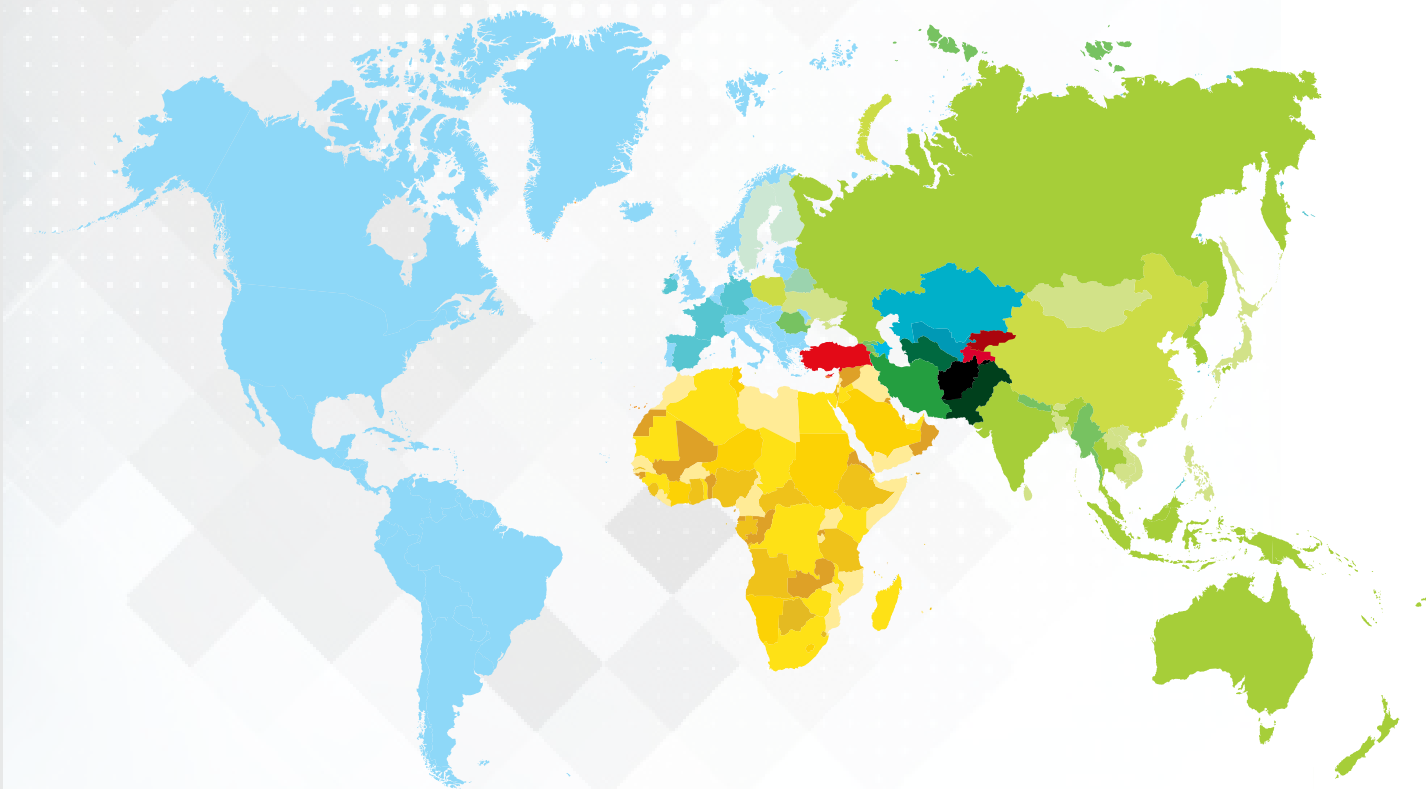


ECOSAI

CIRCULAR 2018



ECOSAI is a regional forum of the Supreme Audit Institutions of the South and Central Asian regions. Founded in 1994, the ECOSAI aims at promoting the state auditing profession in member countries through exchange of ideas, experiences and by holding seminars, conferences, workshops and training courses.

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The publisher to wish to thank all the individuals and organizations who have contributed to this publication.

The ECOSAI Journal is the official organ of ECOSAI and has the objective of providing members SAIS with the forum of sharing experiences in different areas of public sector auditing.

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Editorial Team

Sheraz Manzoor Haider

Director General
International Relations and Coordination (IR&C)

Zulfiqar Khan

Director IR&C

Sarah Shaikh

Eirij Rubbani

Deputy Directors IR&C

ECOSAI Secretariat,

IR&C Wing, Office of the Auditor General Pakistan

Constitutional Avenue, Islamabad, 44000

Pakistan

Phone: +92 51 9224042

Fax: +92 51 9219177

Email: saipak@comsats.net.pk

Visit: www.ecosai.org.pk



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MESSAGE OF THE SECRETARY GENERAL ECOSAI



I feel immense pleasure to have an opportunity of once again addressing you from this forum, which regularly brings us together. ECOSAI was established with the core aim of sharing experiences and contributing towards the capacity building of fellow SAIs in government auditing procedures and techniques. This forum provides us a great opportunity to exchange our wide-ranging and worthwhile experiences.

I am very happy in presenting spring issue of ECOSAI Circular 2018.

ECOSAI Circular offers its members a space to share our ideas, knowledge and achievements. It is satisfying to see ECOSAI Circular evolving as a medium for professional exchange and communication of pragmatic aspects of public sector auditing. I am hopeful that the Circular would continue to help achieve collective objectives of members SAIs.

I cannot conclude without conveying my thanks to the staff of ECOSAI Secretariat and our sincere gratitude to the individual authors who have made publication of this the Circular possible.



INTEGRATING PERFORMANCE AUDIT WITH REGULARITY/COMPLIANCE AUDITS

Sheraz Manzoor Haider
Director General (IR&C),
Office of the Auditor General
of Pakistan, Islamabad

Introduction

Performance is the yardstick by which the quality of individual and collective human effort is assessed. Everywhere, performance shapes the lives of people and organizations according to its logics and demands. The quest for performance has spread to societies worldwide; it has become of central importance for our perception of our activities and our understanding of the world. Such importance calls for reflection within the context of organizations. Performance audit is one of the tools for measurement of performance in an organization. The International Organization of Supreme Audit Institutions (INTOSAI) introduces the concept in its Lima Declaration of 1997: Performance audit is oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but the full range of government activity including both organizational and administrative systems.

Rationale for Performance Audit

The basic role of a performance audit is to scrutinize and provide information about public sector conduct, thereby enabling the accountability of public sector bodies for expenditures of public funds. Performance is a multifaceted concept and it is possible to disagree about what “good” performance is. Nevertheless, as prescriptive texts from the INTOSAI suggest, there are commonalities between the auditees that make the execution of audits of “economy”, “efficiency” and “effectiveness” possible. Thus, the understanding of concept in performance auditing literature is expressed in terms of economy, efficiency and effectiveness, or the “three Es”. Common denominators between economy, efficiency and effectiveness are the emphasis on public organizations' core activities, and quantification and measurement. Audit of economy is concerned with the means chosen or the equipment obtained – the inputs – represent the most economical use of public funds. Audit of efficiency is concerned with whether we are getting the most output – in terms of quantity and quality – from our inputs and actions. Audit of effectiveness focuses on the extent to which goals are achieved.

The performance audit coverage ranges from system to substance. A distinction between substance and systems is based on whether the audit concerns an organization's core activities (substance) or the systems developed in order to manage and control the activities. According to INTOSAI, it can be appropriate to examine both core activities and control/supporting systems, since the latter often influence the extent to which goals are attained.

Performance auditing distinguishes itself from other forms of auditing because it focuses on the performance of an organization, on the organizations' projects or programmes and the systems and procedures they use to control the performance. Improving an organization's efficiency and effectiveness is one of the purposes of performance auditing. All activities within the public sector are intended to be useful for citizens. It is therefore important that input, via different processes, can be transformed to output (services or products) with a satisfying outcome.

Problem

Over time, there has been a tendency towards expanding performance audits' breadth of coverage. There have been suggestions for adding another 'E' for representing environment in performance auditing. Bowerman¹ has suggested an extended and broad-based view, as she includes "everything from economy to policy". Others have pointed out that there is need for an audit that occupies the space between how the government create value for money (good or bad), and how they comply with legislation, rules and policies. This has led to the view that accountability² or compliance can be included in performance audits as an examination of an organization's adherence to legislation, rules and policies evaluate how those responsible have met such requirements. Another justification for combining compliance with three Es is that contravening the rules can be both detrimental and demoralising to an organization, and that adherence to legislation, rules and policies can contribute to value for money.

Today, we extend the scope of this debate by questioning whether performance audit can be integrated with regularity audit. Before we attempt to seek an answer to this question, we need to see what necessitates such exploration.

Globally, size of government operations is increasing day by day, which necessitates a corresponding increase in the scope of external audit in terms of its coverage of revenue and expenditure in a situation where SAIs have limited human and material resources and are obliged to report to respective legislatures in a limited time span. Further, auditors are pre-occupied with different types of audits in line with their legal mandates and the time required for completing a performance auditing assignment is comparatively longer than time consumed in any other type of audit. Nevertheless, the performance audit for its relevance to value for money cannot be abandoned. Resultantly, with an increased cost of audit, SAIs are managing their workload. Therefore an integrated approach towards audit is the response to challenges of coverage, costs and time.

¹Bowerman, M. (1996), *Accounting and Performance Measurement: Issues in the Private and Public Sectors*, Paul Chapman Publishing, London.

²INTOSAI *Performance Audit Guidelines: ISSAI 3000 – 31002004, part 1.8* states that: *Auditing accountability can be described as judging how well those responsible at different levels have reached relevant goals and met other requirements for which they are fully accountable.*

What is Regularity Audit?

We come back to the question, whether performance audit can be integrated with regularity audit. Before we attempt an answer, we define regularity and regularity audit. As a stand-alone term, regularity refers to concept that activities, transactions and information which are reflected in the financial statements of an audited entity are in accordance with authorizing legislation, regulations issued under governing legislation and other relevant, laws, regulations and agreements, including budgetary laws and are properly sanctioned. As a distinct type of audit, regularity audit³ according to ISSAI 1005, embraces:

- (a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- (b) attestation of financial accountability of the government administration as a whole;
- (c) audit of financial systems and transactions, including evaluation of compliance with applicable statutes and regulations;
- (d) audit of internal control and internal audit functions;
- (e) audit of the probity and propriety of administrative decisions taken within the audited entity; and
- (f) reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

Three Types of Audit

From the definition given in the preceding paragraph, we identify, at least, three important types of audit (i) Financial attest or financial audit (ii) Compliance audit and (iii) Audit of the probity and propriety of administrative decisions.

Financial audit—an independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with the financial reporting framework.

Compliance audit- deals with the degree to which the audited entity follows rules, laws and regulation, policies, established codes, or agreed upon terms and conditions etc. Compliance auditing may cover a wide range of subject matters. In general, the purpose of a compliance audit is to provide assurance to intended users about the outcome of the evaluation or measurement of a subject matter against suitable criteria.

Audit of Propriety- general principles of sound public sector financial management and conduct of public sector officials;

Audit of probity-concerns integrity

Depending on the mandate of the Supreme Audit Institution, a compliance audit may be an audit of regularity, or propriety, or both.

For SAI Pakistan, the regularity audit includes:

- Financial Attest of accuracy and correctness of accounts and audit of internal controls
- Compliance with Authority Audit including audit of probity and propriety of administrative decisions
- Reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed

³The terms - regularity audit and - financial audit are often used interchangeably. Such references to audits includes an audit of financial statements, and some or all of the elements set out in a) to f) under ISSAI 1005, depending on the mandate of the Supreme Audit Institution.

