



Federal Ministry
for Economic Cooperation
and Development

EVALUATION REPORTS 046

External Audit – Supreme Audit Institutions (SAIs) Synthesis Report

Summary Version of the Evaluation



Preface

The present synthesis report commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) represents the final part of a cross-section evaluation of projects geared toward improving external auditing in four BMZ partner countries (Mauritania, Mongolia, Nicaragua, Viet Nam). The synthesis also takes account of an evaluation report produced by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) on a project in Georgia.

The evaluation's objective was to assess the strategic design, delivery and effectiveness of interventions in support of supreme audit institutions (SAIs), which form a central element in Germany's support for external audit systems in partner countries with which Germany engages in development cooperation.

In particular, the evaluation was intended to produce findings on how interventions in support of SAIs can help reform public financial management and how that can help enhance national accountability. The evaluation also aimed to make recommendations on the role and design of future projects and programmes. As a basis for future activities, a systemic German development cooperation approach to public finance needs to be developed that is based on the principles contained in the Paris Declaration on Aid Effectiveness. Thanks to that Declaration, which was adopted in the Organisation for Economic Co-operation and Development (OECD) in 2005, the realisation has been gaining ground that partner gov-

ernments should not only be accountable to donors for the use of public funding but also, above all, to their own people.

The present synthesis report is the result of an independent evaluation carried out by **Ute Eckardt** and completed in January 2008.

The opinion expressed in this study is that of the independent external evaluator and does not necessarily reflect the opinion of the BMZ. At the end of this executive summary, readers can find the BMZ's comments on the contents of the evaluation.

This executive summary can be accessed online at <http://www.bmz.de/en/service/infothek/evaluation/BMZEvaluierungsberichte/index.html> and all country studies (in German) as well as the German version of this executive summary at <http://www.bmz.de/de/service/infothek/evaluierung/BMZEvaluierungsberichte/index.html>. Full versions can be obtained from the BMZ's Evaluation and Audit Division upon request.

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Federal Ministry for Economic Cooperation and Development*

Summary

1. Background

The synthesis report is based on a preparatory analysis of documents (desk phase) and on four case studies on Mauritania, Mongolia, Nicaragua and Viet Nam, which were carried out between November 2006 and January 2007. The synthesis also takes account of an evaluation report produced by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) on an SAI project in Georgia. Separate reports have been produced on the findings of the desk study and on each of the four case studies. The present synthesis report contains an overall, summary assessment of the findings of the individual studies and derives essential conclusions and recommendations on how to design projects and programmes related to external auditing and on the way in which they should be integrated in the BMZ's support policies in the public finance sector.

2. Key findings

All projects were **relevant** in terms of the development goals pursued by the German government and its partner countries. They were also found to be relevant, more specifically, for the financial policy reform environment because external auditing is always important for public financial management. However, only one project was connected to specific reform programmes on public financial management pursued by the partner country. The other projects, by contrast, often suffered under a lack of political support in the SAI's environment or even within the SAI itself.

Coordination among the various players involved in bilateral German development cooperation and between Germany and other donors was characterised by some weaknesses, which should

be remedied. In most cases, there was no evidence that the projects had been strategically integrated into the BMZ's country strategies and priority area strategies. Coordination between German implementing agencies, even between different GTZ projects, was informal or nonexistent. Coordination with other donors varied greatly between projects. In two projects, working-level coordination was excellent, while in three projects the lack of coordination was so serious that it posed a risk to project sustainability. In most instances, it was not possible to gain a clear idea from the projects as to political priorities with regard to the internal coherence of Germany's development interventions and their integration into international efforts.

As regards **effectiveness**, it was found that most projects only reached about half of the target indicators laid down during project planning. Still the evaluators found three projects to be effective and good. This is an indication that the projects left the evaluators with a good impression, especially in their current state, and it might mean that the targets and indicators originally envisaged were not realistic, nor had they been adjusted in the course of further project management. Technically, the quality of the advice provided was impeccable in all instances. What proved to be more problematic was the way in which the general environment was addressed. Still the majority of the projects probably achieved what was possible in a difficult environment – in other words, they were effective.

None of the evaluations was able to make any sound statement on the projects' **efficiency** because there was no suitable data on which to base such assessments. But the evaluations did not encounter any striking instances of inefficiency in the projects' management.

