

# GUID 9030

## Good Practices Related to SAI Independence



INTOSAI

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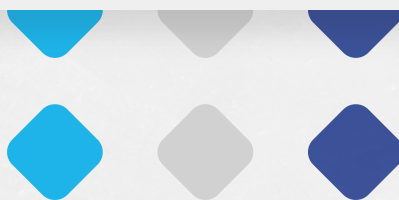
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## FOREWORD

The 1977 Lima Declaration was the first INTOSAI document to comprehensively set out the importance of Supreme Audit Institution (SAI) independence, by reminding INTOSAI members that SAIs can only be objective and effective if they are independent from the audited entity and are protected from outside influence. The course was set, and, in the years that followed, the subject of independence would come up at a variety of INTOSAI events.

At the 44th meeting of the INTOSAI Governing Board, in Montevideo, Uruguay, a task force was established and was originally headed by my predecessor. The mandate of the task force was to examine the independence of SAIs and recommend ways to bring about realistic improvements in this area.

The task force on SAI independence completed its work and issued its final report on 31 March 2001. In its report, the task force presented eight core principles for dealing with SAI independence. In the report's preamble, the chair reminded SAIs that they play an important role in holding governments to account for the use of public funds and that they can provide independent views on the quality of public sector management. As the current chair, I reiterate that this is still the case, even more so today given the increasing public demand for oversight and accountability.

One of the task force's recommendations was that a subcommittee be established to promote SAI independence and to develop guidance for SAIs. In 2001, I became chair of this subcommittee, which was made up of the SAIs that were members of the task force: Austria, Antigua and Barbuda, Cameroon, Egypt, Portugal, Saudi Arabia, Sweden, Tonga, and Uruguay. The first thing the subcommittee was asked to do was take stock of the parameters around independence, while considering the different regimes and legal frameworks.

From 2001 to 2004, the subcommittee worked on application provisions (examples) that would illustrate what was meant by SAI independence. A survey was conducted to assess the degree of compliance by SAIs with the eight core principles. At the UN/INTOSAI seminar in Vienna, Austria, in 2004, the many heads of SAIs who were present discussed the independence of SAIs in detail.

Since 2004, the subcommittee has worked on a charter on SAI independence and has developed guidelines for implementing the eight core principles, taking into account the different types of SAIs. Extensive consultation with SAIs greatly contributed to the quality of the documents.

I have the honour of reporting that the subcommittee has completed its work. I wish to thank the members of the subcommittee, for their effort and dedication, as well as all SAIs that have contributed to our work.

Sheila Fraser, FCA  
Chair  
Subcommittee on Independence

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# 1

## INTOSAI GUIDELINES AND GOOD PRACTICES RELATED TO SAI INDEPENDENCE

According to the *INTOSAI-P 10 - Mexico Declaration on SAI Independence*, Supreme Audit Institutions (SAIs) should protect the value of their work by adding the proper safeguards and removing real and perceived barriers to their independence.

These guidelines should serve as a source of good practices to share means of increasing and improving SAI independence. They are intended to be a living tool that is maintained and updated. We have set out the principles, as disclosed in the Mexico Declaration on Independence, and have added examples of good practices to help SAIs achieve independence. As more good practices are identified, they will be added to these guidelines.

### PRINCIPLE 1

**The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework**

#### » GUIDELINES

Legislation that spells out, in detail, the extent of SAI independence is required.

#### » GOOD PRACTICES

The SAI's role and duties are not set out in legislation. Where the head of the SAI has a minister's status, the SAI adopts specific organizational behavior to gain

more independence from the Executive. The SAI distances itself from the Executive, by not attending all cabinet meetings or events—only attending when it needs to accomplish its audit work.

## PRINCIPLE 2

**The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties**

### » GUIDELINES

The applicable legislation specifies the conditions for appointments, re-appointments, employment, removal and retirement, of the head of SAI and members of collegial institutions, who are:

- appointed, re-appointed, or removed by a process that ensures their independence from the Executive
- given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and
- immune to any prosecution for any, act, past or present, that results from the normal discharge of their duties.

