

INTOSAI



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Challenges and opportunities faced by public administration
in the context of financial and economic crises

Transparency and responsive accountability

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"Contributions of SAIs in creating and enhancing
transparency and responsive accountability"

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Ladies and Gentlemen,

In the aftermath of the global economic turmoil, governments provided large amounts of public money for financial bailouts and fiscal stimulus. These financial and economic interventions, involving about 5000 billion USD altogether, have strained public budgets significantly and raise an issue of fiscal transparency.

Last year CEPA emphasised the need for building trust as a notion feeding into accountability. Citizens request transparency in the implementation of crisis packages and ask: What is going to happen with these tremendous amounts of money? How is it spent by the administration and what is the effectiveness of these measures?

Responsive accountability, an important prerequisite for open government, implies that citizens are being supplied with adequate information, allowing them to follow the political decisions that have been made and giving them insight into policy implementation. This ensures that political decisions are made with the public interest in mind – and in response to the demands and needs of citizens and businesses.

The demand for more transparency and citizen-responsive accountability to prevent abuse, fraud and corruption and rebuild trust in government is a great challenge for the audit community. As watchdogs of public finances, Supreme Audit Institutions (SAIs) are generally well recognized as crucial elements in the accountability process to provide relevant information on the appropriate use of public funds to their stakeholders (legislative bodies and the general public). Therefore I would like to concentrate my presentation on contributions of and prerequisites for SAIs in creating and enhancing transparency and responsive accountability in the context of the current financial and economic crisis.

Scope of work of Supreme Audit Institutions

In principle, scope of work of SAIs involves virtually all government activities. They audit administrative activities - including financial operations - and recommend corrective action based on their findings. They safeguard transparency in every aspect of public activity where public money is involved by providing their information to administrative and legislative bodies and the public by publishing their reports.

Let me illustrate the roles and remits of SAIs in relation to the response packages to the economic crisis on the basis of a 2009 survey among EU SAIs. Even if it is just a snapshot of the situation in Europe as it was in January 2009 and the picture may be a little different elsewhere, the situation by and large in all likelihood will be the same.

The survey showed that, fundamentally, all Member States had taken action in response to the global financial crisis. In spite of a wide variety of measures adopted, clear trends could be identified:

- All Member States adopted measures to stabilise the financial markets;
- 70 per cent of all measures had taken the form of state guarantees (amounting to 400 billion in Germany alone);
- In some 70 per cent support was granted to banking institutions (e.g. in the form of recapitalization, short-term liquidity etc).

However, only 70 per cent of the responding SAIs of EU Member States indicated that they had a specific mandate to audit the rescue packages. This reveals that – with regard to state measures adopted vis-à-vis the current financial and economic crisis – the respective possibilities and legal mandates of SAIs in EU-member states differ substantially:

Few SAIs have comprehensive audit rights with respect to the package of measures for the stabilization of the financial market including audits of financial sector enterprises that benefit from the package of measures and

audits of the effectiveness of measures and of how individual legal provisions affect future budgets and debts (i.e. SAI of Germany).

Others only have limited audit mandates for the measures with no possibility for auditing the beneficiaries (i.e. SAI of The Netherlands).

Others again have no mandate at all for auditing these measures to stabilise the financial markets (i.e. SAI of Italy or Greece).

This means that SAIs – depending on their audit mandate - only can provide limited or no information to legislative bodies and the public on public counter measures against the financial and economic crisis.

Incidentally, the results of the survey among EU SAIs correlate with an INTOSAI study on SAI independence that had been carried out in 2001. The study, which included a survey and consultations among 113 SAIs from different regions all over the world, revealed that SAIs' audit authorities differ substantially, especially as far as mandates, access to information, reporting rights and financial autonomy are concerned. In the 2001 study as well, 30 out of 113 SAIs (almost 26 per cent) reported that certain (government) entities are excluded from their examination.

It follows that the main challenge for SAIs, if they should be able to create transparency and accountability in terms of providing comprehensive, reliable and impartial information to the legislative and the public, is to create and sustain the necessary preconditions, including a guarantee of independence – with it being understood that SAIs should not be unduly subordinated to government – in organizational, functional and financial terms.

Services of SAIs, and their large network of international exchange of experience, should be used to their full potential to improve performance as well as increase transparency and responsive accountability in the implementation of crisis response packages. In this respect it would be a considerable advantage if all SAIs were in a position to monitor the

implementation of publicly financed counter measures. Legal provisions should enable SAIs

- (1) to audit the packages of measures quickly adopted by many governments to fund stimulus packages;
- (2) to monitor the implementation of rules and regulations for the supervision of important financial institutions, including the operations of central banks in order to enhance parliamentary independent review and
- (3) to monitor the rise in public debt (including contingent debt!).

Necessary prerequisites for SAIs to perform well

Of course this requires that SAIs have a wide enough audit mandate and sufficient capacities. In order to ensure transparency and accountability in a credible manner, SAIs must fulfil certain prerequisites in order to provide reliable, objective, impartial and fact-based information:

- integrity and professional excellence of staff and
- independence in organizational, functional and financial terms.

These essential prerequisites for SAIs' effective contribution to transparency and responsive accountability are laid down in two fundamental INTOSAI documents, the Declarations of Lima and Mexico.

Last year's CEPA meeting underlined the pivotal role of accountability. The need for building trust was taken as a notion feeding into accountability, and it was concluded that trust and trust building mechanisms are significantly enhanced by the work of independent auditing institutions.

In order to implement the mentioned CEPA conclusions and effectively enhancing public trust in public administrations, universal application of the principles in these two INTOSAI Declarations throughout all UN member states would be essential. This greatly would contribute to

strengthen transparency, accountability and good governance as indispensable prerequisites for public trust in UN member states.

I would like to thank you for the possibility to speak to you here at the 9th CEPA meeting. Last year the Committee called on observers to enrich the deliberations of CEPA through the proposal of pertinent initiatives. In this respect I would be very grateful, if you as experts on public administration could contribute to strengthening SAIs for the benefit of transparency and responsive accountability by supporting this initiative. Thank you very much!