



CRITICAL ISSUES FOR STRENGTHENING SUPREME AUDIT INSTITUTIONS IN DEVELOPING COUNTRIES

Innocent Twebaze Mbaguta

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BUILDING INTEGRITY PROGRAMME

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Introduction

Rationale and Purpose

Supreme Audit Institutions (SAIs) carry out the external audit of public sector bodies and are vital to promoting efficiency, accountability, and transparency of public administrations in developing countries.

Many developing countries rely on the work of the SAI to monitor the proper use of tax revenues and donor funds to deliver public services. Moreover, donor support which accounts for a large proportion of the annual budget of many developing countries hinges on the quality of the Public financial management systems particularly the strength of the supreme audit institution as one of the indicators of the country's ability to utilize donor funding effectively. Therefore, the effectiveness of the SAI in a developing country can influence eligibility requirements, amount, conditions, and performance assessment of Donor support.

However, SAIs in developing countries often operate in fragile democratic systems where the legal system and Parliament are weak and unable to hold the government accountable, which threatens SAIs' independence.¹ Furthermore, there is often lack of resources and technical skills to carry out the rigorous high-quality audit needed.² The World Bank and International Monetary Fund among other donors have been supporting Supreme Audit Institutions for several years to build capable and responsive states by strengthening transparency, openness and accountability in the management of public funds.

This paper complements this work by exploring how SAIs in developing countries can sustain their mandate in the context of weak governance systems. It covers five critical issues for strengthening SAIs in developing countries:

- a) SAI Independence
- b) SAI Accountability
- c) SAI Relevance and Citizen engagement
- d) SAI strategy to curb corruption
- e) Professionalization of the SAI

Background

¹ Chipenzi, M., Kaela, L. C. W., Madimutsa, C., Mubanga, H., Muleya, N., & Musamba, C. (2011). The state of democracy in Zambia. Zambia: FODEP&UNZA-PAS.

² Wang, V., & Rakner, L. (2005). The accountability function of supreme audit institutions in Malawi, Uganda and Tanzania. Bergen: Christian Michelsen Institute.

Although developing countries have made significant progress in improving public financial management systems in recent years, external auditing remains amongst the weakest components. According to the Public Expenditure and Financial Accountability (PEFA) assessment of developing countries in 2007, ratings for external audit and financial reporting were the weakest areas in 21 African countries mainly due to lack of independence from the Executive, limited institutional capacity and, limited resources.³ In addition to the historical challenges to SAI independence and resource constraints, SAIs in developing countries have struggled to adapt to emergent operational threats as they seek to be more relevant in public financial management reforms. For instance, the danger to SAI independence and neutrality arising from the conduct performance audits, which involves auditors participating in policy evaluation with audited entities to improve their performance.⁴ Further, SAIs in developing countries have not exploited the benefits of citizen engagement in the form of citizens exerting pressure on the government to implement audit recommendations and protecting the independence of the SAI which are critical to the effectiveness of the SAI.⁵

In many developing countries, corruption is rampant and has generated pressure for more transparency and accountability from the public sector. (Langseth et al.,1997). However, SAIs lack a strategic focus to address corruption which undermines public trust in the SAI's relevance in enhancing public accountability. As a result, the SAIs may lose vital constituency to protect its independence and support its strategic objectives in a weak governance system.

SAIs in developing countries have made strides to build organization capacity by reducing skills gaps, particularly in financial audit. However, they were still struggling to create a culture of professionalism to attain sustainable operational efficiency.

This paper lays out the contextual challenges and solutions to the critical issues facing the SAIs in developing countries to bolster their legitimacy and sustain their mandate.

Critical issues for strengthening Supreme audit Institutions in developing countries.

³ Paolo de Renzio (2009) Taking Stock: What do PEFA Assessments tell us about PFM systems across countries? London: Overseas Development Institute, Working Paper 302:

<http://www.odi.org.uk/resources/download/3333.pdf>

⁴ Melo, Marcus André, Carlos Pereira, and Carlos Mauricio Figueiredo. "Political and Institutional Checks on Corruption: Explaining the Performance of Brazilian Audit Institutions." *Comparative Political Studies* 42, no. 9 (2009): 1217-244

⁵ Denhardt, Janet, Larry Terry, Edgar Ramirez Delacruz, and Ljubinka Andonoska. "Barriers to Citizen Engagement in Developing Countries." *International Journal of Public Administration: Security Issues for Public Administration* 32, no. 14 (2009): 1268-288.

SAI Independence

The independence of the SAI from undue pressures by auditees and other stakeholders forms the bedrock to its effectiveness in scrutinizing public accounts. The cornerstone of SAI independence is the Lima Declaration (1977) and Mexico Declaration (2007) which separates the SAI from the Executive branch and advocates for its impedance in determining the scope and methods of work. (Restrepo, 2015). Principle 2 of the Mexico Declaration on SAI independence makes it clear that those appointed to manage SAI heads should be appointed, re-appointed, or removed by a process that ensures their independence from the Executive which may undermine audit quality.

Although most SAIs in developing countries have achieved *de jure* independence stated in the legal framework, interactions with the Executive and Legislative branches still impede *de facto* independence of the SAIs.

