

## OVERSIGHT MECHANISM FOR SUPREME AUDIT INSTITUTIONS

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### Overview:

In this brief article we are going to discuss that how accountability or oversight can be done over Supreme Audit Institutions (SAI) vis-à-vis their statutory role of accountability/oversight over governments and allied establishments. This topic is important because just recently we have seen reports of turf war between SAIs and other pillars of states such as judiciary, executives, parliament, etc., over the jurisdiction and role of SAIs particularly those SAIs where parliamentary oversight is involved. There is rift on this issue and efforts by judiciary and executives are underway to keep check on SAIs compromising their independence in order to have control over SAI and put pressure on SAI. So in this article we will try to explore through researchers opinions that how SAIs maintain their independence and how they maintain quality control and ensure internal checks. So first we briefly discussed the definition and scope of SAIs. Then we learn about different types of SAIs. Then we tried to understand the essential features of SAIs. Then last but not the least briefly discussed the limiting factors for independence of SAIs as well as principle for independence of SAI.

### Definition and Scope of SAI:

So let's first ponder over definition or scope

of SAI. This definition is taken from a handbook issued by Sustainable Development Goal Accountability Handbook. According to them "Supreme Audit Institutions (SAI) are independent national oversight bodies, largely responsible for auditing a government's revenue and spending, helping to ensure full transparency and accountability, and even the performance of government bodies and ministries in using public funds efficiently and effectively. Structures, mandates and reporting relationships of SAIs vary, and thus, these institutions can play different accountability roles in different countries. Many SAIs independently support parliaments in performing oversight of government budgets and spending. However, many of them are playing an even larger role in accountability – including some with judicial authority – to ensure that government programmes are in compliance with laws and regulations, or even undertaking performance assessments to determine the effectiveness of a government's activities(1)".

Further OECD in their recent update on external audit has further elaborated SAIs in following words "An independent and professional Supreme Audit Institution (SAI) is an important actor in a country's accountability chain. It is a government entity whose external audit role is established by

the constitution or supreme law-making body. SAIs are traditionally known for their oversight of public expenditure, which remains a core part of the audit portfolio. SAIs undertake:

- Financial audits to assess the reliability and accuracy of public entities' financial reporting and,
- Compliance audits to assess a public entities' compliance with its governing authorities.

But the role of SAIs is evolving, as they are increasingly taking a broader, more comprehensive view on reliability, effectiveness, efficiency and economy of policies and programmes. SAIs have untapped potential to go beyond their traditional oversight role and contribute evidence for more informed policy-making<sup>2</sup>.

### DIFFERENT TYPES OF SAIs:

There are various models or types of SAIs based on their output or relationship with legislatures and executives. Various studies has summarised them into following three types<sup>3, 4</sup>:

- **Westminster Model:** In this model SAI is a

core element of parliamentary oversight mechanism. Here parliament's whole reliance is on SAI to audit public accounts. Parliament review SAI reports by a multiparty public accounts committee (PAC) primarily headed leader of opposition. PAC thus presents its reports to the full parliament. Recommendations or instructions issued by PAC requiring follow-up actions.

- **Board System:** In this model the SAI called Audit board, presents its annual report to the cabinet. Cabinet then submits the deliberated report to parliament. SAI/Board staff attends all deliberations on fiscal accounts. SAI/Board staff is expected to explain the board's opinions on such matter as required by cabinet and parliament.

- **Court of Accounts/Napoleonic System:** In this case Court of Account/SAI's annual report is presented to parliament and submitted to the country's president. Contrary to other two models, parliaments do not automatically receive the auditors' reports. It is the President of the court/SAI's head discretion to pass the court's findings to parliament's finance committee or not. Further there is provision of specific management audit upon Parliament's request in this system. Separate document prepared by the court as an annual report for

<sup>1</sup>Utilising Supreme Audit Institutions, 2020.SDG Accountability Handbook. <https://secureservercdn.net/166.62.112.219/9bz.99d.myftpupload.com/wp-content/uploads/2019/05/Utilizing-Supreme-Audit-Institutions.pdf>

<sup>2</sup><https://www.oecd.org/gov/external-audit-supreme-audit-institutions.htm>

<sup>3</sup>Features and functions of supreme audit institutions. June 2002. World Bank Findings. <http://www.worldbank.org/afr/findings>

<sup>4</sup>The Relationship between Parliament and Supreme Audit Institution (SAI) in Strengthening External Auditing. 2018. Dr. Mustafa BİÇER. ECOSAI SEMINAR-2018, Istanbul.

parliament on the use of the resources.

