



Features and functions of supreme audit institutions

Supreme audit institutions can curb corruption by reinforcing legal, financial, and institutional frameworks and by reducing the arbitrary application of rules and laws.

Supreme audit institutions are national agencies responsible for auditing government revenue and spending. Their legal mandates, reporting relationships, and effectiveness vary, reflecting different governance systems and government policies. But their primary purpose is to oversee the management of public funds and the quality and credibility of governments' reported financial data.

In the past the World Bank and other donors often established parallel auditing systems for their projects, undermining developing countries' supreme audit institutions, on whose work they could not always rely. Equally problematic have been projects that encouraged performance auditing but ignored basic weaknesses in financial management.

In recent years the Bank has tried to strengthen oversight agencies such as supreme audit institutions. This note is intended to help Bank staff appreciate the role and nature of these institutions, particularly in managing public spending, ensuring financial accountability, and strengthening public institutions.

Different types of supreme audit institutions

Most developing countries use one of three auditing systems: Napoleonic, Westminster, or board. In the Napoleonic system the supreme audit institution—also called the *cour des comptes* (court of accounts)—has both judicial and administrative authority

and is independent of the legislative and executive branches. The institution is an integral part of the judiciary, making judgments on government compliance with laws and regulations as well as ensuring that public funds are well spent. The *cour des comptes* audits every government body, including ministries, departments, and agencies; commercial and industrial entities under the purview of ministries; and social security bodies. This model is used in the Latin countries of Europe (France, Italy, Spain, Portugal, and others), Turkey, and most Latin American and francophone African countries.

In the Westminster system, used in many Commonwealth countries (Australia, Canada, India, the United Kingdom, and many Caribbean, Pacific, and Sub-Saharan African countries), the office of the auditor general is an independent body that reports to parliament. Made up of professional auditors and technical experts, the office submits periodic reports on the financial statements and operations of government entities—but with less emphasis on legal compliance than in the Napoleonic system. The office serves no judicial function but, when warranted, its findings may be passed to legal authorities for further action.

The board system, prevalent in Asia, is similar to the Westminster model in that it is independent of the executive and helps parliament perform oversight. Indonesia, Japan, and the Republic of Korea, for example, have an audit board composed of an

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audit commission (the decisionmaking body) and a general executive bureau (the executive organ). The president of the board is the de facto auditor general. The board's primary mandate is to analyze government spending and revenue and report its findings to parliament.

Types of audits

There are three basic audit types: financial (or attest), compliance, and performance (or value-for-money). Together these three types form a comprehensive audit framework that over time provides a complete view of an organization or function.

In financial auditing the auditor assesses the accuracy and fairness of an organization's financial statements.

In compliance auditing the auditor checks whether government revenue and spending have been authorized and used for approved purposes. Transactions are reviewed to determine if government departments and agencies have conformed to all pertinent laws and regulations. This process includes checking the spending authority in the annual budget and any relevant legislation.

Performance or value-for-money auditing determines whether taxpayers have received value for their taxes. Auditors work closely with subject matter experts who offer advice and review audit results. The mandate for performance auditing varies among supreme audit institutions. Sometimes it is confined to reviewing operational efficiency. In other cases it extends to reviewing the effectiveness of government programs in achieving their objectives.

Audits and the budget cycle

Audits are an integral part of the budget cycle. The budget sets out the government's fiscal policies, detailing revenue, spending, and the economic policies on which they are based. As a public document the budget requires public disclosure, evaluation, and auditing—and here supreme audit institutions play a key role. Based on the report by the auditor general or cour des comptes, a public accounting is issued describing how

the budget has been implemented and managed.

Role of parliament

In the Westminster system the supreme audit institution is a core element of parliamentary oversight. Parliaments typically rely on supreme audit institutions to audit public accounts. Then a multiparty public accounts committee usually reviews reports by the office of the auditor general, considers testimony by witnesses from government departments and agencies, and sends its reports to the full parliament for comment and action. There are often recommendations or instructions requiring follow-up action by both the auditor general and government accounting officers.

In the board system the audit board prepares and sends an annual report to the cabinet, which submits it to parliament. Board staff attend all deliberations on fiscal accounts and are expected to explain the board's opinions.

