Chapter 1

Supreme Audit Institutions’ input into the policy cycle

This chapter outlines the motivation for exploring the role of supreme audit institutions (SAIs) in the 21st century, and the main objectives and methodological approach followed throughout the report. The main findings are synthesised based on survey data and case studies of ten SAIs that assess and support policy formulation, implementation and evaluation (Chapters 2, 3 and 4 respectively). Good practices and limitations in SAI activities are drawn together to outline key considerations for SAIs when assessing their relevance in the 21st century. In particular, this chapter outlines SAIs’ evolution from providing oversight to contributing insight and foresight for improved governance across the policy cycle. This chapter explores the potential for SAIs, as well as the executive and legislature, to enhance their current and potential impact on improving the broader governance architecture.
Why is the OECD undertaking this work? Integrating evidence into the policy cycle

The current governance climate

New trends in public administration and continuing fiscal consolidation efforts have compelled countries to take introspective reviews of government processes and their outcomes. Trends at the beginning of the 21st century showed the state expanding further into the realm of service delivery, where it became more active in employing third parties and Private-Public Partnerships (PPPs) to meet citizens’ needs. While heads of government focused on weathering financial pressures, a spotlight was shone on centre of government (CoG) institutions that were trying to prove decisive and smart in the co-ordination of a larger, more complex public service (OECD, 2015a; OECD, 2014a).

More recent programme cutbacks and fiscal consolidation have scaled back public investment and largely affected social welfare, pensions, health, and infrastructure investment (OECD, 2015b). At the same time, evidence is mounting that social inclusion is linked to sustainable economic growth (OECD, 2015c), with an estimated 4.7 percentage points of cumulative growth flattened by the rise in inequality between 1985 and 2006 (OECD, 2015b). Over the same period, there has been a decline in the trust of citizens in their governments (OECD, 2015c, 2015d). Social movements around inequality and corruption, and a focus on transparency and citizen rights of access to information, compound the demands for trade-offs made by governments to be more responsive to citizen needs. Furthermore, the instantaneity of communication has increased societies’ expectations that governments make responses more transparent and efficient.

Fiscal consolidation plans of OECD member countries between 2009 and 2015 largely focused on cutting programme expenditure, whereas approximately 25% of cuts were aimed at operational expenditure (OECD, 2012). Governments remain under pressure to make difficult choices between programme funding and the tools and mechanisms used to deliver these programmes and services efficiently and effectively. In many OECD countries this has required a frank acceptance of the limitations of previous public management trends, and a willingness to overhaul its operations in the name of value-for-money.

Public management trends that predated the financial crisis placed emphasis on “letting managers manage”, focusing on managerial capacities, flexibility and discretion. Emphasis then shifted to “making managers manage” though more pronounced accountability and control mechanisms. OECD countries have expressed frustration over the ripple effects brought on by these trends, which include a lack of strategic policy direction, the prioritisation of political competency development over technical policy skills and, as a result, frequently poorly designed policies and programmes (OECD, 2015e).

Where the trend towards compliance and outcomes-based accountability coincided with an excessive focus on the use of key indicators rather than their usefulness, a risk arose that the attention of managers would be distorted towards narrow outcomes not established in accordance with broader aims. Creating an innovative and high-performing, yet adequately accountable, policy-making environment remains a difficult task. Governments struggle to apply a measured set of regulations and controls that foster the achievement of policy objectives while simultaneously cultivating an innovative and competitive environment that works together to generate more inclusive growth.
The executive and legislature require reliable insights and objective inputs in order to decipher key messages from performance-related information. At the same time, there has been a renewed interest by OECD member countries’ legislatures in reasserting their role in accountability and in becoming more engaged throughout the budget process (Santiso, 2013). However, there may be gaps between the intentions of the legislature to influence proceedings and the technical capacity to do so in a meaningful way. The need for, and in some cases a lack of, technical expertise has been highlighted by technological advances, which have placed emphasis on rapidly responding to client needs with more complex analysis.

**The response of government: Towards a more strategic policy-making environment**

Efforts to streamline the machinery of government to create and demonstrate value-for-money predated the financial crisis and have since continued. Evidence shows that dealing with financial problems in the short term does not come at the expense of becoming more adaptable and flexible in order to tackle policy challenges in the medium and long term (OECD, 2015e). A government more capable of responding to challenges is a strategic and agile state that can move from a reactive to proactive approach in order to identify challenges and risks in a timely manner. This type of government ensures there is a solid evidence base on which it can make decisions that will capitalise on programmes and processes that work, and be more open to scaling down those that do not. It has the capacity and willingness to mobilise actors across a strengthened delivery chain and recognises that the public sector’s strength is the sum of its parts, where all actors know their role and are empowered to participate in an efficient, effective and economic way (OECD, 2015a, 2014b).

But what does a more strategic and open state look like in practice? OECD governments are building on lessons learned from the era of new public management (1990-2005), to de-bulk and rebuild a simpler more streamlined government in the name of value-for-money. Key trends since 2005 include: smaller core ministries, a focus on capacity for analysis and evaluation; an increase in cross-ministry initiatives; amalgamation of executive agencies (horizontal integration); integration of regulatory and supervisory units (inspectorates) and risk based supervision; and concentration of standard setting for operational management (finance, internal audit, HR, procurement, ICT, etc.) in one or two ministries (OECD, 2015e, 2014a). Evaluation alone has been transformed to include performance-based budgeting and multi-year fiscal planning linked to broader policy objectives; feedback loops to inform next-generation policy; and a focus on using transparency to engage and respond to citizens’ demands for accountability.

