

## International Standards

# International Standards of Financial Oversight in the Security Sector



**DCAF**

a centre for security,  
development and  
the rule of law



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## About DCAF

The Geneva Centre for the Democratic Control of Armed Forces (DCAF) promotes good governance and reform of the security sector. The Centre conducts research on good practices, encourages the development of appropriate norms at the national and international levels, makes policy recommendations and provides in-country advice and assistance programmes. DCAF's partners include governments, parliaments, civil society, international organisations and the core security and justice providers such as police, judiciary, intelligence agencies, border security services and the military.

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# Table of Contents

|  |           |
|--|-----------|
| <b>Introduction to the toolkit</b>   | <b>4</b>  |
| Who is this toolkit for?   | 4         |
| What is in this toolkit?   | 4         |
| What is the purpose of this toolkit?   | 4         |
| Why is it important to have a strong legal framework for the security sector?  | 5         |
| <b>Introduction</b>  | <b>6</b>  |
| What is financial oversight in the security sector?  | 6         |
| Why are international standards for financial oversight in the security sector important?                            | 6         |
| What is the aim of this compilation?   | 7         |
| What does this compilation contain?  | 7         |
| Who is this compilation for?   | 8         |
| Enhancing financial oversight in the Palestinian security sector   | 9         |
| <b>International Standards</b>   | <b>9</b>  |
| <b>International Monetary Fund: Code of Good Practices on Fiscal Transparency (2007)</b>                             | <b>11</b> |
| <b>Organisation for Economic Cooperation and Development (OECD) Best Practices for Budgetary Transparency (2002)</b> | <b>14</b> |
| ISSAI 1 The Lima Declaration of Guidelines on Auditing Precepts (1977)   | 19        |
| ISSAI 10 Mexico Declaration on SAI Independence (2007)   | 25        |
| ISSAI 20 Principles of Transparency and Accountability (2010)  | 28        |
| ISSAI 30 Code of Ethics (1998)   | 32        |

# Introduction to the Toolkit

Legislating for the security sector is a complex and difficult task. Many lawmakers thus find it tempting to copy legislation from other countries. This expedites the drafting process, especially when the texts are available in the language of the lawmaker, but more often than not, the result is poor legislation.

Even after being amended, the copied laws are often out of date before coming into effect. They may no longer be in line with international standards or they may not fully respond to the requirements of the local political and societal context. Copied laws are sometimes inconsistent with the national legislation in place.

In some cases, there is simply no model law available in the region for the type of legislation that is needed. This has been the case in the Arab region, where the security sector has only recently begun to be publicly debated. It is thus difficult to find good model laws for democratic policing or for parliamentary oversight of intelligence services.

It is therefore not surprising that many lawmakers in the Arab region have found it challenging to draft legislation for the security sector. They found it difficult to access international norms and standards because little or no resources were available in Arabic. Many of them did not know where to search for model laws and several were about to give up. Some eventually turned to DCAF for assistance.

The idea of a practical toolkit for legislators in the Arab region came when practitioners began looking for a selection of standards, norms and model laws in Arabic that would help them draft new legislation. Experts from the Arab region and DCAF thus decided to work together and develop some practical tools.

## Who is this toolkit for?

This toolkit is primarily addressed to all those who intend to create new or develop existing security sector legislation. This includes

parliamentarians, civil servants, legal experts and nongovernmental organisations. The toolkit may also be helpful to security officials and, as a reference tool, to researchers and students interested in security sector legislation.

## What is in this toolkit?

The bilingual toolkit contains a number of booklets in English and Arabic that provide norms and standards, guidebooks as well as practical examples of model laws in various areas of security sector legislation.

The following series have been published so far:

- Police legislation
- Intelligence legislation
- Military justice legislation
- Status of forces agreements
- Financial oversight

Additional series will be added as the needs arise. The existing series can easily be expanded through the addition of new booklets, based on demand from the Arab region.

For the latest status of publications please visit: [www.dcaf.ch/publications](http://www.dcaf.ch/publications)

## What is the purpose of this toolkit?

The toolkit seeks to assist lawmakers in the Arab region in responding to citizens' expectations. Citizens demand professional service from police and security forces, which should be effective, efficient and responsive to their needs. They want police and security organisations and their members to abide by the law and human right norms and to be accountable for their performance and conduct. The toolkit thus promotes international standards in security sector legislation, such as democratic oversight, good governance and transparency.

The toolkit offers easy access in Arabic and English to international norms as well as examples of legislation outside the Arab region. This allows comparisons between different experiences and practices.

The scarcity of literature in Arabic on security sector legislation has been problematic for lawmakers in the Arab region. The toolkit seeks to address this deficiency. One of its aims is to reduce time lawmakers spend on searching for information, thus allowing them to concentrate on their main task. With more information becoming available in Arabic, many citizens and civil society groups may find it easier to articulate their vision of the type of police and security service they want and to contribute to the development of a modern and strong legal framework for the security sector.

### **Why is it important to have a strong legal framework for the security sector?**

A sound legal framework is a precondition for effective, efficient and accountable security sector governance because it:

- Defines the role and mission of the different security organisations;
- Defines the prerogatives and limits the power of security organisations and their members;
- Defines the role and powers of institutions, which control and oversee security organisations;
- Provides a basis for accountability, as it draws a clear line between legal and illegal behaviour;
- Enhances public trust and strengthens legitimacy of government and its security forces.

For all these reasons, security sector reform often starts with a complete review and overhaul of the national security sector legislation. The point is to identify and address contradictions and the lack of clarity regarding roles and mandates of the different institutions.

# Introduction

## What is financial oversight in the security sector?

Financial oversight in the security sector is a term used to describe a variety of oversight tools and mechanisms which help ensure that public funds allocated by the state for the security of the people are spent in a transparent and accountable manner. Since the Lima Declaration in 1977 (see below), major multilateral organisations have been developing standards and principles to guide the work of practitioners in charge of ensuring financial oversight of public bodies, including public security sector institutions. This volume is a compilation of the most important of these international standards and principles.

Effective financial oversight in the security sector increases transparency and accountability in the security sector, and includes the following practices:

- Formal and informal oversight institutions systematically monitor how the armed, police and security forces make use of public funds;
- Legislative, judicial and audit authorities detect, investigate and address violations by security and defence actors of financial accountability laws, regulations and policies;
- Administrative or criminal proceedings are undertaken and judgments enacted against security and defence personnel found guilty of corruption; and
- Civil society organisations and research centres conduct inclusive public debates on the country's past and future security needs and gather data to estimate the costs of addressing these.