**ESSENTIAL FEATURES OF SAI:** Now as we have briefly mapped out the definition and scope of SAIs based on their working and functions let's see what the conditions for a successful SAI as narrated in article published by knowledge group of World Bank<sup>5</sup>. According to that article following are essential conditions for a successful SAI such as:

- Supportive environment,
- Clear mandates,
- Independence,
- Adequate funding, facilities and staff,
- Sharing of knowledge and expertise

These are of course essential features in my opinion too and during my career I have observed that SAI cannot work until supportive environment is provided for its working through mandatory provisions in statute as well as ethical and moral provisions. Further a clear mandate actually strengthen the audit particularly that of public sector. Next is independence which is most important feature of success of an SAI without independence, an SAI is nothing but failure so independence is an essential and utmost importance feature. Independence of SAI is only guaranteed through statutory provisions as without this independence is impossible. Further by independence we mean independence from executives and even for budget and other administrative decision making and power to make decision.

Other factors such as adequate funding, facilities and staff are also important for success of an SAI. So is the sharing of knowledge and expertise is important as without this an SAI can neither evolve nor it can enhance its quality and output in terms of public sector audit. So a public sector audit success depends upon the features explained above.

There are of course limitations for SAI to work in the field if above mentioned essential features are not coupled with full executive commitment and support. These limitations may lead to either poor audit quality and/or less significant audit reports and also give rise to distrust among masses over SAI as well as corruption among executives. This definitely is a big issue for SAI and its reputation as well. So for an SAI to achieve targets, it has to ensure the persistence of essential features. Among limitations, one feature that was not mentioned or discussed is possibility of poor control within SAI which ultimately will give rise to deterioration in SAI such as unethical practices among officers/official and generation of useless and misdirected audit reports

**INDEPENDENCE OF SAIs:** David Goldsworthy in an article in 2014 has highlighted 13 factors which work as limiting factors for SAI independence as well as narrated 8 principles for strengthening working of SAIs as per Lima Declaration which are as follows<sup>6</sup>:

- How the SAI budget is determined and agreed
- How the SAI is held accountable and to

<sup>5</sup>Features and Functions of Supreme Audit Institutions, 2002-2006. Knowledge Notes, published by World Bank. <https://openknowledge.worldbank.org/bitstream/handle/10986/9766/multiopage.pdf?sequence=1&isAllowed=y>

<sup>6</sup>Making SAI independence a reality – some lessons from across the Commonwealth. 2014. David Goldsworthy

whom

- SAI's right to hire, promote, fire and set remuneration packages
- Appointment of the SAI's external auditor
- SAI's capacity to retain income
- SAI's freedom to say no to requests to carry out work
- SAI's right to follow public money to the final point
- SAI's legal immunity
- Types of SAI audits
- Tenure of SAI Head
- Transparency of appointment process of head of SAI
- SAI's right to publish
- Follow-up of SAI audit recommendations

Above are the limiting factors which will decide about the nature of independence of SAIs. Further the author also discussed the principles of independence and strength of SAIs such as<sup>7</sup>:

- Principle 1: The existence of an appropriate and effective constitutional/ statutory/ legal framework and of de facto application provisions of this framework
- 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

- Principle 3: A sufficiently broad mandate and full discretion, in the discharge of SAI functions
- Principle 4: Unrestricted access to information
- Principle 5: The right and obligation to report on their work
- Principle 6: The freedom to decide the content and timing of audit reports and to publish and disseminate them
- Principle 7: The existence of effective follow-up mechanisms on SAI recommendations
- Principle 8 Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources

**CONCLUSION:** So SAIs in order to have independence and to be free of control of executives and legislature must have some policy as explained in above lines particularly the 14 limiting factors and 8 principles, prerequisite for independence of SAI. But this also needed thorough study of SAIs working mechanism, and scope and essential features in order to make the effort of independence successful based on the working model prevalent in the country.

<sup>7</sup>Making SAI independence a reality – some lessons from across the Commonwealth. 2014. David Goldsworthy