These trends mirror the transition towards adopting a stronger steering function that brings greater coherence across government. The capacity of the CoG has become critical to developing a more strategic and agile state that is driven in a common direction. Government strategy should be reflective of a longer-term vision for the country that is independent from electoral cycles and implemented and evaluated in an effective, efficient and economical way. A state that adequately equips itself for appropriate government scrutiny, through a functional linkage between parliament and those providing objective insight into its practices and performance, should be complemented by a well informed legislature (Santiso, 2013).
The objective: Leveraging the value-added of SAIs

A strategic and agile state employs policy-making functions and tools to best deliver on intended outcomes. There are three key stages of the policy cycle: formulation, implementation and evaluation. The formulation stage prepares the public sector for success by aligning plans, resources and rules to increase the likelihood of achieving goals through effective implementation. The implementation stage involves communication and co-ordination, exercise of rules and controls as well as sound budget execution. To improve and to understand how to make difficult trade-offs, and what actions correspond with success, mechanisms for monitoring and evaluation need to be integrated into the stage of formulation and fed back into future planning processes. Evaluation coupled with transparency remains a core yet underperformed responsibility of government. These stages are elaborated upon in Table 1.1.

Transitioning to a more agile state requires that governance actors are open to sources of relevant information that will facilitate better decision-making and more targeted prioritisation and improvement. This may mean integrating benchmarks, international principles and insight from non-executive actors. In this, SAIs can play a unique role. In addition, governments have a need for objective and external views on policy formulation, implementation and evaluation and outcomes. When those responsible for evaluating successes and failures are the same as those who designed the programme in question, there may be a risk that evaluation becomes an administrative task or produces biased results. Programmes that carry political weight or are citizen-sensitive may become institutionalised, even if they are inefficient, ineffective and costly. SAIs contribute to a more robust evidence-base by complementing government-led evaluation with external assessments. Their external oversight, insight and foresight becomes even more pertinent in view of a lack of trust and rising intolerance to waste and abuse of public resources.

Box 1.1. What is a supreme audit institution?

A supreme audit institution (SAI), or national audit institution, fulfils the independent and technical public sector external audit function that is typically established within a country’s constitution or by the supreme law-making body. A SAI is responsible for overseeing and holding government to account for its use of public resources, together with the legislature and other oversight bodies. SAIs have different models and institutional arrangements regarding the legislature, executive and judiciary. Where there is more than one body fulfilling the public sector external audit role, the SAI is usually distinguished as possessing the strongest constitutional guarantees of independence (OECD, 2011).

In line with their status as independent external bodies, SAIs require full discretion and sufficiently broad mandates (INTOSAI, 2013), although this differs depending on the SAI country context. In order to provide expertise and credible findings on the use and management of public resources, SAIs require the ability to access all relevant documents, to work onsite, and to follow up with audited entities on their findings (INTOSAI, 1977).

In order for a SAI to effectively hold government accountable for its stewardship of public resources, it must operate on the fundamental principles of independence, transparency and accountability, ethics and quality control (INTOSAI, 2013). An independent and professional SAI should hold itself to the principles that it expects of the public sector entities that it audits, so as to lead by example.
The objective of this report is to explore how SAIs contribute to the formulation, implementation, and evaluation of policies (i.e. the policy cycle). It maps how SAIs provide oversight, insight and foresight, primarily to CoG institutions, but also to other entities responsible for co-ordination and implementation of the government’s agenda. In doing so, this report supports the broader purpose of informing and encouraging dialogue within and between SAIs, as well as new dialogue between SAIs and key governance actors. These country-based discussions can help to identify how SAIs can contribute to the government’s delivery of more effective, efficient and economic policies, programmes and services, while maintaining their critical traditional roles of promoting accountability.

The report is also meant to provide the executive and the legislature with a better understanding of the importance, relevance and usefulness of SAIs’ function and their existing audit and counselling work. Similarly, it aims to provide SAIs with a better understanding of the challenges that the executive branch faces. This report provides numerous examples of audit and advisory work that SAIs may consider relevant regarding the governance challenges in their country, as well as the strategic, cost-effective steps it can take to integrate these challenges.

This report promotes discussions between SAIs and the executive and legislature on the basis that SAIs have a unique birds-eye view of government and remain one of the most trusted public institutions, despite a decline in confidence in government and legislature. SAIs’ trustworthiness among citizens is largely a result of its traditional oversight role. Although this report highlights the potential for SAIs to take on different functions, this should not come at the expense of their oversight role of promoting accountability in government.
The approach: Integrating perspectives of SAIs and the executive

In order to present realistic insights for SAI engagement in supporting and enhancing good governance, this report uses a collaborative approach that relies on expertise and input from SAIs and executive representatives. The ten peer SAIs that provided detailed input for this report are the Tribunal de Contas da União (TCU) of Brazil, which is the sponsor of the report, and Canada, Chile, France, Korea, the Netherlands, Poland, Portugal, South Africa and the United States. The SAIs of the European Union (EU), Mexico and the United Kingdom have also lent their expertise. These leading institutions are members of various committees and groups of the SAI community, representing both OECD member countries and key partners on five continents. While the ten peer SAIs of this report are not meant to provide a representative sample, this report shows an array of auditing practices that draw a common thread between participating SAIs, regardless of the model of the SAI or of assumptions of an SAIs’ traditional role.

This report recognises that countries differ in terms of the legal environment, political economies, audit models, and other factors that could influence the application of certain concepts in various countries. Notwithstanding differences between countries, a constructive dialogue depends on the openness of countries to benefit from the lessons learned of others, many of which are provided in this report. This report includes the perspective of the executive branch through relevant OECD networks, and consultation with representatives from participating countries.

The methodology: Rooted in international principles

The following chapters (2, 3 and 4) represent the formulation, implementation and evaluation stages of the policy cycle, respectively. As shown in Table 1.1 below, each policy stage is broken down into key functions. These policy functions are described with their “key elements”, rooted in international principles, that are required for their implementation, as well as challenges and good practices in doing so.

Each SAI was asked whether it had assessed particular “key elements” of each policy function. The survey questions were not based on assumptions of the traditional role of SAIs in each policy stage. The summary results of this are shown in Table 1.2. Chapters 2, 3 and 4 report on how many SAIs assessed particular elements, and provide examples of the innovative ways that SAIs have done this. Each chapter provides information on the format of these SAI activities (whether a particular type of audit, evaluation or guidance) and the limitations that SAIs experienced in performing that activity.