## Why are international standards for financial oversight in the security sector important?

International standards for financial oversight in the security sector establish internationally agreed upon principles for conducting financial transactions and operational expenditures by public bodies in a transparent and accountable way. These international standards are important as they serve as a model to help states undergoing democratic transition to strengthen financial oversight in their security sectors and increase the budgetary accountability of security sector actors. In this way, following international standards can help to address some of the main challenges of poor financial oversight in the security sector, such as opacity of security and defence budgets, lack of citizens' and civil society's access to information, and reduced authority, ability and capacity of existing financial oversight institutions.

International standards are important because they:

- Provide governments and members of parliament with a set of guiding principles for developing and reforming national laws, systems and processes, and for setting up formal oversight bodies to ensure effective financial oversight
- Enable organisations involved in compliance audits of security and defence institutions to assess whether these institutions comply with universally adopted standards and principles for sound financial oversight in the public sector.
- Provide a frame of reference for "best practice" to service providers in the field of security and defence, which they can refer to in their daily work.



## What is the aim of this compilation?

The aim of this compilation of international standards is to provide readers from the Arab region and beyond with easy access to internationally adopted guiding principles, standards and best practices in financial oversight of public institutions, including security sector institutions. The compilation allows readers to:

- Access key international standards on budgeting and auditing in Arabic and English;
- Compare existing practices and regulations in their countries with universally accepted budgeting and auditing principles;
- Use the international standards as a basis for proposals to political leaders and members of parliament for reforming the prevailing financial oversight system in the security sectors of their countries;
- Monitor and evaluate the performance of financial accountability institutions against international best practice.

## What does this compilation contain?

This compilation contains six international standards for financial oversight adopted by major international multilateral organisations promoting financial transparency and accountability of public institutions. These international standards are:

- The International Monetary Fund's (IMF) **Code of Good Practices on Fiscal Transparency** adopted in 2007: this document sets guidelines for states' budgeting processes. It clarifies the roles and responsibilities of financial accountability institutions as well as the requirements for openness, transparency and integrity of those in charge of budgeting of public funds.
- The 2002 **Best Practices for Budget Transparency** of the Organisation for Economic Cooperation and Development (OECD): these best practices serve as a reference tool for practitioners who work

to promote their country's budgeting transparency. The document describes how budget documents should be presented, what key information they should include, as well as how and by whom the accountability of the budgeting process should be monitored and guaranteed.

- The following four international standards called **International Standards of Supreme Audit Institutions (ISSAIs)** developed by the International Organisation of Supreme Audit Institutions (INTOSAI):
  - o The **Lima Declaration** adopted in 1977 outlines standards and norms for the independent auditing of governments and government agencies. The document establishes a comprehensive list of issues, goals and norms regulating the audit of public institutions.
  - o The **Mexico Declaration** of 2007 aim to assert the independence of Supreme Audit Institutions (SAIs) from the executive power. The document presents eight general principles of independent public sector audit institutions.
  - o The **Principles of Transparency and Accountability** adopted in 2010 contains nine principles of transparency and accountability for SAIs to assist them in leading by example by adapting their own governance and practice.
  - o The 1998 **Code of Ethics** establishes a list of values and principles which should guide the work of auditors. These values and principles include independence, political neutrality, objectivity, impartiality and professional competence.

## Who is this compilation for?

This compilation is primarily meant for practitioners involved in financial oversight of public institutions, including security sector

organisations. Those who may benefit from these international standards include:

- Parliamentarians and parliamentary staffers who are involved in financial oversight and budget control activities;
- Employees at supreme audit institutions (SAIs) who apply their expertise to financial oversight activities;
- Strategic-level members of security and defence institutions, in particular those who are in charge of preparing and executing budgets
- Representatives of ministries and executive authorities who oversee the preparation and execution of security and defence budgets
- Internal control officers and auditors working in core security and justice institutions whose role is to strengthen internal control procedures, conduct internal audit and investigations into cases of misuse of funds, financial fraud or mismanagement by public institutions, including the security and armed forces
- Informal oversight institutions (civil society organisations, media, research and advocacy institutions) working to monitor the expenditures occurring under security budgets, conduct periodic research studies on their country's compliance with international standards and raise awareness among citizens about security and defence budgeting processes.

### **Enhancing financial oversight in the Palestinian security sector**

Since 2010, the Geneva Centre for the Democratic Control of Armed Forces (DCAF) has been promoting the strengthening of financial oversight in the Palestinian security sector. In January 2013, in cooperation with the Palestinian State Audit and Administrative Control Bureau (SAACB), DCAF launched a project entitled 'Assisting Palestinian Financial Oversight Institutions in Strengthening Financial Oversight in the Security Sector' funded by the European Union. The objective of this project is to assist

Palestinian audit institutions in strengthening financial oversight in the security sector by building their capacities and competencies in key areas of financial audit and control. The target institutions of this project are Palestinian legislative, executive and specialised oversight bodies, including the Office of the President, the Council of Ministers, the Ministry of Finance, the Military Central Financial Administration, the Anti-Corruption Commission, the Palestinian Legislative Council and SAACB itself, as well as Palestinian security forces and concerned civil society organisations.

Based on a needs assessment with representatives of the participating institutions, DCAF and SAACB identified a need to provide better access to international standards, regulations and best practices applicable to financial oversight work in the security sector. This echoed an observation DCAF has been making in its work in the Middle East and North Africa region over the last decade: practitioners in the Arab region at times find it difficult to access international principles and standards because few resources are available in Arabic.

In response, DCAF has gathered a set of the main international standards relevant for employees involved in financial oversight in the security sector and presents it in this bilingual compilation.

DCAF remains available to support national efforts to establish or reform financial oversight institutions and mechanisms in line with democratic values and international standards.

# **International Standards**



# International Monetary Fund (IMF)

## Code of Good Practices on Fiscal Transparency (2007)<sup>1</sup>

*The Code identifies a set of principles and practices to help governments provide a clear picture of the structure and finances of government. The Code was first published in 1998 and last revised in 2017. In 2013, the IMF presented a new draft for public consultation.<sup>2</sup>*

### I. CLARITY OF ROLES AND RESPONSIBILITIES

**1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.**

- 1.1.1 The structure and functions of government should be clear.
- 1.1.2 The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.
- 1.1.3 The responsibilities of different levels of government, and the relationships between them, should be clearly specified.
- 1.1.4 Relationships between the government and public corporations should be based on clear arrangements.
- 1.1.5 Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.

**1.2 There should be a clear and open legal, regulatory, and administrative framework for fiscal management.**

- 1.2.1 The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.
- 1.2.2 Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.
- 1.2.3 There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.
- 1.2.4 Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.
- 1.2.5 Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.