Independence from the Executive

SAIs in developing countries do not report to the Executive and thus meet the *de jure* independence as per Mexico Declaration.⁶ However, in the absence of institutional design to produce high-quality audit reports, it is challenging to achieve true SAI independence and professionalism.⁷ Many SAIs in developing countries still rely on funding provisions determined by the Executive and may even suffer from budget cuts. By determining financial resources of the SAI, the Executive in part controls the scope of SAI operations which undermines the SAI's independence and audit quality in instances where the SAI's budgets cuts. SAIs in developing countries also face operation constraints in terms of inadequate skilled staff and training to conduct audits.⁸ A comparative study of SAIs in Malawi, Uganda and Tanzania revealed that the SAIs still lacked autonomy over budget allocations and the recruitment and dismissal of staff which were determined by agencies of the Executive branch⁹. Hence for the SAI to accomplish their tasks impartially and effectively, it needs operational autonomy from the audited entity in terms of managing its resources.¹⁰ An SAI budget should be appropriated by Parliament, which

⁶ Restrepo, Manuel Alberto. "Independence and Professionalism in the Institutional Design of Supreme Audit Institutions in Latin America and the Caribbean." *Global Jurist* 15, no. 3 (2015): 461-90.

⁷ Aken, A.v., Feld, L., Voigt, S. 2010. Do independent prosecutors deter political corruption? An empirical evaluation across 78 countries. *American Law and Economics Review* 12:204-244.

⁸ Isaksson, Ann-Sofie, and Arne Bigsten. "Institution Building with Limited Resources: Establishing a Supreme Audit Institution in Rwanda." *World Development* 40, no. 9 (2012): 1870-881.

⁹ Wang, Vibeke, and Lise Rakner 'The accountability function of supreme audit institutions in Malawi, Uganda and Tanzania' 2005 Chr. Michelsen Institute Research report.

¹⁰ World Bank (2007) Strengthening World Bank Group Engagement on Governance and Anticorruption, WashingtonDC:WorldBank

<http://www.worldbank.org/html/extdr/comments/governancefeedback/gacpaper-03212007.pdf>

has an incentive to prioritize the SAI's operational needs rather than the Executive who may have vested political interests.¹¹ Another consideration is that the SAI's operational effectiveness hinges on its ability to hire skilled staff and dismiss non-performing staff without influence from the Executive branch. (Dorotinsky & Floyd, 2004; Dye & Stapenhurst, 1998; Levy, 2007; McGee, 2002). Therefore, the SAI should have the autonomy to develop and implement its human resource guidelines and salary structure to recruit, retain and reward skilled staff for producing high-quality audits.

Nevertheless, SAIs in developing countries would be susceptible to pressure from government departments, given their growing importance as sources of public financial reform advocacy.¹² SAIs across the globe and more recently in developing countries are moving away from financial audit and compliance towards performance audits which has raised the tension between the SAI's effectiveness and its independence. The performance audits involve assessing the economy, efficiency, and effectiveness of government programmes and thus require auditors to have a continuous dialogue with the auditee to not only establish the entity's performance but also provide solutions to enhance its operational performance. Hence, the SAI could be susceptible to regulatory capture through adopting the auditee's interests as audit recommendations which may undermine its independence. Furthermore, in case the audit recommendations are inadequate, the SAI may not be willing to audit its advice, thus increasing the risks of regulatory capture.

Another concern to the SAI is that performance auditing requires evaluation of policy outcomes may result in political backlash from parts of the legislature and Executive since audit reports have the potential to stimulate public opinion that negatively affect their future electoral chances.¹³ For instance, legislators may consider audit reports on government policies as biased because they have the potential to stimulate public opinion that negatively affect their future electoral chances. Therefore, there is need to establish robust performance audit guidelines that demonstrate the SAI's operational transparency and objectivity to avoid the appearance of political bias and safeguard the SAI's independence from the undue influence of the Executive and Parliament. A promising alternative would be for the SAI to focus on the assessment of government policy implementation rather than evaluating policies from inception to completion. Concentrating on evaluating policy implementation would allow the SAI to expose gaps in government performance and lessen critique on policy formulation matters which fall in the political arena of elected representatives. Nonetheless, it is somewhat complex to

¹¹ Clark, Colin, Michael De Martinis, and Maria Krambia-Kapardis. 2007. Audit Quality Attributes of European Union Supreme Audit Institutions. *European Business Review* 19 (1):40–71.

¹² Melo, Marcus André, Carlos Pereira, and Carlos Mauricio Figueiredo. 2009. Political and Institutional Checks on Corruption: Explaining the Performance of Brazilian Audit Institutions. *Comparative Political Studies* 42:1217.

¹³ Bowerman, M., C. Humphrey and D. Owen (2003), 'Struggling for Supremacy: The Case of UK Public Audit Institutions', *Critical Perspectives on Accounting*, Vol. 14, No. 1–2, pp. 1–22.

adequately mitigate the inherent threats to SAI independence from performance audits because a robust review of government policy implementation would still require examining the government's policy planning processes.

Independence from Parliament

According to Principle 2 of the Mexico Declaration on SAI independence, the Legislative branch holds the responsibility of sustaining the independence of the SAI from the Executive. The legislative branch is responsible for ensuring that the process for the appointment, re-appointment or removal of SAI heads ensures their independence from the Executive. At the same time, the Legislative branch holds the SAI accountable by determining its mandate and overseeing its operations.¹⁴ Therefore, Parliament plays a dual role in protecting the SAI's independence and ensuring that independence yields the intended objectives of enhancing public accountability. This dual role creates an implicit obligation on Parliament to execute its oversight role in a manner that does not undermine its other purpose of protecting the SAI's independence in conducting audits. For example, the Parliament, through its public accountability committees, can request the SAI to conduct investigations. However, Parliament should not determine the audit scope and nature of reporting as that would impede the SAI's independence.