Further, the end of each chapter includes a set of case studies, provided by the SAIs themselves as part of a survey, which offer more in-depth information on particular audit initiatives. Where possible, links to further reading are provided. Case studies are structured by: type of activity, objective, scope, methodology, criteria, resources, benefits, good practices, lessons learned and further reading.
### Table 1.1. Key functions of the policy cycle in a strategic and open state

<table>
<thead>
<tr>
<th>Stages of the policy cycle</th>
<th>Key functions and elements of a strategic and open state</th>
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<tbody>
<tr>
<td><strong>Policy formulation</strong></td>
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</table>
| Setting the public sector up for success by: 1) defining roles and responsibilities; 2) considering resources and budgets; and 3) developing rules and guidance. | **Key function 1**  
  **Strategic whole-of-government steering and planning**  
  Government programmes are responsive to future needs, clear plans are established for their rollout and improvements to existing services are based on performance results. |
|                           | **Key function 2**  
  **Budgetary planning**  
  Financial assumptions are sound and outline a realistic budget framework that shows how multi-annual objectives can be achieved. |
|                           | **Key function 3**  
  **Establishing regulatory policy**  
  Ensuring good regulatory governance aimed at effective implementation of public policies. |
|                           | **Key function 4**  
  **Creating risk management and internal control policies**  
  Ensuring that risk management and internal control is an integrated part of strategic planning. |
|                           |                                                          |
| **The feedback loop**     |                                                          |
| Ensuring co-ordination and communication, efficient execution of the budget and application of regulations and controls to deliver on objectives. | **Key function 5**  
  **Co-ordinating and communicating**  
  Effective horizontal and vertical co-ordination exists to rollout government programmes and to drive success in cross-cutting initiatives. |
|                           | **Key function 6**  
  **Implementing the budget**  
  Faithful implementation of the budget with appropriate oversight and transparency is ensured, but allows for flexibility as needed. |
|                           | **Key function 7**  
  **Implementing and enforcing regulatory policy**  
  Regulatory processes are risk-based, accessible and coherent in a way that increases the likelihood of realising intended objectives of regulation, while minimising undue burden. |
|                           | **Key function 8**  
  **Exercising internal control and risk management**  
  Functional guidance is provided on internal control and risk management at the whole-of-government level, while public sector managers assess, report, monitor and review risk and controls in order to achieve objectives. |
|                           |                                                          |
| **Policy evaluation and oversight** | **Key function 9**  
  **Evaluating for results**  
  There is an integrated and open system for evaluating government-wide performance, as well as incorporating feedback and lessons learned, as ways of improving performance of policies, programmes and institutions. |
| Checking the pulse of government and using it objectively to promote high standards, good governance and effective, inclusive policies. | **Key function 10**  
  **Oversight and accountability**  
  Effective and objective mechanisms exist to ensure governments are responsive to citizens, are transparent in processes and outcomes, and promote integrity within the public sector. |

*Source: OECD Survey of Peer Supreme Audit Institutions.*
The report’s main findings: SAIs are active in assessing functions of the entire policy cycle

The detailed findings and examples provided in Chapters 2, 3 and 4 are aggregated here to show the common thread between the activities and limitations that SAIs experience as they provide oversight, insight and foresight across the policy cycle.

SAI activities in supporting the policy cycle

The survey asked whether the ten peer SAIs have assessed (i.e. audited or provided advisory services) particular elements of key policy functions. For instance, the survey asked whether the SAIs had assessed a particular element of strategic steering (key function 1 of the policy formulation stage): “The existence or development of government-wide evaluation criteria.” This was repeated across the policy cycle.

These survey questions and responses (Table 1.2) show that the participating SAIs are assessing key functions across the entire policy cycle. For all 48 questions at least half (five of ten) of SAIs surveyed said they look at all except one of the particular elements put forth.²

Survey questions that reflected more traditional SAI activities, such as auditing of public accounts and overseeing financial allocation, received the highest number of affirmative responses from SAIs. In these areas, SAIs have built on decades of experience and are more likely to have incorporated these elements of government good practice into their auditing scope. However, SAIs are also active in assessing areas that are not as engrained in the traditional mandate of a SAI, such as the assessment of government strategic planning processes, or communication and co-ordination capacities of the CoG.

Several survey questions focused on whether SAIs are assessing transversal issues. Responses indicated that SAIs are tracking, formally or informally, cross-cutting issues that help to explain deficiencies and shortcomings in the value-for-money of programmes and policies. Recurring and risky issues have, as a result, been made the focus of many audits. More broadly, the case studies in each chapter show that SAIs are targeting costly programmes and policies that have implications for society and inclusivity.

By assessing the entire policy cycle, SAIs follow the chain of delivery, from assessing the capacity of the CoG to set and steer, down to the application of controls at the ministry level to achieve CoG goals. This work reflects their understanding of how important are the effective and efficient performance of the processes and institutions responsible for formulating, implementing and delivering policy.
### Table 1.2. Select SAI activities across the policy cycle