Possibility of Integration

The INTOSAI Congress in 2010 adopted a comprehensive set of international standards for SAIs. These standards cover the core audit disciplines of financial, compliance, and performance audits. They provide an institutionalized framework for transferring knowledge, improving government auditing worldwide, and enhancing the professional capabilities and influence of SAIs in their respective countries. Making the transition to include performance audits as well as traditional financial and compliance audits in INTOSAI Standards has expanded the range of tools that national audit offices have to help their respective governments identify and address challenging domestic and global problems. considers should be disclosed.

In this context we note that:

- The three types of audit are tools that are best used together
- The compliance and performance issues associated with implementing the budget are interrelated, for instance:
 - Experience shows that errors of regularity are very often cases where spending did not hit the target or was used sub-optimally
 - Typical errors in our annual report include payments for expenditure which was ineligible or for purchases without proper application of public procurement rules.

The Treaty on the Functioning of the European Union requires the Court to examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound. The Financial Regulation on the implementation of the EU budget defines sound financial management as applying the principles of economy, efficiency and effectiveness. Reflecting the provisions of the Treaty, the Court takes the combined approach. The Court's DAS audits are an example of compliance audits carried out as part of an audit of financial accounts. Resultantly, the Court's performance audits almost always include criteria which reflect compliance with the provisions of legislation.

The SAI Canada has experimented to conduct comprehensive audit of each single entity. In this activity all aspects related to functioning of an organization were covered by audit team. The concept was to constitute an audit team that shall comprise members having knowledge of all types of audits. It was an initiative taken to present the holistic picture of an organization and to save time and financial resources to be incurred on audit. Later this activity was discontinued by SAI Canada.

Prompted by the experiments of integration by various SAIs discussed in the preceding paragraphs, the present paper seeks to demonstrate the linkages of Performance audit with three other types of audit in the following matrix:

Performance	Compliance	Regularity	Financial Attest
Economy	Rules of recruitment, procurement (services, goods, works, consulting), Wastefulness,	Probity and propriety of administrative decisions taken by an audited entity	VFM assertion about classes of transactions and events : transaction or event relating to expenditure represents the economical acquisition
Efficiency	Adherence to work plans, scheduled processes,	Review of ability and capacity to convert inputs to desired outputs as envisaged in law	VFM assertion about classes of transactions and events : transaction or event relating to expenditure represents the economical acquisition as well efficient use of resources
Effectiveness	Review of achievement of the planned objectives and goals enshrined in rules	judging how well those responsible, have reached relevant goals and met other requirements for which they are fully accountable Non-effective performance of operations	VFM assertion about classes of transactions and events : transaction or event relating to expenditure represents the economical acquisition as well efficient and effective use of resources Qualitative materiality: covering a variety of matters such as public interest

The Ultimate Design of Audit

On the basis of the demonstrated linkages between performance and three other types of audit, an audit may be designed to explore performance aspects; as part of a compliance audit of an entity; as part of financial audit of an entity, as part of or as part of an integrated audit combining the three types. However, any of the proposed integrated audit type is expected to substitute an independent performance audit.

The decision of integration depends upon prevailing political and accountability pattern of a country. Final destination of any report is the Public Accounts Committee (PAC). It needs to be determined how well an integrated audit report is seen by the legislative bodies and whether the legal frame work support this initiative. The Constitution of Islamic Republic of Pakistan gives mandate to the AGP to take up any type of audit so the matter of integration can be sorted out very well under the constitutional mandate, but the acceptance issues remains there to be deliberated upon that how well such reports are received by legislators.

APPLICATION OF MACRO CRITERIA - CHALLENGES FOR COMPLIANCE AUDITORS

Aamir Fayyaz
Additional Director Finance,
Office of the Auditor General
of Pakistan, Islamabad

Audit practice proves that it is the audit criteria which sets audit into motion as it provides *raison d'être* for the auditor to work on an issue, seek evidence and report to the stakeholders. For the sake of simplicity, let us assume that there is an acceptable way of doing things. We call it the available and acceptable 'criteria' for audit. Audit criteria have numerous sources and interestingly, this is determined not by audit but by the organizations under audit or by their controlling organizations or by those ultimately responsible, directly or indirectly, for their governance. Public sector auditors expect them to follow the criteria, which they themselves have determined. When they do not, auditors report to the stakeholders after establishing the extent of deviation, highlighting reasons and understanding the impact, actual or potential, and providing recommendations which provide the management an additional and modified criteria to follow for the specific issue where original criteria was ignored.

Since criteria have many sources, auditors continuously face a challenge in applying it to diverse situations in its MACRO form: one that is Measurable, Acceptable, Comparable, Relevant, and Objective. All these are integrated and usually mutually inclusive: it is not possible to have criteria that are not objective and still acceptable or vice versa. In compliance audits, auditors must be well versed with the applicable criteria and since criteria is subject to change, at times abruptly changed by those responsible for it, they are required to be vigilant in updating their understanding of it, at least on periodic basis. Planning Files for individual compliance audits being used in the Department of Auditor General of Pakistan contain specific forms like "List of Applicable Laws" and "Points for Attention at Next Audit" where this understanding and updating of knowledge is documented and put to effective use. Sometimes a criterion is applied for a considerable time and auditors develop a fair understanding of it. When it is changed, auditors may lag behind in updating their knowledge to the changes in the historically applied criteria. For instance, Punjab Delegation of Financial Power Rules, 2006 remained valid for almost 10 years before these were amended and revised in 2016. Were the change in criteria not referred to in the relevant planning files; audit programs and checklists may lose utility during the execution phase. The updating of knowledge aspect requires auditors to focus on the comparability of criteria as well and remain conscious that a similar situation may lead to application of different criteria across government entities which, if not understood, may lead to inaccurate comparisons in audit reports. As Illustration-I explicitly explains that unless auditors are knowledgeable of such diversity in audit criteria, their understanding of the contextual working of the auditee would be incomplete, non-comparable and unfortunately defective.

Illustration - I

Public Procurement Regulatory Authority's Rules (PPRA-Federal-2004) is a rich source of criteria for the auditors. Currently, in a normalized scheme of things, if proposed procurement is beyond Rs.100,000 [Approx.\$1000] it has to be done through open competitive bidding. However, for autonomous bodies of the government, this amount could be set at Rs.500,000 [Approx.\$5000] if approved by their respective Boards of Governors. Additionally, if the amount of procurement is up to Rs.2 Million [Approx. \$20,000], mandatory publication is required on PPRA's website whereas in Sindh Public Procurement Authority's Rules, 2010, this maximum amount is Rs.1 Million [Approx. \$10,000] i.e. 50% less than the amount fixed in federal rules.

Illustration - II

- a) Sanction of the competent authority is required to incur any expenditure or raise any liability out of public funds
- b) Money spent on any activity has to fulfil the requirements of propriety, probity, economy, value for money and compliance with applicable authorities
- c) Those who hold authority should exercise responsibility, due care and diligence in approving expenditure proposals
- d) The head of organization is responsible for enforcing financial order and strict economy in the organization
- e) Expenditure proposals should not be more than the occasion demands
- f) Public funds must be used judiciously and have to be spent in public interest.

Illustration - III

Uniformity of criteria is expected in the audit of public sector hospitals established at district level in the province. Audit was conducted in 10 such hospitals and it was noticed that while audit teams pointed out the dysfunctional status of certain machines and operation theatres in 4 hospitals, no issue was raised in the remaining 6 audited hospitals. There could be two possible reasons: either the Audit Teams conducting audit in those 6 hospitals did not consider the issue material/significant for reporting or simply it was out of their radar. Result: Readers could only conclude from this omission that in the remaining 6 hospitals, there was no such issue. This presumption however may or may not be based upon facts.

Generally, however, since the search for MACRO criteria may require extra audit effort, auditors feel tempted to use readily available generalized criteria which may well serve the purpose but invariably affects the quality of audit reports. Illustration-II displays some of the frequently used generalized criteria in compliance audits. Take (a), for instance, it is preferable to refer to relevant provisions of System of Financial Control and Budgeting, 2006 or Punjab Delegation of Financial Power Rules, 2016 as relevant. Similarly, for (b), specific provision in the PPRA Rules, 2004 would be preferable. Same goes for italicized words and phrases in (c) to (f) which appear relative and are thus to be guided by the context for appropriate criteria. Consider this. What is the best way to get value for money in procurement? Is it through open competitive bidding, direct contracting or through negotiated tendering? Is it through single stage method or two stage method? It is easy to conclude that the use of generalized criteria is fraught with multiple risks, which can seriously impact the quality of audit products. General criteria therefore has to be preferably replaced or at least augmented with MACRO criteria after careful research and brain storming at the time of desk audit in the planning stage of audit.

At times, there is lack of consistency in the application of same criteria across different organizations based on several reasons: lack of clearly developed audit programs and their implementation through supervision and review, conscious or unintended difference of opinion among audit teams on the application of criteria to the organizations with similar functions and mandate. An issue may be significant/material to Auditor-A, but insignificant to Auditor-B. For the supervisory officers, however, it presents a major challenge to ensure that similar criteria is consistently applied across similar entities. Illustration-III identifies one such problem and suggests the need for preparation of audit templates so that all audit teams irrespective of their level of interest and their perceived levels of materiality and significance check same tasks.

It is understood that audit observations are dependent upon audit criteria and when there is no criteria, no observation. However, lack of criteria may itself become a criteria and its non-availability may call for development of one in view of contextual information available, sector- specific local, national and international best practices. For instance, what is the maximum life of a tyre? What minimum mileage should be set for an oil change of a particular class of vehicle? How much waiting time should be acceptable while you are at a public sector hospital to see a general physician? What is the optimum student-teacher ratio in a public sector primary school? What is the optimum number of school days in a calendar year? Similarly at times two types of criteria are conflicting in nature. For example, procurement principles provide two criteria: concerning economy and value for money. This may confuse the stakeholders as economy is generally perceived in terms of lowest cost of acquisition whereas value for money covers several aspects not limited to the price tag. These and many others require tailor-cut planning, adequate documentation and meaningful supervision and review.

Since we noted above that the management in its broadest possible extended meanings sets criteria, auditors seem to have a limited and passive role in the traditional CCCECR model (criteria-condition-cause-effect-conclusion-recommendation). However, in reality auditors have a lot of discretion in the application of available criteria to diverse situations based upon their professional judgment. This discretion should be regulated through effective supervision and review, off site and on site, based on concise audit programs prepared using MACRO criteria to improve the quality of audit reports.

SUSTAINABLE DEVELOPMENT GOALS: CHALLENGES FOR SAIs

Sarah Shaikh
Deputy Director IR&C Wing,
Office of the Auditor General
of Pakistan, Islamabad

Introduction

With poverty prevailing, hunger increasing, climate changing, inequality in education rising, gender discrimination existing, adoption of the Agenda of 'transforming our world' by Heads of 189 States at United Nations Sustainable Development Summit in September 2015, is a great hope for a safe, healthy, just and sustainable world. The adoption of the 2030 Agenda with 17 challenging Sustainable Development Goals is a challenge to make this planet a better place for living. The 2030 Agenda has incorporated in itself five components: People, Planet, Prosperity, Peace and Partnership. The Goals undoubtedly are challenging but they provide a foundation for future development priorities and yardsticks against which the progress will be measured. There is a dire need that countries may work to implement the goals thus moving from commitment to results. The United Nations Organisation has recognized the role of Supreme Audit Institutions (SAIs) in effective, efficient and successful implementation of this agenda.