Parliamentary oversight committees tend to enhance the institutional legitimacy of the SAI as they compel government agencies to implement audit recommendations promptly, thus boosting SAI's effectiveness in improving public accountability. However, in many developing countries SAIs often struggle to respond to audit requests from the legislative branch due to inadequate organizational capacity and the potential breach auditor's independence in cases, where the legislative branch stipulates the scope and nature of reporting.¹⁵ Therefore, SAI's failure to honour parliamentary honour requests undermines trust between SAI and Parliament, which is critical to sustaining the SAI's mandate.

Nevertheless, the SAI's independence from the legislature is rather complicated because it requires the SAI to simultaneously strike a delicate balance between its strategic interdependence with Parliament to enhance public accountability through holding the Executive to account and its desire for independence in conducting audits.

Many authors SAI independence argue that for the SAI to be independent, it should have full control over its plan and budget. (Barrett,1996; Kayrak, 2008; Clark et al. 2007) However, they miss the point that it is impractical for the SAI to achieve full independence

¹⁴ Clark, C., De Martinis, M. and Kiraka, R. (2003), "Transformation of public sector auditing in southern African countries: comparing the independence and accountability of supreme audit institutions", *South African Journal of Public Administration*, Vol. 38 No. 2, pp. 118-32

¹⁵ Fiedler, F. 2004. The Independence of Supreme Audit Institutions. PP. 108-121 in *INTOSAI: 50 Years (1953-2003)*. A Special Publication of the International Organization of Supreme Audit Institutions.

from the legislature due to their interdependence in pursuing the SAI's mandate of enhancing public accountability. For instance, one of the most advanced SAIs, the USA Government Accountability Office (GAO) conducted 94% of its annual work in response to congressional requests, and 6% were self-initiated engagements in 2008.¹⁶ Hence, a pragmatic view would be for SAIs in developing countries to embed legislative requests in the scope of their audits as long as the SAIs' retains independence to conduct the audit and report to Parliament according to their audit quality standards. Also, the SAI should create a legislature relations unit to assist the legislative oversight committees in holding government agencies accountable through briefing committee members about significant audit findings and responding to Parliamentary requests for investigations.¹⁷ For instance, the SAIs in Colombia, Peru and Uruguay set up a department to provide technical assistance to parliamentary oversight committees by presenting briefs on the implications of critical issues in the audit report and progress on ongoing audit projects increased legislators' attention to audit reports. (Restrepo, 2015). Nonetheless, the regular interactions between the SAI and Parliament on completed and ongoing audit could still impair SAI independence if parliamentary oversight committees seek to influence current audit projects by demanding additional investigations. Thus, it is imperative for the SAI and Parliament to regularly assess whether legislative requests align with the SAI's mandate and do not hamper its independence.

SAI accountability

For the SAI to maintain credibility, it must be transparent and accountable in the use of allocated public funds. The SAI must account to Parliament for its use of resources and exercise of authority by reporting its operational performance, especially in developing countries with limited resources.¹⁸ However, legal provisions for Parliament to hold SAIs to account were weaker than requirements for the SAIs' independence in both developed and developing countries. Clark et al. (2007). For instance, a study of SAIs in Latin America and the Caribbean revealed that although the SAIs had obtained independence from the Executive, they did not provide accountability to Parliament in the form of statistics on the performance and cost of audit projects. In the absence of project budgets and performance reports, audits were likely to be inefficient and expensive due to poor project management. (Restrepo, 2015). While Clark et al. (2007) and Restrepo (2015) make a valid argument that weak legal provisions result in inadequate scrutiny of the SAI, they miss the point that Parliaments could exploit the loopholes in the law to demand

¹⁶ Government Accountability Office (GAO) Annual Report, 2008. Available at: <http://www.gao.gov/assets/210/203443.pdf>. (Accessed on 25 July 2020)

¹⁷ Government Accountability Office (GAO). 1990. Congressional Relations Activities, 1950-1983. Available at: <http://www.gao.gov/assets/200/194896.pdf>. (Accessed on 25 July, 2020)

¹⁸ Clark, C., De Martinis, M., & Krambia-Kapardis, M. (2007). Audit quality attributes of European Union supreme audit institutions. *European Business Review*, 19(1), 40.

more accountability from SAIs in a manner that infringes on the SAI's independence to conduct audits. For instance, Parliament can request the SAI to provide evidence on areas it audited but did not include in the audit report, which undermines the SAI's independence in determining audit findings to include in the audit report.

Besides, the apparent duty of the SAI to account to Parliament, an SAI ought to demonstrate the impact of its activities on public service delivery.¹⁹ However, SAIs in developing countries, have struggled to track the influence of their work on government performance and demonstrate its benefits.²⁰ In most cases, SAIs tend to maintain a strict focus on fulfilling their legal mandate in the constitution. However, without efforts to demonstrate value, the SAIs' public perception and legitimacy may be diminished, thus weakening the SAIs' effectiveness in developing countries.

The following measures would strengthen SAI accountability in developing countries:

Parliament oversight committees scrutinize the SAI's income and expenditure estimates and monitor its operational performance concerning finance, quality control, training and affirmative action.²¹ However, if the Executive, controls the legislature, then it creates a false opposition between the legislative and the Executive branches whereby parliamentary oversight may cause a risk to SAI independence. For instance, members of the ruling party may oppose initiatives to strengthen the SAI's organizational capacity to limit expose on Executive. One way to solve this problem is to adopt committee rules in Parliament that require the equal representation of the opposition and the ruling party on parliamentary oversight committees to align interests of Parliament with those of the SAI.

