



## PEFA 2016 – What it means for Supreme Audit Institutions

*By the INTOSAI-Donor Secretariat*

The PEFA Partners announced the release of the PEFA 2016 framework for assessing public financial management (PFM) performance on 1<sup>st</sup> February. Here, we analyze the changes in the new framework in relation to SAIs. As can be seen, PEFA continues to provide a rich source of information to better understand and monitor the performance of SAIs, within the context of national PFM systems.

### **PI-30 External Audit** (*formerly PI-26*)

The focal point for external audit within the framework continues to be one indicator within the domain on External Scrutiny and Audit. Two key points should be noted. First, as before, the indicator as a whole measures the functioning of the external audit system as a whole, not only the SAI’s role. E.g. PEFA-30.3 measures the follow-up measures taken by the executive in response to audit recommendations or observations. This lies outside the SAI’s direct control, but within an area the SAI should strive to influence. As the overall indicator rating is calculated on the weakest link method, a low rating on this dimension implies a low rating overall. Therefore while dimensions 1, 2 and 4 can be taken as measures of the SAI’s performance, dimension 3 and the overall rating cannot. Secondly, PEFA 2016 clarifies that PI-30 (dimensions 1-3) relates specifically to the audit of the Government’s annual financial reports (which themselves are the subject of PI-29), and will likely examine the SAI’s financial and/or compliance audit work. An SAI’s performance audit work is no longer covered by this indicator, but is partially covered by PI-8.4 (see below).

Dimension 30.1 still includes an assessment of whether the audit of the Government’s annual financial reports is done in compliance with recognised audit standards. However, it now specifically refers to the ISSAIs, and notes that the SAI’s independent quality assurance review reports should be the main source for assessing whether audits are done in accordance with the ISSAIs (or consistent national standards).

### **SAI Independence** (*new dimension within PI-30*)

PI-30.4 is an entirely new dimension, focused on SAI independence, which was barely covered in the previous framework. It examines SAI independence from the executive, with reference to some specific principles laid down in the Mexico declaration. E.g. appointment and removal of the Head of the SAI, planning audits, publishing audit reports, and financial independence through approval and execution of the SAI’s budget. The dimension also examines the breadth of the SAI’s mandate across Central Government and the full range of audit activities, as well as its access to records and information. The rating system is illustrated below. Future PEFA assessments should therefore provide all stakeholders with additional information on which to call for strengthened SAI independence.

<b>30.4. Supreme Audit Institution (SAI) independence</b>	
<b>A</b>	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI’s budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.
<b>B</b>	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, and the approval and execution of

	the SAI's budget. The SAI has unrestricted and timely access to records, documentation and information for <b>most</b> audited entities.
<b>C</b>	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the <b>majority</b> of the requested records, documentation and information.
<b>D</b>	Performance is less than required for a C score.

#### **PI-8.4 Performance Evaluation for Service Delivery**

Within the domain on 'Transparency of Public Finances' comes a heavily modified indicator measuring performance information for service delivery. Dimension 4 of this examines whether there are independent evaluations of the efficiency and effectiveness of service delivery functions. While not designed specifically to measure an SAI's performance audit work, an SAI's performance audits (as well as internal audits and any other independent evaluations) may be taken into consideration in rating this dimension. However, it examines only the coverage of such evaluations, not their publication, quality or standards used.

#### **PI-9 Public Access to Fiscal Information (formerly PI-10)**

Publication of audit reports remains covered within the cross-cutting domain on 'Transparency of Public Finances'. PI-9 examines the comprehensiveness of fiscal information available to the public. As before, it includes a list of documents that should generally be made available to the public by appropriate means. The rating is based on how many of the listed basic and additional elements are published in practice. While the rating itself is not a measure of SAI performance, examining the detailed PEFA assessment reports to see which elements are published yields information on SAI performance. E.g. element five covers the audited annual financial report (including external auditor's report), and element seven refers to other external audit reports.

#### **PI-23.4 Payroll Audit**

A new dimension within the indicator on payroll controls examines the regularity of payroll audits to expose control weaknesses and identify ghost workers. Whether such audits are conducted by the SAI, by internal audit, or as part of internal controls by the entity is not assessed within the indicator. However, regular payroll audit performed by the SAI would contribute to an improved rating on this dimension.

#### **Areas Impacting on the Ability of the SAI to Deliver Impact**

PEFA-2016 measures the functioning of a number of other parts of the PFM system, which are essential for the SAI to function effectively and deliver impact. In particular, PI-26 measures the performance of Government Internal Audit; PI-29 measures the completeness and submission of Annual Financial Reports for audit; and PI-31 measures the Legislative Scrutiny of Audit Reports. All are essential in putting the performance of the SAI into context.