### II. OPEN BUDGET PROCESSES

**2.1 Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.**

- 2.1.1 A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.

<sup>1</sup> Source: Website of the IMF: <https://www.imf.org/external/np/pp/2007/eng/051507c.pdf> [last consulted on 15 September 2014].

<sup>2</sup> The revised Fiscal Transparency Code can also be consulted on the IMF website: <http://www.imf.org/external/pubs/ft/survey/so/2013/POL061713A.htm> [last consulted on 15 September 2014].

- 2.1.2 The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.
- 2.1.3 A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.
- 2.1.4 The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.
- 2.1.5 There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.

**2.2 There should be clear procedures for budget execution, monitoring, and reporting.**

- 2.2.1 The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.
- 2.2.2 A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.
- 2.2.3 Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.
- 2.2.4 Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

**III. PUBLIC AVAILABILITY OF INFORMATION**

**3.1 The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.**

- 3.1.1 The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra budgetary activities of the central government.
- 3.1.2 Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.
- 3.1.3 Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.
- 3.1.4 Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.
- 3.1.5 The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.
- 3.1.6 The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.
- 3.1.7 The government should publish a periodic report on long-term public finances.

**3.2 Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.**

- 3.2.1 A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.
- 3.2.2 Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.
- 3.2.3 The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.
- 3.2.4 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

**3.3. A commitment should be made to the timely publication of fiscal information.**

- 3.3.1 The timely publication of fiscal information should be a legal obligation of the government.
- 3.3.2 Advance release calendars for fiscal information should be announced and adhered to.

**IV. ASSURANCES OF INTEGRITY**

**4.1 Fiscal data should meet accepted data quality standards.**

- 4.1.1 Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.
- 4.1.2 The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.
- 4.1.3 Data in fiscal reports should be internally consistent and reconciled with relevant

data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.

**4.2 Fiscal activities should be subject to effective internal oversight and safeguards.**

- 4.2.1 Ethical standards of behavior for public servants should be clear and well publicized.
- 4.2.2 Public sector employment procedures and conditions should be documented and accessible to interested parties.
- 4.2.3 Procurement regulations, meeting international standards, should be accessible and observed in practice.
- 4.2.4 Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.
- 4.2.5 Government activities and finances should be internally audited, and audit procedures should be open to review.
- 4.2.6 The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.

**4.3 Fiscal information should be externally scrutinized.**

- 4.3.1 Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.
- 4.3.2 The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.
- 4.3.4 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.
- 4.3.4 A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

# Organisation for Economic Cooperation and Development (OECD)

## Best Practices for Budget Transparency (2002)<sup>3</sup>

*According to the OECD, budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner. The OECD developed Best Practices for Budget Transparency as a reference tool for governments to use in order to increase the degree of budget transparency in their respective countries.*

### Note from the Editors

The relationship between good governance and better economic and social outcomes is increasingly acknowledged. Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance.

The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner.

OECD Member countries are at the forefront of budget transparency practices.

At its 1999 annual meeting, the OECD Working Party of Senior Budget Officials asked the Secretariat to draw together a set of Best Practices in this area based on Member countries' experiences.

The Best Practices are in three parts. Part 1 lists the principal budget reports that governments should produce and their general content. Part 2 describes specific disclosures to be contained in the reports. This includes both financial and

non-financial performance information. Part 3 highlights practices for ensuring the quality and integrity of the reports.

The Best Practices are designed as a reference tool for Member and non-member countries to use in order to increase the degree of budget transparency in their respective countries. The Best Practices are organised around specific reports for presentational reasons only. It is recognised that different countries will have different reporting regimes and may have different areas of emphasis for transparency. The Best Practices are based on different Member countries' experiences in each area. It should be stressed that the Best Practices are not meant to constitute a formal "standard" for budget transparency.

### 1. Budget reports

#### 1.1. The budget

- The budget is the government's<sup>4</sup> key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.
- The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than three months prior to the start of the

<sup>3</sup> Source of the *OECD Best Practices for Budget Transparency*: <http://www.oecd.org/governance/budgeting/Best%20Practices%20Budget%20Transparency%20-%20complete%20with%20cover%20page.pdf>, 2002 [last consulted on 15 September 2014]

<sup>4</sup> The Best Practices define "government" in line with the System of National Accounts (SNA). This definition encompasses the non-commercial activities of government. Specifically, the activities of state-owned enterprises are excluded from this definition. Although the SNA definition focuses on general government, i.e. consolidating all levels of government, these Best Practices should be seen to apply to the national government.



fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year.

- The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme.
- Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable.
- The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained.
- Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme. Similar comparative information should be shown for any non-financial performance data.
- If revenue and expenditures are authorised in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.
- Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.
- Expenditures should be classified by administrative unit (e.g. ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (below).

- The budget should include a discussion of tax expenditures in accordance with Best Practice 2.2 (below).
- The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).

### **1.2. Pre-budget report**

- A pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released no later than one month prior to the introduction of the budget proposal.
- The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (see below).

### **1.3. Monthly reports**

- Monthly reports show progress in implementing the budget. They should be released within four weeks of the end of each month.
- They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. Any in-year adjustments to the original forecast should be shown separately.
- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.

- Expenditures should be classified by major administrative units (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The reports, or related documents, should also contain information on the government's borrowing activity (see Best Practice 2.3 below).

#### **1.4. Mid-year report**

- The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year period.
- The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed (see Best Practice 2.1 below).
- The mid-year should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).
- The impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.

#### **1.5. Year-end report**

- The year-end report is the government's key accountability document. It should be audited by the Supreme Audit Institution, in accordance with Best Practice 3.3 (below) and be released within six months of the end of the fiscal year.
  - The year-end report shows compliance with the level of revenue and expenditures authorised by Parliament in the budget. Any in-year adjustments to the original budget should be shown separately. The presentation format of the year-end report should mirror the presentation format of the budget.
- The year-end report, or related documents, should include non-financial performance information, including a comparison of performance targets and actual results achieved where practicable.
  - Comparative information on the level of revenue and expenditure during the preceding year should also be provided. Similar comparative information should be shown for any non-financial performance data.
  - Expenditure should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately.
  - Expenditure should be classified by administrative unit (e.g. ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
  - The year-end report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).

#### **1.6. Pre-election report**

- A pre-election report serves to illuminate the general state of government finances immediately before an election. This fosters a more informed electorate and serves to stimulate public debate.
- The feasibility of producing this report may depend on constitutional provisions and electoral practices. Optimally, it should be released no later than two weeks prior to elections.
- The report should contain the same information as the mid-year report.
- Special care needs to be taken to assure the integrity of such reports, in accordance with Best Practice 3.2 (below).