### » GOOD PRACTICES

- » The Legislature appoints, re-appoints, or removes the Head of the SAI. The President of the Republic appoints the members of the Commission Proper (the Chairman and two Commissioners) with the Commission on Appointments' consent. These members can only be removed from office if they are impeached.
- » The Governor in Council appoints the Auditor General on the recommendation (not approval) of the House of Representatives. The SAI considers the recommendation as an “approval in practice,” because of the non-political role of the Governor General and the conventions for accepting advice.



- » The Head of State appoints, re-appoints, or removes the Head of the SAI with the approval of the Legislature. The President of the Republic appoints the Auditor General, until the age of retirement. The Auditor General shall not be retired or removed from office unless there are grounds—similar to those that apply to a High Court judge, including physical or mental incapacity or misconduct.
- » The President appoints the Head of SAI with Congress's advice and a two-thirds majority vote to consent. It also takes a two-thirds majority to remove, for cause, the Head of SAI from office.
- » The Government appoints the Auditor General—not the Legislature or the Head of State. To make the appointment more independent and remove any real or perceived influence by the Executive, an advisory committee is established. The committee comprises senior government members and members from related outside organizations (for example, the national auditing foundation, senior accounting and auditing professionals, and professional associations). The advisory committee does the initial screening of the candidates and makes a recommendation to a Minister of the Crown, who then makes a recommendation to the Prime Minister.
- » The Head of State - which is not the Head of the Government and is elected by the majority of the citizens—appoints the Head of the Court of Audit.
- » Members in collegial SAI (Court of Audit) are recruited by public competition, with an independent jury. The conditions for candidates and criteria for selection are fixed by legislation.
- » The Constitution does not address legal immunity, in the normal discharge of duties, for the Auditor General. The SAI seeks to prevent litigation, through a clearance process that includes the following:
  - a letter of representation from management;
  - continuous discussion of findings during the audit, to clear up issues as they occur if possible;
  - an exit meeting to discuss findings that were not cleared during the audit;

- a management letter (that the entity has three weeks to read and comment on), which is considered when the Report is written;
  - for performance (value-for-money) audits, a draft report sent to the entity for comments, which are considered when the report is finalized and are reproduced in a report chapter; and
  - for financial audits, a copy of the Draft Report shown to management, during a courtesy visit, so management still has an opportunity to give evidence that may cause contentious items to be removed from the report.
- » The President of the Court (collegial SAI)
- is appointed by decree that the President of the Republic makes, after receiving a proposal from the President of the Council of Ministers, who heard the opinion of the Court's Council of Presidency (SAI);
  - has to be chosen from Court's magistrates that have carried out functions of President of Chamber at the Court, for at least five years, or who have carried out equivalent functions at national constitutional bodies or European Union Institutions; and
  - once appointed, carries out the functions of the role until retirement age and cannot be removed from the position.
  - Head of SAI is appointed to the Office for a term of seven years - after a submission is made by the Chairman of the Parliament, a secret ballot is held and the appointee receives a majority of votes from Parliament;

## PRINCIPLE 3

### **A sufficiently broad mandate and full discretion, in the discharge of SAI functions**

#### » **GUIDELINES**

SAIs should be empowered to audit the:

- » use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature;

- » collection of revenues owed to the government or public entities;
- » legality and regularity of government or public entities accounts and entities;
- » quality of financial management and reporting; and
- » economy, efficiency, and effectiveness of government or public entities operations.

Except when specifically required to do so by legislation, SAIs do not audit government or public entities policy but restrict themselves to the audit of policy implementation.

While respecting the laws enacted by the Legislature that apply to them, SAIs are free from direction or interference from the Legislature or the Executive in the

- » selection of audit issues;
- » planning, programming, conduct, reporting, and follow-up of their audits; organization and management of their office; and
- » enforcement of the decisions where the application of sanctions is part of their mandate.

SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit.

SAIs should ensure that their personnel do not develop too close a relationship with the entities they audit, so that they remain objective and appear objective.

SAIs should have full discretion in the discharge of their responsibilities, they should cooperate with governments or public entities that strive to improve the use and management of public funds.

SAIs should 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.

SAIs should submit an annual activity report to the Legislature and to other state bodies - as required by the constitution, statutes, or legislation - which they should make available to the public.

