

The Role of Supreme Audit Institutions in Auditing the Domestic Budget Support of IMF Emergency Financing

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Contents

Executive Summary	4
1. IMF Emergency Financing and Supreme Audit Institutions (SAIs)	5
2. The Role of SAI Audits in Emergency Finance	7
3. How SAIs Approach Corruption: Broader Developments	11
4. The Importance of Engagement and a Tailored Approach	15
5. Possible Challenges and Guiding Principles	16
6. SAI Diagnostics and Common Challenges	17
7. Capacity Development and Empowerment	19
Annex 1. Background to SAI Capacity Development Support	20

Executive Summary

Over 2020-21, the IMF provided over **US\$ 110 billion in COVID-19 related emergency financing to 85 countries.**¹ A significant number of the IMF financing agreements include audit commitments made by members in their Letters of Intent (LoI) when receiving this financial assistance. These commitments are specifically meant to provide safeguards against fraud and corruption. For a large number of countries, the commitments call for a SAI audit.

The paper notes that SAIs play a key role in the audits of emergency finance generally, which is an integral part of their broader mandate of auditing public finance. In the vast majority of cases, the proceeds of IMF emergency finance are used by members for budget support, and thus, channelled through the budget. It therefore will become mingled with other revenue (including loans) and will be part of the general budget, which it is the mandate of the SAIs to audit. Also, and while recognising possible challenges in this domain, SAIs are the designated agency with the capacity, experience and knowledge to conduct such audits, and with the experience and expertise of the public sector and government financial systems, as well as understanding of the key risks in the sectors targeted by emergency finance. Finally, SAIs are an integral part of the system of publicly accountable governance, generally mandated to report to the political institutions and the broader public, including with established systems for follow-up, notably legal enforcement.

The paper further explores how SAIs are well placed to address the specific objective of the IMF LoI commitment, with its heavy focus on fraud and corruption. It sets out how SAIs, while firmly rooted in public finance and their deterrent and preventive functions, are becoming more responsive to the challenges of corruption, all while recognizing implementation challenges. This is reflected inter alia in the trends in international standards, broadened SAI powers and audit approaches, and changes in reporting channels.

The paper then considers the importance of direct engagement with the SAI. This relates in part to recognizing and upholding SAI independence and their attendant discretionary powers on how to target and conduct audits through a process of mutual respect and building ownership. It also reflects the differences in SAI mandates between countries, and the need for a tailored approach and direct engagement to build on and maximize those country specific aspects. Finally, a dialogue between IMF Staff and the SAI can help governments make effective decisions on how to target IMF support. Such dialogue will help identify vulnerabilities in the use of emergency finance, triggering recommendations made within a country's formal governance systems. This direct engagement could assist in informing the Fund on targeting possible future programme conditionality aiming to strengthen the role of the SAI.

SAIs are well placed to address the specific objective of the IMF LoI commitment, with its heavy focus on fraud and corruption.

The paper offers suggestions for tailored responses in challenging contexts, such as non-operational or under-resourced SAIs, SAIs with reporting restrictions, and those reluctant to adjust plans or enter dialogue. It identifies common challenges to effective audit related to emergency financing, and identifies a range of possible, complementary capacity development (CD) initiatives that can help to address these challenges.

Finally, the paper underscores the importance of CD and international cooperation in assisting and empowering SAIs to realize their mandates and help countries meet their LoI commitments. Notably, the paper emphasizes the importance of collaborative efforts between the IMF and standard-setting organisations (INTOSAI), as well as other parties with long-standing engagement in this sector, in partnership with the relevant SAI. The paper is a prelude to this cooperation, which is under development.

¹ See generally <https://www.imf.org/en/Topics/imf-and-covid19/Covid-Lending-Tracker> This includes a number of arrangements, instruments and facilities. The RCF/RFI Instrument and Facility which is the focus of this note covers 75 countries.

1. IMF Emergency Financing and Supreme Audit Institutions (SAIs)

As a result of the COVID-19 pandemic, many emerging market and developing countries (EMDC) face urgent and unprecedented financing needs.

Responding to these large and urgent financing needs, the IMF scaled up financial support through its emergency financing toolkit, notably the Rapid Financing Instrument (RFI), available to all members, and the Rapid Credit Facility (RCF), available to Poverty Reduction Growth Trust-eligible members only. An unprecedented large number of countries (104) have requested assistance under the RFI/RCF with 85 receiving support for a total amount of US\$ 110 billion (per May 2021).

The emergency setting generally will call for the national authorities to take extraordinary or ad hoc procedures for expedited budget reallocation, expenditure and control.

This will generally increase vulnerabilities in the budgetary process. The IMF aims to ensure the accountable, efficient and effective allocation of emergency finance, within that setting. The proceeds of IMF emergency finance mostly will serve for direct budget support, and the Lol for all RCF/RFI recipient countries allow for such use.² Finally, the RCF/RFIs programmes are a one-time disbursement (or “purchase”) without ex post conditionality as is standard in regular IMF programmes.

The IMF has a number of policies and instruments in place to address fiduciary risks for its programmes, including the RCF/RFI programmes.

These include Safeguards Assessments and the Fiscal Safeguards Review, which are notably relevant for cases where a member requests exceptional access and the direct budget support exceeds a threshold (25% of IMF funds). These Safeguards are systematic prudential checks, aimed to ensure that proper institutions, processes and practices are in place. Another key policy is the Framework for Enhanced Engagement on Governance, adopted by the IMF in 2018, which supports focused engagement on governance vulnerabilities, including corruption, in member countries. This framework is pertinent for how the IMF emergency finance for budget support is actually used and can help to address possible vulnerabilities to fraud and corruption. To address these vulnerabilities, further specific safeguards⁴ (commitments) are included in the Lol. While these safeguards are context specific, they notably include requirements on procurement (publication of contracts and beneficial ownership) as well as audits. On the latter, audits of the use of emergency finance by the country’s SAI or an external auditor are included in the Letters of Intent of 46 countries.

The Framework for Enhanced Engagement on Governance is pertinent for how the IMF emergency finance for budget support is actually used

This note specifically focuses on the role of SAIs in combating fraud and corruption in emergency finance through audits.

SAIs obviously have a central role in the PFM process, and the IMF has steady engagement with SAIs in regular programme emergency finance and their broader engagement on PFM overlap, but the starting point for this note will be the former, with specific attention to SAI powers to address fraud and corruption.

2 The RCF/RFI Instrument and Facility which is the focus of this note covers 75 countries.

3 A sizeable section of the Fiscal Safeguards Review covers the external audit function.

4 These should not be confused with the so-called IMF Safeguards Assessments, which is a diagnostic review of a central bank’s governance and control framework notably conducted when member countries apply for Fund resources. Note that the IMF Safeguards Assessment requires that the Central Bank accounts are externally audited, not the MoF budget.

Box 1. Understanding IMF Conditionality and the Founding Principles for SAIs**IMF Guidelines on Conditionality**

The relationship between the Fund and member countries is determined by the IMF's Articles of Agreement. Article II says that countries are Fund members [members are represented by governments at the IMF – the IMF is an “intergovernmental institution”]. [In terms of operations and transactions, the Fund only deals through members' treasuries, central banks, or stabilization funds or similar fiscal agencies (Article V, Section 1).]