#### **1.7. Long-term report**

- The long-term report assesses the long-term sustainability of current government

policies. It should be released at least every five years, or when major changes are made in substantive revenue or expenditure programmes.

- The report should assess the budgetary implications of demographic change, such as population ageing and other potential developments over the long-term (10-40 years).
- All key assumptions underlying the projections contained in the report should be made explicit and a range of plausible scenarios presented.

## **2. Specific disclosures**

### **2.1. Economic assumptions**

- Deviations from the forecast of the key economic assumptions underlying the budget are the government's key fiscal risk.
- All key economic assumptions should be disclosed explicitly. This includes the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates (monetary policy).
- A sensitivity analysis should be made of what impact changes in the key economic assumptions would have on the budget.

### **2.2. Tax expenditures**

- Tax expenditures are the estimated costs to the tax revenue of preferential treatment for specific activities.
- The estimated cost of key tax expenditures should be disclosed as supplementary information in the budget. To the extent practicable, a discussion of tax expenditures for specific functional areas should be incorporated into the discussion of general expenditures for those areas in order to inform budgetary choices.

### **2.3. Financial liabilities and financial assets**

- All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report. Monthly borrowing activity should be

disclosed in the monthly reports, or related documents.

- Borrowings should be classified by the currency denomination of the debt, the maturity profile of the debt, whether the debt carries a fixed or variable rate of interest, and whether it is callable.
- Financial assets should be classified by major type, including cash, marketable securities, investments in enterprises and loans advanced to other entities. Investments in enterprises should be listed individually. Loans advanced to other entities should be listed by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. Financial assets should be valued at market value.
- Debt management instruments, such as forward contracts and swaps, should be disclosed.
- In the budget, a sensitivity analysis should be made showing what impact changes in interest rates and foreign exchange rates would have on financing costs.

### **2.4. Non-financial assets**

- Non-financial assets, including real property and equipment, should be disclosed.
- Non-financial assets will be recognised under full accrual-based accounting and budgeting. This will require the valuation of such assets and the selection of appropriate depreciation schedules. The valuation and depreciation methods should be fully disclosed.
- Where full accrual basis is not adopted, a register of assets should be maintained and summary information from this register provided in the budget, the mid-year report and the year-end report.

### **2.5. Employee pension obligations**

- Employee pension obligations should be disclosed in the budget, the midyear report and the year-end report. Employee pension obligations are the difference

between accrued benefits arising from past service and the contributions that the government has made towards those benefits.

- Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed. Any assets belonging to employee pension plans should be valued at market value.

## **2.6. Contingent liabilities**

- Contingent liabilities are liabilities whose budgetary impact is dependent on future events which may or may not occur. Common examples include government loan guarantees, government insurance programmes, and legal claims against the government.
- All significant contingent liabilities should be disclosed in the budget, the mid-year report and the annual financial statements.
- Where feasible, the total amount of contingent liabilities should be disclosed and classified by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. In cases where contingent liabilities cannot be quantified, they should be listed and described.

## **3. Integrity, control and accountability**

### **3.1. Accounting policies**

- A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (*e.g.* cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.
- The same accounting policies should be used for all fiscal reports.
- If a change in accounting policies is required, then the nature of the change and the reasons for the change should be fully disclosed. Information for previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.

### **3.2. Systems and responsibility**

- A dynamic system of internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.
- Each report should contain a statement of responsibility by the finance minister and the senior official responsible for producing the report. The minister certifies that all government decisions with a fiscal impact have been included in the report. The senior official certifies that the Finance Ministry has used its best professional judgement in producing the report.

### **3.3. Audit**

- The year-end report should be audited by the Supreme Audit Institution in accordance with generally accepted auditing practices.
- Audit reports prepared by the Supreme Audit Institution should be scrutinized by Parliament.

### **3.4. Public and parliamentary scrutiny**

- Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary.
- All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of all reports free of charge on the Internet.
- The Finance Ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organisations.

# INTOSAI

## ISSAI 1: The Lima Declaration of Guidelines on Auditing Precepts (1977)<sup>5</sup>

*INTOSAI, the International Organisation of Supreme Audit Institutions is an international body whose members are State Chief Financial Controllers, Comptroller Generals or Auditor General Offices. INTOSAI currently has 192 full members and five associate members. Its mission is to provide a frame of reference for state audit institutions to promote and improve the auditing of public spending.*

*INTOSAI publishes the International Standards of Supreme Audit (ISSAI), which aim to provide benchmarks of quality, credibility and professionalism for all state audit institutions thereby enhancing the influence and capacities of audit institutions.*

*ISSAIs are developed, revised and withdrawn by INTOSAI in cooperation with other standard-setting bodies and in compliance with INTOSAI's due process for professional standards.*

### Preamble

The IXth Congress of the International Organisation of Supreme Audit Institutions (INTOSAI), meeting in Lima:

- Whereas the orderly and efficient use of public funds constitutes one of the essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the responsible authorities; whereas, to achieve this objective, it is indispensable that each country have a Supreme Audit Institution whose independence is guaranteed by law;
- whereas such institutions become even more necessary because the state has expanded its activities into the social and economic sectors and thus operates beyond the limits of the traditional financial framework;

- whereas the specific objectives of auditing, namely, the proper and effective use of public funds; the development of sound financial management; the proper execution of administrative activities; and the communication of information to public authorities and the general public through the publication of objective reports, are necessary for the stability and the development of states in keeping with the goals of the United Nations;
- whereas at previous INTOSAI congresses, plenary assemblies adopted resolutions whose distribution was approved by all member countries;

### RESOLVES:

To publish and distribute the document entitled "The Lima Declaration of Guidelines on Auditing Precepts."

### I. General

#### Section 1. Purpose of audit

The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent or at least render more difficult-such breaches.

#### Section 2. Pre-audit and post-audit

1. Pre-audit represents a before the fact type of review of administrative or financial activities; post-audit is audit after the fact.

<sup>5</sup> INTOSAI. *Due Process for INTOSAI Professional Standards* [http://www.issai.org/media/13527/due\\_process\\_english.pdf](http://www.issai.org/media/13527/due_process_english.pdf)

2. Effective pre-audit is indispensable for the sound management of public funds entrusted to the state. It may be carried out by a Supreme Audit Institution or by other audit institutions.
3. Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under public law. Post-audit by a Supreme Audit Institution highlights the responsibility of those accountable; it may lead to compensation for the damage caused and may prevent breaches from recurring.
4. The legal situation and the conditions and requirements of each country determine whether a Supreme Audit Institution carries out pre-audit. Post-audit is an indispensable task of every Supreme Audit Institution regardless of whether or not it also carries out pre-audits.