The Parliament should liaise with the SAI to establish legal provisions for SAI accountability that ensure that the SAI is accountable to the Parliament in fulfilling its mandate while protecting its independence. For instance, in some jurisdictions, the Parliament may appoint an auditor to examine SAI operations (Barrett 1996). However, there is little evidence that the external audit of SAIs is a standard practice or indeed, an essential

¹⁹ Cordery, Carolyn J., and Hay, David. "Supreme Audit Institutions and Public Value: Demonstrating Relevance." *Financial Accountability & Management* 35, no. 2 (2019): Pp128-142

²⁰ Pollitt, C. (2003), "Performance audit in Western Europe: trends and choices", *Critical Perspectives on Accounting*, Vol. 14 Nos 1/2, pp. 157-70.

²¹ Barrett, Pat. "Some Thoughts about the Roles, Responsibilities and Future Scope of Auditors-General." *Australian Journal of Public Administration* 55, no. 4 (1996): 137-46.

feature of accountability for many countries.²² Thus, Most SAI tend to rely on internal checks and balances that exist within SAIs to ensure quality and accountability of operations and management. While the SAI's internal controls enhance audit quality, they should not be a substitute for legislative scrutiny of the SAI.²³ One can argue that parliamentary scrutiny of the SAI would provide better assurance to the public that the SAI is operating efficiently in the execution of its mandate than self-regulation by the SAI.

Ultimately, the level of trust between the SAI and the legislative branch is more likely to determine the extent of the SAI's accountability to Parliament than legal provisions. A more promising approach to SAI accountability would be for the SAI and Parliament to agree on performance outcomes and accountability reporting requirements to track the SAI's performance. Another complementary alternative to improve SAI accountability to Parliament and the public would be for regional SAIs to hold each other accountable through voluntary peer reviews of audit quality standards. Peer reviews by SAIs in a similar contextual environment would provide the SAI in a developing country a suitable benchmark and motivation to improve audit quality and achieve its strategic objectives.

SAIs must develop methods to provide a comprehensive understanding of the value of their work in their context to improve public image and increase staff focus staff on SAI mission.²⁴ Moreover, in developing countries with inadequate resources, demonstration of the SAI's public value would stimulate opportunities for additional funding from Parliament and donors to support its strategic objectives. SAIs across the globe use Impact assessment methods such as audit recommendations implemented by the government, financial savings and impact on Parliament and media to demonstrate public value. (Oțetea et al.,2015). A more beneficial approach for SAI in developing countries would be to measure indicators like audit recommendations implemented by the government, money savings and made and feedback from Parliament that are easy to measure and depict the value of SAI as an instrument of democratic accountability.

SAI relevance and citizen engagement

²² Transparency International – How to make Anti-Corruption agencies accountable and independent <https://www.transparency.org/en/news/how-to-make-anti-corruption-agencies-accountable-and-independent>.

²³ Broadbent, J. and Laughlin, R. (2003). Control and Legitimation in Government Accountability Processes: The Private Finance Initiative in the UK, *Critical Perspectives on Accounting*, Vol. 14, pp.23-48

²⁴ Oțetea, Alexandra, Cristina Maria Tița, and Ungureanu, Mihai Aristotel. "The Performance Impact of the Supreme Audit Institutions on National Budgets. Great Britain and Romania Case – Comparative Study." *Procedia Economics and Finance* 27, no. C (2015): 621-28.

Citizens and SAIs often play a complementary role in enhancing public accountability. On the one hand, the Citizens are end users of government services who have information about government performance that can support SAI in its operations to scrutinize government performance adequately. (Moore, 2013). On the other hand, SAI often publish audit reports on government performance which citizens and civil society can use to demand transparency and accountability in government.²⁵ Likewise, informed Public opinion helps to exert pressure on the Executive to implement audit recommendations which is critical to the effectiveness of the SAI.

Nonetheless, SAIs in developing countries often have limited engagement with civil society because they lack an institutional framework to sustain collaborations with citizens and civil society while safeguarding their independence.²⁶ Another concern for SAIs is that interactions with the citizens may broaden the audit scope without corresponding resources allocation. A more coherent view is that while SAIs view cooperation with civil society as helpful, they believe that the threats to SAI independence and objectivity exerted by public opinions from different interest groups may exceed its benefits. For example, SAIs audit reporting on high-risk entities was likely to be affected likely to be skewed by pressure from the public opinion which may not align audit evidence, thus contravening audit quality control standards. Indeed, Civil Society organizations may have different interests and may not neutral players in pursuit of public accountability. Therefore, SAIs in developing countries need to operate with civil society partners who share the same goals and uphold high ethical standards.

A good relationship between SAI, citizens, and civil society, is critical to enhancing public accountability. The SAI's Citizen engagement can result in a legitimacy coalition capable of exerting pressure on the government to implement institutional reforms recommended by the SAI. The following recommendations would help SAIs in developing countries to stimulate citizen engagement.

SAIs need to develop effective collaboration practices between SAIs and civil society in the audit process without jeopardizing their SAI's independence.²⁷ Collaborations with civil society and citizens will enable the SAI to build legitimacy among citizens as a trusted instrument for public accountability. Moreover, SAIs in developing countries operate in a

²⁵ Bhandari, C. K. (2014). Engaging civil service organizations in SAI audit. *International Journal of Government Auditing*, 41 (2), 24-29

²⁶ Denhardt, Janet, Larry Terry, Edgar Ramirez Delacruz, and Ljubinka Andonoska. "Barriers to Citizen Engagement in Developing Countries." *International Journal of Public Administration: Security Issues for Public Administration* 32, no. 14 (2009): 1268-288.

