage in corruption. (For further elaboration of this position see Magnus Borge, [Supreme Audit Institutions – Their Roles in Combating Corruption and Providing Auditing and Accounting Standards and Guidelines in](http://www.10iacc.org/download/workshops/cs05c.pdf) <http://www.10iacc.org/download/workshops/cs05c.pdf>).

This deterrent role has been widely elaborated on, and in particular, it is seen to contribute to a wider environment which militates against corrupt activity. It is argued that a system of financial checks and controls bolsters accountability by providing assurance that reported information is credible and that financial reporting promotes the transparency of government spending. As such a national SAI provides the public

with information on accepted standards of financial management and probity and details of any deviations from these standards or from legality. In particular commentators stress the importance of these functions to the wider institutional framework, where they are seen to bolster the application of the rule of law and add to the predictability of government behaviour (See [Dye and Stapenhurst, Pillars of Integrity: the Importance of Supreme Audit Institutions in Curbing Corruption](http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,,contentMDK:20798697-menuPK:1977002-pagePK:64168445-piPK:64168309-theSitePK:1740530,00.html) in <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,,contentMDK:20798697-menuPK:1977002-pagePK:64168445-piPK:64168309-theSitePK:1740530,00.html>, which sets out these arguments in more detail).

SAIs and National Integrity Systems

The importance of SAIs to fighting corruption is often placed in the context of countries' wider National Integrity System (NIS). In prevailing models of NIS, SAIs comprise one of the institution pillars (alongside institutions such as the legislature, executive, judiciary, ombudsman, and electoral management bodies) upon which rests the strength of a country's integrity. These pillars are seen to be interdependent, and it is argued that any weakening in the effectiveness of one can place a greater strain on the others.

In this model a well-functioning NIS provides effective safeguards against corruption whereas weaker institutions allow corruption to thrive and undermine the rule of law, quality of life and sustainable development. Strengthening any of the institutions comprising the NIS, including SAIs, promotes better governance across all aspects of society, and helps to fight corruption.

Anti-corruption agencies, including Transparency International, use the National Integrity System (NIS) as the starting point for assessing the integrity of specific countries. The methodology for this work and a more detailed explanation of the NIS concept can be found in the [NIS section of the Transparency International website](http://www.transparency.org/policy_research/nis) (http://www.transparency.org/policy_research/nis).

Detecting and Investigating Corruption

Regardless of the scope of their remit, it is probable that SAIs will identify potential cases of corruption in the

course of executing their conventional audit responsibilities.

Musa Kayrak, of the Turkish Court of Accounts, has identified the types of corruption most likely to be detected by auditors in the course of their work. These include falsified statements and claims, purchasing for personal use, illegal bidding practices in procurement competitions, and tax or duty evasion. Similarly, Fred M. Siame, the Auditor General of Zambia, has set out common areas of concern identified by auditors in Zambia. These include irregularities in the award of procurement contracts, overpayment for and non-delivery of goods and services, third-party transactions, and malpractice in the liquidation of public companies. (See *Musa Kayrak, Evolving challenges for supreme audit institutions in struggling with corruption in* <http://www.emeraldinsight.com/Insight/viewContentItem.do?sessionId=688E76E8EE3329182450077EAD86B8FC?contentType=Article&contentId=1641906>, and Fred M Siame, *Contributions and Challenges in the Fight against Corruption - an Auditor General's perspective* in http://findarticles.com/p/articles/mi_qa3662/is_200210/ai_n9110547/).

Some countries explicitly require SAIs to report on such instances of suspected corruption and criminal activity. These include the SAIs of Germany, Sweden, and the UK, but also their equivalents in developing countries such as India, Indonesia and the Philippines.

While some SAIs do have limited investigative authority, the further investigation of such cases is generally passed to the police or specialist anti-corruption agencies. In particular, SAIs ability to directly investigate corrupt practice is limited by their remit, which does not extend to examining the activities or personal records (for example bank account details) of citizens or private companies. (See *Musa Kayrak, Evolving challenges for supreme audit institutions in struggling with corruption in* <http://www.emeraldinsight.com/Insight/viewContentItem.do?contentType=Article&contentId=1641906>). Similarly, although many SAIs have legal provisions to prosecute corrupt practices, prosecution is generally undertaken by law enforcement agencies.

Part 2: Strengthening the Anti-Corruption role of SAIs

In some cases SAIs have extended their role beyond deterrence and prevention and taken a more active role in identifying and investigating corruption. There is, however, very little research exploring how these techniques play out in the different institutional models set out above.

