

INTOSAI



## *Principles of transparency and accountability*

## *PRINCIPLES AND GOOD PRACTICES*

### *Exposure draft*

The INTOSAI Project on Transparency and Accounting is seeking comments on the exposure drafts of ISSAI 20 and 21.

Comments should be sent to the French Cour des Comptes before 1 March 2009 as follows:

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## **Introduction**

### **Purpose and objectives**

The purpose of this document is to advance principles of transparency and accountability for SAIs in order to assist them in leading by example in their own governance and practices. SAIs form part of an overall legal and constitutional system within their respective countries, and are accountable to various parties, including legislative bodies and the public. SAIs are also responsible for planning and conducting the scope of their work and using proper methodologies and standards to ensure that they promote accountability and transparency over public activities, meet their legal mandate and fulfil their responsibilities in a complete and objective manner.

A major challenge facing all SAIs is to promote a better understanding of their different roles and tasks in society among the public and the administration. Consistent with their mandates and governing legal frameworks, information about SAIs should therefore be readily accessible and pertinent. Their work processes and products should be transparent. They should also communicate openly with the media and other interested parties and be visible in the public arena.

This document forms an integral part of the other International Standards of Supreme Audit Institutions (ISSAIs) and the principles are intended to be used in conjunction with those standards.

SAIs operate under different mandates and models. These principles may not be equally applicable to all SAIs, but are intended to lead SAIs towards a common goal of transparency and accountability.

The Good Practices presented in this document are some examples of practices of SAIs relating to transparency and accountability. This is a living document. As SAI practices evolve and new methods are developed, SAIs are encouraged to share their experiences.

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## Concepts of accountability and transparency

The rule of law and democracy are essential foundations for independent government auditing and serve as the pillars on which the Lima Declaration is founded. Independence, accountability and transparency of SAIs are essential prerequisites in a democracy based on the rule of law and enable SAIs to lead by example and enhance their credibility.

Accountability and transparency are two important elements of good *governance*. Transparency is a powerful force that, when consistently applied, can help fight corruption, improve governance and promote accountability.

Accountability and transparency are not easily separated: they both encompass many of the same actions, for instance, public reporting.

The concept of *accountability* refers to the legal framework, organisational structure, strategy, procedures and actions to help ensure that:

- SAIs meet their legal obligations with regard to their audit mandate and required reporting within their budget.
- SAIs follow up and evaluate their own performance as well as the impact of their audit.
- SAIs report on the regularity and the efficiency of the use of public funds, including their own actions and activities and the use of SAI resources.
- the head of the SAI, members (of collegial institutions) and the SAI's personnel can be held responsible for their actions.

The notion of *transparency* refers to the SAI's timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities, financial management, operations and performance. In addition, it includes the obligation of public reporting on audit findings and recommendations and public access to information about the SAI.

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## **Principles**

### **Principle 1**

**The SAIs perform their duties under a legal framework that provides for accountability and transparency.**

- SAIs should have guiding legislation and regulations in terms of which they can be held responsible and accountable.
- Such legislation and regulations generally cover (1) the audit authority, jurisdiction and responsibilities, (2) conditions surrounding appointment and dismissal of the head of SAI and members of collegial institutions, (3) the SAI's operating and financial management requirements, (4) timely publishing of audit reports, (5) the oversight of the SAI's activities, and (6) the balance between public access to information and confidentiality of audit evidence and other SAI information.

#### **Good practices**

- Most websites have a heading entitled "Legislation" or "Legal mandate", which details the legal framework under which the SAI operates and, in some instances, with direct links to the relevant documents.
- At some SAIs, references in legislation to principles of transparency and accountability are detailed. Some SAI's refers to accountability and transparency rules that apply to their SAI's auditor general.

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### **Principle 2:**

**SAIs make their mandate, responsibilities, mission and strategy public**

- The SAIs make publicly available their mandate, their missions, organisation, strategy and relationships with various stakeholders, including legislative bodies and executive authorities.
- The conditions of appointment, reappointment, retirement and removal of the head of the SAI and members of collegial institutions are made public.
- SAIs are encouraged to make public basic information about their mandate, responsibilities, mission and strategy in one of the official INTOSAI languages, in addition to their country languages.