Goals cover all aspects of human life

The seventeen Sustainable Development Goals with 169 indicators cover all three aspects of human life: economic, social and environmental promising a better life for each individual. The pillars of human development, human rights and equity are deeply imbibed in SDGs. The Agenda 2030 promises prosperity and respect for even the poorest but achieving them requires commitment and efforts from all stakeholders. INTOSAI recognized implementation of Agenda 2030 requires endeavors in many areas:

- Prioritizing SDGs in national discourse
- Making available adequate finances
- Framing integrated and multi-stakeholder methods to implement the goals
- Arranging new and appropriate monitoring and review frameworks

Challenges Government are facing to implement SDGs

Governments are facing a number of challenges to prepare for implementing the 2030 agenda but they have to think different from business as usual to achieve this daunting task. They may need to:

- Do a gap analysis, which would give an overview of the baseline, challenges and opportunities in implementing this agenda
- Adopt and synchronize their national policies, by strengthening human resources, improving governance and ensuring necessary finances
- Open consultative process for participation of all stakeholders
- Integrate the agenda in local strategies
- Involve all ministries to analyze all goals and targets within their area of responsibility, the ministries then should present a report indicating their current policies and the measure they are adopting to ensure successful implementation of the agenda.
- Involve all the departments, ministries concerned and stakeholders and make them effectively and successfully implement the agenda
- Involve respective Supreme Audit Institutions (SAIs) in implementation of SDGs as SAIs play a paramount role in promoting the accountability, effectiveness, efficiency and transparency of public administration
- Organize workshops on 2030 Agenda and seek assistance of United Nation's Development Programme (UNDP) to ensure better understanding of SDGs
- Ensure monitoring and implementation of the goals showing full commitment to transparency

Role of SAIs in successful implementation of agenda

To ensure successful implementation of Agenda 2030 SAIs have a crucial role to play. The UN General Assembly Resolutions A66/209 (2011), A 69/228 (2014) and A 69/327 (2015) encourage the member states to “give consideration to promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions.” The question arises, why do SAIs exist? The answer lies in ISSAI 12, which says “SAIs exist to contribute value and benefits for citizens in their countries.” The 2030 Agenda has the vision to transform the world and make better the lives of the people. SAIs mandate is over all the government spending, they are well positioned to make a positive contribution to support the implementation of SDGs. SAIs can be instrumental in ensuring that national governments have these International commitments on their agendas and are pursuing them in transparent and accountable way.

Role of ISSAI 12

International Standards of Supreme Audit Institutions (ISSAIs) 12 has three objectives with various underlying principles which collectively describe the role of ISSAI that can be adopted in implementation of SDGs. INTOSAI has also identified this role. These objectives include:

i **Strengthening the accountability, transparency and integrity of government and public sector entities**

For implementation of SDGs, it is important that the Government institutions are effective, having robust system and effective policies. The prime responsibility of SAIs is to ensure that public resources are effectively utilized, the government is efficiently discharging its responsibilities and hold the Government and Public Sector organizations accountable to public by reporting the audit findings.

ii Demonstrating ongoing relevance to citizens, parliament and other stakeholders

It is SAI's role to do Financial, Compliance and Performance Audit and report audit findings that could be found relevant to the citizens and stakeholders. SAIs can do audit of ministries, departments etc involved in implementation of SDGs and present practical and meaningful recommendations that would help in improving their processes and thus 2030 Agenda's implementation.

iii Being a model organization through leading by example

It is very important for SAIs to practice what they preach. They need to make themselves a model organization following their code of ethics, managing their operations effectively, efficiently and economically. Be adherent to the rules giving, having sound internal control and management policies would give confidence to the public that their audit results are positive.

Challenges SAIs are facing in auditing preparedness of SDGs as discussed in INTOSAI workshop on “Auditing preparedness for implementation of Sustainable Development Goals”

Sustainable Development Goals adopted in 2015 are at their nascent stage. What SAIs can do at this initial stage is Performance Audit of the preparedness of the government to implement 2030 Agenda to ensure successful implementation of Goals. INTOSAI carried out a SAI Leadership and Stakeholder Workshop on “Auditing Preparedness for the Implementation of the Sustainable Development Goals (SDGs)”, and discussed the challenges SAIs may face in auditing the Governments' preparedness to implement SDGs. The first challenge discussed was how the SAIs will audit the dimension of inclusiveness. The core of 2030 Agenda is “leaving no one behind” that means the Governments need to include all the marginalized and unequal group and ensure participation of all the stakeholders for successful implementation of the agenda. The challenge SAIs are facing is “how can they expand their traditional focus on economy, efficiency and effectiveness to enquire about equity and equality considerations, and how these are met.” The second challenge pointed out during the workshop was “how can the information produced by the national audits on SDGs preparedness, inform and help strengthen the reviews of the SDGs at the global level?” In order to make the reviews vital at global level, there is a need that some common elements, methods and standards, which would help in exchange of experiences around these audits.

Challenges SAIs may face to Audit SDGs

i Mandate and Capacity Challenges to conduct SDGs Audit

The SAIs capacities and mandates usually vary in countries. Some of the SAIs have no clear mandate of doing Performance Auditing. SAIs having mandate to performance audit may suffer from capacity issues. Most of the SAIs perform traditional financial and compliance audit and their staff is not equipped with the tools and knowledge to do performance auditing. In this regard, knowledge sharing and learning from other SAIs is critical.

ii Resources issue to conduct SDGs Audit

SDGs cover broad range of agendas. It may become difficult for SAIs to set priorities with respect to auditing SDGs. SAIs will have to audit all the ministries and departments engaged in implementation of SDGs. SAIs' capacity seems to be constrained as they are faced with broad range of agenda like SDGs. The question arises how SAIs should set priorities with respect to auditing.

At this initial stage what SAIs can do is to audit what the government has promised to do to implement SDGs or risks if the objectives set by the governments are not achieved.

iii Scoping issue to conduct SDGs Audit

The scope of SDGs is very extensive as they cover all three aspects of human life; economic, social and environmental. This extensive scope is challenging for SAIs as compared to auditing narrower programmes or specific government organizations..

iv Stakeholder engagement issue

The broad range of 2010 Agenda requires active participation of all stakeholders at all stages from integration into national strategies to implementation to national monitoring to review. Engaging with stakeholders have become important for SAIs as they will have to identify all the stakeholder and the involvement of the government in preparing the implementation of SDGs.

While carrying out the Audit, the auditor may have following questions in mind,

- To what extent the government has adopted a SDG framework to its national planning documents?
- Has the government devised any roadmap to inculcate the Agenda in into its national context?
- Has the government allocated sufficient funds for successful implementation of the Agenda?
- Are Ministries/Departments/Stakeholders held responsible for successful implementation of agenda and has government created any accountability mechanism?
- Any follow-up mechanism on SDGs is created or not?

Has the government chalked down performance measures for each indicator?

However, some of these questions could only be answered when SAIs would involve themselves in audit of preparedness of Government to implement SDGs.

Way forward for SAIs

It has become important for SAIs to take strategic approach in auditing SDGs by taking into account the value and benefits that they can contribute through the outcomes of audit. Moreover, it has become very important to do capacity building of the auditors to produce quality audit outputs. Furthermore, it is very important that the awareness may be raised in auditors about the importance of 2030 agenda. This will contribute to mitigate the risk of perceiving audit of SDGs as a new agenda.

Conclusion

INTOSAI Strategic Plan 2017-2020 has included SDGs as cross cutting priority, ECOSAI can do the same. ECOSAI member SAIs need to identify their potential and weaknesses in auditing the implementation of SDGs. Once these are identified, the SAIs may cooperate with each other to convert weaknesses into strengths and conduct positive and successful audit.

FOLLOW-UP MECHANISM: A MISSING-LINK IN AUDIT CYCLE

Murat İNCE
Principal Auditor,
Turkish Court of Accounts

Abstract

Shedding light to developmental chances and guiding on the betterment of public finance management system has become one of the core aims of public auditing today. Undoubtedly, the most significant function of public auditing is to advance accountability and fiscal transparency in the public sector. In this respect, attaching importance to follow-up audit may highly contribute to complying with the innovative developments in audit theory and practice. It is our assertion that the follow-up phase has to be defined and described as the fourth phase of public sector auditing and the relevant guidance should be included within the ISSAI Framework as well. If an audit approach limits itself only with the detection of irregularities and does not indicate any developmental capability, it eventually reduces itself into a non-creative institutional technique. Perhaps we need a more comprehensive definition of public sector auditing under the label of performance audit as a whole. Performance audit differs essentially from the other audit approaches in that it offers solutions, highlights progressive points and yet develops concrete recommendations for the enhancement of public management system. Admittedly, these goals are achievable only through an effective and appropriate follow-up mechanism.

Key Words: Follow-up, ISSAI Framework, Financial Audit, Performance Audit, Compliance Audit.

Introduction

This study is intended to question the role and place of follow-up mechanism in public sector auditing. Pursuant to this goal, it examines the given public sector audit methodologies in terms of their conformity to follow-up procedure and then by drawing on some good examples of follow-up implementations it also tries to describe a normative follow-up framework applicable to the supreme audit institutions all over the world.

Follow-up mechanism constitutes one of the main components of audit cycle. Normally an audit process is composed of three phases; planning, execution and reporting. During the planning phase of audit, the auditors gather relevant background information and initiate contact with the audited entity. After determining the objectives and scope of the audit as well as the timing of fieldwork and distribution of the final report, auditors proceed to identification of the risks in order to prepare an audit plan. Once the audit is planned, the audit teams execute the fieldwork. In the execution phase, the management or those charged with governance are kept informed of the audit process through regular meetings. The identified audit observations, potential findings, and recommendations are discussed with the audited entity. Finally, in the reporting phase, a summary of the audit findings, conclusions, and specific recommendations are officially communicated to the organization through a final report.

The process described above represents the general flow of the audit cycle. However, there exists a missing link in it. It does not have any reference to the post-audit situations and yet it confers only one-sided or audit-centered definition of the audit process. In fact, it seems that the dialectical characteristic of the audit is ignored in this description. Therefore, in order to get a more competent and comprehensive description of the audit cycle we should add a fourth phase to this cycle, “follow-up phase”.

It is our assertion that the follow-up phase has to be defined and described as the fourth phase of public sector auditing and the relevant guidance should be included within the ISSAI Framework as well. More specifically, all audit findings and recommendations in the public sector should be followed up within at least two years' time otherwise all the vigorous efforts carried out during the audit process would eventually go in vain.

ISSAI Framework and Follow-up

Supreme Audit Institutions (SAIs) apply certain audit techniques. The detailed theoretical information with regard to these techniques is systematically described in the ISSAI Framework, which is developed by the International Organisation of Supreme Audit Institutions (INTOSAI).¹

The significance of the follow-up mechanism is emphasized in the high level documents of ISSAI Framework (Level 2 and 3), but one can hardly find any specific guidance on the implementation of follow-up procedures especially within the scope of fourth level documents (Level 4). In fact, the follow-up mechanism is not described as one of the main components of audit process in both financial and compliance audit methodologies as in the case of performance audit.

The second major document of ISSAI framework, ISSAI 10, also known as Mexico Declaration, underpins the significance of follow-up mechanism for SAIs. According to the 7th principle of the document which bears the title of “The existence of effective follow-up mechanisms on SAI recommendations”; SAIs are required to have their own internal follow-up systems and address their observations or those of legislature or its commission or governing board and submit the follow-up report to any of these boards as appropriate.

The significance of the follow-up mechanism is also emphasized in ISSAI 12 “The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens.” With the introduction of this document, the activities of the SAIs become more visible and beneficial for the enhancement of overall democratic consciousness. Parallel to previous documents this document also requires SAIs to “have appropriate mechanisms for following audit findings and recommendations” and “report, as appropriate, on the follow-up measures taken with respect to their recommendations.” (INTOSAI ISSAI 12, 2013:6-7). As stated, SAIs are not only encouraged to have an appropriate follow-up mechanism but they are required to report on the follow-up measures as well.