Under the [Guidelines on Conditionality](#), the Fund's relations are with the Fund member and hence these are not restricted to the member's government. Therefore, measures that are reasonably within the member's indirect and direct control can be set as conditionality, provided they are critical for achieving the objectives of the member's Fund supported programme or necessary for the implementation of specific provisions under the Fund's Articles. The convention that LoIs are normally signed by the Ministers of Finance and the central bank governor does not limit the scope of measures that can be established as conditionality under Fund policy. Hence the Fund can engage with any instrumentality of the member, this includes constitutionally independent bodies such as Supreme Audit Institutions.

The IMF respects the independence of institutions. Setting conditions is not intended to intrude, and should not be construed as intruding, on the independent authority of the institution concerned. The fact that something is proposed by the IMF does not prevent a SAI agreeing on a proposed measure, on its merits. For its part, if the IMF deems a measure critical to proposed financing and the institution refuses to do it, the IMF will not lend. By that same token conditionality is established under Fund financing with respect to measures or actions that are to be implemented by independent bodies and agencies (central banks and Parliament are independent and conditionality is still established in their areas of competency).

INTOSAI Principles on SAI Independence and the Value and Benefits of SAIs

The following extracts from the INTOSAI Framework of Professional Pronouncements (FIPP) are especially relevant for SAIs, and their stakeholders, in determining the audit response to emergency finance.

INTOSAI-P10 Mexico Declaration on SAI Independence:

“SAIs are free from direction or interference from the Legislature or the Executive in the **selection of audit issues**”⁵

“SAIs should have adequate powers to obtain timely, unfettered, direct, and free access to all the necessary documents and **information**”⁶

“SAIs should not be restricted from **reporting the results** of their audit work”⁷

“SAIs are free to **publish and disseminate their reports**, once they have been formally tabled or delivered to the appropriate authority –as required by law.”⁸

“SAIs should have available necessary and reasonable human, material, and monetary resources - the Executive should not control or direct the **access to these resources**.”⁹

INTOSAI-P12 The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens:

“The extent to which a SAI is able to make a difference to the lives of citizens depends on the SAI... demonstrating ongoing relevance to citizens, Parliament and other stakeholders”

“PRINCIPLE 5: Being responsive to changing environments and emerging risks

- 1) SAIs should be aware of the expectations of stakeholders and respond to these, as appropriate, in a timely manner and without compromising their independence.
- 2) SAIs should, in developing their work programme, respond as appropriate to the key issues affecting society.
- 3) SAIs should evaluate changing and emerging risks in the audit environment and respond to these in a timely manner, for example by promoting mechanisms to address financial impropriety, fraud and corruption.
- 4) SAIs should ensure that stakeholders' expectations and emerging risks are factored into strategic, business and audit plans, as appropriate.
- 5) SAIs should keep abreast of relevant matters being debated in domestic and international forums and participate where appropriate.”

COVID-19 is a key issue affecting society, to which stakeholders expect the SAI to respond. The expectations of organisations providing emergency finance should be factored into audit plans, and hence SAIs should participate in discussions on LoI commitments, without compromising their independence.

5 PRINCIPLE 3: A sufficiently broad mandate and full discretion, in the discharge of SAI functions

6 PRINCIPLE 4: Unrestricted access to information

7 PRINCIPLE 5: The right and obligation to report on their work

8 PRINCIPLE 6: The freedom to decide the content and timing of audit reports and to publish and disseminate them

9 PRINCIPLE 8: Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary

2. The Role of SAI Audits in Emergency Finance

There are important reasons why audits are critical as a safeguard for emergency finance, regardless of the source of the finance, and SAIs are the designated agency to conduct these.

These reasons sit in both the nature of emergency finance, notably its fungible nature in a rapidly changing fiscal environment, as well as in the diverse budgetary arrangements of emergency finance. A key reason is the fungibility¹⁰ of emergency finance broadly speaking, which includes emergency finance from domestic revenue or external budget support. If the distinct envelopes of that emergency finance (domestic revenue, external budget support, which international organisation or development partner) are not separately administered, audits cannot be limited to any one particular revenue source of the emergency finance, whether domestic revenue or external financing, and therefore will have to cover emergency finance in its entirety, covering both domestic and external budget support.

The role and ambit of audits and of the SAI are defined by how countries have structured their emergency finance.

This relates to the structure of emergency finance broadly speaking, which includes budget support from both domestic and external sources, including finance from international organisations (such as the IMF) and development partners. Notably the question is whether budget support from external sources is separately administered, and hence can be audited separately, or whether it has become mingled with other revenue (fungibility) and can only be audited as part of that broader emergency finance.

The broader architecture of emergency finance, including domestic and external finance, varies between countries but broadly two models can be distinguished. Some countries have reprogrammed their existing budgets, activated contingency reserves, and adopted supplementary budgets as part of the regular budget process. These countries used external finance budget support, such as from international organisations or development partners, in support of this broader restructuring. Typically, in such settings external financing will become mingled with other (domestic) revenue. Other countries have created dedicated COVID-19 extrabudgetary funds (EBFs) to further mobilize resources and

The design of the specific EBF determines whether domestic and external financing can be distinguished within the EBF.

accelerate emergency spending.¹¹ EBFs permit for separate administration of emergency finance. The design of the specific EBF determines whether domestic and external financing can be distinguished within the EBF. It is possible that an EBF has created distinct budget envelopes which identify and separately administer such external financing, or an EBF may pool all emergency finance together, whether originating from domestic or external sources.

Other instruments exist which allow for the distinct administration of emergency finance, or sub-sets thereof, whether of domestic origin or external financing. One example is earmarking, which can direct specific finance to a specific recipient/objective, and which can be applied to both budget models described above. Various earmarking instruments exist and, depending on the instrument used, earmarking may allow for the identification and separate administration (and accounting therefore) of specific streams of external budgetary support, such as from international organisations or development partners. The interplay between budget and earmarking is not straightforward; thus, earmarking can be restricted to identifying the recipient/objective of finance, without identifying the specific finance source thereof.

¹⁰ Fungibility of money, in this case government funds, implies that any unit of money is substitutable for another and that the composition of funding is irrelevant for consumption

¹¹ F. Rahim, R. Allen, H. Barroy, L. Gores, and J. Kutzin, [COVID-19 Funds in Response to the Pandemic](#) (IMF, Fiscal Affairs Department August 2020). EBFs broadly aim to by-pass delays and rigidities in existing budget systems and to more efficiently and effectively address the requirements of the beneficiaries of public spending and through earmarking may enhance the predictability of financing and creating accountability. Also, EBFs aims to realize potential efficiency gains of complementary interventions. The particular features of EBFs differ between countries. Note that earmarking is not specifically attached to IMF budget support.

In sum therefore, different budgetary models and the other instruments exist on the processing and administration of emergency finance, regardless of its source, which allow for distinct identification of its origins and the separate administration thereof, including the external budget support from international organisations and development partners such as the IMF. However, if these models or instruments are not (fully) applied, the external budget support cannot be distinctly identified and administered and becomes subsumed in the national budget.

In emergency settings, there is considerable pressure on domestic authorities to pool emergency finance, whether of domestic origin or external financing, and to limit earmarking. Pooling resources and reducing earmarking simplifies administration of the funds, reduces resource and capacity pressures (including on the controls and safeguard and fiduciary obligations), and creates flexibility in budget allocation in a fast-moving and rapidly changing environment. These are legitimate reasons that help explain why countries have tended towards pooling emergency budgets, whichever budget modality they applied.