## » GOOD PRACTICES

- » Offering training courses to staff can protect an organization's independence by introducing the importance of independence into its culture. SAIs train their staff and emphasize the required quality and performance standards. Significant efforts are needed to ensure that work is autonomous, objective, and without bias.
- » For one SAI the terms "waste" and "extravagance" relate to the economy and efficiency of performance (value-for-money) audits, but not necessarily to effectiveness. Effectiveness is managed matching audit criteria or standards to the operations. Because audited entities are consulted when the criteria are determined, their approval of criteria is considered an indirect acknowledgment that the effectiveness of the program has been reviewed.
- » SAI employees are sometimes required (by the Legislature) to work closely with the executives (for example, on tender committees) to ensure compliance with procedures. This requirement may appear to cause a conflict of interest. However, the SAI can maintain its independence by ensuring that the auditors act only as observers and do not participate in the decision-making process.

## PRINCIPLE 4

### Unrestricted access to information

#### » GUIDELINE

SAIs should have adequate powers to obtain timely, unfettered, direct, and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities.

## » GOOD PRACTICES

- » The SAI receives copies of all cabinet decisions, which helps it select audits and understand government financial activities.
- » During audits of important public bodies and enterprises, a Court's magistrate (who is appointed by Court's council of Presidency to act as a delegate) has the right to attend the meetings of the public body's assembly, governing board, steering committee, board of auditors. As a result, the magistrate (who does not have the right to vote) is aware of all of the public body's activities and has full access to information.

## PRINCIPLE 5

### The right and obligation to report on work

## » GUIDELINES

SAIs should not be restricted from reporting the results of their audit work. They should be required by law to report at least once a year on the results of their audit work.

## » GOOD PRACTICES

- » The Auditor General is required to submit an annual report directly to the sovereign (the King), who will order that the report be tabled in Parliament. The Audit Act allows the Auditor General to report audit findings at any time of the year. Findings that require immediate action, such as misappropriation of public moneys and abuse of powers, are reported directly to the relevant authorities, for immediate investigation. The perpetrators of such acts could face sanctions or punitive actions.
- » The SAI is not legally required to make individual audit reports available to the public, except in its annual report to the President and the National Assembly.

However, since August 2003, the SAI has made all of its audit reports available to the public on the its web page.

## PRINCIPLE 6

### **The freedom to decide the content and timing of audit reports and to publish and disseminate them**

#### » GUIDELINES

SAIs are free to decide the content of their audit reports.

SAIs are free to make observations and recommendations in their audit reports, taking into consideration, as appropriate, the views of the audited entity.

Legislation specifies minimum audit reporting requirements of SAIs and, where appropriate, specific matters that should be subject to a formal audit opinion or certificate.

SAIs are free to decide on the timing of their audit reports except where specific reporting requirements are prescribed by law.

SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, one of its commissions, or the government.

SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority—as required by law.

#### » GOOD PRACTICES

Even if the Audit Act does not clearly state that the opinions given to the Chamber of Deputies can be released to the public, in the SAI report, the Budgetary Committee of the Chamber of Deputies may make opinions a compulsory part of the government reports, which must be discussed publicly.

## PRINCIPLE 7

### The existence of effective follow-up mechanisms on SAI recommendations

#### » GUIDELINES

SAIs submit their reports to the Legislature, one of its commissions, or an auditee's governing board, as appropriate, for review and follow-up on specific recommendations for corrective action.

SAIs have their own internal follow-up system to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature, one of its commissions, or the auditee's governing board, as appropriate.

SAIs submit their follow-up reports to the Legislature, one of its commissions, or the auditee's governing board, as appropriate, for consideration and action, even when SAIs have their own statutory power for follow-up and sanctions.

#### » GOOD PRACTICES

- » No follow-up function. Currently, heads of departments are primarily responsible for dealing with matters raised by the SAI. The head of the Department of Finance requires that
  - ministers continue to scrutinize the actions that portfolio agencies take to respond to SAI recommendations, and
  - regular information is provided to the SAI and the public accounts committee.
- » No statutory power for follow-up or to impose sanctions. One SAI presented the following views on this topic.
  - Follow-up audits may be initiated at the Auditor General's discretion, sometimes at the request of a parliamentary standing committee. In

the absence of a formal mechanism for follow-up or a public accounts committee, parliamentary standing committees may consider reports on a case-by-case basis.