In cour des comptes-style supreme audit institutions, parliaments do not automatically receive the auditors' reports, though they may receive a report on the court's work. There are, however, four possible forms of collaboration between the court and parliament:

- The president of the court may, at his or her discretion, pass the court's findings to parliament's finance committee.
- A parliamentary committee may ask the court to conduct a specific management audit, which typically audits the economy, efficiency, and effectiveness of processes in the organization (or organizations) being audited.
- The court's annual report, presented to parliament and submitted to the country's president, addresses the legal concordance between the general accounts of the finance department and the treasury.
- In a separate document, the court prepares an annual report for parliament on the use of the resources made available by the previous year's finance act.

Conditions for successful supreme audit institutions

Several features are crucial to the success of a supreme audit institution.

Supportive environment

Supreme audit institutions function within a wider institutional setting. Thus they are effective only to the extent that they are permitted to conduct their work and their reports are used to promote accountability. In many countries public accounts are poorly maintained, parliament may be weak, and the ministry of finance may not ensure that audit issues are addressed. Flagrant abuses identified by supreme audit institutions may not be prosecuted—and in some cases their work may be sabotaged.

Clear mandates

Auditing mandates should be anchored in rules set by parliament. Before drafting such legislation, supreme audit institutions and governments must determine the auditors' independence and reporting responsibilities, the scope of audits, and the entities to be audited—elements shaped by national legislation and domestic conditions. In Westminster parliamentary systems an audit also ensures that the supreme audit institution addresses all the issues parliament wants scrutinized by an independent body.

Independence

Independence is a basic feature of supreme audit institutions in industrial countries. Autonomy is essential for an auditor general given the need to report directly to parliament without interference from other branches of government. The leader of a supreme audit institution needs both legal and traditional status to ensure that senior bureaucrats will make information available and respond appropriately to recommendations. Independence can be strengthened by setting out the auditor general's role in the country's constitution—as in India, Indonesia, Japan, Uganda, and Zambia.

In the Napoleonic model, for example, the autonomy of the *cour des comptes* is guaranteed by its status as a court, by the

security of tenure of its magistrate members, and by its right to design its own program of activities.

Adequate funding, facilities, and staff

Supreme audit institutions require adequate funding, equipment, and facilities. In the developing world, where such elements are often inadequate, there is potential for supreme audit institutions to operate more efficiently. But it is unlikely that increased efficiency alone would generate enough savings to provide competitive salaries and modern technology. Governments need to recognize the costs as well as the high returns of audits, and provide commensurate funding.

To ensure high-quality work, supreme audit institutions need well-qualified, adequately remunerated staff who are encouraged to continuously improve, especially in their areas of expertise. For example, auditors can enhance their skills in fraud detection and information technology through a combination of training, education, and experience.

The number of authorized personnel should be determined independently of government control. For example, in the board model the audit commission determines the number of workers in the general executive bureau. To maintain their credibility, supreme audit institutions should be managed such that a performance audit of their operations would result in a favorable report.

Sharing of knowledge and experience

International exchanges of ideas, knowledge, and experience improve audits, harmonize standards, promote best practices, and generally help supreme audit institutions fulfill their mandates. International congresses and training seminars, regional and interregional conferences, and international publications have promoted the development of auditing. Moreover, supreme audit institutions should work closely with enforcement officials in government agencies to share skills and insights and to become more adept at uncovering corruption.

Autonomy is essential for an auditor general

Supreme audit institutions face different limitations, making it impossible to offer universal remedies

Adherence to international auditing standards

Audits are more effective when supreme audit institutions adhere to professional auditing standards, such as those promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) or international professional accountancy bodies.

Limitations

Supreme audit institutions face different limitations because of countries' distinct constitutional, legal, political, social, and economic systems, making it impossible to offer universal remedies. The main limitations are:

- Limits on independence.
- A shortage of qualified, experienced personnel—a severe problem for many institutions because staff cannot keep up with the changing scope, techniques, and complexities of their work.
- A lack of adequate monitoring and follow-up of audit findings. Control over public funds is less effective if audit queries and recommendations are not followed up by parliament and acted on by the executive branch.
- Limits on the scope of audits. Restricted audits undermine the effectiveness of supreme audit institutions and call into question the motivations for their existence. Some supreme audit institutions cannot audit enterprises if the state has only a limited financial interest; others cannot conduct external control over international organizations.

Role in curbing corruption

Although preventing corruption is not an explicit responsibility of supreme audit institutions, audits may detect fraud and abuse. Fostering strong financial management,

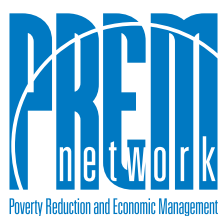
based on reliable reporting and internal controls, is a crucial part of detecting and preventing corruption because it promotes transparency and accountability in government programs and actions.

Further reading

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