The initial audit reports on the emergency finance which are currently coming out illustrate this dynamic. South Africa is an example of the first budget model above: external emergency financing incorporated into a revised national budget. The country reprogrammed its existing budget, activated contingency reserves, and adopted supplementary budgets as part of the regular budget process. It did not set up a distinct emergency fund. Consequently, the first Report from the South African Auditor General (September 2020) covers the entirety of the re-prioritized 2020-21 budget of that country. The budget support from international organisations and development partners is subsumed within that budget – the support is not identified as a separate budget stream in the report and is not separately audited, because in fact it cannot be separately audited. The audit report points out that such external funding is directed not towards distinct projects, but broadly supports the stimulus which cannot be financed through domestic means. Consequently also, while the country received IMF emergency finance (RFI) the report mentions the IMF only once, as part of the larger group of “funders”, which includes the African Development Bank and the New Development Bank.¹² The external budget support has become subsumed in the national budget.

Chad exemplifies the other budget modality: creating dedicated COVID-19 extra budgetary funds. The country set up an EBF to mobilize and separately administer emergency finance. This EBF received all emergency-related revenue, whether of domestic origin or external financing, including from the IMF.¹³ The external budget support does not constitute a distinct envelope within the Chad EBF and is not separately targeted or identifiable therein.

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Furthermore, while both the South Africa and Chad budget process have earmarking instruments, these did not extend to earmarking external financing by international agencies and development partners. So even as both countries followed different budget modalities, the emergency finance which was externally sourced ended up being subsumed in the national budget.

This setting applies to the vast majority, if not all, of the RCF/RFI recipient countries.

Regardless of the budget modality therefore, these countries do not have a distinct budget fund, budget envelope or specific earmarking of the proceeds of the external budget support. Consequently, for these countries the external budget support from international financial agencies (including the IMF) and development partners has become mingled with domestic revenue.

12 Auditor General, *First Special Report on the financial management of Government's Covid-19 initiatives*.

13 The “Compte d’Affectation Spéciale” created by Chad covers all expenditure related to COVID-19 and a specific banking account pools all resources related to the COVID-19 epidemic.

The other broader issue relates to the question of what emergency finance, whether of domestic origin or external financing, actually covers. The ambit of emergency finance impacts directly on the audit mechanisms.

The ambit of the “emergency finance”, regardless of the source, is not generally defined, whether in domestic legislation or in documents from international organisations or development partners.¹⁴ This is a broader topic which should be determined on a country-by-country basis and reaches beyond this paper. However, presumably the increase of crisis-related spending will target specific sectors and programmes relevant to combat both the direct and indirect impact of the epidemic. In most countries, these are likely to include health (especially procurement), social benefit payments (whether cash or food), economic support packages (typically covering small enterprises as well as large strategic industries or sectors) or fiscal transfers to local government. A typical example is the aforementioned South African case (which country is an RFI recipient): the larger share of its re-prioritized budget similarly is cash hand-outs to support vulnerable households; grants to small businesses, and fiscal transfers to municipalities, the Land Bank, education and the health sector. In these and other cases, the larger share of the disbursement (more than 90%) is through loan-grants, cash hand-outs or fiscal transfers.¹⁵

These considerations impact on the Lol safeguards.

For the reasons of fungibility and coverage set out above, these safeguards effectively extend to the entirety of the emergency finance, including those originating from domestic revenue or external finance. The IMF emergency finance used for budget support will have become subsumed in the general budget and the safeguards presumably apply to that general emergency budget. In these cases, the proceeds of IMF RCF/RFI financing used for budget support have become an integral part of the budget and can only be audited as part of that general budget, as the South African audit demonstrates. SAI audits are the designated instrument through which such broad-based audits can be realised.

SAI audits are the designated instrument through which such broad-based audits can be realised.

The reason is that auditing during an emergency calls for a holistic view of public finance which SAIs are uniquely placed to provide.

In most countries, public finances will have suffered multiple simultaneous shocks, including declining taxes, fees and natural resource revenues. The approved government budget may no longer be credible, and in the short term many countries are likely to employ a cash rationing system, making essential payments as they can and delaying other payments. In the short term, Finance Ministries are likely to use emergency powers to make budget reallocations. Understanding the probity and implications of these decisions, tracking major budget adjustments, and addressing the attendant corruption risks requires a holistic examination of the operation of the public finance system during the emergency, rather than a focus on a sub-set of earmarked expenditures, if such is possible at all. Looking at this broader picture is within the mandate and skills of the SAI and may be missed by a narrower focus on auditing earmarked emergency finance.

SAIs’ mandates give them the experience and knowledge of the public sector to conduct effective audits.

Most SAIs will have many years’ experience of auditing public funds, including in the health and social spending sectors typically targeted by the pandemic emergency finance. Typically, the SAI will have developed an understanding of the audited entities, the underlying government financial systems through which payments and procurements are made, a sound understanding of the risks, and awareness of what is material, in value and context. The depth and extent of SAIs’ local knowledge and

¹⁴ Thus, the term “emergency finance”, while commonly used, is not defined or commonly used in the IMF Lols, which use such terms as “crisis-mitigating” or “crisis related” (which presumably cover budgetary measures of any sort, including budget reductions) or “additional spending” (which seems to refer more narrowly to stimulus financing). These terms are not clearly defined either.

¹⁵ The US\$ 2.3 trillion Cares Act in the United States (which country is not an RCF/RFI recipient), similarly breaks down in social cash hand-outs, loan-grants to large companies, grants to SME, fiscal transfers to states and municipalities, federal budget allocations and support to specific sectors (such as the health sector).

experience is not negated by the challenges they sometimes face. The SAI's audit plan should already be based on these considerations, and, in accordance with INTOSAI-P12, the SAI should adjust its planned audit work to remain relevant to emerging risks and stakeholder expectations. (Possible responses in cases where the SAI does not have such a plan, or does not accept the need to adjust its plans to be relevant to emerging risks, are considered in section 5.)

A further argument for the engagement of the SAI is that, as is becoming clear, the depth and length of the COVID-19 crisis will require a continual rather than the one-off audit.

It is now clear that the COVID-19 crisis is of a longer duration, with a more extended impact on the economy. The emergency finance, including possibly from external sources such as the IMF, may have to be extended and cover several budget cycles. This calls for a more continual audit engagement, which SAIs as established institutions are best placed to provide. Also, such continual engagement allows for a progressive focus and enhancement of the audit reports and strengthening of SAIs, depending on country conditions.

SAIs are an integral part of the system for audit, oversight and follow-up on the use of all public funds.

Whereas private sector auditors (third party) auditors generally issue an audit opinion on a set of financial statements, and a report (management letter) to the audited entity, the role of the SAI is a fundamental part of a system of governance accountability. While the constitutional set-up varies between countries, most SAIs have a right or responsibility to report to the legislature or one of its committees.¹⁶ This includes the SAI's main reports, such as the financial audit of the national budget, major performance audit reports, and an annual summary report of the SAI's major findings and recommendations. Through various means, these are tabled for discussion either in a committee setting or full plenary. This brings key findings to the attention of national decision makers and creates the opportunity for the legislature to hold the executive to account. In many countries, key audit reports

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are also published, providing the possibility for civil society and other stakeholders to use audit findings to call for strengthened service delivery and tackling corruption. Many SAIs also conduct and publish follow-up reports to track the implementation of audit recommendations, thus maintaining pressure for improvement. In many countries, SAIs are also well-connected to relevant law enforcement bodies, and have a power and responsibility to refer suspicions of corruption for further investigation, as will be discussed later.¹⁷

IMF engagement can have an empowering effect for the SAI.