### **Section 3. Internal audit and external audit**

1. Internal audit services are established within government departments and institutions, whereas external audit services are not part of the organisational structure of the institutions to be audited. Supreme Audit Institutions are external audit services.
2. Internal audit services necessarily are subordinate to the head of the department within which they have been established. Nevertheless, they shall be functionally and organisationally independent as far as possible within their respective constitutional framework.
3. As the external auditor, the Supreme Audit Institution has the task of examining the effectiveness of internal audit. If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit.

### **Section 4. Legality audit, regularity audit and performance audit**

1. The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting.
2. In addition to this type of audit, which retains its significance, there is another equally important type of audit-performance audit- which 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 organisational and administrative systems.
3. The Supreme Audit Institution's audit objectives-legality, regularity, economy, efficiency and effectiveness of financial management-basically are of equal importance. However, it is for each Supreme Audit Institution to determine its priorities on a case-by-case basis.

## **II. Independence**

### **Section 5. Independence of Supreme Audit Institutions**

1. Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
2. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks.
3. The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.

## **Section 6. Independence of the members and officials of Supreme Audit Institutions**

1. The independence of Supreme Audit Institutions is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the Supreme Audit Institution and are answerable for these decisions to third parties, that is, the members of a decision-making collegiate body or the head of a monocratically organised Supreme Audit Institution.
2. The independence of the members, shall be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members. The method of appointment and removal of members depends on the constitutional structure of each country.
3. In their professional careers, audit staff of Supreme Audit Institutions must not be influenced by the audited organisations and must not be dependent on such organisations.

## **Section 7. Financial independence of Supreme Audit Institutions**

1. Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks.
2. If required, Supreme Audit Institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget.
3. Supreme Audit Institutions shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

## **III. Relationship to Parliament, government and the administration**

### **Section 8. Relationship to Parliament**

The independence of Supreme Audit Institutions provided under the Constitution and law also guarantees a very high degree of initiative and autonomy, even when they act as an agent of Parliament and perform audits on its instructions. The relationship between the Supreme Audit

Institution and Parliament shall be laid down in the Constitution according to the conditions and requirements of each country.

### **Section 9. Relationship to government and the administration**

Supreme Audit Institutions audit the activities of the government, its administrative authorities and other subordinate institutions. This does not mean, however, that the government is subordinate to the Supreme Audit Institution. In particular, the government is fully and solely responsible for its acts and omissions and cannot absolve itself by referring to the audit findings-unless such findings were delivered as legally valid and enforceable judgments-and on expert opinions of the Supreme Audit Institution.

## **IV. Powers of Supreme Audit Institutions**

### **Section 10. Powers of Investigation**

1. Supreme Audit Institutions shall have access to all records and documents relating to financial management and shall be empowered to request, orally or in writing, any information deemed necessary by the SAI.
2. For each audit, the Supreme Audit Institution shall decide whether it is more expedient to carry out the audit at the institution to be audited, or at the Supreme Audit Institution itself.
3. Either the law or the Supreme Audit Institution (for individual cases) shall set time limits for furnishing information or submitting documents and other records including the financial statements to the Supreme Audit Institution.

### **Section 11. Enforcement of Supreme Audit Institution findings**

1. The audited organisations shall comment on the findings of the Supreme Audit Institution within a period of time established generally by law, or specifically by the Supreme Audit Institution, and shall indicate the measures taken as a result of the audit findings.
2. To the extent the findings of the Supreme Audit Institution's findings are not delivered as legally valid and enforceable judgments,

the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility.

### **Section 12. Expert opinions and rights of consultation**

1. When necessary, Supreme Audit Institutions may provide Parliament and the administration with their professional knowledge in the form of expert opinions, including comments on draft laws and other financial regulations. The administrative authorities shall bear the sole responsibility for accepting or rejecting such expert opinions; moreover, this additional task must not anticipate the future audit findings of the Supreme Audit Institution and must not interfere with the effectiveness of its audit.
2. Regulations for appropriate and as uniform as possible accounting procedures shall be adopted only after agreement with the Supreme Audit Institution.

## **V. Audit methods, audit staff, international exchange of experiences**

### **Section 13. Audit methods and procedures**

1. Supreme Audit Institutions shall audit in accordance with a self-determined programme. The rights of certain public bodies to request a specific audit shall remain unaffected.
2. Since an audit can rarely be all-inclusive, Supreme Audit Institutions as a rule will find it necessary to use a sampling approach. The samples, however, shall be selected on the basis of a given model and shall be sufficiently numerous to make it possible to judge the quality and regularity of financial management.
3. Audit methods shall always be adapted to the progress of the sciences and techniques relating to financial management.
4. It is appropriate for the Supreme Audit Institution to prepare audit manuals as an aid for its auditors.

### **Section 14. Audit staff**

1. The members and the audit staff of Supreme Audit Institutions shall have the qualifications and moral integrity required to completely carry out their tasks.
2. In recruiting staff for Supreme Audit Institutions, appropriate recognition shall be given to above-average knowledge and skills and adequate professional experience.
3. Special attention shall be given to improving the theoretical and practical professional development of all members and audit staff of SAIs, through internal, university and international programmes. Such development shall be encouraged by all possible financial and organisational means. Professional development shall go beyond the traditional framework of legal, economic and accounting knowledge, and include other business management techniques, such as electronic data processing.
4. To ensure auditing staff of excellent quality, salaries shall be commensurate with the special requirements of such employment.
5. If special skills are not available among the audit staff, the Supreme Audit Institution may call on external experts as necessary.

### **Section 15. International exchange of experiences**

1. The international exchange of ideas and experiences within the International Organisation of Supreme Audit Institutions is an effective means of helping Supreme Audit Institutions accomplish their tasks.
2. This purpose has so far been served by congresses, training seminars jointly organised with the United Nations and other institutions, by regional working groups and by the publication of a professional journal.
3. It is desirable to expand and intensify these efforts and activities. The development of a uniform terminology of government audit based on comparative law is of prime importance.



## **VI. Reporting**

### **Section 16. Reporting to Parliament and to the general public**

1. The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published. This will ensure extensive distribution and discussion, and enhance opportunities for enforcing the findings of the Supreme Audit Institution.
2. The Supreme Audit Institution shall also be empowered to report on particularly important and significant findings during the year.
3. Generally, the annual report shall cover all activities of the Supreme Audit Institution; only when interests worthy of protection or protected by law are involved shall the Supreme Audit Institution carefully weigh such interests against the benefits of disclosure.

