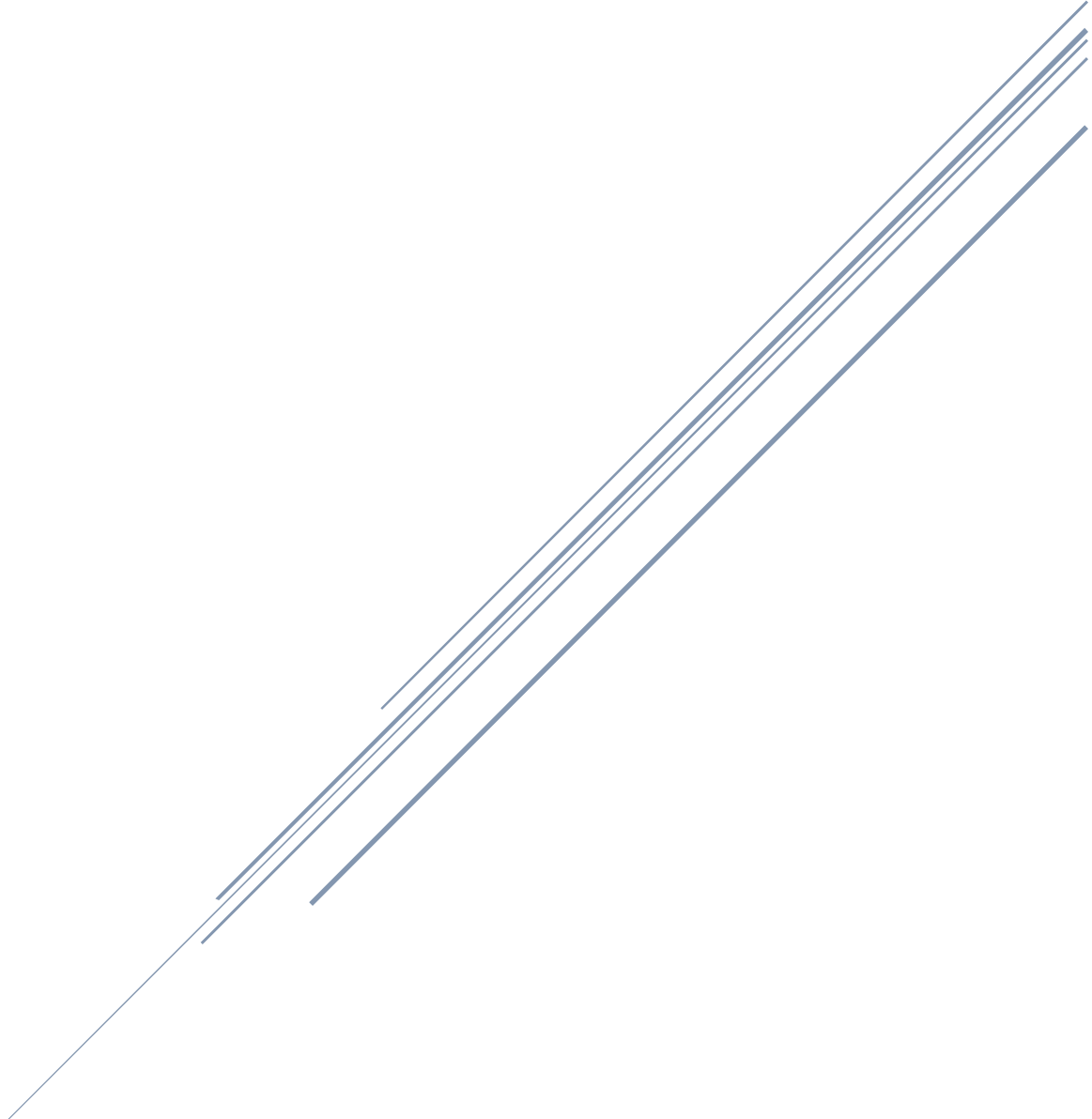


LEAD PAPER

TARGETING SUPERIOR AUDIT IMPACT



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Introduction

1. Over the last decade, the role of SAIs has been brought into sharp focus, expanding beyond their traditional role of promoting public sector transparency and accountability, with some taking a more active stance in combating corruption. In 2011, the United Nations assembly adopted resolution 66/209 articulating for the first time, the UN's support of the Lima and Mexico Declarations by encouraging all member states to consider the independence and capacity of SAIs in the national context. Thereafter, in 2015, we saw the UN's adoption of the Sustainable Development Goals (SDG) which heralded a new era for SAIs, as bodies such as UNDESA, signalled SAIs to become integrally involved in monitoring governments' steps towards implementing the 17 SDGs. Importantly, with the functionality of SAIs captured directly under SDG 16- Justice Peace and Strong Institutions, there was need to ensure that SAIs had the capacity to provide robust oversight.
2. The International Organisation of Supreme Audit Institutions (INTOSAI) - P12 addresses the principle of SAIs remaining relevant and contributing positively to the lives of citizens. Importantly, the pronouncement underscores that SAIs exist to provide assurance to the citizens that matters of governance and public spending are functioning as they should- where there are issues, these matters will be reported by the SAI. As a government evolves based on the economic and social environment, so should the SAI with the modality and focus of audits evolving in tandem with changes in the environment. An SAI audits should comply with high-quality standards and reflect the needs of the citizenry. To be impactful, SAIs must have constitutional and institutional structures and capacities to deliver. This paper will explore the tenets that are considered fundamental to SAIs fostering an environment conducive to delivering audit impact.

Independence

3. The foundation of an SAI's existence is its legislative framework. The IDIs 2020 Global Stocktaking (GS) Report states that "for SAIs to be effective, credible institutions that deliver on their mandate, they need to be independent from the audited entity (Executive) both in terms of de Jure and de facto SAI independence. Therefore, a well-defined legal basis is a critical prerequisite for the effective functioning of SAIs. It should cover the independence of the SAI versus the executive branch of the government and provide the SAI with sufficient operational powers to establish its role as the external auditor of the government". Equally, SAIs should be able to deliver their mandates without interference and fear of repercussions, a position also supported by the UN Resolution 66/209.