- Maintaining a strong relationship with parliamentary standing committees allows the SAI to brief the committees on reports. Because these briefings are often public, the SAI has the opportunity to draw attention to the recommendations.
- An informal mechanism exists to draw the Executive's attention to the SAI's reports, which involves regular meetings between the Auditor General and the heads of the three central government departments (the Department of the Prime Minister and Cabinet, the Treasury, and the State Services Commission).
  - » One country noted that the Auditor General discusses SAI recommendations with the concerned ministry and takes appropriate actions if the ministry is reluctant to follow the recommendations. In some cases, issues are followed up in the next audit year and stronger actions are recommended.
  - » In one SAI, while no follow-up is required, under the Audit Act, there are mechanisms to ensure that the ministries and agencies are following up on the recommendations.
  - » Controlling officers are required to form a Financial Management and Accounts Committee, chaired by the controlling officers, to follow up on audit recommendations and ensure that necessary remedial actions are taken at the ministries and agencies.
  - » In a follow-up audit report, the SAI will report on the status of matters raised in the previous audit. In addition, the Prime Minister's office has established the high-level, Management Integrity Committee to discuss Audit issues raised by the Auditor General's Office.
  - » A key element of our follow-up regime is to hold a post-audit meeting - with audited agencies, the Ministry of Planning and Budget, and the Ministry of Government Administration and Home Affairs - to discuss realistic ways to act on the audit recommendations and to make budget and personnel decisions.



The SAI is also preparing to include the government agency responses, to recommendations, on its Web page and to update the page regularly.

- » The SAI has no authority to ensure that the entities address anomalies and act on recommendations, and the Public Accounts committee is inactive. The SAI is following up on a suggestion to set up a small committee of permanent secretaries in the Prime Minister's Office and to have the Ministry of Finance and the Director of Audit meet with the audited entity, to address anomalies identified in the audit reports.
- » The Court reports to Parliament annually and may also submit special reports. The Court's report is subject to hearings of the budget committee's subcommittee, where senior officials of ministries are asked to answer questions. The budget committee accepts the recommendations included in the Court's report and requires ministries to implement the recommendations within a specified timeframe and to report to the Court or the Committee.

## PRINCIPLE 8

**Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources**

### » GUIDELINES

SAIs should have available necessary and reasonable human, material, and monetary resources—the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it as appropriately.

The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfill their mandate.

SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfill their mandate.

## » GOOD PRACTICES

- » No formal mechanism for an appeal to Parliament if the resources are insufficient. A report can be made to the legislature in Parliament, in addition to the normal budgetary process.
- » The process to determine the budget is not sufficiently independent and impartial. The SAI's budget is currently negotiated with government representatives, which the SAI also audits. The process must allow for the
  - appropriate funding for the SAI to be determined objectively, without any real or perceived influence; and
  - SAI's funding level and performance to be challenged effectively to ensure accountability.
- » To achieve the desired level of independence, the Speaker of the Legislature in Parliament appoints a panel of parliamentarians to oversee the SAI's annual funding requests. The panel receives the SAI's funding request and the government's analysis of the request. It can seek input from the SAI, the government, and outside experts, before it makes its recommendation to the Treasury.
- » The SAI now pays salaries and allowances directly to field auditors. Agencies cannot insist that the assigned auditors reside with them (making them virtually internal auditors). SAI has shifted from resident audit teams to audits done by teams within the SAI.
- » SAI has discretion over budget allocations. The SAI receives a lump sum from the general state budget (one-line vote). The Head of the SAI determines how the funds will be allocated among various expenditure categories.
- » The SAI has the discretion to allocate funds, but there are concerns about whether enough funds have been approved by Parliament. If funds do not cover the actual requirements, submissions are made to the Ministry of Finance, then to the Prime Minister, and then, if there is no positive feedback, to the Public Accounts Committee.

- » One SAI undergoes the following budgetary procedure:
  - The SAI submits its annual request for funds to the Ministry of Finance.
  - The Ministry of Finance passes the request on to the Cabinet ministers without any changes.
  - The Cabinet ministers negotiate the budgetary request with the government representatives (which the SAI audits). Although the Cabinet is authorized to alter the SAI request for funds, the Auditor General participates in the Cabinet meeting, as an advisor.
  - The Cabinet approves the budgetary request, and the parliamentary Public Expenditure and Audit Committee reviews it and the Committee's opinions.
  - If Parliament approves the Committee's opinion, the SAI's independence is assured.