### **Section 17. Method of reporting**

1. The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand.
2. The Supreme Audit Institution shall give due consideration to the points of view of the audited organisations on its findings.

## **VII. Audit powers of Supreme Audit Institutions**

### **Section 18. Constitutional basis of audit powers; audit of public financial management**

1. The basic audit powers of Supreme Audit Institutions shall be embodied in the Constitution; details may be laid down in legislation.
2. The actual terms of the Supreme Audit Institution's audit powers will depend on the conditions and requirements of each country.
3. All public financial operations, regardless of whether and how they are reflected in the

national budget, shall be subject to audit by Supreme Audit Institutions. Excluding parts of financial management from the national budget shall not result in these parts being exempted from audit by the Supreme Audit Institution.

4. Supreme Audit Institutions should promote through their audits a clearly defined budget classification and accounting systems which are as simple and clear as possible.

### **Section 19. Audit of public authorities and other institutions abroad**

As a general principle, public authorities and other institutions established abroad shall also be audited by the Supreme Audit Institution. When auditing these institutions, due consideration shall be given to the constraints laid down by international law; where justified these limitations shall be overcome as international law develops.

### **Section 20. Tax audits**

1. Supreme Audit Institutions shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files.
2. Tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, Supreme Audit Institutions shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.

### **Section 21. Public contracts and public works**

1. The considerable funds expended by public authorities on contracts and public works justify a particularly exhaustive audit of the funds used.
2. Public tendering is the most suitable procedure for obtaining the most favourable offer in terms of price and quality. Whenever public tenders are not invited, the Supreme Audit Institution shall determine the reasons.
3. When auditing public works, the Supreme Audit Institution shall promote the development of suitable standards for regulating the administration of such works.

4. Audits of public works shall cover not only the regularity of payments, but also the efficiency of construction management and the quality of construction work.

### **Section 22. Audit of electronic data processing facilities**

The considerable funds spent on electronic data processing facilities also calls for appropriate auditing. Such audits shall be systems-based and cover aspects such as planning for requirements; economical use of data processing equipment; use of staff with appropriate expertise, preferably from within the administration of the audited organisation; prevention of misuse; and the usefulness of the information produced.

### **Section 23. Commercial enterprises with public participation**

1. The expansion of the economic activities of government frequently results in the establishment of enterprises under private law. These enterprises shall also be subject to audit by the Supreme Audit Institution if the government has a substantial participation in them-particularly where this is majority participation-or exercises a dominating influence.
2. It is appropriate for such audits to be carried out as post-audits; they shall address issues of economy, efficiency and effectiveness.
3. Reports to Parliament and the general public on such enterprises shall observe the restrictions required for the protection of industrial and trade secrets.

### **Section 24. Audit of subsidised institutions**

1. Supreme Audit Institutions shall be empowered to audit the use of subsidies granted from public funds.
2. When the subsidy is particularly high, either by itself or in relation to the revenues and capital of the subsidised organisation, the audit can, if required, be extended to include the entire financial management of the subsidised institution.
3. Misuse of subsidies shall lead to a requirement for repayment.

### **Section 25. Audit of international and supranational organisations**

1. International and supranational organisations whose expenditures are covered by contributions from member countries shall be subject to external, independent audit like individual countries.
2. Although such audits shall take account of the level of resources used and the tasks of these organisations, they shall follow principles similar to those governing the audits carried out by Supreme Audit Institutions in member countries.
3. To ensure the independence of such audits, the members of the external audit body shall be appointed mainly from Supreme Audit Institutions.

# INTOSAI

## ISSAI 10: Mexico Declaration on SAI Independence (2007)<sup>6</sup>

### Preamble

From the XIX Congress of the International Organization of Supreme Audit Institutions (INTOSAI) meeting in Mexico:

Whereas the orderly and efficient use of public funds and resources constitutes one of the essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the responsible authorities.

Whereas the Lima Declaration of Guidelines on Auditing Precepts (the Lima Declaration) states that Supreme Audit Institutions (SAIs) can accomplish their tasks only if they are independent of the audited entity and are protected against outside influence.

Whereas, to achieve this objective, it is indispensable for a healthy democracy that each country have a SAI whose independence is guaranteed by law.

Whereas the Lima Declaration recognizes that state institutions cannot be absolutely independent, it further recognizes that SAIs should have the functional and organizational independence required to carry out their mandate.

Whereas through the application of principles of independence, SAIs can achieve independence through different means using different safeguards.

Whereas application provisions included herein serve to illustrate the principles and are considered to be ideal for an independent SAI. It is recognized that no SAI currently meets all of these application provisions, and therefore, other good practices to achieve independence are presented in the accompanying guidelines.

### RESOLVES:

To adopt, publish, and distribute the document entitled "Mexico Declaration on Independence"

### General

Supreme Audit Institutions generally recognize eight core principles, which flow from the Lima Declaration and decisions made at the XVIIth Congress of INTOSAI (in Seoul, Korea), as essential requirements of proper public sector auditing.

### Principle 1

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

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

### 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**

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 (see ISSAI-11 Guidelines and Good Practices Related to SAI Independence);
- given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and

<sup>6</sup> Source: [http://www.issai.org/media/12922/issai\\_10\\_e.pdf](http://www.issai.org/media/12922/issai_10_e.pdf), INTOSAI, 2007 [last consulted on 15 September 2014]

- immune to any prosecution for any act, past or present, that results from the normal discharge of their duties as the case may be.

### **Principle 3**

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

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;
- 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 their 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 they remain objective and appear objective.

SAI 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.

SAI 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.

### **Principle 4**

#### **Unrestricted access to information**

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.

### **Principle 5**

#### **The right and obligation to report on their work**

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.

### **Principle 6**

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

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.

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

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

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

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

## **Principle 7**

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

SAls 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.

SAls 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.

SAls 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 SAls have their own statutory power for follow-up and sanctions.

## **Principle 8**

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

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

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

# INTOSAI

## ISSAI 20: Principles of Transparency and Accountability (2010)<sup>7</sup>

### Introduction

#### Purpose and objective:

The purpose of this document is to advance principles of transparency and accountability for SAIs in order to assist them in leading by example in their own governance and practices. SAIs form part of an overall legal and constitutional system within their respective countries, and are accountable to various parties, including legislative bodies and the public. SAIs are also responsible for planning and conducting the scope of their work and using proper methodologies and standards to ensure that they promote accountability and transparency over public activities, meet their legal mandate and fulfil their responsibilities in a complete and objective manner.