²⁷ Ramkumar, Vivek and Warren Krafchik. "The Role of Civil Society Organizations in Auditing and Public Finance Management." *International Budget Project*, Washington, D.C. (October 2006)

complex environment which causes a threat to their independence. Hence, SAIs need support from citizens to bolster their independence from the Executive. Citizens can voice their support through protests and use of the media to defend the SAI's position as a vital instrument for enhancing public accountability. SAIs need to sensitize on public accountability aspects such as budget monitoring, and anti-corruption and whistleblowing strategies to mobilize public support as part of a symbiotic strategy to achieve the SAI's mandate. A promising way to engage the public is to use media organizations and use social media to convey key audit milestones to bolstering the public value of the SAI among citizens. For instance, In Uganda and Zambia where Parliament is considered weak, the SAIs were effective in using the media to highlight corruption scandals documented in their audit reports which creates informal coercive pressure on the Executive to institute public sector reform.²⁸

Besides, SAIs in developing countries can collaborate with civil society through Setting up an advisory council to provide insights risk in the public sector, which would boost the relevance of the SAIs' work to the public. For example, Nepal formed an advisory committee composed of 15 members consisting of bureaucrats, economists, journalists, and legal experts to advise the SAI on significant risks in the public sector and ensure audits improve public service delivery.²⁹

SAI strategy to curb corruption

Corruption is an issue that is at the heart of the public arena and that its devastating economic consequences generate constant pressure for more transparency and accountability from the public sector.³⁰ Indeed, a high magnitude of corruption in a country negatively affects citizens' confidence in the country's anti-corruption agency such as the SAI and ombudsman. However, SAIs may not be able to prevent corruption because of isomorphic pressures from their strong affiliation with the financial audit profession, which contends that the purpose of the audit is to confirm that financial statements are free from material errors. Hence, identifying fraud should not be the main

²⁸ Reichborn-Kjennerud, Kristin, Belén González-Díaz, Enrico Bracci, Thomas Carrington, James Hathaway, Kim Klarskov Jeppesen, and Ileana Steccolini. "SAIs Work against Corruption in Scandinavian, South-European and African Countries: An Institutional Analysis." *The British Accounting Review* (2019): Vol.51(5).

²⁹ World Bank, "A Paradigm Shift in Auditing in Nepal," News, World Bank, October 11, 2013 <http://www.worldbank.org/en/news/feature/2013/10/11/a-paradigm-shift-in-auditing-in-nepal>

³⁰ Langseth, Petter, Rick Stapenhurst, and Jeremy Pope. 1997. "The Role of a National Integrity System in Fighting Corruption". The Economic Development Institute of the World Bank (1997). http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/02/24/000094946_99030406262037/Rendered/PDF/multi_page.pdf

focus of the audit from the onset unless auditors encounter it in the course of the audit.³¹ For instance, International Standards of Audit (ISA) 240 – *Auditors responsibility relating to fraud in an audit of financial statements* adopted by all SAIs requires auditors to merely exercise professional scepticism throughout the audit to ascertain risks of material misstatements on financial statements caused by fraud.³² Therefore, one can infer that this auditing standard does not impose a strict obligation on auditors to identify corruption. Consequently, The International Organization of Supreme Audit Institutions (INTOSAI) which oversees the performance of SAI globally produced a draft guideline 5700 - *for the audit of corruption prevention in government agencies* to address the gap in International audit standards - 240 by guiding SAIs on how to audit corruption in government agencies.³³ However, it is still early to assess the impact of draft audit guideline in combating corruption.

Nevertheless, in developing countries, corruption is widespread and requires significant focus from the SAI to enhance public accountability.³⁴ Therefore, it is imperative for the SAIs focus on corruption as a root cause of government inefficiencies during audits lest they are considered irrelevant by the public. Moreover, the loss of public trust would result in the SAIs losing a vital constituency to protect their independence and support their strategic objectives, thus weakening the SAIs' ability to fulfil their mandate.

The following proposals could enhance the SAI's strategy to curb corruption:

SAI need to change the institutional design to address the risks of corruption proactively.³⁵ One way of achieving the institutional redesign is through Parliament enacting laws that explicitly require the SAI to strategize and focus on preventing and uncovering corruption. For example, In 2004, Norway, one of the least corrupt countries in the world, enacted a law mandating the SAI to contribute towards preventing and uncovering

³¹ Jeppesen, Kim K. "The Role of Auditing in the Fight against Corruption." *The British Accounting Review* 51, no. 5 (2019): The British Accounting Review, September 2019, Vol.51 (5).

³² International Standard on Auditing 240- The auditor's responsibilities relating to fraud in an audit of financial statements. <https://www.ifac.org/system/files/downloads/a012-2010-iaasb-handbook-isa-240.pdf>

³³ INTOSAI- Draft guideline 5700 for the audit of corruption prevention in government agencies. <http://www.issai.org/4-auditing-guidelines/guidelines-on-specific-subjects/>

³⁴ Jeppesen, K., Carrington, T., Catasùs, B., Johnsen, Å., Reichborn-Kjennerud, K., & Vakkuri, J. (2017). The strategic options of supreme audit institutions: The case of four Scandinavian countries. *Financial Accountability and Management*, 33(2)

³⁵ Jeppesen, K., Carrington, T., Catasùs, B., Johnsen, Å., Reichborn-Kjennerud, K., & Vakkuri, J. (2017). The strategic options of supreme audit institutions: The case of four Scandinavian countries. *Financial Accountability and Management*, 33(2)

corruption to encourage an institutional focus on corruption.³⁶ Although enacting laws expands the SAI's mandate, its effectiveness in tackling corruption is unclear.