In terms of **development effectiveness**, the projects' institutional impact consisted mainly of improvements in auditors' and senior officials' competency. This was achieved through training, through the elaboration or improvement of working tools such as auditing guides and handbooks, and through the provision of infrastructure. In some instances, projects also helped to reform SAI legislation (Mongolia, Nicaragua).

However, there were only few instances in which the projects could be shown to have had an impact beyond the institution as such. The few reform processes that had actually been brought about (or supported) had either been achieved through activities outside the SAI and/or through external conditionalities. For instance, the only place where a project had a structural impact on the public financial management system was Mauritania, and that impact was achieved through interventions that addressed the treasury. They facilitated the introduction of a government accounting procedure and, as a result, a related audit report produced by the SAI.

In Nicaragua, interventions focused on the municipal level. As a result, municipal auditing improved. In the long term, this may lead to increased revenue and more careful handling of municipal expenditure.

But all the projects helped to enhance national accountability to the people. In Nicaragua, this was limited to the municipal level. All other projects achieved at least an improvement in the SAI's cooperation with parliament and in the SAI's standing among members of parliament. Moreover, there were two instances (Viet Nam, Mongolia) in which evaluators found that the SAI had become better known among the public, which helped reduce and prevent corruption. Two of the projects also had an impact in terms of enhanced national accountability vis-à-vis donors. When a massive crisis of confidence occurred in Mauritania, it was not least thanks to the SAI project that donors upheld their financial

commitments for the poverty reduction strategy. In Viet Nam, some donors rely on the SAI for the auditing of their own projects, which can be considered an indication that they think highly of the quality of its work.

The only instance where evaluators found negative impacts was Nicaragua, where a complaints office that had been established with the project's support and that had been intended to make the SAI more responsive to ordinary people's needs ultimately increased political polarisation and encouraged the SAI's further politicisation.

The projects' limited development effectiveness described above does not detract from the general importance of support for SAIs. Rather, those responsible for the projects must give greater attention to the prerequisites for increased project effectiveness.

There are three major risks that threaten **sustainability**. Firstly, the sustainability of SAI projects greatly depends on the capacity of the country's civil service and especially on the in-country training system for civil servants. All four countries' SAIs are characterised by inadequate stability and/or capacity. Secondly, what may be even more important for SAIs than for other institutions is political support and ownership that guarantee the SAI's ability to work independently. Such political support needs to ensure that the institution is independent in financial and human resource terms and is given a clear auditing mandate. Thirdly, deficits relating to donor coordination (which are, however, often a reflection of inadequate partner leadership at the institutional level) are detrimental to the sustainability and continuity of the achievements made through support provided by a single donor. In conclusion, it can be said that there are two instances (Mongolia, Viet Nam) in which the projects are sustainable and three instances (Georgia, Mauritania, Nicaragua) where project sustainability is at risk.

3. Conclusions and recommendations

Even after many years of external advice (project support ranged from six to 18 years), all SAIs continue to show clear needs for further development, notwithstanding the good quality of the technical contributions made.

This is due to the high degree to which support for external auditing depends on a sound environment, which is a special challenge. SAIs are necessary institutions for external auditing. But the mere existence of an SAI, even if its capacity is adequate, is not a sufficient factor to guarantee that public financial management is in line with regulations and efficient. For instance, SAIs are only able to effectively do their work if the circumstances at public administration bodies allow auditing operations and if SAIs' reports have consequences. This requires improvements in public financial management and in parliaments' capacity.

So the evaluations' most important conclusions are that projects for the improvement of external auditing should not be overburdened with excessive expectations and that development impacts can only be achieved if institutions in the SAI's environment receive support and are included in the efforts.

As projects and programmes are designed, attention should be given to the following aspects:

- Support for the development of external auditing requires a great deal of time. So projects should be designed on a long-term basis.
- Within that strategic framework, project goals need to be formulated in concrete terms and linked to informative, measurable indicators. Target indicators should relate both to the development of the SAI and to its environment, and they should be monitored on a regular basis.
- Risks (especially sustainability risks) as well as milestones for enhanced SAI capacity and for the SAI's effectiveness outside the institution as such should be taken into account in the project design – based on consultation with the partners (and, possibly, also institutions from the SAI's environment, such as the ministry of finance) – and followed up through monitoring. Serious risks may be posed, for instance, by a change in leadership at the SAI resulting in a loss of ownership for the project or programme component. Project success may also be at risk if milestones (such as an independent constitutional status for the SAI, a clear auditing mandate established in the constitution, and the existence of auditable accounting documents relating to the government budget) fail to materialise.
- As projects are designed, attention should be given to partners' absorptive capacity for advisory services. Activities that have proven successful are intermittent short-term missions to well-developed SAIs with strong leaders and the secondment of long-term experts (for instance, staff from German auditing institutions) to weaker SAIs.
- As projects are designed, attention should always be given to SAIs' (regional) networks, that is, initiatives under the umbrella of the International Organisation of Supreme Audit Institutions (INTOSAI) or its regional organisations. Where appropriate, projects should be linked to such initiatives.
- For projects to be effective, the environment in which the SAI operates must improve. So far, several GTZ programme components have proven promising. In that connection, those planning a project should always check whether the project can be made more effective by working with, e.g., parliament or the ministry of finance.