A major challenge facing all SAIs is to promote a better understanding of their different roles and tasks in society among the public and the administration. Consistent with their mandates and governing legal frameworks, information about SAIs should therefore be readily accessible and pertinent. Their work processes, activities and products should be transparent. They should also communicate openly with the media and other interested parties and be visible in the public arena.

This document forms an integral part of the other International Standards of Supreme Audit Institutions (ISSAIs) and the principles are intended to be used in conjunction with those standards.

SAIs operate under different mandates and models. These principles may not be equally applicable to all SAIs, but are intended to lead SAIs towards a common goal of transparency and accountability.

<sup>7</sup> Source: [http://www.issai.org/media/12930/issai\\_20\\_e\\_.pdf](http://www.issai.org/media/12930/issai_20_e_.pdf), INTOSAI, 2010

### Principles of Transparency and Accountability

#### Concepts of accountability and transparency

The rule of law and democracy are essential foundations for independent and accountable government auditing and serve as the pillars on which the Lima Declaration is founded. Independence, accountability and transparency of SAIs are essential prerequisites in a democracy based on the rule of law and enable SAIs to lead by example and enhance their credibility.

Accountability and transparency are two important elements of good *governance*. Transparency is a powerful force that, when consistently applied, can help fight corruption, improve governance and promote accountability.

Accountability and transparency are not easily separated: they both encompass many of the same actions, for instance, public reporting.

The concept of *accountability* refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to help ensure that:

- SAIs meet their legal obligations with regard to their audit mandate and required reporting within their budget.
- SAIs evaluate and follow up their own performance as well as the impact of their audit.
- SAIs report on the regularity and the efficiency of the use of public funds, including their own actions and activities and the use of SAI resources.
- The head of the SAI, members (of collegial institutions) and the SAI's personnel can be held responsible for their actions.

The notion of *transparency* refers to the SAI's timely, reliable, clear and relevant public

reporting on its status, mandate, strategy, activities, financial management, operations and performance. In addition, it includes the obligation of public reporting on audit findings and conclusions and public access to information about the SAI.

## **Principles**

### **Principle 1:**

**SAIs perform their duties under a legal framework that provides for accountability and transparency.**

- SAIs should have guiding legislation and regulations in terms of which they can be held responsible and accountable.
- Such legislation and regulations generally cover (1) the audit authority, jurisdiction and responsibilities, (2) conditions surrounding appointment and dismissal of the head of SAI and members of collegial institutions, (3) the SAI's operating and financial management requirements, (4) timely publishing of audit reports, (5) the oversight of the SAI's activities, and (6) the balance between public access to information and confidentiality of audit evidence and other SAI information.

### **Principle 2:**

**SAIs make public their mandate, responsibilities, mission and strategy**

The SAIs make publicly available their mandate, their missions, organisation, strategy and relationships with various stakeholders, including legislative bodies and executive authorities.

- The conditions of appointment, reappointment, retirement and removal of the head of the SAI and members of collegial institutions are made public.
- SAIs are encouraged to make public basic information about their mandate, responsibilities, mission, strategy and activities in one of the official INTOSAI languages, in addition to their country languages.

### **Principle 3:**

**SAIs adopt audit standards, processes and methods that are objective and transparent.**

- SAIs adopt standards and methodologies that comply with INTOSAI fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions.
- SAIs communicate what those standards and methodologies are and how they comply with them.
- SAIs communicate the scope of audit activities that they undertake under their mandate, and on the basis of their risk assessment and planning processes.
- SAIs communicate with the audited entity about the criteria on which they will base their opinions.
- SAIs keep the audited body informed about their audit objectives, methodology and findings.
- The SAIs audit findings are subject to procedures of comment and the recommendations to discussions and responses from the audited entity.
- SAIs have effective follow-up mechanisms and report on their recommendations to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature (ISSAI 10 on Independence– principle 7).
- SAIs' follow-up procedures allow for the audited entity to provide information on corrective measures taken or why corrective actions were not taken.
- SAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic independent assessment.

#### Principle 4:

##### **SAls apply high standards of integrity and ethics for staff of all levels**

- SAls 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.
- SAls prevent internal conflicts of interest and corruption and ensure transparency and legality of their own operations.
- SAls actively promote ethical behaviour throughout the organisation.
- The ethical requirements and obligations of auditors, magistrates (in the Court model), civil servants or others are made public.

#### Principle 5:

##### **SAls ensure that these accountability and transparency principles are not compromised when they outsource their activities.**

- SAls should ensure that contracts for outsourced activities do not compromise these accountability and transparency principles.
- Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI and is subject to ethical policies (especially conflict of interest) and policies to ensure integrity and independence.

#### Principle 6:

##### **SAls manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters.**

- SAls employ sound management practices, including appropriate internal controls over its financial management and operations. This may include internal audits and other measures described in INTOSAI GOV 9100.

- SAls' financial statements are made public and are subject to external independent audit or parliamentary review.
- SAls assess and report on their operations and performance in all areas, such as financial audit, compliance audit, jurisdictional activities (SAls constituted as Courts), performance audit, programme evaluation and conclusions regarding government activities.
- SAls maintain and develop skills and competencies needed to perform the work to achieve their mission and meet their responsibilities.
- SAls make public what their total budget is and report on the origin of their financial resources (parliamentary appropriation, general budget, ministry of finances, agencies, fees) and how those resources are used.
- SAls measure and report on the efficiency and effectiveness with which they use their funds.
- SAls may also use audit committees, made up of a majority of independent members, to review and provide input to their financial management and reporting processes.
- SAls may use performance indicators to assess the value of audit work for Parliament, citizens and other stakeholders.
- SAls follow up their public visibility, outcomes and impact through external feedback.

#### Principle 7:

##### **SAls report publicly on the results of their audits and on their conclusions regarding overall government activities.**

- SAls make public their conclusions and recommendations resulting from the audits unless they are considered confidential by special laws and regulations.



- SAls report on the follow up measures taken with respect to their recommendations.
- SAls constituted as courts report on sanctions and penalties imposed on accounting officers or managers.
- SAls also report publicly on overall audit outcomes, e.g. the government's overall budget implementation, financial condition and operations and, overall financial management progress and, if included in their legal framework, on professional capacity.
- SAls maintain a strong relationship with relevant parliamentary committees to help them better understand the audit reports and conclusions and to take appropriate action.