### **Good practices**

→ The majority of SAIs publish details of their mandate, responsibilities, mission and strategy. One SAI has a series of "fact sheets" in order to help Parliamentarians and other stakeholders understand its work in very practical terms (for example: how the Office of the Auditor-General conducts a performance audit). This information is also available on the SAI's website in the country's two official languages.

→ Some SAIs make information available in languages other than their own official language.

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### **Principle 3:**

#### **The SAI adopts audit standards, processes and methods that are objective and transparent**

- SAIs adopt standards that comply with INTOSAI fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions.
- SAIs communicate what those standards and methodologies are and how they comply with them.
- SAIs communicate the scope of audit activities that they undertake under their mandate, and on the basis of their risk assessment and planning processes.
- SAIs communicate with the audited entity about the criteria on which they will base their opinions.
- SAIs keep the audited body informed about their audit objectives, methodology and findings.
- The SAI's audit findings and recommendations are subject to procedures of comment and response from the audited entity.
- SAIs have effective follow-up mechanisms and report on their recommendations to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature (ISSAI 10 on Independence– principle 7).
- SAIs' follow-up procedures allow for the audited entity to provide information on corrective measures taken or why corrective actions were not taken.
- SAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic objective assessment.

### **Good practices**

→ All SAIs surveyed apply this principle. Nevertheless, in addition to the ISSAIs, some SAIs issued manuals, functional directives, tools and guides.

→ With regard to precisely following up recommendations made by SAIs, three examples can be quoted: one SAI introduced in its periodic reporting to Parliament a "Status report" that provides an assessment of what the government had done to address recommendations from previously reported performance audits, while another SAI devotes the second part of its annual public report to "Follow-up given to SAI observations" and issues performance indicators measuring the number of recommendations followed. A third SAI, in the annual report on the state's account submitted to the Parliament, makes reference to the most important recommendations issued in all the audit reports of the year.

→ A number of SAIs:

- publish their audit methodology on their websites. This includes their performance and financial audit manuals as well as functional audit guides and tools.
- publish on their websites the list of planned performance audits.
- include in their published audit reports the response from the audited department.
- have periodic external reviews by peers to ensure that their quality management framework is suitably designed and operating effectively. SAIs also conduct practice reviews of their audits. The results of the peer reviews and summaries of the practice reviews are published on their websites and in their annual reports.

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### **Principle 4:**

#### **SAIs apply high standards of integrity and ethics for staff of all levels**

- SAIs have ethical rules or codes, policies and practices that are aligned with ISSAI 30, Code of Ethics, elaborated under the International Standards of Supreme Audit Institutions.
- SAIs prevent internal conflicts of interest and corruption and ensure transparency and legality of their own operations.
- SAIs actively promote ethical behaviour throughout the organisation.
- The ethical requirements and obligations of auditors (Magistrates in the Court model, civil servants or others) are made public.

### **Good practices**

- The SAI adopts a set of values and a code of ethics and professional behaviour that guide its work.
- The SAI is committed to economy, transparency and the highest ethical standards in financial administration. One SAI makes public on its website the travel and hospitality expenses of the head of SAI and senior management.
- At two SAIs the auditor, at the beginning of each audit, signs a declaration of absence of potential conflict of interest which can be assessed and addressed by senior management.
- Likewise, a number of SAIs have adopted an ethical charter for their magistrates and have created an ethics commission.
- Some SAIs have an obligation to withdraw their members from activities where they have a personal link
- One SAI disclosed in its audit report a situation where a conflict of interest existed and the steps that were taken by the SAI to ensure that the senior employee had no involvement in or access to documents or activities related to the audit.
- In some cases the ethics obligations include taking the oath by the magistrate and registering of patrimonies declarations

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### **Principle 5:**

#### **SAIs ensure that these accountability and transparency principles are not compromised through outsourcing activities**

- SAIs should ensure that contracts for outsourced activities do not compromise these accountability and transparency principles.
- Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI and is subject to ethical policies (especially conflict of interest) and policies to ensure integrity.