4. At the same time, whereas many SAIs in the Caribbean region have some elements of independence, few have control over their budget formulation. This issue was revealed in the latest Global Stocktaking Report (2020), which ranks CAROSAI with a score of 33, with 100 being the highest and only ahead of CREFIAF with 16 points. For many SAIs in the region, the impact of low budgetary influence may have affected their ability to function during the lockdown period of the COVID 19 Pandemic, as they were not technologically equipped. The survey - *Effects of the COVID 19 Pandemic administered* by CAROSAI showed that 9 SAIs (40 per cent of membership) were completely closed during the lockdowns. A number of SAIs also indicated that several audits were stalled and 8 SAIs lacked IT equipment; all SAIs responded that support was needed to build



IT infrastructure and knowledge. It could be argued that if SAIs have greater control over their budgets, they could allocate scarce resources to high priority areas.

5. Additionally, with greater autonomy over their human resources, SAIs could better attract and retain competent staff. Engaging staff with complementary qualifications and experience, such as economists, engineers, professional investigators, could enable SAIs to enhance their audit products particularly in the area of performance audits and/or special audits. Equally important, the SAI would be agile to respond in a timely manner to the changes in its environment. More recently, related to the impact of the Covid-19 pandemic, SAIs with existing capacity have been encouraged to conduct real-time audits, especially under conditions where large sums are expended for social support in a short space of time.
6. Of note, CAROSAI received a high score of 92 on the independence element regarding discretion to discharge SAIs mandates. However, for Principle1 .7 in relation to whether SAIs have appropriate mechanisms for following up on audit findings and recommendations, CAROSAI was the worst performer with an average score of 35, suggesting that SAIs in the region could benefit from mechanism /tools that track the implementation of their recommendations, an important gauge of the effectiveness of SAIs.