SAIs should have the mandate and resources which are necessary to meet the LoI commitment. Shortcomings in those areas which impact on the audit should be addressed by the national authorities with the possible support of outside partners. The IMF and INTOSAI intend to provide this support through their respective TA projects, working closely together in their respective areas of expertise. This support may include recommendations for strengthening existing systems and for follow-up on the audit report. This also recognises that the challenges faced by the SAI in some countries may be significant. Whether and how those recommendations are in fact followed up are a matter of the national authorities, in which support of outside partners may be possible, such as the IMF and INTOSAI. It cannot be excluded that persistent challenges in these domains are considered by the IMF for possible new programme conditionality.

¹⁶ In countries where the SAI does not have this right, e.g. because the SAI has been established with a role to report to the executive, policy dialogue could usefully raise the need for longer term structural reforms.

¹⁷ Determining whether or not corruption has taken place is a legal decision, under the power of judicial bodies. Often the standards of evidence for a legal determination are higher than for audit evidence and audit conclusions. Hence SAIs may identify suspicions of corruption and may sometimes be called upon to provide forensic audit services as part of investigations, but do not make a determination regarding whether or not corruption has occurred. Even SAIs with a judicial role tend to have administrative powers, whereas determination of corruption is a criminal matter.

The auditing of emergency finance, as per the members' LoI commitments, sits fully within the SAI mandate.

Many SAIs have broad mandates which allow them to audit not only the use of funds and delivery of programmes, but also performance against government commitments and other matters the SAI considers to be in the public interest. Organisations providing emergency finance are stakeholders of the SAI, whose expectations should be taken into consideration when redesigning audit plans. In the public interest, SAIs should consider auditing and reporting on whether the government has delivered on the commitments it made in LoI, such as whether public procurement contracts were published and whether beneficial ownership of companies awarded major procurement contracts has been disclosed.

3. How SAIs Approach Corruption: Broader Developments

An important objective of the members' LoI commitments on audits is to reduce the risk of the misuse of emergency finance.

As a general observation, SAIs will not distinguish sharply between emergency finance or normal budgetary processes, beyond the recognition that the sudden surges in finance which are typical in emergency settings, will create added vulnerabilities to fraud and corruption. These therefore call for special vigilance of the audit agencies, which will have at their disposal an increasingly wide array of powers and instruments. These will be reviewed next, and include first a review of developments in trends and international standards in the role of SAIs in addressing fraud and corruption, changes in SAIs' powers to address these challenges, the widening and more targeted toolkit of audit approaches to address these challenges, and finally, the emergence of new reporting channels to better access information and enhance institutional responsiveness.

a. Changing trends

The role of SAIs in combating corruption has evolved in recent years.

Historically, SAIs are audit institutions with no or a very limited role in detecting corruption. They are one element of a broader framework of institutions and societal actors to address that challenge, with a role principally focused on transparency and accountability. These may have an effect of deterrence and prevention, generally speaking, and are broadly applicable to any misallocation or inefficient allocation of budget and procedures, but not specifically in regard to corruption. Indeed, the qualification of corruption is in the legal domain, not part of auditing terminology - investigations were traditionally deemed to be within the powers of other agencies, notably the law enforcement agencies. This continues to be the core mandate of the SAI to the present day. Increasingly, however, SAIs have also found themselves to be at cross-purposes with broader developments, including social expectations. As corruption has become a more prominent issue, public expectation increasingly called for auditors to play a more active role in combating corruption. Consequently, and while the overall focus remains on transparency and accountability, and hence prevention and deterrence broadly speaking, there has been an emerging international trend among SAIs to be more explicit on how this might impact on corruption. Also, in many countries SAIs have taken concrete steps to engage more actively on addressing fraud and corruption, to reduce the expectation gap.¹⁸

International developments confirm that broader trend.¹⁹

In the 1977 Lima Declaration adopted by INTOSAI, SAIs called for changes in their mandates to enable them to effectively contribute to the fight against fraud and corruption. At the 1998 International Congress of Supreme Audit Institutions [INCOSAI] in Montevideo, Uruguay, the SAIs returned to the issue, agreeing that fraud and corruption are significant problems affecting all countries and that the SAIs should play a more active role in helping create an environment unfavorable to fraud and

¹⁸ K.M. Dye (2007), *Corruption and Fraud Detection by Supreme Audit Institutions*; M.A. Khan (2019), *The Role of Audit in Fighting Corruption*.

¹⁹ See Dye (2007), p.305.

corruption. Regional initiatives reflected this broader drift, such as the 2017 declaration of the SAIs from 13 African countries to take a more pro-active role in tackling corruption.²⁰

A key development was the INTOSAI ISSAI 5700²¹ Guideline for the Audit of Corruption Prevention.

Guideline is designed to help SAI auditors in preparing and conducting the audit of anti-corruption policies and procedures in government organisations within the scope of their mandate. It highlights anti-corruption policies, structures and processes in these organisations and can be used as an audit tool by the auditors. Given the enormous amount of information widely available on the subject, this guidance is not intended to be final or exhaustive but rather to explain and illustrate the relevant features and to present practical solutions for SAI auditors. The guideline covers key areas of anti-corruption structures and procedures that may be found in government organisations. It also describes the setting up of anti-corruption-structures, the approaches for risk assessment and risk analysis and monitoring processes. The main emphasis is placed on the modules of an effective anti-corruption organisation such as the delimitation of duties, job rotation, role of internal review, and importance of human capital including raising awareness and training of employees.

The Guideline for the Audit of Corruption Prevention covers key areas of anti-corruption structures and procedures that may be found in government organisations.

b. The increase of SAI powers

Reflecting these broader developments, SAIs have explored how to become more active in directly addressing corruption.

This is an ongoing process, with an at times tentative character in countries, as SAIs seek to find the right balance between addressing the expectations gap in society and taking on a role that they often are not resourced or empowered to deliver. Even so, in a number of countries this dynamic has resulted in clear formal and organisational changes: including on the mandate, powers and staffing of the SAI.

Thus, in some countries, that SAI mandate now explicitly calls on the institutions to address corruption. Examples are Norway, Uganda and Zambia. This has been an important development, both institutionally and conceptually, since it addresses how an audit finding from a non-legal process can ultimately lead to a legal qualification (as a corrupt act). It is the authority to identify and pass on suspicions of corruption (in the SAI legislature model) or issue a judgement of non-compliance (in the SAI judicial model) which allows for the identification of a corruption case, and its subsequent further processing through the enforcement agencies. Partly as a result thereof, an increasing number of SAIs will now have specialized staff working on corruption issues. This ranges from Sweden to Zambia. Thus, the Ugandan SAI has a forensic unit with 50 employees (IT-experts and lawyers) and an anti-corruption working group with responsibility to fight corruption. It also has a fraud reporting officer within each department of the SAI.

A further important new development is that SAIs are granted explicit powers to directly transfer (suspicions of) corruption cases to the legal enforcement agencies, by-passing the political institutions. These SAI referrals can be a significant driver of anti-corruption action by the enforcement agencies. Good examples are Germany, Hungary, Uganda and Zambia. The Montenegro SAI is authorized to conduct corruption investigations and file charges itself.²² The public reporting of such referrals, as is mandatory in countries such as France, can be a significant driver in securing legal follow-up. As part of that broader process, some SAIs have acquired quasi-sanctioning powers which are specifically relevant for corruption cases (see Box 2).