### **Good practices**

→ Contracting rules are precisely defined by some SAIs, including a declaration of potential conflict of interest by outsourced expertise.

→ One SAI makes public on its website all contracts it has issued for values greater than \$10,000.

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### **Principle 6:**

#### **The SAI manages its operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters**

- SAIs employ sound management practices, including appropriate internal controls over its financial management, its operations and internal audit (INTOSAI GOV 9100).
- SAIs' financial statements are made public and are subject to external independent audit or parliamentary review.
- SAIs assess and report on their operations and performance in all areas, such as financial audit, compliance audit, jurisdictional activities (SAIs constituted as Courts), performance audit, programme evaluation and recommendations regarding government activities.
- SAIs maintain and develop skills and competencies needed to perform the work to achieve their mission and meet their responsibilities.
- SAIs report on the origin of their financial resources (parliamentary appropriation, general budget, ministry of finances, fees) and how those resources are used.
- SAIs measure and report on the efficiency and effectiveness with which they use their funds.
- SAIs may also use audit committees, made up of a majority of independent members, to review and provide input to their financial management and reporting processes.
- SAIs may use performance indicators to assess the value of audit work for Parliament, citizens and other stakeholders.
- SAIs follow up their public visibility, outcomes and impact through external feedback (for example, customer surveys, media coverage and website consultations).

## **Good practices**

- A number of SAIs provide many examples of their performance indicators.
- Some SAIs have dedicated public reports on this topic.
- Some performance indicators used:
  - Number of performance reports (activity)
  - Rate at which recommendations are implemented
  - Financial/non-financial benefits resulting from SAI's recommendations implemented
  - Number of testimonies/presentations before Parliament/Congress
  - Timeliness of audit report finalisation
  - Stakeholder satisfaction survey
  
- A number of SAIs:
  - have in place a mandatory training curriculum to ensure that staff have the appropriate skills and knowledge to conduct their audit work.
  - have formal training arrangements with professional institutions.
  - publish an annual performance report which includes a number of performance indicators and results, with one page that states the achievements for the year as well as areas for improvement. A summary table is presented in the report, stating the targets and the actual results for the year. Examples of performance indicators include the rate at which recommendations are implemented and number of parliamentary hearings and briefings. Other information in this report includes stakeholder (Parliamentarians, government departments and state corporations) satisfaction survey results, financial performance indicating cost of operations, compensation and benefits and audited financial statements.
  - have an Audit and Risk committee

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## **Principle 7:**

### **SAIs report publicly on the results of their audits and on their recommendations regarding overall government activities**

- SAIs make public their recommendations resulting from the audits.

- SAIs assess their impact of the efficiency and effectiveness arising from their recommendations on the public sector and the public value of audit work and report on them.
- SAIs constituted as courts report on sanctions and penalties imposed on accounting officers or managers.
- SAIs also report publicly on overall audit outcomes, e.g. the government's overall budget implementation, financial condition and operations and, overall financial management progress and, if included in their legal framework, on professional capacity.
- SAIs maintain a strong relationship with relevant parliamentary committees to help them better understand the audit reports and recommendations and to take appropriate action.

### **Good practices**

- SAIs (either Courts or other model) report on the number of potential criminal offences revealed by their audits.
- Most SAIs reviewed acknowledge the necessity for publicly reporting on the results of their audits and for accessibility to other publications. A search of these publications can be conducted according to different criteria: years, agencies/institutions, topic, etc.
- Some SAIs offer summary reports. One SAI website offers "E-mail Updates" which, after subscription, allows access per email to the latest SAI publications.
- In most countries, the head of SAI presents the findings of their reports (all or selected ones) to the parliamentary committees and in some countries to the king or president.
- At one SAI, the head of SAI each year engages in person with groups of external stakeholders collectively (legislatures, executive tier of government, councillors and mayors) on his/her recommendations and the outcomes analysis arising from the audits. The same SAI also provides public accounts committees with orientation and training on financial management to enable them to better understand audit reports and enhance their probity of issues with auditees.
- A number of SAIs provide letters to new members of parliamentary committees highlighting instances where the government had not taken action as recommended in prior audit reports. This is done subsequent to every election, recognising that there are many new members of Parliament.
- The head of SAI holds both formal and informal meetings with the chairpersons and members of parliamentary committees and with deputy ministers of audited entities on a regular basis. These meetings offer the head of SAI an opportunity to explain the role and mandate of the SAI and get a better understanding of the needs of the various committees and the issues and risks facing audited entities.