Relevant SAIs

7. “SAIs deliver value to all by exercising independent external oversight to ensure accountability, transparency, inclusiveness, ethical behaviour and effectiveness of public governance.”¹ SAIs undertake assurance and/or performance audits to deliver value, as the SAI’s constitutional mandate allows.

Assurance Audit

8. **Assurance audits** can be categorised into three broad audit types: compliance, financial statements and information technology. Many SAIs are limited by their constitution to undertake only compliance audits. While not desirable, this restriction should not limit the SAI from maximising its impact of such audits.
9. **Compliance audits**, referred to as regulatory audits in some quarters, are undertaken to determine a public body’s adherence to laws, rules and procedures framed to govern prescribed activities. Governments, by their very nature, are rules-based. Whereas some may view the plethora of rules as cumbersome, the fact is that every cent is being spent on behalf of the citizens. Consequently, citizens need to be assured that all expenditures are undertaken with due regard to probity, transparency and accountability. Citizens must have confidence that where there is a departure from the rule(s), this will be detected and reported by the SAI in a timely manner. This will engender the trust of the citizens not only in the work of the SAI but also build confidence in government; high-quality compliance audit reports provide the means for the public to hold those charged with governance accountable. The impact of compliance audits can be enhanced by undertaking high-risk subject matter areas such as focusing on procurement or project management. Additionally, SAIs may choose to undertake cross-cutting compliance audits, which

¹ Reimagining SAI Audit Impact – A reflection paper

allow for the identification of common weaknesses and good practices across the central government and public sector entities. Therefore, cross-cutting audit findings and recommendations can influence policy or procedural changes at a macro level. CAROSAI undertook a collaborative compliance audit of procurement some years ago, which served to bring awareness to the ISSAI Compliance standard as well as examining an area of high priority to all SAIs that participated. The published compendium report on this project revealed that the audits produced meaningful findings and recommendations.

10. **Financial Statements** audits provide the same impact as do compliance audits. They not only provide a means to hold those charged with governance accountable for their financial stewardship but also facilitate informed decision-making. It is therefore imperative that entities have reliable, high-quality financial reports on which to base their strategic decisions and equally important, that these financial statements are audited in a timely manner. Further, that SAIs will undertake financial audits with due regard for and compliance with high-quality audit standards issued by INTOSAI. SAIs financial audits create impact through independent audit reports which are objective and reliable. SAIs can also add value by assessing the performance of an entity, through analytical reviews of financial statements, using ratio analysis. These report can be useful to stakeholders, including parliamentarians who may be unfamiliar with financial statements and have difficulty interpreting same.

Performance Audits

11. **Performance audits** add significant value to the work of an SAI by assessing whether a public entity, activity or programme is achieving its mandate with due regard to economy, efficiency and effectiveness. An independent performance audit report also provides an unbiased and non-political report on government operations and serves as an impetus to demand good governance and greater accountability in the public sector Performance audits can also benefit citizens, public institutions, and the government in their decision-making processes. These types of audits add value and insight into government operations providing information to improve performance, financial management and operational efficiency in the public sector, while informing those charged with governance and oversight responsibilities of the critical need to improve performance. Performance audits also highlight important lessons by way of actionable recommendations for government that may be replicated to drive lasting improvement in the public sector. This can lead to better use of resources by public bodies while allowing the SAI to contribute to accountability in public sector management and the overall democratic process. For example, a good performance audit report enables the citizenry to effectively scrutinise public sector performance and influence decision-makers, such as parliament and the government, to make changes that lead to better value-for-money outcomes. The findings also facilitate decision making by executives charged with responsibility to oversee or initiate corrective action and improve operations. Actionable recommendations can lead to greater efficiency in service delivery for an effective and responsive public sector.