20 <https://gfg-in-africa.org/13-african-supreme-audit-institutions-join-forces-to-tackle-corruption-as-a-driver-of-illicit-financial-flows/>

21 Reissued and relabelled as INTOSAI GUID 5270 in 2019

22 "Law on State Audit Institution" (Official Gazette of the Republic of Montenegro № 28/2004) Art.23. See generally [D. Fabijanic \(2014\), Links between Anti-Corruption and Revision and Control.](#)

Box 2. An example of quasi-sanctioning powers to combat corruption: the Ghana SAI.²³

The Ghana case illustrates how SAI in some countries have used existing, but sometimes dormant powers, to address emerging challenges and close the expectation gap. The SAI of Ghana has powers “of disallowance and surcharge” in the recovery of public funds that have been found to be illegally spent or lost through negligence or misconduct. These powers give authority to the Auditor General to impose a surcharge on the person(s) responsible, effectively a penalty, with attendant enforcement action such as salary forfeiture and seizure in case of non-compliance. While the power was articulated in general terms and had been dormant for many years, following a Supreme Court decision supporting its use, from 2017 the Auditor General started to apply it specifically to combat corruption. From June 2017, the Ghana Auditor General issued 112 surcharge certificates and returned a total amount of GHS67.3 million (USD12.2 million) back to government coffers. This achievement inspired other African countries to pass similar legislation on disallowances and surcharges.

c. The enhancement of audit approaches**As more SAIs acquired the mandate to address corruption, this also impacted on the nature of the audits which they conducted.**

While the three audit disciplines – financial, compliance and performance audit – each have their specific purpose, certain audits tend to throw up more corruption cases than others. In that regard, a financial audit is not primarily directed to detect fraud or corruption. Its objective is to verify whether a set of financial statements (which can include a government budget execution report) has been prepared in accordance with the applicable financial reporting framework, and while such audits can run into fraud or corruption cases, such is not their primary objective. Compliance and notably performance audits tend to be more effective to identify fraud and corruption.²⁴ Compliance audits ascertain whether a given subject matter is in compliance with applicable rules and regulations. Failure to abide by such formal frameworks may indicate fraud and corruption, though obviously this has to be determined on a case by case basis. The scope of a compliance audit could be a particular entity, or a cross-cutting process (such as procurement) or a programme. Performance audits are an independent and objective examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and/or effectiveness. In the context of emergency spending, it could be useful to examine government preparedness, how the government organised its emergency response, whether emergency programmes achieved their objectives, and how they could be improved in future. They often have longer completion times and are less likely to influence the current emergency response. Many SAIs have specialist performance audit departments and are still developing their capacities in this area. Performance audits tend to focus on operational issues, especially in high-risk areas, and it is not uncommon for these audits to identify fraud and corruption.

23 World Bank, Enhancing Government Effectiveness and Transparency. The Fight against Corruption (September 2020), p.307-308. Ghana Anti-Corruption Coalition, Auditor General surcharges 11 corruption officials. (http://www.gaccgh.org/details.cfm?corpnews_scatid=7&corpnews_catid=7&corpnews_scatlinkid=278#.X9eAB_3tw2w)

24 <https://www.idi.no/elibrary/well-governed-sais/sais-fighting-corruption/548-guidance-on-audit-of-institutional-framework-for-fighting-corruption-1/file>

25 The phrase “real time audit” does not appear in international auditing standards, and no international definition exists. Audits of the Ebola response in Sierra Leone during 2014-15 were referred to as real time audits, and this term has gained popular usage. They are most likely to be compliance audits as defined in ISSAI 400. A distinguishing feature of real time audits is that they are not bound by the normal cycle of financial reporting and financial audit. They aim to produce a timely independent assessment and report, to provide assurance and a basis for corrective action. At present IDI is referring to these audits as “agile compliance audits”. An important clarification is that these remain ‘ex-post audits’ in that the auditor is reviewing expenditure after it has been incurred and is not becoming a part of the expenditure approval process (thus differing from the notion of pre-audit or ‘concurrent controls’, below).

Also, SAIs in various countries developed audit approaches for sudden budget surges and adjustments which mark emergencies, and the attendant fraud and corruption vulnerabilities, and more specifically to address fraud and corruption.

The first is “real time audits”²⁵, which tend to focus on sudden surges and adjustments of finance such as typically arise out of a crisis such as a pandemic but may also be triggered in more regular settings.²⁶ As discussed, such emergency settings tend to increase vulnerabilities to fraud and corruption. Real time audits purposely aim to address these through early and agile engagement, resulting in shorter feed-back loops which aim at increasing compliance and reducing corruption vulnerabilities, even during the disbursement cycle of emergency finance. Thus, real time audits were conducted by the Audit Service Sierra Leone (ASSL) during the Ebola crisis and are currently conducted by the South African Auditor General on COVID-19 in the example cited above – as well as other countries. The ASSL exemplifies the added value of this approach, in that its first round of audit work revealed high levels of expenditure for which satisfactory supporting documentation was lacking, and a lack of appropriate approvals and controls. Following publication of a first high-profile [audit report](#), the second round of audit work found improved supporting documentation and a better functioning control system. This supports the notion that SAIs need to reinforce the expectation that emergency spending will be subject to audit and oversight from the outset, instead of at the end of the budget year, and the importance of being visible from the onset of a crisis. In dialogue with SAIs, the Fund should be supportive not solely of ex post audits, but of smaller, shorter, focused and possibly repeated agile compliance audits that report rapidly. Further, other instruments are being developed in this regard.²⁷

Following publication of a first high-profile audit report in Sierra Leone, the second round of audit work found improved supporting documentation and a better functioning control system.

The second refers to forensic audits, which provide investigation and litigation support, and can be specifically helpful to address fraud and corruption. Forensic auditors target their audits to support evidence of the existence of fraud and corruption, which calls for an approach and skills set which is somewhat different from (though building on) a financial or compliance audit due to the differing evidence standards between an audit conclusion and a legal process in a court case. Consequently, an increasing number of SAIs will have distinct forensic units with specialist staff.

d. The development of new reporting channels and alliances

In realising their expanded mandate on corruption in numerous countries, SAIs have focused inter alia on how to secure information, given that fraud and corruption by their nature are hidden transactions.

Consequently, SAIs in many countries have strengthened reporting channels to the institution, including from third parties. This notably includes creating a broad environment to information reporting, such as through whistle-blower support and protection (as envisaged under ISSAI GUID 5270), witness protection, hotlines and other reporting instruments, including CSOs and the media.

25 The phrase “real time audit” does not appear in international auditing standards, and no international definition exists. Audits of the Ebola response in Sierra Leone during 2014-15 were referred to as real time audits, and this term has gained popular usage. They are most likely to be compliance audits as defined in [ISSAI 400](#). A distinguishing feature of real time audits is that they are not bound by the normal cycle of financial reporting and financial audit. They aim to produce a timely independent assessment and report, to provide assurance and a basis for corrective action. At present IDI is referring to these audits as “agile compliance audits”. An important clarification is that these remain ‘ex-post audits’ in that the auditor is reviewing expenditure after it has been incurred and is not becoming a part of the expenditure approval process (thus differing from the notion of pre-audit or ‘concurrent controls’, below).

26 The Chinese SAI used real time audits to verify sudden surges in expenditures broadly, such as for the Beijing Olympics (2008) and to post-earthquake reconstruction (2008).

27 Thus, some SAIs in Latin America have started doing so-called “concurrent controls” of emergency funds. These are not ex-post audits but a pre-audit tool to accompany public institutions during the budget implementation process thus allowing them to rectify any errors in the budget execution as they go along. Peru is the frontrunner here, but other SAIs in OLACEF have followed. <https://intosaijournal.org/sai-peru-implements-new-control-model/>

CSOs also have a broader role of institutional empowerment, such as through public interest litigation or statutory support.

