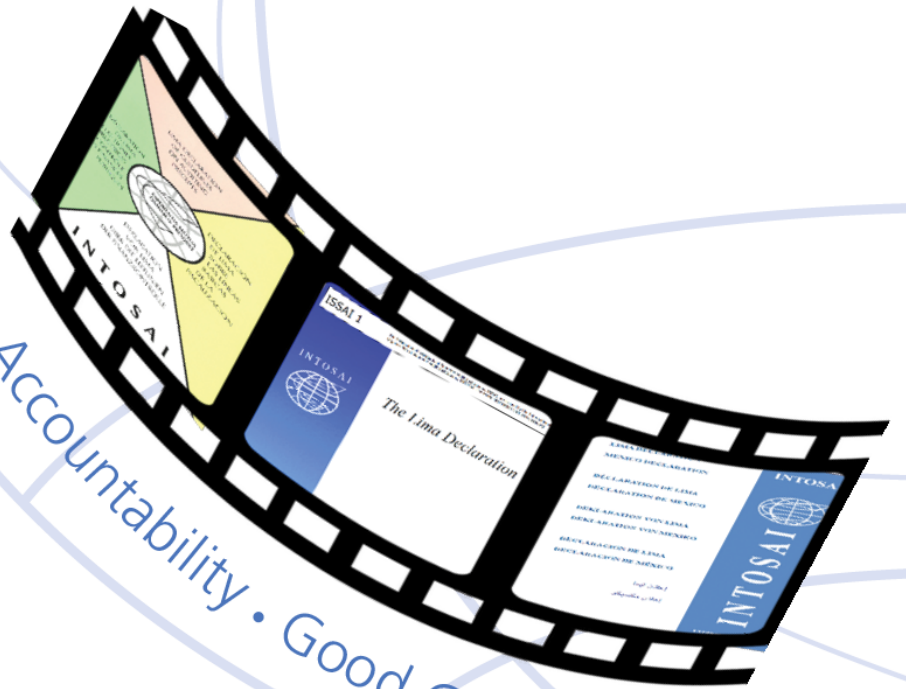


EXPERIENTIA MUTUA OMNIBUS PRODEST

40 years INTOSAI

LIMA DECLARATION

Transparency • Accountability • Good Governance



FOREWORD

The Declaration of Lima, which was adopted by the IX International Congress of INTOSAI in Lima in 1977, is considered to be the Magna Charta of government audit and defines the prerequisites for its independent and effective functioning.

It was already during the preparation of the Lima Declaration that INTOSAI aimed at laying down the principle of independence and the precepts of methodological and staff-related professionalism. In this publication on the occasion of the 40th anniversary of the adoption of the Lima Declaration, Mr Hubert Weber, former Director General of the Austrian Court of Audit and long-standing President of the European Court of Auditors, outlines in a clear and comprehensible manner the intention and purpose of this fundamental work of government audit.

It is with the utmost appreciation that I extend my thanks to Mr Hubert Weber, who, along with Mr Ramón Muñoz of the Spanish Court of Auditors and Mr Giorgio Clemente of the Italian Court of Audit, is regarded as one of the founding fathers of the Lima Declaration. He illustrates, based on intensive research, the historical steps towards the preparation of the Lima Declaration, the ideas and decisions behind it, the decisive elements for its permanent validity and its current significance in the framework of INTOSAI and the United Nations.

The current version of the Lima Declaration is attached to this publication.

In my capacity as Secretary General of INTOSAI I would like to thank Dr Weber for this valuable work, which underlines the importance of the principles of independence of the Lima Declaration and the precepts contained therein. As an independent international platform dedicated to the exchange of knowledge and experience and as the voice of Supreme Audit Institutions (SAIs) within the international community, INTOSAI started a success story, which will also sustainably shape the future path of SAIs as models of transparency and accountability in the spirit of the 2030 Agenda.