### RESULTS OF CASE STUDIES

#### Purpose

Case studies are used to

- test SAI adherence to the draft Mexico Declaration on SAI Independence, taking into account the different systems of auditing;
- provide examples of safeguards that can be put in place in situations where a SAI is unable to meet certain independence application provisions that are part of a principle; and
- assist in the development of draft guidelines.

#### Methodology

The following preparatory work was done to acquire knowledge of the SAIs selected for case studies:

- Discussions were held between the INTOSAI Secretariat Staff and the Secretary Generals of the regions.
- The country reports prepared at the Vienna seminar on SAI Independence were reviewed.

- Websites were reviewed.
- Other methods, such as interviews and SAI visits were used.

The following was kept in mind when the survey was prepared:

- Don't repeat questions from the previous independence surveys.
- Base questions on the draft application provisions discussed in Vienna in 2004.
- Use the same questions for all case studies.
- Test elements where there was partial agreement and complete disagreement from the working group discussion in Vienna.
- Provide space for comments on
  - > cases where SAI has been able to improve its independence,
  - > areas where the SAI believes it is most vulnerable with respect to independence, and
  - > methods the SAI uses to mitigate risks to its independence.

The following preparatory work was done before the case studies began:

- Prepare a draft questionnaire.
- Distribute the questionnaire, methodology, and the choice of countries to all members of the subcommittee for their comments.
- Finalize the questionnaire.
- Provide the Professional Standards Committee with the list of countries selected for the case study and the methodology, which will be submitted to the INTOSAI Governing Board for its review and approval.
- Advise the SAIs and their regional secretariat that they have been selected for the case studies.
- Send the questionnaire to the selected SAIs.
- Conduct interviews and assess the case studies.

### Target population and return rates

The selected case studies were intended to cover all or most INTOSAI regions. All types of audit institutions (Court of accounts, Board of audit, Westminster type) and SAIs with different levels of independence were represented. In addition, only SAIs that showed real interest in participating were selected for the project.

The case studies were selected based on the suggestions from the secretaries general of the INTOSAI regional working groups. Only SAIs that volunteered were identified for the case studies. Out of the nine SAIs that volunteered, eight responded: Morocco, the Philippines, Micronesia, New Zealand, Tonga, Saint Lucia, Ghana, and Cyprus—a 90 percent response rate.

### Results

Participants were asked to give detailed responses to the following four questions, based on the eight core principles on the *Draft Mexico Declaration on Independence*:

#### Question 1

Given the principles and the application provisions, are you of the view that you are meeting all or some of the requirements for an independent SAI and explain how?

On average, the participants responded that they generally meet the requirements for an independent SAI (percentages listed beside each principle). However, they acknowledge that some principles are not being met at all or require significant improvements. A very small percentage of participants think they meet all the requirements for an independent SAI. Another very small percentage of participants acknowledge that, while they meet only a few of the core principles, they believe that their ability to act independently of the government executive preserves their independence.

The following explanations of how participants feel they are meeting the requirements for independence are listed according to core principle.

#### Principle 1

The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto provisions to apply this framework (75 percent felt they met this principle).

Most of the case study participants stated that their independence is clearly spelled out in legislation. Legislation frameworks vary depending on each country's acts. In almost all cases, the specified legislation spells out in detail how independent the SAI is, according to criteria such as

- performance of its functions, duties, and powers;
- organization and management of its resources; and
- organization and management of its mandate products and reports.

Most of the participants indicated that appropriate and effective legislation does exist. Some indicated that the Executive sometimes hinders the application and effectiveness of the legislation and gave the following reasons:

- political instability,
- the government's role in determining appropriations and funds allocation, and
- the government's influence on budgets and other resources.

Areas of vulnerability to the SAI's independence will be further discussed in question three of this section.

## **Principle 2**

The Independence of SAI heads and "members" (in collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties (75 percent felt they met this principle)

Most participants indicated that the heads of office are appointed, re-appointed, or removed by the Legislature, or by the Head of State with the approval of the Legislature. Such terms and conditions are specified in the participant's applicable legislation.