Thus, in the Ghana case discussed above (box 2), the activation of the dormant constitutional clause on disallowance and surcharge came about as a result of CSO public interest litigation seeking to secure its implementation. That claim was upheld by the Supreme Court, which called on the CSO to submit a draft of the implementation rules, which were issued with minor changes. The Ghana Auditor General then commenced the procedures. The case illustrates how CSOs can have a critically important role in the empowerment of state agencies, including SAIs.²⁸

4. The Importance of Engagement and a Tailored Approach

SAIs are critical institutions in creating an enabling environment for good governance.

Audits highlight risks and vulnerabilities in government systems helping to build robust and effective internal controls that contribute to the prevention of corruption. By reporting their audit findings to the legislature and publicizing them, SAIs contribute to a climate of transparency that assists in the detection and prevention of corruption. As a public institution, it is also important that SAIs lead by example in the fight against corruption, as many now are empowered to do, and should be engaged for that broader reason.

SAIs have different mandates for fighting corruption, and future engagement with SAIs ideally should be based on a careful consideration of the value which different SAI powers and audit types can bring to the address corruption vulnerabilities.

The audit work of SAIs is broader than financial statement audit, as public sector assurance needs have broadened, and SAIs tend to apply different powers and audit types in their engagements to answer these different challenges. In the future, an even closer alignment of IMF engagement with the country realities and SAI mandates, through close consultation with the SAI, could further enhance their impact. An example is the inclusion of real time audits as designated instruments for emergency finance. Also, the IMF can play an important role (including through CD) in assisting SAIs to meeting emerging international standards on how to best address corruption vulnerabilities, such as may arise specifically in emergency finance.

Consequently, for the future a dialogue between the IMF and the SAI should be welcomed.

This dialogue may be facilitated through the new IMF capacity development programme that is currently being rolled out. Such dialogue will acknowledge the special status of SAIs as independent bodies.²⁹ It will also have substantive merit, in that it can build on the specific added value of SAIs, in terms of their mandate and other powers in this domain and their expert knowledge of the relevant sectors, which may be of particular relevance to emergency finance as we have already seen. Finally, such dialogue will help identify where the SAI position and powers can be enhanced, possibly with IMF support through CD, to the benefit of the institution and the eventual outcome.³⁰

This dialogue with SAIs, supported through CD, will assist the SAI in better meeting the objective of the LoI safeguards.

SAIs know best the specific mandate and powers with which they must operate, the audit instruments they can apply and information channels they can rely on. SAIs will know best where the challenges sit, both internal and external, and where support may be targeted. SAIs will also know where historically the main vulnerabilities and risks reside for each of the targeted sectors. A granular commitment underpinned by CD can support the institutions and target its engagement more effectively.

28 New law to force Auditor-General recover misappropriated state funds <https://citifmonline.com/2017/02/new-law-to-force-auditor-general-recover-misappropriated-state-funds/>

29 The Mexico declaration on SAI independence makes it clear that an independent SAI must have, amongst others, the right to select its audits, conduct its work, report on and publish its findings without interference from the executive.

30 While constitutionally in most countries, the final decision on audit topics and subjects is exclusively a matter for the SAI to determine, international standards call for a dialogue. Thus INTOSAI-P12 states that "SAIs should ensure that stakeholders' expectations and emerging risks are factored into strategic, business and audit plans". It further emphasises that SAIs should participate in dialogue on relevant domestic and international topics.

Medium-term capacity development envisaged by the IMF, and already being implemented by a variety of parties including IDI, should support SAI audits and structural reforms more generally.

Audit commitments in LoIs should mark the beginning, not the end, of engagement with SAIs. CD support will be needed in many cases to help SAIs secure the independence, mandate and resources they need to deliver. SAIs may also need support to strengthen how they conduct, report, communicate and follow-up their audit work to deliver impact.

5. Possible Challenges and Guiding Principles

Institutions such as the SAIs sometimes operate in challenging contexts.

Thus, it may happen that SAIs are not currently operational, have not issued or published reports, have very restricted reporting channels (e.g. only to the executive), decline dialogue or outside support, or decline to audit the emergency finance. Finally, it is very possible that the challenges sit outside the SAI: thus it may be that a quality report is submitted, but the authorities and enforcement agencies do not follow up.

The preferred approach to addressing such challenges will be determined by the conditions marking each specific case and the country.

The challenges facing a SAI are similar to those faced by other state agencies with which the IMF engages as a matter of course, such as government departments, central banks, tax administrations etc., and its approach accordingly should be tailored to the specific country conditions. Cases of capacity constraints can be addressed in the short-term by facilitating the SAI to conduct cooperative audits with other auditors, securing external support for the audit process, or providing external support for audit quality review. Weak or absent public reporting, while required under the LoI commitments, could result in the need for temporary safeguards – such as emergency decrees – that enable audits relevant to emergency finance to be submitted to the legislature and published in a timely manner. The failure to plan audits covering emergency finance would likely go against international standards (notably INTOSAI-P12 principle 5). Engaging in dialogue, while respecting SAI independence to make the decision on which audits to undertake, will be essential. In the very rare cases where the institution is completely non-existent or non-operational, this may involve bringing in other auditors to support efforts to get the SAI operational, and assist in delivering audits related to emergency finance.³¹

The failure to plan audits covering emergency finance would likely go against international standards (notably INTOSAI-P12 principle 5).

The following considerations may inform such engagement.

- Support for existing state institutions: Underlying the broader approach of good governance is the engagement with the state and its institutions and aim to enhance their function and effectiveness. Creating alternatives which by-pass state institutions, or substitute for those, while possibly generating a short-term outcome, will erode the governance infrastructure in the mid-term.
- Audits are a process, not a one-time event: While audits produce a report, it may help to also look at these reports as a process. Such an approach first of all recognizes realities on the ground: COVID-19 is a crisis of a longer duration, and more audit reports may be needed. Also, it would recognize that audits in emergency settings can have a shorter coverage (real time audits), as the Sierra Leone and South African examples discussed above show. Furthermore, a more durable engagement would allow for a progressive enhancement of SAI powers and the responsiveness and quality of the reports, depending on country conditions. Finally, importantly, audits are part of a broader accountability framework, in which the report, its findings and recommendations,

³¹ E.g. SAIs that have been closed by the Government, had their offices burned down, SAI Heads and staff jailed or physically intimidated to the point where they will no longer work, or SAIs that can no longer pay their staff.

feed into a process of public accountability which can be steadily bolstered over time. In that sense, the relatively short-term exigencies of the COVID-19 crisis can feed into broader structural change in the mid- to long term, as may be needed.

- The Lol commitment could lead to conditionality in case of a new programme and if programme objectives justify it, compliance with the Lol commitment on audits (and their follow-up) could be secured through new programme conditionality.
- CD as a critical underpinning and empowering process: A proactive engagement with the SAI, particularly in countries where the challenges are most prominent, can be helpful to address the above challenges through CD. This engagement should be a sustained engagement, with the ultimate objective to strengthen the position of the SAI.
- Foster a collaborative effort through international cooperation: CD should also help facilitate dialogue with respected expert agencies, including peer SAIs, relevant INTOSAI regional bodies and IDI, and other important international and bilateral partners, to enable sharing of experiences about how different SAIs have adjusted their audit work to remain relevant, and to use the IMF convening power to leverage other work done in this sector.