Professionalisation

12. A Supreme Audit Institution (SAI) is required by its mandate to produce high quality impactful audit reports through effective audit scrutiny intended to hold public officials accountable for the use of

public funds. For the SAI to execute its mandate it must be seen as credible. Credibility within the SAI is often measured through its professionalism, which can be defined as behaviour that maintains audit quality. For any SAI to maintain credibility and audit quality, auditors' professional knowledge must be demonstrated through the application of the relevant audit standards that guide the planning, execution, and reporting, especially where agility has become the norm.

Emerging Competencies

13. An INTOSAI Capacity Building Committee Occasional paper entitled The Future Relevant, Value-Adding Auditor, the emerging competencies for an auditor are centred around four broad areas: Critical Thinking, Resilience, Collaboration and Digital Literacy. The last two years of operating within the context of COVID-19 and lockdowns, forced a review of auditing practices which required SAIs to strengthen the integration of technology into the audit processes and establish new norms in how they interact both with clients as well as their team members. In responding to these emerging competencies, it is important for SAI leaders to invest in their human capital, the SAI greatest asset. SAIs should therefore ensure that such investment is done in a structured manner to garner critical competencies whilst remaining relevant and adding value in the future.
14. Many SAIs have taken the first step by automating their audit processes but must now seek to develop the know-how of managing and analysing data as a component of each audit undertaken and not limiting the use of data analysis to specific audit types.

Effectively leveraging our Human Resources

15. To be impactful, SAIs must seek innovative ways to manage and improve its resources in a sustainable manner. As a first step, SAI should effectively leverage its human resource towards an enabling environment where the future-relevant and value adding auditor can emerge. This will require a strategic shift which involves the implementation of a medium to long term capacity development plan that is aligned to the SAI strategic objectives. In crafting such a plan, SAI Leaders must take the following into consideration:
 1. What complementary skills do they need to add to their current capacity? These skills could include non-auditing such as economists, engineers, and information technology specialists.
 2. What changes are occurring within the public sector? Many public sector entities are embracing technology to improve efficiency. Others are pursuing sector policies which require significant adjustments in how business is conducted as a means of realizing the SDGs.
 3. How best can they support continual learning of their staff as a way of retaining critical skills and knowledge? Continuing Professional Development (CPD) is an important initiative in professionalization. It is the process by which professionals maintain, improve and broaden their knowledge, skills, experiences, and develop personal qualities and competencies required in their field. An important hallmark of CPD is the commitment shown towards self-improvement or development. This is required to survive and effectively function in a dynamic and agile auditing environment.

4. How will performance be assessed, managed, and rewarded especially as compensation is not a component that SAIs can determine independently? Does the SAI have a profile of its staff members which provides insights into capability and or knowledge gaps?
16. SAIs' investing in the professionalisation is not just providing staff with knowledge and skills required for the job, but also influencing their attitudes and behaviours to make them more effective. This move will also enable the SAI to contribute to United Nations SDG 4- Quality Education by ensuring SAI auditors acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles....²

Professionalisation through promoting learning and knowledge sharing³

17. SAIs can also maintain and improve professionalisation that will support auditors to effectively conduct impactful audits, through SAI participation in INTOSAI activities. This not only allows for the exchange of knowledge and experience but will also build networks with other SAIs and relevant institutions. This demonstrates that SAIs embrace the collaborative approach. Collaborative approach has been specifically developed within the Strategic Business Plan for CAROSAI, as the initiatives embarked on seeks to allow for a regional and global perspective to enhance the knowledge-base of participating SAIs. For example, within CAROSAI we have eleven (11) SAIs participating in the Professional Education for SAIs Auditors Pilot (PESA_P)⁴. Other collaborative programmes at CAROSAI level include a corporative compliance audit of procurement and Covid 19 expenditure, Transparency Accountability and Inclusiveness (TAI) and Performance audit on the audit of SDG 3 Health Audit. These programmes are intended to strengthen the full adoption of the relevant ISSAI standards and support continual professional development of our auditors.
18. Notwithstanding, as a Region more work needs to be done to level the playing field in the professionalisation of auditors. The result of the survey mentioned earlier revealed various degree of professionalisation across the region and showed that there was a lack of structured training at the local level among SAIs, and a less than desirable proportion of qualified staffed, which runs counter to the objective of professionalising staff. This underscores the need for SAIs to have independence in managing their human resources thereby ensuring the SAI recruits, develop and maintain the requisite skills and competencies that will enable the SAI to respond to emerging issues and create meaningful impact.
19. Therefore, it must be stressed that the professionalisation within an SAI, if effectively harnessed, will enable the SAI to achieve its goals. Leaders within a SAI must realise that they have a responsibility to allow audit teams to implement the vision and direction of the SAI. SAIs must be