<table>
<thead>
<tr>
<th>Policy stage</th>
<th>The survey asked the 10 participating SAIs, “Has your SAI assessed...”</th>
<th>“Yes” (out of 10 SAI)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td><strong>Key function 1: Strategic whole-of-government steering and planning</strong></td>
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<td></td>
<td>The use of a reliable evidence base in planning processes. This may include looking at the reliability and breadth of inputs; the mechanisms for using performance-related and output data; the mechanisms for integrating future trends and risk</td>
<td>9</td>
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<td></td>
<td>The openness of government-wide strategic planning processes, including the existence of consultation in the planning process</td>
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<td></td>
<td>The division of responsibilities between key actors involved in strategic planning</td>
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<tr>
<td></td>
<td>The existence or development of government-wide evaluation criteria</td>
<td>6</td>
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<td></td>
<td>The capacity and/or efficacy of central government units (ex. Centre of Government), including: in ensuring the long-term vision is harmonised with other key documents (fiscal plans); in ensuring the long-term vision is reflected in ministries work plans</td>
<td>6</td>
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<tr>
<td></td>
<td><strong>Key function 2: Budgetary planning</strong></td>
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<td></td>
<td>The adequacy of budgetary planning processes, including: to facilitate an alignment between budgeting and strategic objectives; to ensure reliability and quality of tools that underlie the budget; to manage public debt; to assess long-term sustainability; to guide the multi-annual process of resource allocation</td>
<td>9</td>
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<tr>
<td></td>
<td>The soundness and quality of the overall national framework of budgetary governance in promoting optimal resource allocation, implementation, evaluation and review</td>
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<td></td>
<td>The comprehensiveness, reliability and accuracy of the budget document and the conformity of budgetary information with accounting standards</td>
<td>8</td>
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<td></td>
<td>The openness of budgetary planning processes including: the existence and/or adequacy of participative and realistic debates on budgetary choices; whether it is fit to inform citizens, Legislature and key stakeholders of the true position of the public finances</td>
<td>6</td>
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<tr>
<td></td>
<td><strong>Key functions 3 and 4: Establishing rules and controls</strong></td>
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<tr>
<td></td>
<td>Processes for the development of regulations and regulatory policy, including: the clarity of objectives of regulatory policy frameworks; the incorporation of a risk management; the openness and consultation of the process; the alignment of regulatory policy with international principles</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Processes for the development of internal control guidelines, including: the incorporation of a risk management; the openness and consultation of the process; the alignment with international principles</td>
<td>9</td>
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<td></td>
<td>The effective and efficient application of regulatory tools, including: diagnosis of regulatory issues that cut across levels of government; impact assessments; ex post review of regulatory stock; reporting on performance of regulatory outcomes</td>
<td>7</td>
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<td></td>
<td>The flexibility of the rulemaking and internal control systems to adapt to future risks and trends</td>
<td>6</td>
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<tr>
<td></td>
<td>The clarity and delineation of roles and responsibilities of actors involved in creating and implementing regulations and internal controls</td>
<td>6</td>
</tr>
</tbody>
</table>
## Key function 5: Co-ordinating and communicating

Mechanisms for effective information sharing and transparency: between levels of government; within entities; and across entities  
Mechanisms for effective co-ordination for implementation: between levels of government; within entities; and across entities  
Mechanisms for co-ordination around regulatory and control reform activities  
The separation of roles functions/roles of relevant actors, in terms of co-ordination and/or overlap of functions in regulatory management, budgetary management and internal control  
The effectiveness of central co-ordination bodies in communicating and co-ordinating, including: in ensuring senior management of ministries are aware of trends/risks; providing guidance to departments and line ministries  
The efficiency of senior management in ensuring the government vision or related indicators are understood and integrated  

## Key function 6: Implementing the budget

The effectiveness of the procedures in place for managing, monitoring and overseeing financial allocations, including: the compliance and consistency of in-year budget reallocations; the adequacy of in-year budget execution reports  
The accuracy and probity of annual public accounts of public bodies and of the government as a whole  
Whether there are adequate mechanisms to generate and capture quality performance information during the phase of budget execution  
The adequacy of other mechanisms for determining the quality and reliability of budgetary forecasts and fiscal plans, and managing accordingly  
The clarity in authority of public entities to reallocate funds in-year  

## Key functions 7 and 8: Implementing rules and controls

The effective, efficient and economic application of risk management, through risk based approaches, including: to internal control, to regulatory policy, to budgetary management  
The effective and efficient application of internal control mechanisms at the entity level, including: for reliability of reporting; for achievement entity level objectives; for deterring and detecting fraud and corruption within public sector entities  
Public sector entities for compliance with applicable regulations for internal control and financial management (including regulators)  
The independence and/or capacity of audit and control entities, including: internal audit units; audit committees  
Public entities’ application of integrity policies (conflict of interest, asset disclosure, whistleblowing mechanisms, etc.)  
Public sector entities’ leadership in establishing a culture of control and risk-management  
The effectiveness of policies/programmes for regulatory management capacity and internal control capacity
Policy stage | The survey asked 10 participating SAIs, “Has your SAI assessed...” | "Yes" (out of 10 SAIs)
--- | --- | ---

**Key function 9: Evaluating for results**

- The existence of clear lines of reporting on outputs and performance outcomes from entities to authorities and to users/stakeholders (including citizens)
- Government’s achievement of government-wide or mission-oriented objectives
- The existence of an effective government-wide evaluation system, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating government-wide monitoring and evaluation with strategic planning; alignment with key national indicators
- The existence of a reasoned evaluation programme in each ministry, including: the mechanisms for ensuring reliable, quality, auditable financial and non-financial performance information; mechanisms for integrating performance information in objectives; coherence between objectives, outcomes and government vision
- The performance of central co-ordination bodies in co-ordinating a comprehensive government-wide evaluation
- The accessibility and reliability of data systems for collecting, storing and using performance information, accessible for various levels of government
- The existence of performance-related budgeting as inputs into the policy process, including; the quality, availability and auditability of performance-related budgeting information; the soundness of the programme logic models in place

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**Key function 10: Oversight and accountability**

- The design and quality of anti-corruption and anti-fraud frameworks at a whole-of-government level
- The performance of auditees against entity-level objectives and/or national objectives
- The adequacy of reporting mechanisms for accessibility of citizens
- The independence, capacity, effectiveness and efficiency of oversight bodies (audit institutions, regulatory oversight, ombudsman etc.)
- The compliance with access to/freedom of information laws
- The effectiveness and efficiency of the government-wide internal control system, including: in achieving government-wide objectives; for application of a government-wide anti-corruption framework
- The performance of regulation in achieving objectives
- The existence of stakeholder consultation on experiences with programmes and services
- The performance of strategic planning and co-ordination units, control institutions and units, and regulators in achieving their operational objectives and facilitating achievement of government-wide objectives