6. SAI Diagnostics and Common Challenges

Know Where to Look for Diagnostics on Individual SAIs: Most SAIs will have various documents which provide information on their performance and the challenges they face, both institutional (including independence, mandate, resources and right to publish) as well as internal challenges. Often these will be summarised in the SAI's strategic Plan (sometimes on the SAI website but more often available only on request). Summary diagnostic information can be found in PEFA assessments.

A more detailed diagnostic is available for around 70 countries through a SAI Performance Measurement Framework (SAI PMF) assessment

A more detailed diagnostic is available for around 70 countries through a SAI Performance Measurement Framework (SAI PMF) assessment. These are owned by and must be obtained from the SAIs, although a small number are published. SAI PFM assessments will include indicator scores and narrative explanations on issues pertinent to emergency finance, such as: SAI-1 SAI independence, SAI-2 SAI Mandate, SAI-7 Overall Audit Planning, SAI-15-17 Compliance Audit, SAI-24 Communication with the Legislature, Executive and Judiciary. Information on which countries have undertaken SAI PFM assessments, and links to published assessments, can be found at www.idi.no/work-streams/well-governed-sais/sai-pmf. At the Global level, the performance and capacities of SAIs are assessed every three years through the [Global SAI Stocktaking Report](#).

Act on common global impediments to effective SAI audit of emergency funds: Global and regional assessments of the performance and capacities of SAIs reveal common challenges which will impede effective audit of emergency finance by the SAI. The origin of these challenges can be in the institutional and legal framework for public external audit, the actions of the executive, and/or the operations of the SAI. Solving these challenges may require dialogue with these stakeholders. Some of the most common challenges are as follows:

- Ensure SAIs have the mandate and access to information to conduct appropriate audits, especially regarding off-budget funds:** In some countries, emergency funds may be held off-budget, outside the mandate of the SAI, or channelled into specific sectors (such as defence) where the SAI can conduct audit but may have limitations in reporting and publishing audit findings. Such off-budget processes can also impact more generally on other oversight mechanisms, including by the legislature. To address this, future emergency finance programmes, both from domestic and

external origin, could explore whether funds are spent through the government's normal budgetary procedures, ensuring funds fall within the SAI's mandate. Relevant limitations to the SAI's mandate could be included as a commitment to be addressed, following dialogue with the legislature. The legal and practical right of the SAI to access accounting records and systems relating to emergency spending could also be included in countries where this is often a challenge. The aim should be to ensure that, at the time funds are provided, it is already clear that the SAI will have the mandate and access to audit these funds.

- ii. Ensure SAIs have the necessary independence to report on and publish their findings in a timely manner:** Reporting audit findings to the legislature and/or those charged with governance, and timely publication of audit reports are fundamental to ensuring accountability and transparency in the use of public funds, including emergency funds. However, many countries face either complete restrictions on publication, or barriers which prevent the SAI from publishing in a timely manner. One common restriction is where SAIs can only publish a report once it has been tabled or debated in the legislature, rather than being able to publish some days after the report is delivered to the legislature. In countries where the legislature is not currently operational, this could prevent publication of reports related to emergency finance for years. Such restrictions should be understood, and efforts made to tackle them, starting with dialogue with the legislature.
- iii. Ensure SAIs have the resources to discharge their mandates and use resources efficiently:** The easiest way to prevent SAIs from conducting sufficient and high-quality audits relating to emergency finance is to limit their resources. This happens through various routes. First, a budgetary process which gives the Finance Ministry, not the Legislature, control over setting the SAI budget. Second, interference by the executive in the disbursement of approved funds to the SAI. Third, interference by the executive in recruitment of SAI staff. Fourth, capping or cutting the SAI's budget to below levels needed to discharge its mandate. The economic impact of COVID-19 has put further pressure on SAI budgets, as with the rest of the public sector. Ensuring SAIs have sufficient resources is key to the audit of emergency finance. However, SAIs also have an equal responsibility to use their resources efficiently, by selecting audits that will have the most impact, leveraging technology, and adopting modern auditing techniques.
- iv. Ensure SAIs have the legal right to select their audits, and freedom in practice from interference in selection:** SAIs may be prevented from conducting sufficient audits of emergency financing if they are not free to select their audits. While the legal right is often in place, a more nuanced challenge is where the Head of State, senior government minister, or a (non-independent) audit oversight board is able to direct or request the SAI to conduct certain audits, coupled with a convention or cultural norm/expectation that this request will be followed. Requested audits can divert significant audit resources away from high risk and material topics, such as emergency financing.
- v. Ensure audit reports are communicated effectively and deliver impact:** SAIs need to recognise that to deliver value and benefits for citizens, audit findings and recommendations related to the use of emergency finance need to be communicated effectively to stakeholders. SAIs can work with these groups to help them better understand audit findings and implications. Unfortunately, global diagnostics show that executive response and oversight by the legislature in relation to audit reports remains weak in many countries. Audit reports are an integral part of a wider system, but on their own will have little impact if they are not debated and acted on in the legislature and executive branches.
- vi. Ensure SAIs follow audit standards and strive for quality:** Global diagnostics show SAIs are increasingly adopting international audit standards (ISSAIs³², ISAs³³) or national standards largely

32 International Standards of Supreme Audit Institutions, issued by INTOSAI, covering financial, compliance and performance auditing.

33 International Standards on Auditing, issued by the IAASB, focused on financial audit.

consistent with international standards. However, diagnostics also show that SAIs have a long way to go to achieve full implementation of these standards across all audit engagements, and this will be a long-term challenge. Supporting SAIs to conduct audits relevant to emergency financing, based on international standards, provides an opportunity to support professional staff and organisational systems CD. Dialogue with the SAI regarding which audit standards will be used for audits related to emergency finance is essential. Diagnostics also show a need to focus on strengthening quality control and quality assurance³⁴ within SAIs, to both provide assurance that audit standards are applied as stated, and act as a driver for continual improvement. Emphasising this as part of audits of emergency finance will contribute to higher quality audits delivering greater impact.

- vii. Ensure SAIs remain relevant to changing circumstances:** Conducting high quality audits is necessary but not sufficient for SAIs to deliver value and benefits for citizens. INTOSAI-P 12 emphasises that overall audit plans must remain relevant to changing national circumstances. Diagnostics show that some SAIs have routinely adjusted their audit programmes in response to emerging risks and changing stakeholder expectations such as climate change, the SDGs, and debt crises. The COVID-19 pandemic calls for SAIs to review and adjust their audit plans to remain relevant.

7. Capacity Development and Empowerment

While SAIs in several countries are well-equipped to conduct audits of emergency finance, as some of the above examples show, it is also clear that in many other countries SAIs face challenges and would benefit from support, including through CD. The challenges facing these SAIs often are deep-seated and structural, and ideally that support should reach beyond the short-term objectives of emergency finance, even if that is the immediate objective. Also, given the often deep-seated and structural nature of the challenges, support for the SAI in the short term context of the emergency finance, which itself even now is running well into the second Fiscal Year for almost all countries, could also be approached as a first stage to further support in the mid-term. Further, to respond to the broader needs of SAI in many countries, CD support ideally should be more sustained (and not limited to a single audit report on emergency finance), should extend beyond capacity issues to also leverage into structural challenges which SAIs may face, such as mandate, resources, access etc. This broader engagement, including the follow-up to the LoI commitments, could help inform new IMF programme conditionality, depending on country conditions and programme priorities. Close coordination with established and long-standing international organisations and development partners should further enhance that engagement.