One SAI provided parliamentarians with a guide entitled “Examining Public Spending” to assist them in reviewing the government budget. The guide attempts to demystify the process and includes recommended questions that parliamentarians can ask departments and agencies.

→ Some SAIs comment on draft budget or very large infrastructure projects.

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### **Principle 8:**

#### **SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means**

- SAIs communicate openly with the media or other interested parties on their operations and audit results and are visible in the public arena.
- SAIs encourage public and academic interest in their most important recommendations.
- Abstracts of audit reports and court judgements are available in one of the official INTOSAI languages, in addition to the country languages.
- SAIs initiate and conduct audits and issue the relevant reports in a timely manner. Transparency and accountability will be enhanced if the audit work and related information provided are not obsolete.
- SAI reports are available and understandable to the wide public through various means (e.g. summaries, graphics, video presentations, press releases).

#### **Good practices**

- SAI reports are available on their websites.
- SAIs hold press conferences after the release of the audit report to explain the content thereof.
- SAIs adopt a proactive attitude towards civil society. A number of SAIs engage communication specialists to review their reports to ensure that they are written in plain and understandable language.
- One SAI offers a media centre portal to journalists and others seeking information about the SAI, as well as news releases, statements, speeches and relevant background information as available.
- One SAI presents a similar heading. For each SAI's publication, press releases, speeches, summaries and articles are available.

→ One SAI has a dedicated media spokesperson who is accessible to the media. In addition, the SAI holds regular sessions with the key media houses to assist them to understand audit reports so that they publish their articles accurately and within the right context.

→ The head of one SAI regularly meets with a journalist at the press conference following the publication of the audit report for one-on-one interviews. The head of SAI also meets with parliamentarians to explain the budget for the SAI and to discuss its report on plans and priorities, its performance report and its management practices.

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### **Principle 9:**

#### **SAIs make use of external and independent advice to enhance the quality and credibility of their work**

- SAIs comply with the International Standards of Supreme Audit Institutions and strive for continued learning by using guidance or expertise from external parties.
- SAIs provide an external assessment of their operations and their implementation of the standard. For this objective they may use peer review.
- SAIs may use external experts to provide independent, expert advice, including on technical matters relating to audits.
- SAIs publicly report the results of peer reviews and independent external assessments.
- SAIs may benefit from joint or parallel audits.
- By enhancing the quality of their work, SAIs could contribute to the improvement of professional capacity in financial management (training, links with universities).

#### **Good practices**

→ A number of SAIs have been subject to peer reviews and the results have been posted on their websites.

→ SAIs receive advice from a number of committees with external members: These members are experts with relevant experience, such as leading representatives from environmental groups, the academic community, former public civil servants and private sector accounting firms.

→ Expert assessment (in areas including technical matters relating to audits) or academic feedback, benchmarking : information systems and actuarial calculations.

→ One SAI participates in joint audits for environmental issues.

→ Another SAI subjects its regularity audits to independent technical assessment by the national Independent Regulatory Board for Auditors, and its performance audits to assessments by an international SAI peer review team.

→ A number of SAIs conduct collaborative audits with SAIs of a different jurisdiction where there is a sharing of audit objectives, criteria and audit programs. Audit offices report individually to their respective legislatures. Examples of these collaborative audits include aboriginal issues, such as services for children on reserves and in the health sector on performance indicators.

→ One SAI established an independent panel to review environmental and sustainable development practices and to recommend ways to potentially strengthen such practices.

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