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Notes: * for the purposes of the survey, key functions 3 (Establishing regulatory policy) and 4 (Creating risk management and internal control policies) were aggregated.  
** For the purposes of the survey, key functions 7 (Implementing and enforcing regulatory policy) and 8 (Exercise of internal control and risk management) were aggregated.  
Source: OECD Survey of Peer Supreme Audit Institutions.
Table 1.3 shows the various activities that SAIs undertake, whether a type of audit or through other approaches, when assessing the policy cycle. Assessments of functions that are common to the peer SAIs (implementing the budget, budgetary planning, and accountability and oversight) were more likely to be in the form of compliance and performance audits. When SAIs assess the policy cycle in “non-traditional” areas (strategic steering, evaluating for results, and communication and coordination), they tend to do so as performance auditing or compliance auditing with value-for-money criteria. Depending on the function, there is not a large variance of the type of audit used. In addition to audits, surveyed SAIs often provide written guidance, and, in some cases, verbal guidance, on key functions of the policy cycle.

Table 1.3. Types of assessment of key functions of the policy cycle, by 10 surveyed SAIs

<table>
<thead>
<tr>
<th>Policy stage</th>
<th>Key functions</th>
<th>Types of audits</th>
<th>Other activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategic whole-of-government</td>
<td>Financial audit (3)</td>
<td>Written guidance (5)</td>
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<tr>
<td></td>
<td>steering</td>
<td>Compliance audit (7)</td>
<td>Verbal guidance (3)</td>
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<td></td>
<td></td>
<td>Performance audit (6)</td>
<td>Research (4)</td>
</tr>
<tr>
<td></td>
<td>Budgetary planning</td>
<td>Financial audit (5)</td>
<td>Written guidance (5)</td>
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<td></td>
<td></td>
<td>Compliance audit (8)</td>
<td>Verbal guidance (3)</td>
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<tr>
<td></td>
<td></td>
<td>Performance audit (7)</td>
<td>Research (3)</td>
</tr>
<tr>
<td></td>
<td>Establishing rules and controls*</td>
<td>Financial audit (8)</td>
<td>Written guidance (6)</td>
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<td></td>
<td></td>
<td>Compliance audit (8)</td>
<td>Verbal guidance (3)</td>
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<td></td>
<td></td>
<td>Performance audit (8)</td>
<td>Research (5)</td>
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<td></td>
<td>Policy implementation</td>
<td>Co-ordinating and communicating</td>
<td>Written guidance (2)</td>
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<td></td>
<td>Implementing the budget</td>
<td>Financial audit (7)</td>
<td>Verbal guidance (3)</td>
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<td>Compliance audit (8)</td>
<td>Research (2)</td>
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<td>Performance audit (8)</td>
<td>Web-based tools (0)</td>
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<tr>
<td></td>
<td>Implementing rules and controls*</td>
<td>Financial audit (8)</td>
<td>Written guidance (3)</td>
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<td>Compliance audit (9)</td>
<td>Verbal guidance (3)</td>
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<td></td>
<td></td>
<td>Performance audit (7)</td>
<td>Research (2)</td>
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<td></td>
<td>Policy evaluation and oversight</td>
<td>Evaluating for results</td>
<td>Written guidance (4)</td>
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<td></td>
<td>Accountability and oversight</td>
<td>Financial audit (6)</td>
<td>Verbal guidance (1)</td>
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<td>Compliance audit (7)</td>
<td>Research (4)</td>
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<td>Performance audit (8)</td>
<td>Web-based tools (1)</td>
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Notes: This study refers to SAI “assessments”, which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

*Sub-functions related to regulatory policy and internal control were aggregated in the survey for the purposes of this particular data on type of activity.

Source: OECD Survey of Peer Supreme Audit Institutions.

Most participating SAIs vary the types of activities across different stages of the policy cycle, with the exception of Chile’s SAI, which does not undertake performance audits. More recent ways that SAIs apply value-for-money criteria include, where...
resources allow, using research initiatives to explore areas that may not be within their mandate, but that can further their knowledge base and develop internal skills, capacity and expertise. This is useful as a lack of skills is one of the greatest limitations for SAIs undertaking the activities presented. Examples of research initiatives include that of the Superior Audit Office of Mexico (ASF), which has been drawing together risk mapping to provide guidance for the executive for strengthened internal control; and Korea’s Board of Audit and Inspection, where research is formalised in its research body: the Audit and Inspection Research Institute (AIRI).

The SAIs in this report occasionally use follow-up audits to check progress against previous audit recommendations. As good practice, some SAIs publish the responses to findings and recommendations of those audited so that citizens and the legislature can also follow-up and track implementation progress. Annual audit reports often track government progress of previous initiatives. Other longitudinal approaches include reviewing audit subjects over time and tracking accounts or achievements against indicators over time.

Figure 1.1 outlines the reasons that SAIs undertook select activities – whether required by mandate, requested, or at the SAI’s discretion. Traditional areas of SAI activity are more likely to be mandated or requested than driven by the SAIs own discretion.

![Figure 1.1. Impetus for SAI assessments of key functions of the policy cycle](image)

**Figure 1.1. Impetus for SAI assessments of key functions of the policy cycle**

- Strategic whole-of-government steering
- Budgetary planning
- Establishing rules and controls
- Co-ordinating and communicating
- Implementing the budget
- Implementing rules and controls
- Evaluating for results
- Accountability and oversight

**Reasons for undertaking assessments of each function**

- **Required by Mandate**
- **Requested**
- **SAIs’ discretion**

**Note:** Sub-functions related to regulatory policy and internal control were aggregated in the survey.

**Source:** OECD Survey of Peer Supreme Audit Institutions.

Many SAIs assess what is considered “good” budget implementation or accountability of government because they are mandated to do so. The results most often appear in year-end audits and SAIs’ annual reports. Audits can be required by mandate or
requested by external actors. This report shows that surveyed SAIs are most likely to have audit activities required or requested of them in areas of budgeting and control (either in their formulation or implementation). SAIs in this study are more likely to use their own discretion when assessing functions that are not historically in a SAIs remit, such as strategic steering, evaluating for results and co-ordination and communication.