Respondents indicated that terms of office take the form of a fixed number of years, a lifetime appointment, or have an age limit. However, 25 percent of the participants pointed out that the term for their Head of SAI is very short and, therefore, does not give the Head enough time to effectively fulfil its mandate.

Finally, most of the participants indicated that they lack protection from legal prosecution for any acts resulting from the normal discharge of their duties. Only one respondent indicated having such immunity in its Legislation.

### **Principle 3**

A sufficiently broad mandate and full discretion in the discharge of SAI functions (87.5 percent felt they met this principle)

Most or all of the participants of the case studies indicated that they have a sufficiently broad mandate and full discretion to perform their function effectively, efficiently, and independently, including the power to audit the

- use of public monies or assets;
- collection of revenues owed to the government;
- legality of government accounts and entities;
- quality of financial management and reporting;
- economy, efficiency, and effectiveness of government operations; and
- government policy implementation (restricted to implementation only).

Fifty percent of the participants admit that their mandates cover only the effectiveness and efficiency of government operations. However, adding the power to audit the economy of government to their mandate is a work-in-progress.

In most cases, the participants' mandate includes the freedom of direction and interference from the Legislature, in the selection of audit issues and in the planning, programming, conduct, reporting, and follow-ups of audits. Respondents in 25 percent of the cases answered that the annual work plan (audit issues) is annually discussed with the Legislature before implementation and its implementation is very much dependent on the availability of the resources given by the Legislature and/or the consent of the Executive. Although most of the participants indicated that they were free from direction and interference from the Legislature in how they organized and managed their offices, 50 percent indicated that they didn't control the resources, which they needed to do to have complete power and independence over their office.

Most participants indicated that they were not involved in the management of the organizations and did not develop a close relationship with the entities they audited.



However, 25 percent indicated that this was an area of vulnerability, due to their lack of resources and the clients' lack of expertise.

All of the participants responded that they make use of appropriate work and audit standards and apply a code of ethics to their own operations and those of the organizations they audit.

#### **Principle 4**

Unrestricted access to information (100 percent felt they met this principle)

All participants indicated that they have timely, unfettered, full, direct, and free access to all of the documents and information that they need to meet their responsibilities. They also indicated that they have the power needed to obtain these documents and information from the people or entities that have them.

#### **Principle 5**

The right and obligation to report on work (86 percent felt they met this principle)

Most participants indicated that they are not restricted in reporting the results of their audit work. In fact, most indicated that they are required by law to (at a minimum) report the results annually. At least 25 percent of those who are not required by law to do so also attempt to report annually. However, long delays are frequent due to the lack of resources, and in one case, due to political interference.

#### **Principle 6**

The freedom to decide on the content and timing of audit reports and to publish and disseminate them (86 percent felt they met this principle)

Most of the respondents indicated that they have the freedom to decide on the contents of their audit reports, although one SAI indicated that it is sometimes influenced, depending on the sensitivity of the issue. All SAIs stated that they are free to make observations and recommendations in their audit reports.

Most of the participants indicated that they have statutory time limits for submitting annual results to the Legislature. However, they do not have time limits for publishing

audit reports. A little more than 10 percent added that, due to lack of resources and backlogged audits, submission of audit reports can be difficult to manage.

Finally, all respondents indicated that they are free to publish and disseminate their reports, once they have been formally tabled (as required by law).

### **Principle 7**

The existence of effective follow-up mechanisms on SAI recommendations (86 percent felt they met this principle)

Participants indicated that some audit reports are submitted to the Legislature or Governing Board for review and for follow-up. All participants also indicated that they have an internal system to follow up on audits and ensure that their observations and recommendations as well as those of the Legislature have been properly addressed by the audited entities. Interestingly, one SAI pointed out that, under its country's Audit Service.

*Act*, the audited entity is required to set up an Audit Report Implementation Committee to follow up and ensure that the audit recommendations are implemented.

### **Principle 8**

Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources (38 percent felt they met this principle)

This principle is the area where most of the participants felt most vulnerable (with regards to independence). Only 38 percent of the respondents indicated that they have

- fiscal autonomy,
- their annual appropriations approved and automatically released by the Legislature,
- full power to manage their own budget and are free to allocate it as appropriate, and
- the right of direct appeal to the Legislature if the resources provided are insufficient to fulfil their mandate.