Focussing Audit on Areas of Corruption Risk

Focussing Audit Planning on Areas of High Corruption Risk

Some SAIs proactively identify and monitor areas of their audit work where corruption is a risk, often as part of the audit planning process, and look to predict emerging risk areas. For example, it has been noted that auditors have had some notable success in identifying corrupt practices where they have examined claims by managers for payments to workers or where they have used inspection to identify sub-standard construction.

NIK Poland, the Polish SAI, has used data available from its routine audit work to review the threat of corruption, specifically by mapping government sectors and highlighting areas of activity deemed susceptible to corruption.

Similarly, the Hungarian State Audit Office specifically focuses on highlighting risks of corruption during audits and taking action where the evidence of criminality is identified. As of 2005 it had launched criminal proceedings in over fifty cases, relating to alleged criminal activity very often related to corruption. In addition it compiles summary reports examining trends in corrupt activity, and has used data collected to analyse underlying causes of corruption and correlate Hungary's experience with wider indexes of corruption. (For further information see Bager and Kovacs, *Corruption and the Options of the Activities of the State Audit Office* in http://www.baselgovernance.org/fileadmin/docs/pdfs/Belgrade/Kovacs_Bager_Corruption_and_state_audit.pdf).

Incorporating public input about potential irregularities and malpractice

There are some good practice examples of SAIs involving civil society in audit planning, resulting in an audit focus which better addresses corruption risks. Under the *Citizens' Audit Request System*, set up by the South Korean Board of Audit and Inspection (BAI) in 2001, citizens can request audits of public agencies on the grounds of perceived corruption or legal transgression. In addition, the BAI's Open Audit System allows public input into the preparation and implementation of its audits.

Similarly, a 2007 pilot project by the Tribunal Superior de Cuentas (the SAI in Honduras) to increase public consultation on its audit focus led to the investigation of a number of complaints against public agencies. Public input helped auditors to select which public agencies to examine and identify areas of concern: an assessment of the pilot audits concluded that many of their findings would not otherwise have been identified and reported. (The U4 Issue Paper, *Responding to challenges of Supreme Audit Institutions: Can legislatures and civil society help?* in <http://www.cmi.no/publications/publication/?3287=responding-to-the-challenges-of-supreme-audit> has more detail on these and other good practice examples).

More widely, some SAIs house a recognised public complaints mechanism. The South Korean BAI has established a free nationwide hotline to receive complaints and petitions from the public. Similarly, Hungarian law stipulates that complaints, proposals, and requests for assistance submitted to the SAI must be processed by them. The *2006 Transparency International's NIS report on Hungary* (<http://www.transparency.org/content/download/28735/434010>) identified an increasing trend for citizens and civil society organisations to request that the SAI conduct an audit of a public institution.

Implementing Specialised Audits

In 1998 the Irish Comptroller and Auditor General was given powers to investigate allegations that banks were assisting customers to evade Deposit Interest Retention Tax (DIRT), and the performance of State bodies in tackling this fraud. These powers were extensive and included the authority to enter any premises 'on reasonable grounds' and to seize records

where required. The powers were time-bound and ceased to be enforceable after the inquiry. (The *2009 Transparency International Ireland NIS Report* in <http://www.transparency.ie/resources/nis09.htm> provides more detail on the DIRT case).

Developing an Enabling Institutional Environment

Forging Effective Relationships with Other National Institutions

A strong and supportive institutional environment can assist SAIs in addressing corruption. In particular, it is critical that effective mechanisms exist for implementing the recommendations of audit reports. In this regard, key relationships with other national institutions will depend on the audit model employed in the country in question.

SAIs working within a Westminster institutional model generally report findings to the Parliament's Public Accounts Committee (PACs), or a committee with equivalent remit to debate the findings of audit reports, and draw attention to the causes of cases of corruption uncovered.

In particular, where PACs have the power to call and hear testimony from witnesses, the system becomes increasingly accountable. PACs can publicise the findings of audits, demand reform where required and call for follow-up reports to assess whether issues identified in audit reports have been addressed.

It should be noted that many SAIs lack a system of reporting to a Parliamentary Committee, or even lack the mandate to make recommendations. In Botswana the SAI is accountable to the Ministry of Finance and Development Planning, a government department which it also audits. Rather than reporting to the National Assembly, audit reports are addressed to the Minister of Finance, a situation which threatens effective accountability. (Please see: The *2007 Transparency International Botswana NIS Report* in http://www.transparency.org/content/download/28010/422211/file/NIS_Botswana_report_2007.pdf).

Where SAIs operate under the Judicial model, they will rely more heavily on an effective judicial system to ensure that recommendations are addressed promptly and fairly within the wider judicial process.