The IMF has started a CD programme which reflects these broader needs. The programme supports RCF/RFI recipient countries which carry commitments for SAI audits in their LoI. While the primary objective of the CD programme is to assist these countries to meet their LoI commitments, its mid-term span (of 2 years with a possible one-year extension) and broader ambit, points at a more sustained approach. Additionally, the CD is not solely directed towards capacity building of staff, but also towards addressing possible structural challenges.

The IMF CD programme supports RCF/RFI recipient countries which carry commitments for SAI audits in their LoI

The IMF CD programme further envisages close coordination with established organisations in this field, notably INTOSAI and IDI. The IMF and IDI CD programmes (see below) are meant to be mutually reinforcing, including where possible co-sponsored activities, the sharing of consultants and a mechanism of ongoing consultation.

³⁴ Independent review of the system of quality control.

³⁵ The programme document says that it can support to identify and assist in building local capacity to address structural constraints to the effectiveness of emergency audits, including legal constraints relating to the mandate of the SAI, public access to audit findings, and use of audit findings in legal proceedings.



Transparency, Accountability and Inclusiveness of Use of Emergency Funding for COVID-19

Global Cooperative Compliance Audits (TAI Audits)

Context and rationale: Due to the COVID-19 pandemic, many countries are facing significant emergency spending needs combined with severe economic constraints. Governments are obtaining emergency funds from domestic and international sources, including International Finance Institutions and donors. Such funds may be integrated into the national budget or held separately and spent following normal or emergency procedures. The risks to the proper use of funds – whether due to poor planning, misallocation, inefficiencies, waste or corruption – has never been higher. Supreme Audit Institutions, as the government’s independent external auditor, have a natural mandate and crucial role to play in ensuring transparency, accountability and inclusiveness in the use of emergency funding.

Initiative: In response to the pandemic, SAIs seek to balance the risk of impeding emergency response, restrictions due to lockdowns, and the need to maintain expectations of accountability for the proper use of public money. This initiative supports SAIs to conduct agile audits (based on the INTOSAI compliance audit standards) of the use of emergency funding in high risk and high priority areas, e.g. emergency procurements, socio-economic relief packages, and report their findings in a timely manner for appropriate action to be taken. It will contribute to transparency, accountability and inclusiveness of funding, as well as better preparedness for future emergencies. The focus on inclusion will explore the allocation and use of emergency funding to reach the furthest behind first, and prioritization of vulnerable sections disproportionately affected by the pandemic, e.g. women, people with disabilities, the poor, workers in the informal sector, refugees etc.

Target Group: All INTOSAI member SAIs – covering over 190 countries – will be invited to participate, from developing and developed countries. Support will be provided to groups of SAIs according to their readiness to participate, and delivered in English, French, Spanish and Arabic. Initial support is planned until March 2022.

Partners and funding: IDI will seek to partner with the INTOSAI Regions, INTOSAI’s Compliance Audit Subcommittee, multilateral agencies like the World Bank and International Monetary Fund, International Budget Partnership, Transparency International and other civil society organizations. The initiative is funded through IDI core funding and in-kind support from several development partners and SAIs.

Indicative Steps: While it is being designed together with partners, it is expected to include these main steps:

1. **Consult partners and stakeholders:** confirming initial interest at SAI and regional level, bringing in partners and determining broad initiative design
2. **Assess SAI needs:** a short survey of SAIs and follow-up conversations will deepen understanding of SAI needs and challenges in this area.
3. **SAI leadership conversations:** learning from SAI leaders already conducting agile (or real time) audits of emergency funding and facilitating virtual regional conversations between SAI leaders.
4. **Rapid guide for agile TAI audits:** a web-based guide on agile compliance audits including ‘how to’ guidance on core topics – risk assessment, planning, conducting, reporting. Focus on key topics including emergency procurements, socio-economic relief packages and themes such as ‘leave no-one behind’.
5. **Education and audit support for TAI audits:** established on IDI’s virtual learning platform, comprising education content, social learning, other resources and, where needed, in-depth dedicated support for some SAIs throughout the phases of TAI audits (planning, implementation, auditing).
6. **Agree commitments:** interested SAIs will sign statements of commitment to ensure readiness, allocation of resources, commitment to conduct and issue the audit.
7. **Local support and stakeholder engagement:** IDI will facilitate access to regional expert assistance where needed and support partnering with others in the accountability ecosystem based on SAI local context.
8. **Monitor issuance of SAI reports:** IDI will monitor issuance of the TAI audit reports as per commitment statements, as agile audits must be issued in a timely manner to add value.
9. **Quality management and lessons learned:** IDI will encourage SAIs to build quality checks throughout the audit process and facilitate discussions on lessons learned.”

Annex 1. Background to SAI Capacity Development Support

Global and regional facilitated peer to peer support: IDI operates global and regional³⁶ initiatives, in partnership with INTOSAI regional and sub-regional bodies and others, which facilitate peer to peer support between SAIs, focused on specific subjects. Some INTOSAI regional and sub-regional bodies also implement CD programmes for their member SAIs.

SAI-level support: Many stakeholders already provide or are planning bilateral CD support to SAIs, which can support both structural reforms and delivery of relevant, high-quality audits. These include donor-implemented programmes, donor financed programmes implemented by others, direct peer to peer support financed and implemented by SAIs in developed countries, and SAI-level support implemented by IDI and/or INTOSAI regional and sub-regional bodies.

Facilitating SAI-level dialogue: Many of the needs above require country-level dialogue rather than CD support, and sometimes also other stakeholders including the legislature and executive bodies. SAI-donor coordination groups or platforms can be used for this where they are already established. These have the benefit of bringing all bodies that support the SAI together, to facilitate coordination of support, and avoid duplications and contradictions.

Knowledge and support centres: The IDI and various INTOSAI bodies, such as the Professional Standards Committee, Capacity Building Committee and Knowledge Sharing Committee, act as global knowledge and support centres on audit standards and SAI CD. Their work includes producing Global Public Goods and guidance materials, and hosting seminars, webinars and online discussion fora. These are generally open to all stakeholders. Some relevant IDI training courses including training on the SAI Performance Measurement Framework, and training for donor staff on working with SAIs.

Advocacy mechanisms: Many of the needs above relate to strengthening the institutional environment in which SAIs operate. This lies outside the direct control of the SAI. IDI's [work stream on SAI Independence](#) focuses on global and regional advocacy measures and partnerships to bring together diverse stakeholder with a common interest in strengthening SAI independence. This also includes a SAI Independence Rapid Advocacy Mechanism ([SIRAM](#)), to identify and support SAIs facing significant independence challenges. Close cooperation between INTOSAI and international organisations, including the IMF, can bolster efforts to address cases where independence challenges are preventing the SAI from effective engagement in the audit of emergency financing.

Global dialogue: INTOSAI acts as a global forum for dialogue within the SAI community. The [INTOSAI-Donor Cooperation](#) provides a global forum for dialogue between the INTOSAI and donor communities, of which the IMF is a member. Given the current focus on the role of SAIs in responding to and auditing emergency financing, expanded dialogue between the IMF and SAI leaders at the global level may enhance mutual understanding and cooperation. It may also help build relationships between SAIs and the IMF at the regional and country level.

36 Following INTOSAI regional and language groupings: [AFROSAI-E](#) (English speaking Africa), [EUROSAI](#) (Europe, working language English), [ASOSAI](#) (Asia, working language English), [PASAI](#) (Pacific, working language English), [CAROSAI](#) (Caribbean, working language English), [CREFAF](#) (French speaking Africa), [ARABOSAI](#) (Arabic speaking Middle East and North Africa region), [OLACEFS](#) (Spanish speaking South and Central America).



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