The other respondents indicated that, currently, this principle is not being met and noted that it remains an area in need of great improvement. (See questions 3 and 4 for more detail.)

### **Question 2**

If you are not meeting all or some of the requirements as stated in the principles and applications provisions, do you achieve the same objectives but through different means, using different kinds of safeguards to achieve independence? If so, please explain how you meet the objective and explain why, in your view, these safeguards are a means to independence?

Very few participants responded to this question because if they are unable to meet the requirements, significant barriers hinder them from achieving the same safeguarding objectives through different means.

The few SAIs that did respond to this question consider themselves to be vulnerable in certain areas, but able to encompass this risk by applying different safeguards to achieve independence.

One of the respondents indicated that while there are no formal mechanisms in their SAI for followup of recommendations, there are

- strong relationships with select audit committees, which are used for briefings and presentations to committees on the reports and recommendations; and
- some informal mechanisms for drawing reports and recommendations to the attention of the Executive, such as regular meetings between the Executive, government departments, the Treasury, and the Cabinet.

### **Question 3**

Is there any area where you think you are more vulnerable with respect to independence and, if so explain?

The following are believed to be challenges, barriers, or risks to independence of SAIs:

- The government has a role in determining appropriations and funds allocation and influences budgets and other resources.
- Very short terms for heads of SAIs mean they do not provide have enough time to effectively implement their audit plans or to efficiently carry out their mandates.
- There is no legal immunity from prosecution for any act that results from the normal discharge of duties.
- Legislative change is required.
- The SAI organizes and manages the office within the limitation of the budget availability.
- The lack of control by the Legislature over the SAI's resources enables the SAI to have complete power and independence over the organization and management of its office.
- The lack of resources sometimes forces the auditors to risk their independence and integrity.
- The clients' lack of expertise and the size of the SAI may hinder the objectivity and independence of the auditors.
- The lack of proper, competent resources affects report timing, which, in turn, creates a backlog in audit results.
- Issues that are considered more sensitive in nature sometimes influence the writing of the report and the content.
- There is no parliamentary forum in which SAIs can be sure that their audit reports will receive parliamentary attention.
- The Executive is not required to respond to Parliament on the recommendations of reports.
- There is a lack of adequate and predictable financial resources.
- The independence of SAIs is limited, since they do not have the authority or freedom to acquire the resources they need to effectively exercise mandates on its own.

- Substantial discrepancies exist between the annual budget and proposals and actual allocation, including problems with timing and actual releases of funds by the Treasury.
- The Executive exerts a lot of influence on the budget approval process, which leads to significant cuts in the budget proposals.
- Although SAIs have the right to direct appeal, the appeal is usually rejected.

#### Question 4

Describe for us the cases where you have been able to improve independence in your SAI and tell us how you were able to achieve this.

Although participants have indicated important challenges, barriers, and risks to their SAI's independence, they have also indicated their ability to improve their level of independence. The following are isolated cases in which specific SAIs have been able to make such improvements.

#### Enhancing professional independence requirements

- There is work-in-progress for a proposed Bill to improve the structural framework of the SAI, especially its relationship with the Executive and Legislature, and mandate for performance auditing. Review of legislative frameworks.
- The SAI has adopted organizational behaviour to appear more independent from the Executive by engaging with them only for audit work, effectively distancing themselves from their political masters.
- The SAI is implementing an internal system to follow up on recommendations.

#### Conclusion

This report summarizes the responses of the case studies in reference to the adherence to the draft Mexico Declaration on Independence and to summarize their responses in regards to the four questions contained in the questionnaire prepared by the Subcommittee.

The participants of the case studies are of the opinion that they are generally meeting the requirements for an independent SAI. However, many still indicated that they have challenges in meeting principles of the draft Mexico Declaration on Independence. These challenges are considered by some as barriers to their

independence and by others as opportunities for improvement. In most cases, participants have raised similar concerns regarding vulnerabilities from financial and managerial autonomy and effective follow up on SAI recommendations, the two principles that are considered the most challenging for the SAIs.

Finally, although most or all of the participants indicated that there is room for improvement, very few responded to question 4, which asks them to describe a situation in which their SAI was able to improve its independence and the method it used to do so.