



Promoting accountable institutions,
ethical leadership and integrity to
enhance confidence in efforts to deliver
sustainable development



Practical implications for public institutions of national frameworks of accountability

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Introduction

- **Thank you very much for the invitation to this Panel Discussion because**
- **it is the valuable continuation of a long-lasting cooperation between UN CEPA and INTOSAI.**
- **INTOSAI has special consultative status to ECOSOC since 1967 and has been an observer of CEPA for many years**
- **Most recent example: presentation of CEPA by its Chair, Ms Margaret Saner, UN/INTOSAI Symposium in March 2015**
- **Thank you for the excellent cooperation.**



Results achieved

- **This cooperation of UN CEPA and INTOSAI delivered a series of valuable results in support of SAIs, especially by a number of CEPA Reports**
- **Successful results (commonly achieved):**
 - 2 ECOSOC Resolutions (2011 and 2014)
 - 2 Resolutions by the UN GA (66/209 and 69/228)
 - Call for the necessity of strengthening SAIs (and oversight functions by legislature) in the Synthesis Report of the UN SG



Resolution 69/228



By its recently adopted Resolution 69/228, the UN GA has

- **acknowledged the important role of SAIs in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of internationally agreed development goals and**
- **encouraged its Member States to give due consideration of independence and capacity building of SAIs as well as of the improvement of public accounting systems in the context of the Post-2015 Development Agenda**



Importance of national oversight institutions for accountability



- **Against this background, it is very important to put the topic of “Practical implications for public institutions of national frameworks of accountability” on the agenda because**
- **the experiences with regard to the MDGs have shown that their implementation can only succeed if accountability and transparency are in place.**
- **National oversight institutions – such as Supreme Audit Institutions (SAIs) – can essentially contribute to transparency and accountability with regard to the resources at hand - how these resources are used, by whom and in what way.**



Practical obstacles for SAIs : Lack of independence

In practice, we still face a series of obstacles for SAIs to fully unfold their potential in improving national frameworks for accountability, which have to be overcome:

- **Lack of legal, financial and organizational independence of SAIs from governments**
 - **Example:** Many SAIs are still subject to government authorities when it comes to their budget or organizational set-up



Practical solution: Measures guaranteeing independence

Legal measures ensuring the independence of SAIs:

- **Legal anchoring of the independence of SAIs in the Constitution - details may be set out in legislation**
 - Legal, financial and organisational independence from governments and administration must be covered

Practical measures:

- **Peer-reviews on independence**
 - e.g. INTOSAI Peer-Review Project on the Independence of SAIs (2015/2016)



Practical obstacles: Limited audit mandate

- **Lack of a comprehensive mandate to audit government performance**
 - **Example:** Legal limitation of SAIs to financial audits does NOT enable them to report on increasingly complex programmes, e.g. performance in health care, education, etc.
- **Financial audits alone do not provide sufficient information for findings on the effectiveness, efficiency and economy of used government actions and public resources**



Practical solutions: Performance audits



Positive example by performance audits

- Performance audits are revealing information on
- efficiency, effectiveness and economy
- of all areas of government action



Performance audits: The example of Ghana (1)

- **The SAI of Ghana has conducted a number of performance audits in areas related to development goals, which included in particular:**
 - Audits of water provision to rural communities – the audit resulted in the World Bank intervening and assisting with the completion of projects that had come to a halt;
 - Protection of the ecosystem – this audit gave rise to parliamentary intervention;
 - Increasing food production, which assisted development partners and decision makers to take better informed decisions;



Performance audits: The example of Ghana (2)

- The effect of mining activities on the local community – the audit identified the need for a strengthening of the Environmental Protection Agency to carry out a comprehensive environmental impact assessment;
 - Physical infrastructure - led to increase in market centres and the establishment of health posts and primary schools
- **These examples illustrate the important practical implications of the work of SAIs for national accountability**



Practical obstacles: Shortcomings of public accounting rules (1)

- **Lack of possibilities to provide a formal audit opinion on government accounts because of shortcomings of rules for accounting, reporting and monitoring of public and state budgets**
- **Examples:**
 - Lack of informative value and comparability of the accounting systems
 - No harmonized valuation of assets
 - No harmonized definition of financial debt



Shortcomings of public accounting rules (2)

- No or fragmentary recognition of financial commitments pertaining to future years
- No accounting for financing instruments because of cash accounting
- A combination of gaps and inconsistencies in fiscal transparency standards
- Delays and discrepancies in countries' adherence to those standards
- Lack of effective multilateral monitoring of compliance with those standards



Practical solutions: True and fair view of public finances

- **A true and fair view of public finances is key to provide transparency for citizens, sustainability of budgets and support accountability of decision makers.**
- **SAIs can provide a transparent, true and fair view of the financial situation of the state by performing audits of the financial statements only if they are based on adequate public accounting systems.**



True and fair view is ...