We observe that recent INTOSAI standards attribute a more active and assertive role to the SAIs. In this regard, ISSAI 12 considers SAIs as key and leading actors in the public management system as a whole, far beyond their traditional roles and responsibilities. Interestingly, ISSAI 12 takes “public sector auditing” as an important factor in making a difference to the lives of citizens. Within the concept of the standard, an independent, effective and credible SAI is regarded as an essential component in a democratic system where accountability, transparency and integrity are indispensable parts of a stable democracy.

¹INTOSAI's Framework of Professional Standards consists of four levels. Level 1 contains the framework's founding principles. Level 2 (ISSAIs 10-99) sets out prerequisites for the proper functioning and professional conduct of SAIs in terms of organisational considerations that include independence, transparency and accountability, ethics and quality control, which are relevant for all SAI audits. Levels 3 and 4 address the conduct of individual audits and include generally-recognised professional principles that underpin the effective and independent auditing of public-sector entities (INTOSAI ISSAI 100, 2013:1).

It is almost impossible to find any theoretical approach, which handles the follow-up mechanism as an integral part of the public sector auditing. As mentioned above, most of the theoretical explanations come from the field of internal auditing. As an example see Russell (2007:135-144).

Public Sector Audit Methodologies and Follow-up

The ISSAI framework mainly describes three types of Public Sector Auditing: Financial Audit, Compliance Audit and Performance Audit. The relevant guidelines with regard to these audit techniques appear in Level 4 of the framework (ISSAI 1000-4999). Most conspicuously, Financial Audit standards form a major portion of ISSAI framework (INTOSAI ISSAI 1000-2999, 2010). They originally come from the International Standards on Auditing (ISAs) introduced by International Federation of Accountants (IFAC ISAs, 2010). INTOSAI directly adopted the ISAs in 2010, added a Practice Note to each document, the ISAs became public sector financial auditing standards.

According to the framework, the purpose of Financial Audit is to enhance the degree of confidence of intended users in the financial statements. This confidence is achieved by the opinion of the auditor as to whether the financial statements are prepared, in accordance with an applicable financial reporting framework (INTOSAI ISSAI 200, 2013:4). Therefore, we can conclude that financial audit methodology is an opinion-focused methodology. However, one should consider that this sort of opinion might not be relevant or meaningful for the public sector as expected because, far from reaching an opinion, the audit results in the public sector mainly provide guidance for the betterment of the public accounts and generally focus on the enhancement of the public accountability.

It is pertinent to mention here that the opinion in the financial audit ultimately presents a very static financial description of the audited entity. We cannot get a dynamic picture of the entity in financial audit unless we go deep into the analytical procedures performed by the auditors behind “the fixed opinion.” On account of this, we can infer that financial audit methodology is apparently incompatible with the follow-up mechanism because the opinion in financial audit just seeks to give an overall and instant idea about the entity. Moreover, the opinion in the financial audit typically covers one-year period and the new year's findings will be normally taken into consideration during the formulation of the next year's opinion. In that case, the financial auditor would not care about whether or not his findings are followed up properly.

Let us have a look at the likely follow-up procedures in Compliance Audit. The ISSAI framework defines the compliance audit “as the independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria.” Accordingly, compliance audits are carried out for assessing whether activities, financial transactions and information comply, with the rules, which govern the audited entity (INTOSAI ISSAI 400, 2013:3). Compliance Audit and its methodology are very similar to Financial Audit. We have various definitions of “subject matter” and “subject matter information” in the Compliance Audit guidelines but in fact, these terms are substitutive variants of the term “financial statements” in financial audits.

The case is heavily different in Performance Auditing as compared to other audit techniques. The ISSAI framework defines Performance Audit as “an independent, objective and reliable examination of whether the government undertakings, systems, operations, programs, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement” (INTOSAI ISSAI 300, 2013:2). According to the relevant standard, the follow-up phase in Performance Auditing refers to “the auditors' examination of corrective action taken by the audited entity, or another responsible party, on the basis of the results of a Performance Audit. It is an independent activity that adds value to the audit process by strengthening the impact of the audit and forms the basis for improvements to future audit work. It also encourages the audited entities and other users of reports to take the latter seriously, and provides the auditors with useful lessons and performance indicators” (INTOSAI ISSAI 300, 2013:17). The standard also underpins some crucial points with regard to the follow-up mechanism:

- Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying issues after a reasonable period of time.
- When conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach.
- Follow-up results may be reported individually or as a consolidated report, which may in turn include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas (INTOSAI ISSAI 300, 2013:17).

³We observe that recent INTOSAI standards attribute a more active and assertive role to the SAIs. In this regard, ISSAI 12 considers SAIs as key and leading actors in the public management system as a whole, far beyond their traditional roles and responsibilities. Interestingly, ISSAI 12 takes “public sector auditing” as an important factor in making a difference to the lives of citizens. Within the concept of the standard, an independent, effective and credible SAI is regarded as an essential component in a democratic system where accountability, transparency and integrity are indispensable parts of a stable democracy.

⁴We observe that many national audit offices have expanded their remit beyond traditional financial and compliance auditing to focus on performance auditing and assessments. Performance auditing has become a central feature of most advanced nations' national audit offices. It is now generally accepted that performance auditing is one of the best instruments for the establishment of democratic governments. Parallel to new developments in many countries performance audit has increasingly become the basis for legislatures or their scrutiny committees to undertake their work, often providing the majority of the evidence for their enquiries, and for follow-up action by government. Many scholars have no hesitation about the fact that performance auditing is for democracy and for improvement. For an extensive discussion of performance auditing with respect to the notion of accountability and democratic governance see Performance Auditing: Contributing to Accountability in Democratic Government (Lonsdale J., Wilkins P., Ling T., 2011).

How to Implement Follow-up Procedure?

There are various applications of follow-up mechanism in different countries. If the Performance Audit implementations are set aside, it cannot be said that there exists a systematic and standardised follow-up mechanism in the conduct of public sector audit. Here we will try to suggest an applicable follow-up mechanism in the public sector auditing and within this scope; we will try to determine some distinctive features of an ideal mechanism.

First of all, we should differentiate “the planning issues” faced by the auditors during the planning phase from that of “the follow-up issues” which are actually faced after the defined period of the audit. Follow-up mechanism is mainly defined and related with post-audit situations so we cannot cover “the analysis of the findings and recommendations from previous engagements during the planning of the audit” under the label of follow-up process. Some financial audit manuals give a special reference to “the evaluation of the previous audits by the auditors during the planning phase” but we should not mix these sorts of planning issues with the sheer follow-up procedure. For example, in Generally Accepted Government Auditing Standards (GAGAS-United States of America) in GAGAS,2011:94 it is stated that the auditors should take in to account if the previous audited findings and recommendations are addressed and corrective actions are taken to implement the recommendations

As it is seen, the relevant GAGAS describe a very preliminary issue in order to address the findings and recommendations from previous engagements in the planning of the financial audit. The information gathered by the auditors during the planning phase are very crucial just because they are useful in assessing the risk and determining the nature, timing, and extent of current audit work, so this sort of evaluation is totally different from the following up of the audit itself. The follow-up process is implemented to monitor the disposition of audit results and ensure that responsive action plans have been effectively implemented. During the planning issues, auditors are in the process of initiating a new audit, however in follow-up process auditors are following the results of a finished audit. Normally an audit is officially closed after all of the recommendations have been recommended for closure through the follow-up audit process. We can say that there are two primary objectives for follow-up auditing:

1. Were the recommendations implemented as described in the plan of action submitted by the management?
2. Did the recommendations and plan of action result in the intended effect of mitigating the risk that had necessitated the recommendation in the first place?

It is important for both the Supreme Audit Institution (SAI) and the audited entity to know the extent to which corrective action has taken place to resolve previously reported issues. SAIs should conduct a follow-up no later than two years after the completion of an audit. Some audits may need to be followed up sooner than others, due to the significance and nature of the issues raised in the original report. In the initial planning of a follow-up, the audit team should consider some critical questions:

- Timeliness: Is the time appropriate for follow-up process (does the entity has enough time to address the issues and take subsequent actions after they are reported)?
- Scope: Should the follow-up audit address only the implementation of the recommendations?
- Evolution of the problems: Does the initial problem or issue identified evolve with time?
- Extent of the risks: What is the extent of the risk associated with issues raised in the original report?

The focus of the follow-up should be to determine the progress achieved in resolving the issues originally identified. If the auditors go beyond that focus, they would easily run out of the spirit of follow-up mechanism.

The follow-up process may begin with a request to the entity for an update on the status of the action taken to implement the recommendations from prior years' audits. The request may include the following questions:

- What steps have the entities taken to achieve the needed improvements?
- How well are entities progressing in those efforts?

Reporting on follow-up conclusions is of vital importance. Auditors should avoid using loose expressions and try to give a comprehensive and coherent view of the post-audit situations. The best way to do this is to use a reasonable rating scale, which is both inclusive and exhaustive. The crucial point is that the readers of the reports should not meet with any ambiguity. There can be six different scales /audit views in the eventual assessment of follow-up applications.

- i. **No progress or insignificant progress:** In this case, the main response of the audited entity to the follow-up is just restricted to generating some informal plans. Therefore, the auditors may qualify their opinion as “no progress” or “insignificant progress”.
- ii. **Planning stage:** Here the auditors observe that the formal plans for organizational changes have been created and approved by the appropriate level of management, with appropriate resources and a reasonable timetable. In the follow-up report, the auditors may conclude that the audited entity has some preliminary progress within the concept of addressing the previous recommendations.

- iii. **Preparation for implementation:** This scale indicates that the audited entity has begun necessary preparations for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the relevant recommendation. This also refers to “material progress” in the implementation of recommendations.
- iv. **Substantial implementation:** In this scale, the audit team observes that the enabling structure and processes are in place and integrated in some parts of the organization, and some achieved results have been identified as well. This refers to “substantial progress” in the implementation of recommendations.
- v. **Full implementation:** This scale represents the status of “best achievement”. In the report, the auditors conclude that the enabling structures and processes are operating as intended and implemented fully in all intended areas of the organization.
- vi. **A recommendation is no longer applicable:** Here the auditors indicate non-applicability where the recommendation is obsolete due to time lapses, new policies, etc. This scale should be attentively differentiated from the first scale, which is labeled as “no progress” or “insignificant progress” (Public Service Commission of Canada, 2016).

Similar to other audit methodologies, in the early process of the follow-up audit, the audit team should provide the entity's management with the scale to be used. At the end of the follow-up, the audit team should present and discuss the results with entity's representatives and prepare a report.

Another important aspect with regard to follow-up mechanism is to consider the possibilities for re-audit. The audit team should distinguish the needs for re-audit from that of the issues to be assessed within the follow-up mechanism. In reviewing the situation for audit follow-up, the audit team may find that the issues have evolved and need to be redefined. New issues may also be identified and judged important for assessment and reporting to parliament. Accordingly, because of a risk based perspective, the key issues should be meticulously differentiated from general follow-up requirements and identified for re-audit separately.

Conclusion

Shedding light to developmental chances and guiding on the betterment of public finance management system has become one of the core aims of public auditing today. Doubtlessly, the most significant function of public auditing is to advance accountability and fiscal transparency in the public sector. In this respect, attaching importance to follow-up audit may highly contribute to complying with the innovative developments in audit theory and practice.

The public sector auditing practice reveals its best performance only through an effective follow-up mechanism. Without follow-up, public sector auditing would not manifest its expected missions appropriately. Normally an audit process covers three phases; planning, execution and reporting. To our view, the follow-up phase should be described and defined as the fourth phase of public sector auditing. Although some critical and congruent references to follow-up procedures are made in high level documents of ISSAI framework (Level 2 and 3), the auditors have no practical guidance on the implementation of the procedure.