² UN SDG 4- Quality Education 4.7.


³ ISSAI 12- The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens : Principle 12

⁴ The PESA-P is part of the ISSAI Implementation Initiative geared towards developing the auditor's capability to not only talk about an audit but also execute an audit; as such, it links the education to the auditor's local environment

forward thinking, seeking to recruit the best fit and creating a multi-skilled and diverse team, open to change and demonstrative of the core values of the SAI. Operating within the new paradigm where the long-term staff member no longer exists, requires SAIs to know the capabilities of their teams and encourage a workplace culture that values and recognising their contribution to the SAI achieving its stated vision and mission.

Engaging with Stakeholders

20. As SAIs, stakeholders are impacted by our audit work. Developing stakeholder relationships demonstrates a shared understanding and provides a foundation on which interactive communication can exist between the SAI and stakeholders whose interests are vested in the work of the SAI.
21. ISSAI 12, The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens – Principle 6 speaks to SAIs “Communicating effectively with stakeholders”
 - i. SAIs should communicate in a manner that increases stakeholders’ knowledge and understanding of the role and responsibilities of the SAI as an independent auditor of the public sector.
 - ii. SAIs’ communication should contribute to stakeholders’ awareness of the need for transparency and accountability in the public sector.
 - iii. SAIs should communicate with stakeholders to ensure understanding of the SAI’s audit work and results.
 - iv. SAIs should interact appropriately with the media in order to facilitate communication with the citizens.
 - v. SAIs should engage with stakeholders, recognising their different roles, and consider their views, without compromising the SAI’s independence.
 - vi. SAIs should periodically assess whether stakeholders believe the SAI is communicating effectively.
22. Considering these ISSAI requirements, in August 2017, INTOSAI Development Initiative (IDI) launched a Strategy Development Workshop to provide guidance to SAIs on these key principles of stakeholder engagement. While SAIs generally engage stakeholders, the IDI initiative was not only useful for participating SAIs to recognize the need to develop a systematic approach to communicate better with stakeholders, but also for SAIs to comply with relevant international best practices on stakeholder engagement, including the ISSAI.
23. The initiative allowed for SAIs to use various tools to assess the SAI’s legal and operating environment given their mandate. This was necessary to identify and analyse key stakeholders, their interests, and risks to develop work plans, which set out the strategies, techniques, tools and channels for communicating with stakeholders. SAIs were expected to develop and implement a formal framework to support the process of stakeholder engagement, both internal and external. Participating SAIs were able to understand the key concepts and benefits of engaging with stakeholders. Of the nine SAIs in CAROSAI that participated in the initiative, six submitted approved frameworks to IDI. The implementation of the framework has contributed to positive outcomes as SAIs increased their interaction and involvement with people and organisations who are either affected by or can influence the work of the SAI. At the last Congress held in Guyana, we learnt from Montserrat that stakeholder engagement was instrumental to its successful completion of



the performance audit on Major Capital Projects and the Montserrat Social Security Fund. Today, Montserrat continues to interact with all stakeholders on various levels, communicate their findings to the citizens via the media. This engagement resulted in greater participation of various stakeholders which has enabled the SAI to achieve their overarching goal of providing better value and benefits to the citizens of Montserrat.