**Limitations on SAIs’ activities in supporting the policy cycle**

SAIs reported that they experience limitations in assessing the functions of the policy cycle, particularly in assessing strategic steering and planning and evaluating for results and performance (Figure 1.2). These are the non-traditional areas where SAIs are less active and where they are more likely to undertake performance audits at their own discretion.

**Figure 1.2. Number of challenges SAIs faced in assessing particular policy functions**

<table>
<thead>
<tr>
<th>Policy stage</th>
<th>Key Functions</th>
<th>Total number of challenges reported per function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formulation</td>
<td>Strategic whole-of-government steering</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Budgetary planning</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Establishing rules and controls</td>
<td>16</td>
</tr>
<tr>
<td>Implementation</td>
<td>Co-ordinating and communicating</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Implementing the budget</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Implementing rules and controls</td>
<td>12</td>
</tr>
<tr>
<td>Evaluation and oversight</td>
<td>Evaluating for results</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Accountability and oversight</td>
<td>12</td>
</tr>
</tbody>
</table>

*Source: OECD Survey of Peer Supreme Audit Institutions.*

Figure 1.3 demonstrates the variety of specific limitations that SAIs experience in these areas and shows that across all stages of the policy cycle, skills, resources, and leadership are the key factors that pose challenges and influence the engagement of SAIs.

**Figure 1.3. Factors that limit select activities in assessing the policy cycle**

<table>
<thead>
<tr>
<th>Limitations</th>
<th>Total number of times reported as a challenge in assessing the policy cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAI resources</td>
<td>24</td>
</tr>
<tr>
<td>Skills of SAI staff</td>
<td>20</td>
</tr>
<tr>
<td>Skills of executives/those audited</td>
<td>20</td>
</tr>
<tr>
<td>Lack of executive and high-level leadership</td>
<td>20</td>
</tr>
<tr>
<td>Not a risk area</td>
<td>7</td>
</tr>
<tr>
<td>Internal structure</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
<tr>
<td>Lack of SAI leadership</td>
<td>4</td>
</tr>
<tr>
<td>SAI mandate</td>
<td>3</td>
</tr>
<tr>
<td>Role of another</td>
<td>3</td>
</tr>
<tr>
<td>Not material in nature</td>
<td>3</td>
</tr>
<tr>
<td>Not applicable in country context</td>
<td>2</td>
</tr>
</tbody>
</table>

*Source: OECD Survey of Peer Supreme Audit Institutions.*
The findings show that the limited ability of SAIs to assess key functions are more likely to be a result of a lack of resources or skill sets and a lack of buy in of the executive or leadership, rather than other external limiting factors, such as a restrictive mandate or the activity being the role of another actor. As indicated in Figure 1.3, surveyed SAIs are limited to undertaking activities related to key functions of the policy cycle either because it is perceived to be, or is in fact, the role or responsibility of another entity; or because topics related to the policy function are deemed to not be material or risky in nature. The integration of materiality and risk processes into the development of the audit programme is critical to the audit portfolio’s relevance.

The findings suggest that peer SAIs have sufficient independence and autonomy to exercise discretion in the selection of activities that enable them to be active across the entire policy cycle. This suggests that SAIs are controlling their activity portfolio based on existing resources, but also emphasises the potential for adjustment if they were to acquire, develop or reallocate skills or resources. The findings also suggest that the surveyed SAIs are aware of their own limitations and are not entering new assessment areas in a haphazard way. Where expertise is lacking internally, many SAIs are strategically leveraging external expertise.

This report found that peer SAIs were less likely to engage in areas that were assigned as low priority. This reflects the good practice of SAIs using risk and materiality assessments to specify the topics covered in their annual programme (INTOSAI, 2013). In view of capacity constraints, SAIs need to be selective and strategic in their work, and should do so in line with the greatest needs of citizens and society.

The outcome: Considerations for all governance actors

SAIs’ traditional role of verifying government expenditure and providing oversight for accountability and transparency is well established. The existence and independence of SAIs are provided for in constitutions around the world, with supporting legislation specifying the scope, the specific subject matter and audit criteria, the conclusions to be drawn, and the intended users (INTOSAI, 2010). The burgeoning community of SAIs is strong and active. SAIs are generally well respected and trusted as overseers that lead citizen perception studies on integrity in the public sector, as is the case in Chile (OECD, 2014c).

However, the findings of this report, and of the OECD’s work on governance, show that changes to SAIs’ portfolios beyond their traditional role are not fully apparent or understood. While the integration of performance auditing into SAIs portfolios is widely recognised, there has been little attention paid to the value of a wide range of other activities.

From this report a new audit approach emerges where surveyed SAIs are regularly complementing their oversight function by providing insight and foresight on a range of traditional and non-traditional subjects throughout the policy cycle. In some cases, this role includes providing inputs for decision-making early in the policy cycle and is recognised by the legislature and the executive. In other cases, this role is only beginning, or has not yet been recognised.

This report shows that peer SAIs are active in evaluating the entire policy cycle in non-traditional areas and in non-traditional ways. A greater awareness of the portfolio of activities of the SAI in the 21st century, and a better understanding of the impact on society and the broader role that it is has been assumed to play, should now be fostered.
Having open discussions between governance actors will help to discern how a SAI can have a greater impact on both public sector accountability and performance, while limiting the potential adverse effects of making trade-offs between the two. As part of this dialogue, the value-added of an independent and professional SAI should be taken into account:

- SAIs provide objective oversight, and often insight and foresight, that is increasingly rooted in a whole-of-government perspective (see Box 1.2 for more on oversight, insight and foresight).
- Participating SAIs enjoy substantial discretion in selecting their audit programmes. They are tracking high-risk, material programmes that have a social impact on society. They also benefit from the ability to invoke international good practices and benchmarks to hold the government to higher account.
- Audit institutions are collaborating with other bodies of expertise, including international agencies and regulators, to use the best audit criteria and promote better governance.
- SAIs are using innovative criteria for traditional financial and compliance auditing, including statistical sampling techniques and longitudinal assessments, as well as new evaluation-based approaches that the private sector has recognised as providing learning opportunities (ACCA, 2010).
- To facilitate transparency and improvements in both professional relations and government functioning, SAIs are hosting workshops with those audited to raise awareness of risks detected across audits and to share good practice.
- The international SAI community, driven by INTOSAI, is strong with 192 full and 5 associated members (INTOSAI, 2015). Through this community, international standards and guidance are issued and peer reviews are undertaken. Increasingly, SAIs are undertaking joint audits that align audit criteria to provide a comprehensive oversight of initiatives that cut across national and international boundaries.