Forging Closer Working Relationship with Law Enforcement Agencies

Where SAIs liaise closely with enforcement officials in other government agencies, such as the police and specialist anti-corruption agencies, their capacity to detect corruption can be enhanced. Financial scandals in the mid 1990's in Germany, for example, led to operational changes which brought both the German SAI and the taxation authorities into a closer working relationship with government agencies responsible for investigating and prosecuting crime, a move that was seen to boost the state's overall investigative capacity. (Please see: [*Transparency International Source Book 2000, Ch 9*](#)

in

<http://www.transparency.org/content/download/2439/14493/file/sourcebook.pdf.zip>

Publicising Corruption Risks

Magnus Borge (Director General of the INTOSAI Development Initiative), has highlighted the importance of the role SAIs play in communicating corruption risks and cases of corrupt practice where these have been identified. This role includes raising public awareness of the importance of transparency and accountability by producing timely and relevant audit reports which are available to the public. Borge notes that many SAIs have established links with the press to publicly disclose cases of fraud and corruption (See Magnus Borge, [*Supreme Audit Institutions – Their Roles in Combating Corruption and Providing Auditing and Accounting Standards and Guidelines*](#)

in

<http://www.10iacc.org/download/workshops/cs05c.pdf>.

The International Budget Partnership has highlighted the importance of civil society to publicising audit recommendations and campaigning for their implementation by audited bodies. For example, the South African Civil Society Organisation (CSO) Public Sector Accountability Monitor tracks allegations of misconduct in SAI reports, interviewing responsible officials to find out what action has taken in response and posting the audio file of these interviews on the Internet. Where agencies are uncooperative, PSAM requests this information under the country's Promotion of Access to Information Act. (See [*Warren Krafchik, What Role Can Civil Society and Parliament Play in strengthening the external auditing function?*](#)

in

<http://www.internationalbudget.org/auditorgeneral.htm> for this and other examples of CSO involvement in the audit process).

Engaging in Technical Cooperation with other SAIs

It is important to note that the activities noted above, encompassing both deterrence and prevention and more active measures to counter corruption assume that the capacity exists to undertake audit work effectively. The reality is that SAIs in many countries, particularly developing countries, lack the professional capacity to promote the Lima objectives mentioned in Part 1.

While mechanisms do exist for knowledge exchange between national SAI's (for example staff secondments and twinning initiatives), these focus on sharing technical expertise and building capacity across the range of audit activities, and it appears that little technical cooperation focuses on techniques auditors can use to address corruption. Forums for this work include INTOSAI, its Capacity Building Committee and its constituent regional associations. Meetings of these organisations have addressed the question of the role of SAIs in combating corruption, but again this has been at the theoretical rather than practical level. There is no available research on how technical assistance addresses corruption risks or how this might vary across the three audit models explored here.

Similarly, development programmes often aim to bolster accountability at the national level, by supporting SAIs as part of promoting a wider national culture of integrity. For example, [*USAID's Open Government Initiative \(Anti-Corruption Program in Bulgaria\)*](#) (<http://bulgaria.usaid.gov/anti-corruption/page.html>) in Bulgaria aims to improve accountability mechanisms in Bulgarian public administration, in part by supporting the development of systems for internal control, enhancing the quality of supreme audit, and streamlining public procurement.

Part 3: Further Reading

'Responding to Challenges of Supreme Audit Institutions: Can legislatures and civil society help?' U4 Issue Paper (Chr. Michelsen Institute: 2009). This paper examines the challenges for SAIs in bringing accountability and transparency to public finances, and ways in which co-operation with Parliaments and civil society can help overcome barriers.

'Evolving Challenges for Supreme Audit Institutions in Struggling with Corruption' Musa Kayrak (Journal of Financial Crime, Vol. 15, No. 1: 2008). This article is a theoretical discussion of the role SAIs play in countering corruption, which also summarises the position of international SAI associations.

'Characteristics of Different External Audit Systems' Department for International Development Policy Division Briefing (DFID: 2004). This briefing sets out the differences between the three models of public sector audit and the implications of these frameworks for DFID support.

'Contributions and Challenges in the Fight against Corruption - an Auditor General's Perspective', Fred M. Siame (International Journal of Government Auditing: 2002). This article gives the perspective of an Auditor General's on areas where SAIs can address corruption risks, as well as some of the challenges SAIs face in doing so.

'Supreme Audit Institutions - their Roles in Combating Corruption and Providing Auditing and Accounting Standards and Guidelines' Magnus Borge (10th International Anti-Corruption Conference, Prague: 2001). This paper summarises the results of SAI discussions about their role in combating corruption, and discusses requirements for SAIs to be effective in doing so.

'Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption' Kenneth Dye and Rick Stapenhurst (World Bank: 1998). This article sets out the role of SAIs within the wider National Integrity System. It discusses the potential role of SAIs as agencies at the centre of institutional efforts to tackle corruption.