Effect of the Independence of Supreme Audit Institutions on Fiscal Performance

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Introduction

The economic and financial crisis experienced since the 1980s seems to have intensified the works of international organizations for an improved fiscal performance. The World Bank report titled "Governance and Development", published in 1992, emphasized the importance of governance in establishing the legal conditions necessary for the development of developing and developed countries, the direct participation of governments in the production process and ensuring economic development (World Bank, 1992: 1-5).

This study focuses on the importance of the independence of the Supreme Audit Institutions (SAIs) in ensuring fiscal transparency (transparency of the budget process), one of the main conditions of good governance, which is essential for a well-functioning economy policy.

Governance and Good Governance

In theory, governance is defined as an economic and political order, which is built on the mutual cooperation and reconciliation of all social actors, instead of a hierarchical (vertical) management style based on conventional bureaucratic structure; it emphasizes the importance of democracy, the rule of law, participation, human rights and freedoms; it is based on transparency, accountability, qualification and ethics; it has an independently functioning audit and judicial system; and it is compatible with technological developments (Jessop, 2002: 52, Stoker, 2002: 18, DPT, 2007).

As for good governance, it is defined as the optimization of the processes and institutional arrangements related to the development, implementation and delivery of policies, programs and services serving the benefits of citizens and society by the government. Good governance provides assurance for the management of the policy process in line with the principles of rule of law, transparency, integrity and accountability along with effectiveness, efficiency and economy (World Bank, 1994: vii). When supported by good governance principles, policies and programs gain citizens' trust hence help the policy implementations in achieving their goals (Rhodes, 1996: 656; OECD, 2014: 35-38). Therefore, fiscal transparency and accountability, which are the basic control functions of good governance, are among the fundamental factors for ensuring a successful implementation of development objectives (Ministry of Finance, 2003; Moser, 2015: 85).

In the study conducted by Kopits and Craig (1998), it was reported that fiscal transparency is prerequisite for a well-functioning economic policy and increases the efficiency of public expenditures. The OECD (2014) report titled Budgetary Governance Principles emphasizes the importance of fiscal transparency, which also means budget transparency, and states

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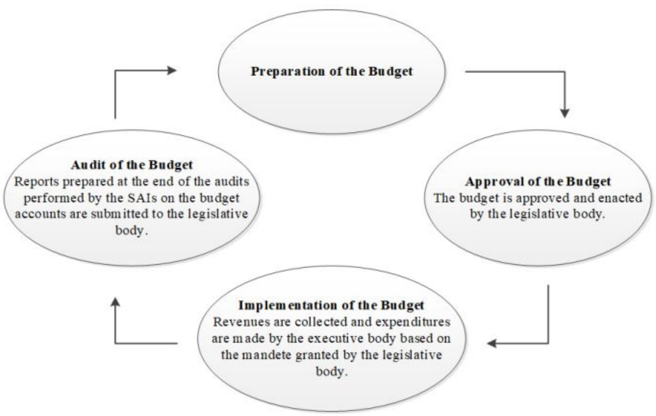
that budget documents should be open, transparent and accessible and budget process should be participatory and realistic.

Therefore, transparency should be ensured in all stages of the budget process shown in the following Figure 1 to ensure fiscal transparency (budget transparency). In this scope, the last stage of the budget process is the audit of government activities, and this task is carried out by the SAIs on the basis of the mandate granted by the constitution and/or laws of the country.

Figure1. Budget Process



Source: Prepared by the author.

The public sector audit conducted by SAIs has four main aims (DFID, 2004: 1):

- Proper and efficient use of public resources,
- Sound development of financial management,
- Correct implementation of administrative activities,
- Informing public and public authorities via objective reports.

Therefore, although their legal bases, forms of reporting, organizational structures or interactions with the political authority are different, all SAIs have the common objective of auditing the use of public resources in line with the legislation as well as the accuracy and reliability of government financial statements are audited in accordance with the international standards on auditing and ensuring that they are shared with the public (World Bank, 2001; OECD, 2014: 46).

Role of Supreme Audit Institutions in Ensuring Good Governance

According to the OECD studies, SAIs are an important source of objective information, which helps to put good governance into practice. In addition, they play a decisive role in the implementation of development strategies by controlling how, by whom and for what purpose the public resources, required for sustainable developments goals, are used (OECD, 2014: 5 and Moser, 2015: 85). Furthermore, SAIs ensure that states are transparent, and this allows citizens to have access to the necessary information (OECD, 2014: 66).

Independent audit of financial statements is importance since financial information can be effective only when they are provided in full and in an accurate and timely manner (Schelker, 2008: 30 and Schelker and Eichenberger, 2010: 359). Without accurate information, both citizens and investors have difficulty in taking proper and correct decisions (Schelker, 2012: 432). An independent evaluation of government activities increases the fiscal transparency, reduces the cost of knowledge and balances the principal-agent problem between citizens and the government in the use of public resources thereby positively effects the financial outcomes of the public sector(Schelker, 2008: 1 and Schelker and Eichenberger, 2010: 359). Therefore, SAIs are the main control institutions ensuring that accurate information is reported in the public sector (Schelker, 2012: 432).