- **key for citizens: We need to know, where we stand.**
- **a precondition for sustainability of public finances: We need to know, what to do.**
- **fostering accountability of decision makers: Supports them to do the necessary things.**
- **core task for SAIs: We provide a realistic picture of and recommendations to improve public finances.**



Benefits of the improvement of public accounting systems

The improvement of public accounting systems in terms of a comparable overall assessment of the perspective on liquidity, resources and assets will lead to a comprehensive picture of public finances depicting the

- **perspective on liquidity**
- **use and inflow of resources and**
- **assets and liabilities.**



Improvement of public accounting systems: Necessary tools

- **To deliver a comprehensive picture of public finances the following three tools are crucial:**
 - Cash flow statement which provides the perspective on liquidity.
 - Operating statement which shows the use and inflow of resources.
 - Balance sheet which compares assets and liabilities.



True and fair view of public finances: The example of Austria

- **In Austria true and fair view is a constitutional principle as of 2013 at the central government level.**
- **Therefore, Austria's annual budgets now contain a cash flow and an operating statement. The annual financial statements comprise all three tools.**
- **Since its introduction in Austria, accrual accounting has greatly enhanced the value of financial statements, including disclosure of key risks to fiscal sustainability.**



Practical merits of a true and fair view (1)

Unlike cash accounting, accrual accounting guarantees that

- **contingent liabilities are reflected in the operating statement**
 - Austrian balance sheet include 4,1 bn € of provisions (e.g. guarantees; cost of pending litigation; vacation entitlements and severance payments for public staff)
- **doubtful receivables are shown, which reflects the financial risk**
 - Austria: Depreciations (1,2 bn € per year) and adjustments of value (4,5 bn € as of 31.12.2013)



Practical merits of a true and fair view (2)



- -> **Benefit: Accruals disclose financial risks which are not identified in cash flow statement. Helps decision-makers to counteract in time.**
- **future burdens are timely disclosed by the operating statement**
 - In Austria the switch to accruals disclosed such future budget burdens, particularly in the area of railway infrastructure - annual financial statement 2013 for railway infrastructure:
 - cash flow statement: 1,6 bn €
 - operating statement: 2,9 bn €



Practical merits of a true and fair view (3)

- -> **Benefit**: Full budget burden disclosed transparently.
- costs of investments are allocated according to a reasonable period of useful economic life by the operating statement
- depreciations and adjustments of value are clearly reflected
- loss of assets is disclosed when assets are sold
- -> **Benefit**: fiscal illusions are avoided



Positive practical implications for public institutions of national frameworks of accountability: Summary

- **Performance audits provide public institutions with a valuable basis for making decisions on further measures to be taken.**
- **A true and fair view of the state budget will**
 - **enable the budget authority to take fact base decisions, and**
 - **essentially support national governments in taking their responsibilities for executing the budget**
 - **guarantee unbiased and objective institutions.**



Necessary steps to be taken

However, preconditions to achieve these positive results are

- **independence of SAIs**
- **capacity building of SAIs and**
- **the improvement of accounting systems**

as essential elements of the Post-2015 Development Agenda in order to overcome the obstacles and to improve transparency, accountability and the true and fair view of the state budgets for sustainable development.



Necessary measures: Independence



The international community must

1. strengthen the independence of SAIs

in order to make government actions, which concern sustainable development, more transparent and accountable by

- independent, objective and reliable information provided by SAIs to the executive and to Parliaments and by
- publicly available reports and public discussions



Necessary measures: Capacity building

The international community must

2. **build the necessary capacity for SAIs to be able to fully unfold their potential with regard to the SDGs**
 - **in order to make government actions, which concern sustainable development, more transparent and accountable for Parliaments, because the scope of work of SAIs involves virtually all government activities related to sustainable development,**
 - **e.g. financial statements, debt management, pension systems, health care**



Necessary measures: Improvement of public accounting systems

The international community must

3. **improve and harmonize the public accounting systems and modernize the budgeting processes in terms of outcome-oriented budgeting in order to**
 - **have a more true and fair view of the state budgets and in order to**
 - **be able to measure the real outcome of policy measures / government actions**



Practical implications of strengthened SAIs for sustainable development (1)

Only with these preconditions in place SAIs can

- **provide independent, unbiased, reliable information to national Parliaments and citizens on government activities in all areas of government action**
- **enhance transparency and accountability by**
 - **financial audits:** giving insight into the financial situation of the state
 - **compliance audits:** making irregularities visible
 - **performance audits:** revealing information on efficiency, effectiveness and economy of all areas of government action



Practical implications of strengthened SAIs for SD (2)

Only with these preconditions in place SAIs can provide

- **a formal, comprehensive audit opinion on government accounts in terms of a true and fair view of the state budgets to Parliaments**
- **reliable information literally on all areas covered by the current draft SDGs**



Concluding appeal

- **Strengthened SAIs, which play an active role in the implementation of the Sustainable Development Goals, can be of mutual benefit to all of us**
- **We therefore are grateful to CEPA for putting this important topic on the agenda in order to achieve our common goal of strengthening the role of SAIs through the inclusion of**
 - **independence of SAIs,**
 - **capacity building of SAIs and the**
 - **improvement of accounting systems****as essential elements in the Post-2015 Development Agenda.**



Concluding appeal (2)

Reiterating the call of CEPA in its final report / ECOSOC draft resolution for improving

- independence of SAIs
- capacity buildings for SAIS and
- public accounting systems in terms of a better view of the perspective of liquidity, use and inflow of resources and assets and liability

would be a most valuable contribution to improve the public institutions of national frameworks of accountability.



Thank you



Thank you very much for your attention!



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