The examples and case studies in this report identify the added value that SAIs’ work can provide. However, there is untapped potential for SAIs’ work to be properly integrated into policy formulation, implementation and evaluation.

The extent to which a SAIs’ potential is realised depends on the strategy of the SAI and the quality, timeliness and relevance of its work. Considerations for SAIs to make in providing objective oversight, insight and foresight, are made below.

Leveraging the potential of SAIs also depends on the willingness of the legislature and the executive branch to: 1) work more constructively with the SAI; and 2) integrate its audit results more clearly into next-generation policy and service design and delivery. The findings of this study show that SAIs often experience limitations because of a lack of leadership, skills or capacity of auditees and executive representatives. It is important that auditees are open to learning and developing on the basis of not only audit results, but also from interactions throughout the audit cycle. Examples in Chapters 2, 3 and 4 show that it is possible for SAIs to work closer with the legislature and the executive branch, while at the same time maintaining their autonomy.
Box 1.2. From oversight to insight and foresight: SAIs in the 21st century

Governments are in need of quality, timely and reliable information to act as inputs to decision-making and to back understanding of the value-for-money of government processes and programmes. A key issue has become not only acquiring information, but also sifting through this information to extract pertinent issues and identify viable solutions. It is important for SAIs and governments to think strategically about how SAIs can leverage oversight, insight, and foresight activities to support a more effective and efficient policy cycle.

With a focus on work that has already been undertaken, SAIs have typically looked backwards while governments tend to look forwards. However, SAIs are periodically, if not systematically and strategically, providing insight and foresight, thinking strategically and providing commentary on preparedness for the future. They do this through various mediums (reports, workshops and testimonials) that take place before, as well as after, policies have been implemented.

While this contributes to accountability and oversight, activities that provide insight and foresight are more likely to bolster value-for-money than a sole focus on oversight. Table 1.4 provides indications of how SAIs may acquire the capabilities to provide oversight, insight and foresight, as well as examples from this report on how this is already taking place.

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Strategic capabilities</th>
<th>Drawing upon activities</th>
<th>Accessing information</th>
<th>Examples of SAI activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foresight</td>
<td>Anticipation of, and preparation for, foreseeable and disruptive trends affecting the role of government and the state</td>
<td>Continuous scanning and consultation; pattern recognition; analysis of “weak signals”; futures studies; consensual views</td>
<td>Futures reporting; horizon scanning; long-term fiscal projections; scenario planning</td>
<td>Assessing government’s preparedness to address population ageing and workforce management (Chapter 1)</td>
</tr>
<tr>
<td>Insight</td>
<td>Anticipation of, and preparation for, foreseeable changes in government policies, institutions and management practices</td>
<td>Analysis of historical and trend data; comparable information and analysis across government; comparison of national and international trends</td>
<td>Government programme; medium-term budget framework; spatial and capital investment plans; comparative international government data</td>
<td>Providing synthesis of cross-cutting issues with duplication, gaps and overlaps in government-wide initiatives (Chapter 2)</td>
</tr>
<tr>
<td>Oversight</td>
<td>Identification of current risks affecting governance and accountability, and identification of good practice within the administration</td>
<td>Understanding of government programmes, functioning of internal control</td>
<td>Executive action; annual budget; findings of past audit work and follow-up activities</td>
<td>Assessing the compliance, as well as effectiveness and efficiency of, internal audit in supporting a more robust system of internal control (Chapter 3)</td>
</tr>
</tbody>
</table>


Table 1.4 represents a spectrum of SAI approaches. At one end of the spectrum are the SAIs that have taken an intentional approach to providing oversight, insight and foresight, as in the case of the US GAO. At the other end are SAIs that remain focused on compliance and control. In the middle are those that incorporate effectiveness and efficiency in a more ad hoc manner. For instance, while the Chilean SAI does not undertake performance audits formally, there are elements of value-for-money woven into the majority of its work.

Source: OECD Survey of Peer Supreme Audit Institutions.
Key messages to SAIs: Being aware and prepared

SAIs remain dedicated to their role as overseers of accountability and transparency. Compliance, regularity and financial audits – the mandate of a supreme audit institution – are critical for verifying the accounts of government and for integrity and better financial management in the public sector. The rise in insight and foresight activities, such as performance auditing, has not necessarily come at the expense of compliance controls but has led to more, and varied, types of control (OECD, 2005).

Lessons learned from the era of new public management showed that a focus on compliance and control had, in some cases, unintended consequences of stifling innovation (OECD, 2015e, 2012), distorting the behaviour of public managers towards matching output targets, and creating an over-reliance on the audit function. This can come at the expense of strengthening the mechanisms responsible for promoting integrity, accountability and value-for-money (Humphrey and Owen, 2003; Mendez and Bachtler, 2011; Power, 1996). In the EU, the rise in auditing of cohesion policy took the form of compliance auditing at the turn of the 21st century. Although this was originally meant to improve the performance of programmes, it actually undermined the performance of the policy itself and threatened its sustainability (Mendez and Bachtler, 2011).

Governance challenges of the 21st century have placed large demands on SAIs to both play a role as an accountability institution and be a source of management improvement. While balancing both can be a difficult task, SAIs surveyed are responding to this challenge. SAI portfolios have changed remarkably in recent decades, but an understanding of the resulting impacts seems to be lagging.