Importance of The Independence of Supreme Audit Institutions

The final stage of the public financial management system is the audit by the SAI of public accounts and financial practices (IBP, 2006: 25).The audit conducted by SAIs ensures that government agencies work more efficiently, which enables the production of the same amount of public goods with the use of less resource. This, in turn, leads to a decrease in tax revenues as the source of financing for public expenditures (Schelker and Eichenberger, 2010: 366).

Performing the external auditing of the public sector, SAIs can play a key role in enhancing the quality of the state, ensuring the efficient use of public resources, properly implementing financial management and administrative activities and maintaining transparency and accountability that are essential for a well-functioning public sector only when they are independent from the audited entities and they are protected against external interference. Therefore, independence is crucial for well-functioning SAIs (INTOSAI, 1977: 6 and OECD, 2014: 39-40).SAI independence is an issue that has been emphasized by international organizations such as INTOSAI, OECD and the United Nations. The importance of independence was emphasized in INTOSAI's Lima Declaration of Guidelines on Auditing Precepts (1977), and the Mexico Declaration on SAI Independence (2007). With the chief aim of calling for independent government auditing, the Lima Declaration stated that SAIs could accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influences. For achieving this goal and for a healthy democracy, each country must have a SAI whose independence is guaranteed by law, and SAIs must have the functional and organizational independence required to accomplish their tasks (INTOSAI, 1998: 2-6).

The following Table 1 summarizes the factors affecting the independence of SAIs according to the international organizations and academic studies:

Table1. Factors Determining the Independence of Supreme Audit Institutions

Name of Person/Institution	Factors Determining the Independence of Supreme Audit Institutions
INTOSAI (2007)	The scope of SAI independence is specified in legislation in detail. Heads and members of SAIs are independent in the performance of their duties. SAIs are free from direction or interference from legislative or executive bodies in the selection of audit subjects, audit process, organization and management of the institution and implementation of the sanction decisions. SAIs are vested with the necessary authorities to have direct and free access to the necessary information and documents in the performance of duties assigned to them. They report the results of their works at least once a year. They are free to determine the content and timing of audit reports and to publish them. There is an effective mechanism for the monitoring of the recommendations of the SAI They manage and duly allocate their budgets.
OECD (2014)	Independence is guaranteed against government and parliament. Head of the SAI is elected by the parliament. Accounts of the SAI are audited by a committee established within the parliament. Financial accounts of the SAI are audited in line with the international standards on auditing. The decision on the type of reports submitted to the parliament is left to the discretion of the SAI as much as possible.

	SAI takes the decision on the audit subjects although it can be informed about the matters concerning the parliament. All audit reports are made public at regular intervals except for special causes. Rules concerning the functioning of the parliamentary committee are determined. Parliamentary committee has knowledge of the content of the SAI reports. Meetings of the parliamentary committee are open to public and media (unless they are restricted for special causes).
Blume and Voigt (2011)	Auditors can obtain the necessary information from the auditees in a complete and accurate manner. Government authorities cannot dismiss the auditor on the grounds that they do not approve his/her report. Wage of the auditor. Independence of the SAI is guaranteed by the related articles of the Constitution.
EUROSAI (2013)	SAI is independent from the auditees (Organizational independence). It is administered by a person or a board (Personal/Administrative independence). Tasks and duties of the SAI are determined by the Constitution and laws (Legal independence). Appropriation is transferred from the budget with the decision of the SAI management (Financial independence).

Source: Prepared by the author.

The level of corruption and waste are significantly reduced as the SAI audit becomes independent since the SAI audit makes it more risky and disadvantageous for bureaucrats to engage in corruption(Olken, 2007: 243, Ferraz and Finan, 2008: 744; Schelker, 2008: 1 and Blume and Voigt, 2011: 217). Also, independent audit is of great importance for fiscal performance of the government (Schelker, 2008: 7 and Schelker, 2012: 435). Similarly, Yalçın (2017) concluded in her study covering 85 countries in the period between 2007 and 2012 that public debt decreased as the SAI independence increased.

Conclusion

Financial transparency (budget transparency) is a prerequisite for ensuring fiscal sustainability, good governance and fiscal discipline. The main function of SAIs, which play a role in the last stage of the budget process, is to audit whether the public funds are used in line with the legislation as well as in an effective, efficient and economic manner on the basis of the mandate granted by the constitution or laws of the country. Thus, what matters for improving fiscal sustainability and fiscal performance is increasing fiscal transparency and guaranteeing SAI independence. SAIs can have impacts on fiscal transparency, and accordingly public debt, only when they are independent from the executive body and this independence is guaranteed by laws.

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