There are three main audit methodologies in the ISSAI framework. Within these methodologies, only Performance Audit approach includes a well-defined follow-up mechanism. However, apart from some partial references to follow-up issues in the planning phases of the audit, we observe that the follow-up procedure as a post-audit situation is totally ignored in the Financial and Compliance audit approaches.

In fact, the given descriptions of both Financial and Compliance Audit methodologies are incompatible with follow-up mechanism. Financial audit methodology is incompatible with follow-up because, as a private sector auditing experience, it essentially presents “a very fixed and opinion-focused audit philosophy.” Moreover, as the opinion in financial audit just seeks to give an overall and instant idea about the entity, the financial auditors tend to have very little concerns about the follow-up of their previous findings for the upcoming years. The case is almost the same in compliance audit as described in the ISSAI framework.

Finally, we must also consider that if an audit approach limits itself only with the detection of irregularities and does not indicate any developmental capability, it eventually reduces itself into a non-creative institutional technique. Perhaps we need a more comprehensive definition of public sector auditing under the label of performance audit as a whole. Performance audit differs essentially from the other audit approaches in that it offers solutions, highlights progressive points and yet develops concrete recommendations for the enhancement of public management system. Admittedly, these goals are achievable only through an effective and appropriate follow-up mechanism.

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MANAGING ETHICS IN SAIs

Yasir Uzun
Principal Auditor,
Turkish Court of Accounts

Introduction

Ethical values and principles guide us how we should behave in our daily lives and what behaviour we should follow as the rightest choice among the alternatives. Like human beings, organizations also live by values and principles and they keep organizations stay alive. In case of SAIs, ethical values and principles and their practices in institutional life are becoming more important issues. SAIs are responsible for overseeing and holding government to account for its use of public resources, together with the Legislature and other oversight bodies. They have the authority to access the information and documents of employees of public sectors regarding their accounts, transactions, activities and assets. Since they have such important responsibilities and authorities, it is expected that they produce their products (audit reports, decisions, opinions etc.) by an independent, objective and professional manner. If SAIs want to maintain stakeholders' trust and obtain the expected results of their reports, they should meet the requirements of this expectation. As stated in ISSAI 1 (the Lima Declaration) and ISSAI 30 (INTOSAI Code of Ethics), reliability is depended on independence, impartiality and moral integrity of SAI members' and auditors', who should act according to a clear code of values and principles. As stressed by OECD, high standards of integrity and transparency in SAI's daily operations enhance the role of SAIs as model institutions for accountability. This is quite important to expand the relevance and impact of SAI's work in a time, such as the current one, marked by the need to rebuild trust in public institutions as a key element of return to sustainable and inclusive growth.

The purpose of this paper is to draw attention to the importance of ethics management in SAIs, raise awareness regarding the requirements of ethics management by taking into account the relevant ISSAIs and frameworks and make some suggestions in order to bring "the issue of ethics management in SAIs" to the attention of the ECOSAI Members.

Developing framework for Ethics Management in SAIs

Ethics is the entirety of moral principles that form the basis of an individual's behaviour. In other words, ethics are the guiding values, principles and standards that help people in determining "how things should be done". At the same time ethics is a process. In this process, when making decisions and putting them into practice, certain values are respected. The aim of principles of ethical behaviour is to prevent corruption and degeneration in the state and society and to ensure the dominance of integrity. Ethics is at the forefront of values taken as a basis in the performance of various professions.

SAIs should be able to manage the conduct of their staff by aligning individual behaviours with the expected professional standards such as independence, objectivity, integrity, reliability etc. There could be many different personalities, point of views and values of staff, for harmonizing these differences and making them in line with the requirements of SAIs' missions, "ethics" should be handled strategically. It is the responsibility of SAIs to identify the expected behavioural standards, and make them known to their staff. In addition to that, SAIs should conduct awareness raising activities such as structured trainings for staff to help them understand what ethical values and principles they should follow and why, the concepts of "ethical and unethical behaviour" and their roles and responsibilities in strengthening ethics in SAIs

One dimension of managing ethics in SAIs is related to the human resource management policies and practices prioritizing "ethics and ethical behaviour". The practitioners of SAIs' plans and programmes are their staff. Therefore, employing right staff that keep the reputation and values of the institution above all in all activities is quite crucial for SAIs..

It requires that SAIs should design and implement their HR policies and practices (recruitment, training and development, assignment and promotion, remuneration and recognition etc.) by taking into account the ethics dimension.

Development of ethics management in SAIs depends on continuous review and assessment of ethical management progress in place. It would help to understand whether everything done for ethics management is implemented according to the main purposes and whether SAIs are really able to manage ethics and take due precautions to control ethical behaviour. Some of the control tools and mechanisms for ethics in SAIs could be stated as follow:

- ➔ Description of unethical behaviour alongside the ethical behaviour through general and internal regulations,
- ➔ Training activities to discuss real situations and problems/dilemmas regarding ethics,
- ➔ Description of procedures, mechanisms and tools to identify and manage potential treats that can harm ethical values and principles,
- ➔ Reviewing and assessing the SAIs' ethical performance through internal and external evaluations and,
- ➔ Following perceptions of stakeholders regarding SAIs' ethical policies and practices.

Approach of SAIs' leaders would be the main factor for the success of all efforts to develop ethical management in place. They are supposed to have a vision and enthusiasm to maintain the trust of stakeholders and keep SAIs operate on the fundamental principles of independence, transparency and accountability, ethics and quality. SAIs leaders should be a model for their staff by exemplary behaviours. They should coordinate all due activities and spend time and resources to develop ethics management in SAIs.

At a conceptual level of analysis, the management of ethical conduct can be referred as a logical framework, such as the one used and recommended by OECD. Throughout the years, OECD has developed the concept of an Ethics Infrastructure, recently updated it so that the Integrity Framework is able to support an environment that encourages high standards of behaviour. This infrastructure has several elements that can be applied to organisations such as SAIs, which if appropriately implemented, should function in a coherent and linked manner. These elements can be categorised according to the main functions they serve, that is, "guidance", "management" and "control".

Guidance is provided by:

- ➔ Statements of values and standards of behaviour, such as codes of conduct;
- ➔ Strong commitment from leadership; and
- ➔ Professional socialisation activities such as education, training and counselling to raise awareness and develop skills for application of laws and standards in the daily work.

Management policies and practices:

- ➔ Create conditions to ensure fair and impartial selection, promotion and remuneration; and
- ➔ Contribute to social respect.

Control is assured through:

- An effective legal framework that sets basic standards of behaviour;
- Effective accountability mechanisms, such as internal control and external audit;
- Enforcement procedures; and
- Transparency mechanisms providing access to public information, facilitating public involvement and scrutiny (EUROSAI TFAE, 2013).

Managing Ethics through ISSAIs' Perspective

The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing by supreme audit institutions (SAIs). ISSAIs (for example, ISSAI 10, 11, 12, 20, 30, 100 etc.) also state ethical requirements that SAIs and their staff should follow to act as model organisations and inspire confidence and credibility as an independent external auditors of public finances. Some of the ethical responsibilities of SAIs can be stated as follow:

- Not to be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit,
- To ensure that their personnel do not develop a close relationship with the entities they audit, so they remain objective and appear objective,
- To use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognized standard-setting bodies (ISSAI 10),

- To train their staff and emphasize the required quality and performance standards.
- To maintain its independence by ensuring that the auditors act only as observers and do not participate in the decision-making process (ISSAI 11),
- To seek to safeguard the independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in accordance with applicable legislation, which results from the normal discharge of their duties,
- To perform their duties in a manner that provides for accountability, transparency and good public governance,
- To apply a code of ethics that is consistent with their mandate and appropriate for their circumstances, for example the INTOSAI Code of Ethics,
- To apply high standards of integrity and ethics as expressed in a code of conduct,
- To institute appropriate policies and processes to ensure awareness of and adherence to the requirements of the code of conduct within the SAI,
- To publish their core values and commitment to professional ethics,
- To apply their core values and commitment to professional ethics in all aspects of their work, in order to serve as an example,
- To make sure that SAIs' policies and procedures require all staff and all parties working on behalf of the SAI to comply with the relevant ethical requirements,
- To promote continuing professional development that contributes to individual, team and organisational excellence,
- To have a professional development strategy, including training, that is based on the minimum levels of qualifications, experience and competence required to carry out the SAI's work,
- To strive to ensure that their staff have the professional competencies and the support of colleagues and management to do their work (ISSAI 12),
- To make publicly available their mandate, their missions, organisation, strategy and relationships with various stakeholders, including legislative bodies and executive authorities,
- To apply high standards of integrity and ethics for staff at all levels,
- To 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,
- To prevent internal conflicts of interest and corruption and ensure transparency and legality of their own operations,
- To actively promote ethical behaviour throughout the organisation,
- To make the ethical requirements and obligations of auditors, magistrates (in the Court model), civil servants or others public,

- To ensure that the accountability and transparency principles are not compromised when they outsource their activities,
- To ensure that contracts for outsourced activities do not compromise these accountability and transparency principles,
- To maintain and develop skills and competencies needed to perform the work to achieve their mission and meet their responsibilities (ISSAI 20),
- To establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements,
- To emphasise the importance of meeting relevant ethical requirement in carrying out their work,
- To ensure policies and procedures are in place that reinforce the fundamental principles of professional ethics as defined in ISSAI 30,
- To consider the use of written declarations from personnel to confirm compliance with the SAI's ethical requirements,
- To ensure policies and procedures are in place to notify the Head of the SAI in a timely manner of breaches of ethical requirements and enable the Head of the SAI to take appropriate action to solve such matters,
- To ensure policies and procedures are in place that reinforce the importance of rotating key audit personnel, where relevant, to reduce the risk of familiarity with the organization being audited,
- To establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel and, where relevant, any parties contracted to carry out work for the SAI) with the competence, capabilities and commitments to ethical principles,
- To ensure that Human Resources policies and procedures give appropriate emphasis to quality and commitment to the SAI's ethical principles,
- To promote learning and training for all staff to encourage their professional development and to help ensure that personnel are trained in current developments in the profession,
- To ensure that quality and the SAI's ethical principles are key drivers of performance assessment of personnel and any parties contracted to carry out work for the SAI,
- To balance the confidentiality of documentation with the need for transparency and accountability,
- To establish transparent procedures for dealing with information requests that are consistent with legislation in their jurisdiction (ISSAI 40),
- To establish and maintain appropriate procedures for ethics and quality control,
- To establish and maintain procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with professional standards and the applicable ethical, legal and regulatory requirements,
- To have policies addressing ethical requirements and emphasising

ISSAI 30, a comprehensive standard regarding ethics management in SAIs, was unanimously adopted by the XXII INTOSAI Congress in Abu Dhabi in December 2016. The INTOSAI Code of Ethics (the Code) intends to provide SAIs and the staff working for them with a set of values and principles and it gives additional guidance on how to embed those values in daily work and in the particular situations of a SAI. The Code is intended for all those who work for, or on behalf of, a SAI. The Code comprises an overall approach to ethical behaviour, a description of the SAI's overall responsibilities and the five fundamental values that guide ethical conduct. The descriptions of the SAI overall responsibilities and of the values include:

- requirements that SAIs and their staff should comply with,
- applicable guidance to help SAIs and their staff meet the requirement.

ISSAI 30 has identified the overall responsibilities of Supreme Audit Institutions as follow:

- To adopt and implement a code of ethics consistent with this standard and shall make it public,
- To emphasise the importance of ethics and promote an ethical culture in the organisation,
- As SAI's leadership, to set the tone at the top by its actions and example, acting consistently with the ethical values,
- To require all staff to always engage in conduct consistent with the values and principles expressed in the code of ethics, and to provide guidance and support to facilitate their understanding,
- To require that any party it contracts to carry out work on its behalf commit to the SAI's ethical requirements,
- To implement an ethics control system to identify and analyse ethical risks, to mitigate them, to support ethical behaviour, and to address any breach of ethical values, including protection of those who report suspected wrongdoing,
- To establish procedures to address identified conflicts between its ethical requirements and the standards of professional bodies that the SAI staff may be a member of.