On the other hand, the types of audits the SAI conducts may determine its effectiveness in the fight against corruption, for instance, specialized audits such as forensic and performance audits may be more effective in detecting and reducing corruption than traditional financial and compliance audits.³⁷ While one may concur with Dyke (2007) that specialized audits can unearth even the most sophisticated form of corruption. The argument misses the point that in developing countries, the SAI's inability to prevent or expose corruption could be attributed more to the quality of the audits than the type of audits. Most developing countries were still experiencing rather common forms of corruption such as bribery and use of public funds to a personal use which could be exposed by traditional financial and compliance audit procedures. Nevertheless, in developing countries, specialized audits could be used to address emerging audit risks from Public-Private partnerships, and information systems which may require specialized expertise in law, information technology, engineering and economics to audit.

A more pragmatic solution to fighting corruption lies improving in the quality of financial and compliance audits while building capacity to conduct specialized audits. One promising approach to implement this solution is for the SAI to strategically allocate resources in the form of time and personnel to the riskiest audit projects and establish quality control measures to identify and expose that corruption. For instance, the SAI can conduct forensic audits in targeted high-risk' sectors or government agencies based on financial and compliance audits' risk assessments to expose corruption. The SAI can apply performance audits to ascertain root causes of perennial and broad problems in government agencies to address efficiency gaps such as irregular accumulation of public debt, unauthorized use of budgeted funds and ineffective performance measurement system, among others. Strategic allocation of SAI resources based on assessed risks will not only help to prevent corruption but also unearth significant inefficiencies in government process in developing countries which may have a similar negative impact on public service delivery as corruption. Also, the SAI needs to establish an independent Quality assurance and audit development department to develop and

³⁶ Jeppesen, Kim K. "The Role of Auditing in the Fight against Corruption." *The British Accounting Review* 51, no. 5 (2019): *The British Accounting Review*, September 2019, Vol.51 (5).

³⁷ Dye, K. (2007) *Corruption and Fraud Detection by Supreme Audit Institutions*. In Shah, A. (ed.) *Performance Accountability and Combating Corruption*. Washington, DC: World Bank.

enforce audit quality standards.³⁸ The department would follow up on the implementation of audit quality control processes and train auditors to improve individual and team performance on audit projects.

However, the SAI's ability to fight corruption not only depends on its organizational capabilities but also on the degree of support from the broader governance context of the country.³⁹ Therefore, SAIs ought to work with other interdependent government accountability agencies such as the treasury, ombudsman and the judiciary on strategies to improve transparency and accountability in the public sector as part of the national integrity system.⁴⁰ A robust accountability environment would enhance the SAI's effectiveness in detecting and preventing corruption.

Professionalization of the SAI

SAI can only achieve defacto independence if they build organizational capacity to produce quality audits.⁴¹ SAIs in developing countries experience operational constraints in terms of the low number of skilled staff and training, which hinder their ability to conduct quality audits. (Dorotinsky & Floyd, 2004; Dye & Stapenhurst, 1998; Levy, 2007). The inadequate organization capacity of SAIs could explain why in many developing countries, donors often contract international private audit firms to audit donor-funded government programmes instead of relying on SAIs. As a result, the SAIs lose an opportunity to build organizational capability through being accountable to donors' strict audit requirements. Dorotinsky & Floyd (2004); Dye & Stapenhurst, (1998); Levy, (2007) make a valid case that SAIs in developing countries lack the skilled staff to conduct audits. However, they miss the point that in developing countries, despite SAIs closing the skills gaps especially in financial audits, the lack of enforcement of audit standards is a significant hindrance to building a culture of professionalism in SAIs.

SAIs in developing countries have also struggled with pacing of audit innovations. (Isaksson and Bigsten, 2012). For instance, SAIs have adopted Performance audits to examine the economy, efficiency, and effectiveness of government expenditure, despite not being fully equipped to conduct quality financial and compliance audits. As

³⁸ Santiso C. 2007. Auditing, accountability, and anticorruption: How relevant are autonomous audit agencies? In *Global Corruption Report 2007*. Transparency International. Oxford University Press: Oxford; 358–362.

³⁹ Wescott, Clay G. 2008. *World Bank support for public financial management: Conceptual roots and evidence of impact*. Washington, DC: World Bank Independent Evaluation Group.

⁴⁰ Dye, K. M., & Stapenhurst, R. (1998) *Pillars of integrity: the importance of supreme audit institutions in curbing corruption*, Economic Development Institute World Bank.

⁴¹ Akhidime, Augustine, and Famous I.O. Izedonmi. 2012. Challenges of Supreme Audit Institutions: Perspective of Auditor-General of Nigeria. *The USV Annals of Economics and Public Administration* 12 (15):183–190.

a result, SAI may not focus on the more obvious and pressing issues of fighting corruption where there are considerable marginal gains to the political economy. Another budding concern is that as SAIs expand their organization structure to include new types of audit and increase stakeholder engagement, there is often little coordination between departments despite the overlaps in risks managed by the various departments. (Pollitt, 2003). Consequently, the expansion of the organization structure may result in duplication of activities such as risk assessments by various audit departments and may not be cost-effective. Therefore, expanding the organization structure without harnessing potential synergies between departments would not result in tangible improvements in SAI operations.

SAIs often require several cycles of innovation to build a culture of professionalism (Isaksson and Bigsten (2012)). However, the following proposals could help SAIs in developing countries to accelerate professional growth.

SAIs need to focus on contextual institutional solutions rather than best practices solutions which may not be able to address local limitations in developing countries and achieve the desired ends at lower costs.⁴² For example, SAIs in developed countries with robust financial management systems have moved away from mainly focusing on financial audits to performance audits to improve government effectiveness. However, SAI in developing countries operate in weak governance systems which still experience visible forms of financial frauds thus require more focus on financial audits than performance audits. Hence, it would be more beneficial for SAIs in developing countries to utilize their limited resources on enhancing the quality of financial audits, which could yield the most marginal benefits while building capacity in specialized audits gradually.