24. Similarly, for Jamaica, at the level of individual audits, stakeholder engagement is a central theme throughout the audit process, with focus group discussions being a standard component of the audit planning phase. SAIs benefit from diverse perspectives from focus group discussions that often lead to obtaining qualitative evidence from a strategic standpoint on the study topic. In recent times, stakeholder satisfaction surveys are used to get feedback from specific groups or the general population to obtain their opinion on the study topic. The surveys have proven to be a powerful element in providing valuable insight and information to support the performance audit reports. These examples illustrate the effectiveness of stakeholder engagement in maximizing the impact and value of audit reports and contribute to stakeholders' awareness of the need for good governance in the public sector.
25. Similarly, post audit surveys have provided the audited entities with an avenue for anonymous feedback on the conduct of the audit and the level of professionalism demonstrated by the audit team, so that the necessary improvements can be made by the SAI to achieve best value from the audit process.

Well governed SAI

26. Effective governance is necessary for an SAI to remain relevant, credible and responsive to achieving the delivery of high-quality audits that impact its stakeholders. The key characteristic of *Well-Governed SAIs* is effective and inclusive leadership that implements policies to manage SAI performance at the strategic and operational levels. These policies should promote ethical and gender-sensitive behaviour, human resource development and growth, a robust quality management system and risk management.
27. The 2017 IDI Global Stocktaking report showed that while almost all SAIs have a strategic plan, there are substantial opportunities for improving their quality and for strengthening their implementation through sound strategic management processes. To provide effective support in this area, the IDI has been implementing two interrelated initiatives.
28. First is the SAI Performance Measurement Framework (SAI-PMF) assessment methodology, which provides a holistic and objective basis for developing relevant strategic plans and for measuring the resulting changes in SAI performance and capacity over time. Second is the Strategy, Performance Measurement and Reporting (SPMR) initiative, which supports SAIs in strengthening all aspects of their strategic management. SPMR aims at supporting SAIs to better assess, plan, monitor and manage their performance throughout an entire strategic management cycle. Through this, SAIs can significantly enhance their governance, act as model institutions, and deliver value and benefits to citizens. The SPMR approach covers carrying out a performance assessment using the SAI-PMF methodology, the development and implementation of a sound strategic and operational planning process, as well as the establishment of an effective monitoring and reporting framework.

29. Over the past 12 months, we have seen evidence of SAIs coming under increasing pressure by their legislature. In recent times, an Auditor General was suspended and was required to face a tribunal for circumstances which have not yet been determined. It was reported that there were concerns surrounding the objectivity of the Auditor General in undertaking the audit. This is just one of many examples. Whereas instances such as the one aforementioned strengthen the argument for SAI independence, it also brings to sharp focus the need for SAIs to be well-governed. Governance arrangements of SAIs must be sufficiently robust to ensure not only that it is a model agency but that it can withstand scrutiny. - as scrutiny will come. To ensure its effectiveness, an SAI must put measures in place to ensure its resources are adequately managed. This requires that SAIs establish a formidable control environment, set appropriate strategic objectives and implement effective monitoring systems to measure performance.

CONCLUSION

30. The role of an SAI has evolved from the traditions of expressing an opinion on the financial statements to one that is instrumental in public sector governance to reduce waste, improve the quality of public services, and assess the achievement of public programs goals in accordance with the criteria of efficiency, effectiveness, and economy. With this evolution, stakeholders are looking to the SAI to report on audit results, thereby enabling the public to hold government and public sector entities accountable for the use of public funds. This requires the SAI to re tool and implement effective communication strategies to meet stakeholders' expectations. SAIs must therefore acquire different skills set and competencies to respond to the changing environment in order to remain relevant and value adding to the public financial management process.
31. As a region, the relatively low degree of independence has negatively affected SAI 's ability to fulfil their mandate. Nonetheless, SAIs are encouraged to use the limited resources they have at their disposal to find innovative means to report independently on their work and implement appropriate mechanisms to follow up on audit findings and recommendations as a means to assess the impact of their work. Additionally, SAIs should not only seek to create impact through the audits conducted but they should also seek to become a model organisation that lead by example.

References

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