The Code is based on **five fundamental values**; integrity, independence and objectivity, competence, professional behaviour and confidentiality and transparency. ISSAI 30 envisages ethical requirements for SAIs and their staff regarding ethical values mentioned above and also applicable guidance to help SAIs and their staff meet the requirements. Here, we would summarize some of the **ethical requirements at the level of SAIs** as follow:

- To emphasise, demonstrate, support and promote integrity,
- To ensure that the internal environment is conducive for staff to raise ethical breaches,
- To respond to integrity breaches in a timely and adequate manner,
- To be independent with regard to its status, mandate, reporting, and management autonomy,
- To have full discretion in the discharge of its functions,
- To adopt policies for its independent and objective functioning,
- To establish a framework to enable the identification of significant threats to independence and objectivity, and the application of controls to mitigate them, as well as provide guidance and direction for staff in this respect,

- To adopt policies to ensure that audit staff, particularly at senior level, do not develop relationships to audited entities that may put their independence or objectivity at risk,
- Not to provide advisory or other non-audit services to an auditee, where such services would include assuming management responsibilities,
- To adopt policies to ensure that tasks required by its mandate are performed by staff that have the appropriate knowledge and skills to complete them successfully,
- To be aware of the standard of professional behaviour expected by its stakeholders, as defined by the laws, regulations and conventions of the society in which they operate, and conduct their business accordingly and in line with their mandate,
- To assist staff in adhering to that Standard,
- To balance the confidentiality of audit-related and other information with the need for transparency and accountability,
- To establish an adequate system for maintaining confidentiality as needed, especially with regard to sensitive data,
- To provide that any parties contracted to carry out work for the SAI are subject to appropriate confidentiality agreements.

The most important concept ISSAI 30 brings to the agenda of SAIs is the **ethics control system**. It means a SAI should implement an ethics control system that includes appropriate specific strategies, policies and procedures to guide, manage and control ethical behaviour to promote and safeguard ethics in every aspect of the organisation and its activities. Standard explains the **main components of the ethics control system** as code of ethics, leadership and tone at the top, ethics guidance, ethics management and monitoring.

ISSAI 30 has also emphasized the management of ethics related risks (real/ perceived) of SAIs. According to the ISSAI 30, risks that can influence ethical values could emanate from many factors such as:

- political influence and external pressure from auditees or other parties;
- personal interests;
- inappropriate bias from previous judgements made by the SAI or SAI staff;
- advocating the interests of auditees or other parties;
- long or close relationships.

Standard stipulates that where risks are identified that threaten any of the fundamental ethical values, the significance of such threats should be evaluated and appropriate controls should be put in place to reduce the risk of unethical behaviour to an acceptable level.

Promotion of ethics management/ ethics infrastructure in SAIs is on the agenda of international organizations for Supreme Audit Institutions as well. One of these organizations is the EUROSAI Audit & Ethics Task Force and the Turkish Court of Accounts is a member of it. The main objective of the Task Force that was established in 2011 is to promote the relevance of ethical conduct and integrity both in SAIs and in public organisations, namely by promoting comparative studies, supporting the design of guidelines and other tools and sharing the results with the wider SAI community. In 2017, the Task Force has developed a guideline titled “How To Implement ISSAI 30” (EUROSAI TFAE, 2017). This guideline focuses on the main approach to implement the ethics control system by depending on ISSAI 30 and shares alternatives and good practices to implement the components of the ethics control system. The guide provides alternatives and good practices to implement, which are as follow:

- Regarding ethics guidance; code of ethics, leadership, raising awareness and training on ethics, counselling and ethical dilemmas,
- Regarding ethics management; recruitment, professional development, balancing confidentiality and transparency and
- Regarding ethics monitoring and control; conflicts of interests, rotation policies, political neutrality, gifts and hospitality, whistleblowing policies and ethics monitoring tools.

The Task Force has also developed following Papers to support SAIs to strengthen their ethics management:

- Supporting SAI To Enhance Their Ethical Infrastructure, Part I-A general overview of SAI's ethical strategies and practices (EUROSAI TFAE, 2013),
- Supporting SAI To Enhance Their Ethical Infrastructure, Part II Managing Ethics in Practice- analysis (EUROSAI TFAE, 2014),
- Supporting SAI To Enhance Their Ethical Infrastructure Part II Annex Managing Ethics in Practice-analysis SAIs' articles, (EUROSAI TFAE, 2014).

Conclusion and suggestion for ECOSAI

SAIs play crucial role in public sector by their audit activities. They are provider of reliable information for stakeholders. However, “reliability of information” necessitates that SAIs' staff perform their activities in compliance with ethical requirements emanating from ethical values of SAIs. The issue of ethics, as an element of quality, always should be on the agendas of SAIs to enhance the reliability of SAIs' works. On the other hand, an independent and professional SAI should hold itself to the principles that it expects of the public sector entities that it audits, so as to lead by example. Therefore, SAIs are responsible for adopting due policies, mechanisms and tools to ensure that they manage ethics appropriately to meet the ethical requirements and to assist staff in adhering to ethical codes.

Economic Cooperation Organization Supreme Audit Institutions (ECOSAI) can make very useful contributions for promoting ethics management in Member SAIs by bringing it to its agenda. As it was suggested in the Circular 2017 of ECOSAI (Autumn Issue), ECOSAI can establish a working group/ project team consisting of representatives of Member SAIs in order to identify and plan work to promote ethics management in Member SAIs alongside the ethics audits (Uzun, 2017). The group or team

- Design workshops to discuss the key challenges in managing ethics in SAIs and suggest possible solutions,
- Set platforms to share articles, reports, presentations, best practice guides etc. for gaining common understanding regarding the requirements of ethics management in SAIs that emanate from ISSAIs,
- Develop papers by benefitting from the international practices in order to encourage member SAIs of ECOSAI to carry out the requirements of ethics management,
- Exchange ethics management experiences of member SAIs and plan future activities as much as possible.

To conclude, it could be said that managing ethics in SAIs is the main gateway to maintain the trust of stakeholders. Therefore, international experiences regarding ethics management within SAIs are quite valuable to establish and develop ethics based systems within ECOSAI Members. The Member SAIs of ECOSAI should collaborate with each other in order to make their best to develop ethics management within their SAIs to be a model for public sector organizations and conduct quality work.

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NEWS FROM MEMBER SAIs

AFGHANISTAN

New Deputy Auditor General of Afghanistan

Mr. Mujeeb ul Rehman Shirzad has been appointed as new Deputy Auditor General of Afghanistan. He has Masters Degree in Development Policies and Practices from the University of Geneva Swiss, MBA in Public Administration from Preston University of Pakistan, Fellowship in “Leadership and Administration and Development from Hiroshima University of Japan. He has vast experience of working in Public Sector organizations.

Staff Capacity Building Program

Capacity Building of the staff is one of the top priorities of SAI Afghanistan. The capacity building program was implemented by SAO in step by step basis. Based on the priority the staff, SAO has ensured short-term and long term training courses in Afghanistan and abroad. Only in 2017, 365 staff members were trained in Qatia Statement Audit, Software Audit, the fundamental of Auditing and Accounting, State Owned Enterprise (SOE) Audit, and Audit of Financial Statements and Bank Guarantees.



IRAN

SAI Iran submitted Annual Audit Report to the Parliament

The summary of the Annual Audit Report was presented by Prof. Dr. Adel Azar, the President of SAC, during the Official General Session of the Parliament on 24 January 2018. The Annual Audit Report contains the results of detailed audits conducted and was presented in three sections:

- a. Revenues and expenditures,
- b. Notes of Single Article of the Budget Law,
- c. Recommendations to improve the budgeting process

The Report indicates how the annual national budget has been spent in the Fiscal Year 2017.

Dr. Adel Azar appreciated continuous efforts of his colleagues, including auditors, prosecutors, General Board, members of the Judiciary Board and staff of the SAC in preparing the Report. The President added that the Parliament conferred two months more than stipulated in the law on the government to spend the Budget for the Year 2017 in the field of construction and financial bills, including treasury bills, and they had lost two months. However, the continuous collaboration and cooperation of all the staff of the SAC led us to prepare and present the summary of the Report in due time.

The President of SAC also spoke about the important issues such as allocation of resources to the construction projects in the country, the budget of state-owned enterprises, banks and government-affiliated institutions and state aid to loss-making public companies and emphasized that there should be an urgent action in these cases.

Finally, Dr. Larijani, the Chairman of the Parliament, appreciated the efforts of the SAC for on-time preparing and presenting the Report and added that they would send the Report to the Planning, Budget and Audit Commission as well as other concerned commissions for further reviews, especially the cases highlighted by the President of SAC.



The President of SAC's Provincial Visits in 2017

Last year, Prof. Dr. Adel Azar, President of Supreme Audit Court of I. R. Iran (SAC), travelled to a number of provinces across Iran and visited the Supreme Audit Court in the concerned provinces. Following are the headlines these visits:

- **Fars Province (21 February 2017)**

Dr. Adel Azar pointed out unconventional salaries being paid to authorities and added that all salaries paid illegally should be deposited in the Public Treasury. He further delineated the new policies of SAC based on Continuous Preventive, Guiding and Authoritative Financial Supervision.

- **Ardabil Province (27 August 2017)**

Dr. Adel Azar emphasized on the mission of the SAC in safeguarding the Public Treasury and added that we audit all the organizations that use in any manner from the state budget of the country.

- **Kermanshah Province (10 December 2017)**

The President of SAC pointed to the notion of unconventional salaries paid to some authorities as well as the necessity of safeguarding the Public Treasury. He also added that the SAC has a special place among the executive organizations and therefore SAC colleagues should be proud of themselves for the esteemed organization in which they work.

- **Razavi Khorasan Province (26 December 2017)**

The President of SAC emphasized on using the Sana (Electronic Audit System) and resolving its possible problems and, then, called for special attention to "performance audit" across the provinces.



President of SAC Earned the Title of National Premier Professor from the Ministry of Science, Research and Technology

In the 26th ceremony of the nomination of national premier faculty members, the President of Supreme Audit Court (SAC) of Iran, Prof. Dr. Adel Azar, was selected and cherished as one of the top 10 professors across Iranian faculty members. The ceremony was held in the presence of Dr. Mansur Gholami, Minister of Science, Research and Technology, university heads and professors, at Allameh Tabatabai University on 4 February 2018.



It is worth mentioning that Prof. Dr. Adel Azar had already secured the National Research Title of the Islamic Republic of Iran in 2013 as well as the first rank of Iranian highly-cited scientists in the field of Humanities approved by the Islamic World Science Citation Center (ISC) in 2017.

TAJIKISTAN



Appointment of new Chairman of the Accounts Chamber of Republic of Tajikistan

On February 21st, 2018 the Majlisi Namoyandagon of Majlisi Oli Republic of Tajikistan (Parliament) appointed Mr. Chillazoda Karakhonas as the new Chairman of the Accounts Chamber of Republic of Tajikistan.