- The improvements that may be needed in the general environment for an effective SAI are significantly beyond the means of German development cooperation. So support for SAIs always needs to be part of a public financial management development programme in the partner country in need of reform. Even if Germany does not contribute to budget support or similar instruments in a given country, SAI projects should be integrated in policy dialogues on public financial management development.

With regard to the way in which relevant projects should be integrated into BMZ support policies, the following points emerged:

- The inclusion of SAI projects in BMZ support policies requires, at the country level, that such policies are based on strategy documents (country strategies and priority area strategies) and that such documents pursue a consistent strategy that includes statements on the way in which Germany's interventions form part of international efforts.
- The BMZ should draw up a strategy on public financial management development. Such a strategy should take a systemic approach to external auditing; in other words, the SAI should be viewed in the context of its interfaces with parliament, the treasury/finance ministry budget directorate, and civil society. Germany's interventions need not address these other partners but should take account of their capacity, encourage their communication with the SAI, and respond to deficits, if any.
- Where countries receive budget support or programme-oriented joint financing, SAI projects with expatriate personnel on the ground can provide important input to the assessment of public financial management. So it is not advisable to phase out SAI projects or programmes precisely at the point when budget support begins. SAI project managers, in their turn, should recognise and use the opportunities that arise from German participation in budget support with a view to addressing important prerequisites for the success of the SAI project in their dialogue with the partner side.
- If German players wish to foster external auditing, they can do so – even if they are not involved in any specific SAI support activities – by using donor coordination and policy dialogue to encourage the partner and other players to design external auditing reforms in a long-term manner, to approach them in a systemic way, and to incorporate such reforms in public financial management reforms. Germany should also use the policy dialogue to discuss the general environment needed for SAIs to operate properly and effectively, with a view to implementing the Lima Declaration and the principles contained therein relating to the need for external auditing to be based on independence and the rule of law. German players could enhance the political significance of parliament and civil society, for instance by meeting with the budget committee and competent NGOs for talks about budget execution.
- Finally, the following should be kept in mind with regard to the link between budget support and external auditing: If the environment for public financial management is problematic and there is, moreover, a lack of ownership of auditing development, it may not be expected in the foreseeable future that advice to the SAI will result in improved public financial management. In such a case, it is also doubtful whether the goals linked to budget support can be reached. So the capacity of the SAI is one suitable indicator by which to assess the state of the overall system.

BMZ's comments

Developing countries' rising income resulting from economic growth and an increase in official development assistance (ODA) presents new challenges to those responsible for public financial management. Competent, accountable public financial management as part of good financial governance is a central element of a functioning democracy. Deficits in this area reduce the scope for investment and for pro-poor economic growth. The *External Audit – Supreme Audit Institutions* evaluation provides highly valuable input to the debate about public financial management reform, as well as significant findings regarding Germany's related development cooperation strategies. The study highlights the fact that for SAI projects to be efficient it is vital that they be no isolated endeavours but, rather, part of systemic good financial governance programmes. There is an urgent need to take account of that recommendation in future projects. The BMZ also strongly endorses the demand for closer cooperation with INTOSAI and its regional organisations. There is an urgent need for action to remedy the lack of coordination of German bilateral development cooperation. It must be highlighted that the projects evaluated left the evaluators with a largely positive impression. Clarification is needed as to the extent to which the capacity of an SAI is a suitable indicator by which to assess the state of the public finance system.

The evaluation provides highly significant background information for further work on good financial governance and underlines the importance of a systemic approach to public financial management reform. The BMZ's future work on this topic will be informed by a number of central findings from this evaluation, especially with regard to the drafting of a strategic framework for German activities in the field of public financial management.

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