SAIs need to be more aware of the role they are or could play and be prepared to fulfil this role by planning strategically, managing resources effectively and ensuring the quality and timeliness of their work. The following considerations relate to all SAIs – whether they retain a strong compliance and control oriented approach or are starting to focus on evaluation and value-for-money:

- **Making a plan of action.** SAI activities that have had an impact appear to have been as a result of an intentional focus and devotion of efforts and resources to improving governance and value-for-money. These SAIs ensure their audit activities are rooted in a long-term vision and strategic plan that provides flexibility in the annual audits, but maintains a consistent thread that may include transparency, policy fragmentation or duplications, or specific bodies such as those in the centre of government.

- **Managing resources.** A lack of resources was the greatest obstacle to undertaking audits across the policy cycle. While providing oversight, insight and foresight has meant varied and more controls, there are also trade-offs to be made. SAIs cannot provide absolute assurance or integrate all material or risky subjects into an annual programme. Audit programmes should therefore be established in accordance with a SAIs’ strategic plan, taking into consideration the resource trade-offs that are involved in particular activities. Integration of value-for-money criteria, and even more so of evaluation techniques, may require a different skill set. It may be beneficial to explore the development of SAI expertise on complementary subject matters in order to avoid an over reliance on external experts.

- **Quality and timeliness.** The usefulness of audit work depends on its relevance to governance challenges, its quality and clarity, and its timeliness. To this end,
INTOSAI has established the Performance Measurement Framework (2012) for SAIs’ introspective reviews. SAIs are also considering enhancing impact by getting involved earlier in policy interventions through concomitant auditing and providing advisor services before and during the implementation of policies and programmes. SAIs that focus on clarity and drawing cross-cutting conclusions will help to focus the minds of policy and decision makers. Useful SAI tools could include sector-based reports, systematic use of executive summaries, tagging key words for issues around co-ordination and providing findings in a systematic way that allows for text and data mining.

In addition to the actions above, SAIs should bear in mind the following considerations when reflecting on their role in the policy cycle and proactively working to ensure their relevance and impact:

- **Successful programmes, and reforms, may take time to demonstrate impact.** Consideration should be given to the fact that before some policies and programmes are successful, they may need time to flourish. In the rollout of reforms to Australia’s performance-evaluation system, the Ministry of Finance of Australia engaged the Australian National Audit Office (ANAO) constructively and early to seek advice. Together with the legislature, the ANAO and Ministry of Finance are giving the reforms space to develop before being subjected to rigorous evaluation.

- **The relevance and impact of SAI work regarding governance challenges is not guaranteed, nor static.** SAI independence and autonomy enables them substantial discretion in determining their annual audit programme, which has a broader impact on the SAI’s role in the governance architecture. It is considered good practice by INTOSAI (2013) to establish the audit programme against the risk and materiality assessments of audit subjects in the public sector. However, in some countries the extent to which the external environment is taken into account varies (INTOSAI, 2014). Audit programmes should be considered through a robust, risk-based process that integrates issues of key concern to society, in addition to considerations of materiality. In the case of the US GAO, ensuring a high level of relevance to tackling key policy challenges meant adjusting the audit portfolio to prioritise required and requested audits, which comprise 90% of its work. This has required maintaining autonomy in a selection of audit subjects, but also an openness to be more flexible and responsive to the requests of Congress, which has rendered the GAO an invaluable source of information. There may be room for autonomous SAIs, when reporting to the legislative branch, to consider the responsiveness of the audit programme to external demands.\(^6\)

- **The SAI should not be expected to exercise functions that should or are already being carried out by another expert body or institution.** SAIs cannot and should not be expected to 1) compensate for a lack of maturity in other processes, including internal control; or 2) provide absolute assurance. Similarly, a SAI’s role should support, but not displace, the proper role of other public sector bodies. This is of particular importance for internal control and audit, where the role of the SAI should not come at the expense of improvements in internal controls and the ownership of public managers for risk management and control. Furthermore, taking a narrow focus to auditing has shown, in some cases, to distort the behaviour of managers towards satisfying the criteria of an audit.
This can dissuade them from accepting the challenges that come with innovation and stop them piloting new and potentially successful ideas.

Some of these considerations would require a change of culture within the SAI, to move from a compliance-oriented perspective, to a more systemic view that aims to understand what does and does not work. It may also require internal changes to staff competencies or to the internal structure of the SAI. While some of the suggestions may not be possible for all SAIs, they are synthesized from SAIs of various models and mandates that have made strides to ensure their relevance in the 21st century.

Notes

1 Themes discussed in the Symposium on Achieving Broad Performance Outcomes, 51st session of the Public Governance Committee, April 2015.

2 Only two of ten SAIs had assessed the efficiency of senior management in ensuring the government vision or related indicators are understood and integrated (key function 5: co-ordinating and communicating).

3 This study refers to SAI “assessments”, which may include performance, compliance or financial audits, or a combination of those, as well as separate research initiatives, but considers this distinct from specific programme or policy evaluations undertaken by government.

4 “Requested” refers to situations in which an SAI has been asked to undertake a specific activity by another body (usually Legislative branch, but could also be requested by civil society, for instance). In the case of the United States, the Government Accountability Office has considered “requested” to be captured under “required”, as mandated activities and Congressional requests comprise 90% of its work. For other countries, a distinction has been made between audits which SAIs are required to perform, versus those that are requested in a more ad-hoc manner.

5 The Association of Chartered Certified Accountants’ study, entitled “Enhancing External Audit: learning from the public sector”, pointed out that public sector external audit has been particularly innovative in audit techniques and enjoys a wider scope of audit. It argues that “audits that undertake assessment of the bigger picture are much better placed to detect potential failings earlier” (ACCA).

6 In the case of the United States, the Government Accountability Office has considered “requested” to be captured under “required”, as mandated activities and Congressional requests comprise 90% of its work. The remaining 10% is done under its own initiative under the Comptroller General Authority (CGA).
References