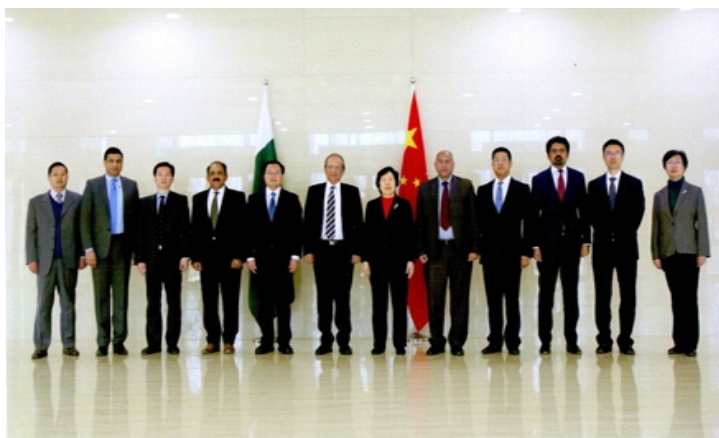
Mr. Chillazoda Karakhonas was born in 1961, Tajikistan. He remained the head Department of finance of Sarband city from 2006-2008. From 2008-2011, he worked as the head Department of finance Khatlon region, Republic of Tajikistan. He was appointed as the Chairman Sarband city of Republic of Tajikistan 2011-2016. He also worked as the head of Finance Department of Khatlon region, Republic of Tajikistan from 2016-2018.

He is also fluent in Russian language.

PAKISTAN

Bilateral Cooperation with other Supreme Audit Institutions

The Department of the Auditor General of Pakistan is actively pursuing the agenda for enhanced capacity and professionalism of its auditors through bilateral cooperation with other Supreme Audit Institutions. In March 2018, the AGP visited Chinese National Audit Office (CNAO), at Beijing for participation in bilateral seminar on Performance Auditing. Ms. HU Zejun, Auditor General of CNAO and Mr. Javed Jehangir, AGP, co-chaired the Seminar. Three officers, each from CNAO and Department of the AGP, presented technical papers in the Seminar, which discussed the approach and methodologies for performance auditing. The Seminar served as a professional forum for development of ideas and sharing of knowledge for strengthening the practice of performance auditing between the two Supreme Audit Institutions. Performance Audits are and accepted and imported component of the landscape of public administration. On the invitation of CNAO, the AGP also held meetings with officials of Shanghai Municipal Audit Office, where the issues of financial governance and effectiveness of internal controls relating to local governments were discussed.

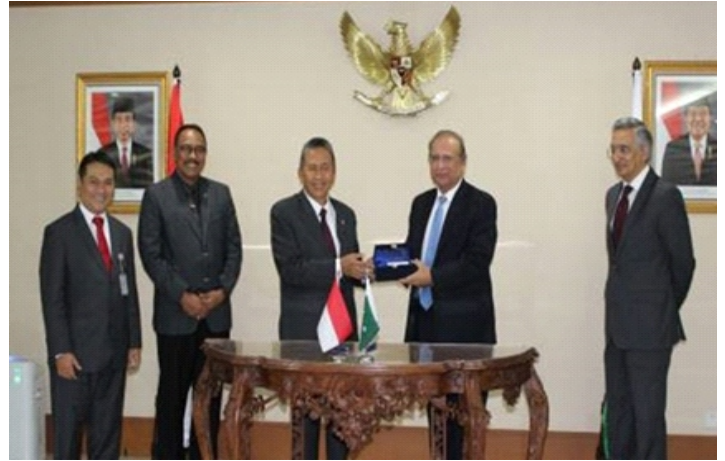


MoU signed with Bpk Ri (Supreme Audit Institution of Indonesia)

In order to establish relationships and improve the audit capacity in the public sector, BPK RI (Supreme Audit Institution of Indonesia) signed a Memorandum of Understanding (MoU) with the Supreme of Audit Institution of Pakistan.

Vice Chairman of BPK Dr. Bahrullah Akbar told that the cooperation between the Government of Indonesia and the Government of Pakistan is expected to encourage transparency and accountability in the direction of good governance.

The signing was done directly by the Chairman of BPK RI, Prof. Dr. Moermahadi Soerja Djanegara, C.A., C.P.A. and General Auditor of Pakistan, Javaid Jehangir, and witnessed by Deputy Chairman of BPK RI, Prof. Dr. Ir. Dr. Bahrullah Akbar, MBA, and structural officials of BPK, as well as Pakistan's Ambassador in Indonesia, Mohammad Aqil Nadeem, in Jakarta, on 26-3-2018. Both parties also signed an action plan, and the areas of cooperation include: peer review, bilateral seminars on performance measurement framework, procurement of goods and services, inspection of disaster management, risk-based inspection, environmental parallel examination, such as medical waste management and waste management.



In addition, BPK will provide assistance to SAI Pakistan in developing the readiness audit of the implementation of SDGs in the planning and implementation phases.

Through the signing of the MoU, the two examining bodies can support each other and proactively enhance cooperation in sharing information, knowledge and experience so as to strengthen transparency and accountability, particularly in the public sector, and promote good governance.

A five member audit team visited SAI Pakistan for Desk Planning of Joint Audit to be carried out by both SAIs

SAI Pakistan and SAI Turkey agreed to conduct Cooperative Audit of "Mass Transportation Project" in Islamabad Pakistan. The audit was planned in two phases

(i) planning and desk work phase and (ii) field audit phase. A five member team of SAIU Turkey carried out planning and desk work from March 4-10, 2018 in Islamabad. Later, a three member team again visited Islamabad from 22-28 April 2018 to conduct field work of the subject audit.

Seminar on Emerging Audit Areas, Perception, Myths and Expectations of Stakeholders

A Seminar on “Emerging Audit Areas, Perception, Myths and expectations of Stakeholders” was organized by the Office of the Auditor General of Pakistan at Avari Hotel Lahore on. Governor Punjab Mr.Malik Muhammad Rafique Rajwana was the Chief Guest. The seminar was meant to create awareness on the audit systems in the country and its future planning. The Governor Punjab said that the mandate of the institution of the Institution of the Auditor General should be amplified and it would lessen the burden on other institutions. He further opined that Public Accounts Committees (PACs) are doing good job in National and Provincial Assemblies and their mandate should be enhanced.

SAI Pakistan and SAI Turkey agreed to conduct Cooperative Audit of “Mass Transportation Project” in Islamabad Pakistan. The audit was planned in two phases (i) planning and desk work phase and (ii) field audit phase. A five member team of SAIU Turkey carried out planning and desk work from March 4-10, 2018 in Islamabad. Later, a three member team again visited Islamabad from 22-28 April 2018 to conduct field work of the subject audit.



Seminar on “Emerging Audit areas, Perception, Myths and Expectations of Stakeholders”

A Delegation of Public Accounts Committee (PAC) visited AGP Office

A delegation of PAC visited office of the Auditor General of Pakistan. The Chairman PAC has lauded the efforts of AGP for transforming the focus of auditing from transactional to thematic audit and said that Department of AGP is an important institutional partner of Public Accounts Committee and based on AGPs Audit Reports PAC carries out its functions of Parliamentary oversight and bring innovation in the existing process. He added that learning is continuous process and both PAC and DAGP should take initiative for improving the process of oversight and bring innovation in the existing process. The Auditor General of Pakistan presented before the delegation performance of DAGP for the year 2017.



A Delegation of Public Accounts Committee (PAC) visited AGP Office on January 31, 2018

SAI Pakistan held meeting with World Bank Delegation

SAI Pakistan is keen to work with World Bank and other stakeholders for introducing and implementing reforms in Public Financial Management and auditing as well as to explore future opportunities to deepen engagement for strengthening the working of the department, AGP said in the meeting. Department of the Auditor General of Pakistan is actively pursuing its strategic reforms based on evidential assessment, reform landscape, and overarching vision of the Charter of Good Governance. This strategy envisages an enabling legal and regulatory framework for the internalization and sustainability of our reforms initiatives, AGP said. DAGP has been striving to introduce modern audit techniques and technologies; it has upgraded the audit manuals, field audit and reporting guidelines, and introduced Audit Command Language (ACL). The procurement of Audit Management Information System (AMIS) is also underway. These initiatives will radically change the core auditing processes. World Bank delegates reiterated their commitment towards mutual cooperation with SAI Pakistan for bringing all stakeholders on broad upstream and set realistic goals, and work on issues of mutual interest saying that one of the World Bank's strategic pillars is to improve transparency and service delivery through robust PFM at the national and local government levels.



SAI Pakistan held a meeting with Delegation of World Bank

TURKEY

13th Joint Strike Fighter (JSF) SAIs Conference

The Turkish Court of Accounts organized 13th Joint Strike Fighter (JSF) SAIs Conference from 18-21 September 2017 in Ankara. The President of the TCA, Mr.Seyit Ahmet Başı, made the opening speech of the conference. The representatives of the SAIs of Italy, Netherlands, Norway, the UK, the USA, the UK, as well as representatives from the Turkish Under Secretariat for Defence Industries and JSF Program Office attended the conference.

In the conference, the participants exchanged information on the joint audit made for the relevant program and possible future audits.

The conference program included a study visit to the facilities of Turkish Aircraft Industries Corporation (TUSAS), where Turkey's activities for JSF F-35 were presented.



13th Joint Strike Fighter (JSF) SAIs Conference



Network and Contact Committee Meetings were held in Luxemburg

Network & Committee Meetings

The meeting of the Network of the SAIs of EU candidate and potential candidate countries (Network) and the meeting of the EU Countries Contact Committee were held in Luxemburg on 11-13 October 2017.

Network meeting was attended by the representatives of the SAIs of Albania, Bosnia Herzegovina, EU, JWGAA, Kosovo, Montenegro, Macedonia, Serbia, SIGMA and Turkey. At the meeting, activities conducted by candidate countries in the previous period were presented, decisions were made for the activities to be conducted in 2018-2020; and the host countries for the said activities were determined.

Contract Committee meeting was held after the Network meeting. The representatives attended it from the SAIs of EU Member countries and ECA, JWGAA, SIGMA, and SAIs of Network members. The main theme of the meeting was “SAIs' role in maintaining citizens' trust in state”. Participating SAIs made presentations on and discussed this theme. The SAIs of the Network member countries attended this meeting as observers.

Workshop on “Financial Audit/Risk-based Audit”

Turkish Court of Accounts with the assistance of Turkish Cooperation and Coordination Agency (TIKA)B hosted an ECOSAI Training/Workshop on “Financial Attest/Risk-Based Audit” from November 6-10, 2017. Twenty auditors from eight SAIs including Afghanistan, Azerbaijan, Iran, Kazakhstan, Palestine, Pakistan, Turkish Republic of Northern Cyprus attended the training. The event started with the opening speech of President Seyit Ahmet Bas.



ECOSAI Workshop was held in Turkey

REPORT ON ACTIVITIES OF ECONOMIC COOPERATION ORGANIZATION OF SUPREME AUDIT INSTITUTIONS (ECOSAI) 2017-18

ECOSAI is a regional forum of the Supreme Audit Institutions of the South and Central Asian regions. Founded in 1994, the ECOSAI aims at promoting the state auditing profession in member countries through the exchange of ideas, experiences and by holding seminars, conferences, workshops and training courses. ECOSAI comprises SAIs of Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkish Republic of Northern Cyprus, Turkmenistan, Turkey, and Uzbekistan.

ECOSAI region represents a diverse mix of polities with different public-sector auditing arrangements. The auditing framework in the region ranges from the Westminster to the Court of Accounts model reflecting varied legal, financial and political traditions of the respective countries. The environment in which the governments of member countries operate has become increasingly dynamic. The waves of globalization have generated enormous trade and environment related multilateral agreements, international mobility of resources and the adoption of Agenda 2030 have created legitimate expectations amongst the stakeholders for enhanced cooperation including the public sector auditors to address the commonality of public policy challenges of their respective governments.

Governing Board:

Presently, there are five GB members of the ECOSAI, namely ; AFGHANISTAN, AZERBAIJAN, PAKISTAN, KAZAKHISTAN, and TURKEY. The term of these five members will expire during 8th ECOSAI Assembly to be held in Turkey in 2019.