### **Principle 8:**

#### **SAls communicate timely and widely on their activities and audit results through the media, websites and by other means.**

- SAls communicate openly with the media or other interested parties on their operations and audit results and are visible in the public arena.
- SAls encourage public and academic interest in their most important conclusions.
- Abstracts of audit reports and court judgements are available in one of the official INTOSAI languages, in addition to the country languages.
- SAls initiate and conduct audits and issue the relevant reports in a timely manner. Transparency and accountability will be enhanced if the audit work and related information provided are not obsolete.
- SAI reports are available and understandable to the wide public through various means (e.g. summaries, graphics, video presentations, press releases).

### **Principle 9:**

#### **SAls make use of external and independent advice to enhance the quality and credibility of their work.**

- SAls comply with the International Standards of Supreme Audit Institutions and strive for continued learning by using guidance or expertise from external parties.
- SAls may call on an external independent assessment for their operations and their implementation of the standards. For this objective they may use peer review.
- SAls may use external experts to provide independent, expert advice, including on technical matters relating to audits
- SAls publicly report the results of peer reviews and independent external assessments.
- SAls may benefit from joint or parallel audits.
- By enhancing the quality of their work, SAls could contribute to the improvement of professional capacity in financial management.

# INTOSAI

## ISSAI 30: Code of Ethics (1998)<sup>8</sup>

### Chapter 1: Introduction

#### Concept, Background and Purpose of the Code of Ethics

1. INTOSAI has deemed it essential to establish an international Code of Ethics for auditors in the public sector.
2. A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff they employ or engage for audit work. A code of ethics for auditors in the public sector should consider the ethical requirements of civil servants in general and the particular requirements of auditors, including the latter's professional obligations.
3. With the Lima Declaration of Guidelines on Auditing Precepts<sup>9</sup> as its foundation, the INTOSAI Code of Ethics should be seen as a necessary complement, reinforcing the INTOSAI Auditing Standards issued by the INTOSAI Auditing Standards Committee in June 1992.
4. The INTOSAI Code of Ethics is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in audit work. However, the Code should not be interpreted as having any impact on the organisational structure of the SAI.

Due to national differences of culture, language, and legal and social systems, it is the responsibility of each SAI to develop its own Code of Ethics which best fits its

own environment. Preferably these national Codes of Ethics should clarify the ethical concepts. The INTOSAI Code of Ethics is intended to constitute a foundation for the national Codes of Ethics. Each SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national Code of Ethics and act accordingly.

5. The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the SAI that they represent, and the quality and validity of their audit work in an unfavourable light, and may raise doubts about the reliability and competence of the SAI itself. The adoption and application of a code of ethics for auditors in the public sector promotes trust and confidence in the auditors and their work.
6. It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key words Integrity, Independence and Objectivity, Confidentiality and Competence.

#### Trust, Confidence and Credibility

7. The legislative and/or executive authority, the general public and the audited entities are entitled to expect the SAI's conduct and approach to be above suspicion and reproach and worthy of respect and trust.
8. Auditors should conduct themselves in a manner which promotes co-operation and good relations between auditors and within the profession. The support of the profession by its members and their co-operation

<sup>8</sup> Source: [http://www.issai.org/media/12926/issai\\_30\\_e.pdf](http://www.issai.org/media/12926/issai_30_e.pdf), INTOSAI, 1998

<sup>9</sup> From the IXth Congress of INTOSAI, meeting in Lima. Can be obtained from the INTOSAI General Secretariat in Austria.

with one another are essential elements of professional character. The public confidence and respect which an auditor enjoys is largely the result of the cumulative accomplishments of all auditors, past and present. It is therefore in the interest of auditors, as well as that of the general public, that the auditor deals with fellow auditors in a fair and balanced way.

9. The legislative and/or executive authority, the general public and the audited entities should be fully assured of the fairness and impartiality of all the SAI's work. It is therefore essential that there is a national Code of Ethics or similar document which governs the provision of the services.
10. In all parts of society there is a need for credibility. It is therefore essential that the reports and opinions of the SAI are considered to be thoroughly accurate and reliable by knowledgeable third parties.
11. All work performed by the SAI must stand the test of legislative and/or executive scrutiny, public judgements on propriety, and examination against a national Code of Ethics.

## **Chapter 2**

### **Integrity**

12. Integrity is the core value of a Code of Ethics. Auditors have a duty to adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.
13. Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work and in handling the resources of the SAI.

## **Chapter 3**

### **Independence, Objectivity and Impartiality**

14. Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence.
15. Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.
16. It is essential that auditors are independent and impartial, not only in fact but also in appearance.
17. In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external interests. Independence may be impaired, for example, by external pressure or influence on auditors; prejudices held by auditors about individuals, audited entities, projects or programmes; recent previous employment with the audited entity; or personal or financial dealings which might cause conflicts of loyalties or of interests. Auditors have an obligation to refrain from becoming involved in all matters in which they have a vested interest.
18. There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and assembled in accordance with the SAI's auditing standards.
19. Auditors should make use of information brought forward by the audited entity and other parties. This information is to be taken into account in the opinions expressed by the auditors in an impartial way. The auditor should also gather information about the views of the audited entity and other parties. However, the auditors' own conclusions should not be affected by such views.

### **Political neutrality**

20. It is important to maintain both the actual and perceived political neutrality of the SAI. Therefore, it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since SAIs work closely with the legislative authorities, the executive or other government entity empowered by law to consider the SAI's reports.
21. It is important that where auditors undertake, or consider undertaking, political activities they bear in mind the impact which such involvement might have - or be seen to have - on their ability to discharge their professional duties impartially. If auditors are permitted to participate in political activities they have to be aware that these activities may lead to professional conflicts.

### **Conflicts of interest**

22. When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. In particular, auditors should ensure that such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity.
23. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity.
24. Auditors should avoid all relationships with managers and staff in the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.
25. Auditors should not use their official position for private purposes and should avoid relationships which involve the risk of corruption or which may raise doubts about their objectivity and independence.
26. Auditors should not use information received in the performance of their duties as a means

of securing personal benefit for themselves or for others. Neither should they divulge information which would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as a means for harming others.

## **Chapter 4**

### **Professional Secrecy**

27. Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the SAI's statutory or other identified responsibilities as part of the SAI's normal procedures or in accordance with relevant laws.

## **Chapter 5**

### **Competence**

28. Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality.
29. Auditors must not undertake work they are not competent to perform.
30. Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

### **Professional Development**

31. Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.
32. Auditors should use methods and practices of the highest possible quality in their audits. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.

33. Auditors have a continuous obligation to update and improve the skills required for the discharge of their professional responsibilities.

### **Glossary**

The terms used in this Code of Ethics have the same interpretation or definition as those used in the INTOSAI Auditing Standards.