Similarly, the recruitment of staff and training should aim at addressing the most critical needs of the organization. Different types of audits require diverse skills, for example, while financial audits require accounting skills, specialized audits require statistics, engineering and legal expertise. (Dye & Stapenhurst, 1998). Therefore, the SAI needs to implement recruitment, appraisal, and reward systems to attract and retain qualified staff to deliver quality audits. The SAI can accelerate its audit teams' professional development by conducting joint audits with the advanced SAIs. Joint audits with SAIs in developed countries can be a cost-effective alternative to building the organizational capacity of SAIs in developing countries. For instance, Joint audits between Nordic countries and SAIs

⁴² Rodrik, Dani. "Second-Best Institutions." *American Economic Review* 98, no. 2 (2008): 100-04.

in developing African countries have been instrumental in building capacity in performance audits in Africa.⁴³

Conclusions and Policy Implications

SAIs in developing countries are integral to improving transparency, accountability, and good governance in the public financial management system. This paper examines the critical issues for strengthening SAIs in developing countries which often operate in weak governance systems which threaten their independence and constrain the SAIs' organizational capacity. This paper also suggests contextual institutional and operational solutions to enhance the SAIs' mandate in developing countries. The following are the overarching conclusions and policy implications on the five critical issues for strengthening SAIs in developing countries.

SAI independence

Although most SAIs in developing countries have achieved *de jure* independence stated in the legal framework, interactions with the Executive and Legislative branches still impede *de facto* independence of the SAIs.

SAI Independence from Executive

SAIs in developing countries lack *de facto* independence since they still rely on funding provisions determined by the Executive. The Executive can control the SAI's operations through budget cuts which undermine the SAI's independence and audit quality. Hence the SAI's budget should be appropriated by Parliament, which has an incentive to prioritize the SAI's operational needs rather than the Executive who may have vested political interests to undermine the SAI's independence. The SAI also needs autonomy in human resource management to enable to recruit, retain and reward skilled staff for strengthening the organizational capacity to conduct audits.

SAIs across the globe and more recently in developing countries have moved away from financial audit and compliance towards performance audits which require a more continuous dialogue with the auditee to improve the entity's performance. Hence, SAIs are prone to regulatory capture by adopting the auditee's interests as audit recommendations. Furthermore, in case the audit recommendations are inadequate, the SAI may not be willing to audit its advice, thus increasing the risks of regulatory capture. Another concern to the SAI is that performance auditing requires evaluation of policy outcomes may result in political backlash from parts of the legislature and Executive since audit reports have the potential to stimulate public opinion that

⁴³ Jeppesen, K., Carrington, T., Catasùs, B., Johnsen, Å., Reichborn-Kjennerud, K., & Vakkuri, J. (2017). The strategic options of supreme audit institutions: The case of four Scandinavian countries. *Financial Accountability and Management*, 33(2)

negatively affect their future electoral chances. Therefore, the SAI would need to establish robust performance audit guidelines that demonstrate the SAI's operational transparency and objectivity to avoid the appearance of political bias and safeguard the SAI's independence from the undue influence of the Executive and Parliament. A promising alternative would be for the SAI to focus on the assessment of government policy implementation and steer way from critiquing policy formulation matters which fall in the political arena of elected representatives.

SAI independence from Parliament

Legislative oversight committees tend to enhance the institutional legitimacy of the SAI as they compel government agencies to implement audit recommendations promptly, thus boosting SAI's effectiveness in improving public accountability. The SAI's independence from the legislature is somewhat complicated because it requires the SAI to simultaneously strike a delicate balance between strategic interdependence in supporting parliamentary oversight of the Executive, being accountable to the legislature on its operations and its desire for independence in conducting audits.

Many authors focus on strengthening SAIs argue that for the SAI to be independent, it should have full control over their agendas and budgets. (Barrett, 1996; Kayrak, 2008; Clark et al. 2007). Instead, SAIs in developing countries should pursue strategic interdependence with the legislative branch as the key to achieving their mandate rather than complete independence from the legislature, which may render the SAI irrelevant. The SAI should create a legislature relations unit to assist the legislative oversight committees in holding government agencies accountable through briefing committee members about significant audit findings and responding to Parliamentary requests for investigations. Nonetheless, regular interactions between the SAI and Parliament on completed and ongoing audits may impair SAI independence because legislators may seek to influence current audit projects by demanding additional investigations. A better view would be for the SAI to respond to legislative requests regularly if there is no threat to SAI's independence to determine audit scope and conduct audits

SAI accountability

Clark et al. (2007) and Restrepo (2015) argue that legal provisions for the accountability of SAIs to Parliament were weaker than requirements for the SAIs' independence hence the lack of adequate legislative scrutiny may result in inefficient SAI operations. However, they miss the point that in the context of developing countries, Parliaments may exploit the silence in legal provisions to extend the boundaries of accountability in ways that may infringe on the SAIs' independence to conduct audits. For instance, Parliament sometimes requests SAI for evidence on areas audited not reported in SAI report, which undermines the SAI's independence in determining the salient audit findings to include in

the audit reports. Parliament oversight committees should scrutinize the SAI's income and expenditure estimates and monitor its operational performance concerning finance, quality control, training and affirmative action. However, if the Executive, controls the legislature, then the false opposition between the legislature and the Executive branches; thus, parliamentary oversight may cause a risk to SAI independence. Hence Parliament should adopt committee rules that require the equal representation of the opposition and the ruling party on parliamentary oversight committees to align interests of Parliament with those of the SAI.