President ECOSAI:

The President of Turkish Court of Accounts is the current President of the ECOSAI. The President is elected for a term of Five Years.

ECOSAI Secretariat

Auditor General of Pakistan (SAI Pakistan) is the permanent Secretary General of ECOSAI.

ECOSAI Activities for the year 2017-2018

i 22nd Governing Board Meeting

Since the establishment of ECOSAI, Board of Governors (BoG) regularly meets on annual basis, and makes endeavours to achieve organizational objectives. The 22nd ECOSAI Annual Governing Board Meeting was held in Turkish Republic of Northern Cyprus (TRNC) on October 23, 2017, and drew representation from SAIs of Afghanistan, Azerbaijan, Pakistan, Turkey and the Turkish Republic of Northern Cyprus participated. Secretary General of ECOSAI and Auditor General of Pakistan, Mr. Javaid Jehangir presented the Organization's Activity Report, audited ECOSAI accounts and Financial Statements for the year 2016. The Governing Board unanimously approved the ECOSAI accounts and Financial Statements.

¹At the inception of ECOSAI, Turkish Republic of Cyprus was granted the status of an observer. She became a permanent member on her own request in 17th ECOSAI GBM held on 17th October 2016 at Ankara, Turkey

ii ECOSAI Circular

The ECOSAI Circular is published twice a year in English on behalf of the ECOSAI. The Journal is an official organ of ECOSAI and has the objectives of providing ECOSAI members with a forum for sharing experiences in different areas of State Audit. Opinions and beliefs expressed are those of individual contributors and do not necessarily reflect the views or policies of the organization. In 2017, the Circular was published in Autumn and Spring. The Spring issue contained contributions from SAI Azerbaijan (15 years history of the Chamber of the Accounts), Kazakhstan (on assessment of draft national budget), SAI Pakistan (Internal Audit, ISSAIs, and Reforms in SAI Pakistan) SAIs Iran, Tajikistan, Turkey and the Turkish Republic of Northern Cyprus (news items). The Autumn Issue, contained contributions from SAI Pakistan (Environmental Auditing), SAI Turkey (Ethics Audit) SAI Tajikistan (Accounts Chamber Auditing Standard System) and SAI Iran, (news items). SAI Turkey arranged for the printing of ECOSAI bi-annual circulars in 2017 and disseminated it to the member SAIs. Both issues were edited and designed by the ECOSAI Secretariat.

iii ECOSAI Workshop On Financial/risk Based Audit

SAI Turkey, with the assistance of Turkish Cooperation and Coordination Agency (TIKA) hosted an ECOSAI Training Workshop on 'Financial attest/ Risk-based Audit' from November 6-10, 2017. Twenty auditors from eight SAIs including Afghanistan, Azerbaijan, Iran, Kazakhstan, Palestine, Pakistan, Turkish Republic of Northern Cyprus and Turkey attended the training. SAI Pakistan sent four facilitators for the Workshop. The training participants were taught the fundamentals of Financial Risk and methods to conduct Risk based/ Financial Attest Audit. The training program also provided an avenue for the participants to give a thorough understanding of Compliance Audit and Performance Audit. The contents of the course were developed in the light of ISSAI guidelines and good practices in vogue in various SAIs.

iv Bi-lateral Cooperation Among ECOSAI Members

The 14th TCM in 2014 recommended a proposal by SAI of Iran for exchange visits of small group of experts among the member SAIs through bilateral agreement, which was approved by the GB. In pursuance of this decision, SAI Pakistan has signed MOUs for bilateral cooperation with SAIs of Iran (2016) and Turkey (2016). In 2018, SAI Pakistan also signed a MOU with SAI Tajikistan. SAI Iran has signed similar MOUs with SAIs of Iran, Tajikistan and Turkey. For implementing the provisions of the MoU, SAI Pakistan has proposed a bilateral work plan for 2018-19 to SAI Tajikistan and another to SAI Iran. The work plans are expected to be agreed during the current year.

A five member Turkish delegation visited SAI Pakistan Office from 20-23 February 2017 to discuss activities for the implementation of the provisions of MoU between the two SAIs. The meeting agreed to include a Cooperative Audit at Pakistan, a Peer Review Process Orientation Workshop at Turkey, a Performance Audit Training in Turkey.

During the year 2017-18, the following activities took place under these MOUs:

v Cooperative Audit:

SAI Pakistan and Turkey agreed to conduct Cooperative Audit of "Mass Transportation Project" in Islamabad, Pakistan. The audit was planned in two phases (i) planning and deskwork phase and (ii) field audit phase. A five member team from SAI Turkey carried out planning and deskwork from March 4-10 March 2018 in Islamabad, Pakistan. Later, a three member team again visited Islamabad from 22-28 April to conduct field work of the subject audit. The joint report of the audit is in the final stages.

vi Peer Review

A three member team of SAI Pakistan carried out five day orientation /experience sharing workshop on ISSAI 5600 for the personnel of SAI Turkey at Istanbul, Turkey 7th to 11th May 2018. The team not only shared the knowledge related to Peer Review as given in ISSAI 5600 but also shared relevant ISSAIs related to Peer Review. Owing to the success of training, SAI Turkey has invited SAI Pakistan to conduct the Peer Review of Turkish Court of Accounts in the areas of Independence and mandate. The two SAIs formalized their understanding on peer review through an agreement signed in Islamabad on 15 August 2018 followed by a planning meeting. The field work for the peer review will commence in October/November 2018.

vii Performance Audit Training

A three member team of training experts from SAI Pakistan delivered a three week training course on Performance Auditing in Ankara, Turkey from 25 June-13 July 2018 for the personnel of TCA. The training was sponsored and hosted by SAI Turkey.

viii E-Learning

On the request of SAI Kyrgyz Republic in---for training of its personnel in Risk-based Audit through e-learning delivery method and in accordance with a decision of ---TCM for exploring possibility of fashioning e-learning for knowledge and skills sharing among ECOSAI community, the SAI Pakistan has developed a concept paper delineating technical requirements and identifying step-wise process of establishing an e-learning set-up. It is expected that the knowledge generated through this paper will become a basis for

ix ECOSAI Training Plan

The 17th ECOSAI Training Committee Meeting (TCM) was held in Kyrenia, Turkish Republic of Northern Cyprus on October 23, 2017. The delegates of SAIs of Afghanistan, Azerbaijan, Pakistan, and Turkey attended the TCM. The TCM was first conceptualized in 2000, during the 5th ECOSAI Governing Board and 3rd Assembly at Tehran on a suggestion by the SAI of Islamic Republic of Iran to plan, organize and develop training activities for the capacity building of the member SAIs.

The Training Committee Meeting in 2017 decided that ECOSAI Secretariat would prepare a template for Training Need Analysis (TNA), solicit suggestions from Member SAIs and develop a three year training plan 2018-2021. Accordingly, the process culminated in a Training Plan which was endorsed by the Members. The Training Plan envisages 7 training courses to be held in three years time to be hosted and organized by ECOSAI member SAIs.



The 17th ECOSAI Training Committee Meeting (TCM)

1.	Audit of Internal Controls	SAI Pakistan	5 days	Two participants from each SAI	Boarding/ lodging and local transportation by SAI Pakistan	June 2018 (tentatively)
2.	IT Audit	SAI Iran	5 days			Dates will be indicated soon (Tentatively 2019)
3.	Financial Audit/Risk Based Audit	SAI Afghanistan	5 days	Two participants from each SAI	Boarding/ lodging and local transportation by SAI Afghanistan	2019
4.	Financial Analysis for Performance Auditing	SAI Pakistan	5 days	Two participants from each SAI	Boarding/ lodging and local transportation by SAI Pakistan	2020
5.	Audit of Disaster Management	SAI Pakistan	5 days	Two participants from each SAI	Boarding/ lodging and local transportation by SAI Afghanistan	2021
6.	Audit of Procurement of Goods	Turkish Court of Accounts	5 days	Two participants from each SAI	Boarding/ lodging and local transportation by SAI Turkey	April 2020
7.	Audit of Ethics in SAIs	Turkish Court of Accounts	5 days	Two participants from each SAI	Boarding/ lodging and local transportation by SAI Turkey	April 2019

x Efforts for recognition of ECOSAI

If we look at the membership compositions of various Regional Organizations recognized by INTOSAI, we find that ASOSAI is the third largest group of SAIs with great linguistic, cultural, economic and politico-administrative diversity. AFROSAI, the largest group of SAIs, very much akin to ASOSAI in terms of diversity, recognizes three sub-groups of its members established. Therefore, it is logical for ASOSAI to have its sub-regional organizations.

The purpose for seeking recognition of ECOSAI as a regional sub-group of ASOSAI is fostering professional interaction and technical cooperation between ASOSAI and ECOSAI for the benefits of SAIs, some of which are not as old as others, in the ECOSAI region. ECOSAI comprises a diverse array of member SAIs having varied cultural and geographical backgrounds. Promoting the professional and technical cooperation among the members Supreme Audit Institutions on a sub-regional basis, taking into account efficiencies and practicalities of such sub-regional working groups, is very likely to be productive.

ASOSAI does not have any provision in its Charter for recognition of Sub-Regional Organizations. However, such provision may be introduced in the Charter by seeking guidance from the INTOSAI Statutes. Article 11 of the INTOSAI Statutes provides detailed procedure for recognition of Regional Organizations. A similar Article may be added to ASOSAI Charter.

The ECOSAI Secretariat is of the opinion that consideration of the proposed amendment in ASOSAI Charter is likely to involve a lengthy process. Similarly, there are three SAIs in ECOSAI community which have yet to obtain membership of INTOSAI. Therefore, ECOSAI Secretariat suggests that ASOSAI GB may admit ECOSAI as an observer to ASOSAI Assembly, on the precedent of ASEANSAI, as an interim solution. I assure you of our best efforts to work with you for the attainment of the Objectives of ASOSAI. ECOSAI Secretariat on the directives of the Board has taken up these issues with ASOSAI and will be discussed as an agenda item during the 52nd Governing Board Meeting of ASOSAI scheduled in September 2018 in Vietnam

xx ECOSAI Seminar

With a view to introduce ECOSAI to INTOSAI community in general and showcase the knowledge and professional development capacity of countries in the ECOSAI region in particular, ECOSAI will organize a three-day Seminar, sponsored and hosted by SAI Turkey at Istanbul, Turkey from 3-6 September, 2018. The theme of the Seminar is 'Challenges to Public Sector Auditing Routines'. The President, ECOSAI and TCA will inaugurate the Seminar. Presenters from each ECOSAI member SAI will attend the seminar. Member SAIs will make one or two presentations on the following sub-theme identified by ECOSAI Secretariat.

- i. Challenges to Public Sector Auditing Practices
- ii. Performance and Value for Money Audits
- iii. Auditing the Sustainable Development Goals -The future of
- iv. Audit in the Public-sector domain
- v. Challenges the SAIs face in preventing corruption and fraud
- vi. What Regional SAI organizations can do for their member countries?
- vii. Showcasing ECOSAI achievements in fostering multilateral and bilateral professional engagement. Leverage the seminar's platform to highlight the training engagements, the broad cooperation, and collaboration the region's SAI have with each other [despite lack of financial and logistic resources].
- viii. The strategic posturing of ECOSAI as a progressive organization of SAIs with a strong track record to promote accountability and transparency in member countries.
- ix. Stimulate intellectual discussion amongst member countries to [further] improve their professional practices and engagements.
- x. Explore And Adopt innovative Ways Of Disseminating Knowledge And The Creation Of New Solutions To Fill In The Capacity Gaps Efficiently.
- xi. Fostering New Relationships With Organizations Which Promote And Strengthen The Like Causes Of Accountability, Transparency, And Strengthening Of Institutions.