While the SAI's internal checks and balances enhance audit quality, they should not be a substitute for legislative scrutiny of the SAI. Parliamentary scrutiny of the SAI would provide better assurance to the public that the SAI is operating efficiently in the execution of its mandate than self-regulation by the SAI. Ultimately, the level of trust between the SAI and the legislative branch is more likely to determine the extent of the SAI's accountability to Parliament than legal provisions. A more promising approach would be for SAI and Parliament to agree on performance outcomes based on the strategic plan and resources allocated to ensure the SAI's effectiveness. Another complementary alternative to improve SAI accountability to Parliament would be for regional SAIs to hold each other accountable through voluntary peer reviews of audit quality standards. Peer reviews by SAIs in a similar contextual environment would provide an SAI in developing country a suitable benchmark and motivation to improve audit quality and achieve its strategic objectives.

SAIs in developing countries have struggled to track the influence of their work on government performance and demonstrate its benefits. However, without efforts to demonstrate value, the SAI's public perception and legitimacy may be diminished, thus weakening SAI's effectiveness in developing countries. A suitable approach would be to measure indicators like audit recommendations implemented by the government, money savings and made and feedback from Parliament that are easy to measure and depict the value of SAI as an instrument of democratic accountability.

SAI relevance and citizen engagement

The challenges of citizen engagement, notwithstanding, a good relationship between SAI, citizens, and civil society, is critical to enhancing public accountability. The SAI's Citizen engagement can result in a legitimacy coalition cable of exerting pressure on the government to implement institutional reforms recommended by the SAI. SAIs in developing countries operate in a complex environment which causes a threat to their functional independence. Hence, SAIs need the support of the citizens to bolster its independence against the Executive. Citizens can voice their support through protests and use of the media to defend the SAI as a vital instrument to public accountability. SAIs need to sensitize on public accountability aspects such as budget monitoring, and

anti-corruption and whistleblowing strategies to mobilize public support as part of a symbiotic strategy to achieve the SAI's mandate. A promising way to engage the public is to use media organizations and use social media to convey key audit milestones to bolstering the public value of the SAI among citizens. Besides, SAIs in developing countries can collaborate with civil society through Setting up an advisory council to provide insights risk in the public sector and ensure that SAI audits enhance public accountability and service delivery.

SAI's strategy to curb corruption

The SAIs' compliance with existing International audit standards which do not provide for a strategic focus on corruption may impede their ability to enhance public accountability in developing countries which experience rampant corruption. Moreover, the loss of public trust would result in the SAIs losing a vital constituency to protect their independence and support their strategic objectives, thus weakening the SAIs' ability to fulfil their mandate. Therefore, SAIs need to change the institutional design to address the risks of corruption proactively. A proactive approach requires the SAIs to focus on corruption as a root cause of government inefficiencies during audits lest they are considered irrelevant by the public.

Although one may concur with Dyke (2007) that specialized audits can unearth even the most sophisticated form of corruption. The argument misses the point that in developing countries, the SAI's inability to prevent or expose corruption could be attributed more to the quality of the audits than the type of audits. Most developing countries were still experiencing rather common forms of corruption such as bribery and use of public funds to a personal use which could be exposed by traditional financial and compliance audit procedures. Nevertheless, in developing countries, specialized audits could be used to address emerging audit risks from Public-Private partnerships, and information systems which may require specialized expertise in law, information technology, engineering and economics to audit. Hence, a more pragmatic solution to fighting corruption lies improving in the quality of financial and compliance audits while building capacity to conduct specialized audits. The strategic allocation of SAI resources based on assessed risks will not only help to prevent corruption but also unearth significant inefficiencies in government process in developing countries which may have a similar negative impact on public service delivery as corruption. Also, the SAI needs to establish an independent Quality assurance and audit development department to develop and enforce audit quality standards.

Nonetheless, the SAI's ability to fight corruption not only depends on its organizational capabilities but also on the degree of support from the broader governance context of the country. Therefore, SAIs ought to work with other interdependent government accountability agencies such the treasury, ombudsman and the judiciary on strategies

to improve transparency and accountability in the public sector as part of the national integrity system. A robust accountability environment would enhance the SAI's effectiveness in detecting and preventing corruption.

Professionalization of the SAI

Although Dorotinsky & Floyd, 2004; Dye & Stapenhurst, 1998; Levy, 2007 make a valid case that SAIs in developing countries lack the skilled staff to conduct audits. They miss the point that in developing countries despite SAIs closing the skills gaps, especially in financial audits, the lack of enforcement of audit standards is a significant hindrance to building a culture of professionalism in SAIs. SAIs in developing countries have also struggled with pacing of audit innovations. (Issakson and Bigsten, 2012). For instance, SAIs have adopted Performance audits to examine the economy, efficiency, and effectiveness of government expenditure, despite not being fully equipped to conduct quality financial and compliance audits. As a result, SAI may not focus on the more obvious and pressing issues of fighting corruption where there are marginal gains to the political economy.

SAI in developing countries operate in weak governance systems which still experience visible forms of financial frauds thus require more focus financial audits than performance audits. Hence, it would be more beneficial for SAIs in developing countries to focus their limited resources on enhancing the quality of financial audits, which could yield the most marginal benefits while building capacity in specialized audits gradually. Similarly, the recruitment of staff and training should aim at addressing the most critical needs of the organization. Hence the SAI needs to implement recruitment, appraisal, and reward systems to attract and retain qualified staff to deliver quality audits.

SAIs can accelerate audit teams' professional development by conducting joint audits with the developed SAI. Joint audits with SAIs in developed countries can be a cost-effective alternative to build the organizational capacity of SAIs in developing countries. For instance, Joint audits between Nordic countries and SAIs in developing African countries have been instrumental in building capacity in performance audits in Africa.

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