Dr Margit Kraker

President
of the Austrian Court of Audit
and
Secretary General of INTOSAI



FOREWORD

40 years ago, 95 delegations – representing their Supreme Audit Organizations – met in Lima, the capital of Peru, on the occasion of the IX Congress of INTOSAI to discuss relevant themes of government audit, among them also technical theme 1: “Declaration of Guidelines on Auditing Precepts”, which is known today as the “Lima Declaration of Guidelines on Auditing Precepts”.

This Declaration is considered to be the Magna Charta of government audit around the globe as it established the principles of government audit, upholding their validity and significance for many years to come. This was also underlined by the United Nations, which recognized the importance of the Lima Declaration in two General Assembly Resolutions.

The Lima Declaration highlights, among other aspects, the independence of government audit as a fundamental prerequisite of external public audit and the efficient fulfilment of tasks by Supreme Audit Institutions (SAIs). Today, independence continues to be a main challenge for SAIs and has prompted important initiatives supported by INTOSAI and the Donor Community based on the conviction that only independent SAIs can achieve effective results with regard to the fight against functional misbehaviour and corruption and the improvement of public policies.

40 years later, the Office of the Comptroller General (Contraloría General de la República) of the Republic of Peru pays tribute to the Lima Declaration, the cornerstone of the INTOSAI standards and principles that govern the fundamental work of SAIs. We therefore feel very honoured to welcome once again INTOSAI’s member SAIs in our capital to commemorate the 40th anniversary of signing this important declaration.



Welcome!

Nelson Shack

Contralor General of
the Republic of Peru



CONTENT

Foreword by the Secretary General.....	1
Foreword by the Contralor General of the Republic of Peru	3
Content	5
1. Preliminary Remarks.....	7
2. Steps towards the preparation of the Lima Declaration	8
2.1 The Contact Committee of Palermo in 1974.....	8
2.2 The Congress of Madrid in May 1974	9
2.3 The Working Group.....	10
2.4 The Congress of Lima in October 1977	11
3. Decisive elements for the permanent validity of the Lima Declaration	12
4. The significance of the Lima Declaration in the framework of INTOSAI and its acknowledgement at the UN level	15
5. The Lima Declaration of Guidelines on Auditing Precepts	17





1. PRELIMINARY REMARKS

Whenever a reform of government audit, which merits this designation, is introduced, thus, whenever fundamental issues of government audit are addressed, reference is usually made to the Lima Declaration of Guidelines on Auditing Precepts. The following contribution¹ explores the reasons for this. In other words, it examines the question of why the Lima Declaration, an achievement of the IX. Congress of the global association of Supreme Audit Institutions (International Organization of Supreme Audit Institutions – INTOSAI), which took place in Lima, Peru, in 1977, has provided orientation regarding elementary questions of audit for four decades and will, in all likelihood, continue to do so. On the occasion of the 40th anniversary of this landmark document of government audit it seems to be beneficial to offer at least a sketch of the political and economic conditions that prevailed when the Lima Declaration was elaborated. This aims to be an attempt to illustrate the influence of the 1973 oil crisis and the therefrom resulting inflation on Supreme Audit Institutions (SAIs).

The declared intention of the overwhelming majority of SAIs was to make a contribution to tackling the critical developments by enhanced efforts geared towards more efficient auditing. The SAIs, which had in general few resources at hand, focused on this aim albeit facing considerable constraints regarding financial and human resources. This became evident when it turned out to be necessary to divide the preparatory work for the Lima Declaration among several SAIs.

All the more do SAIs deserve acknowledgement for their commitment to improving audit. This development was shaped by a shift of focus from mainly identifying deficiencies to constructively providing impetus towards an improved administration and economic management, which was furthermore supported by a gradually stronger emphasis on performance audits.

From the very beginning on INTOSAI has aimed to attain mutual benefits through the exchange of experiences, in other words to strengthen its participating SAIs. The realization of this aim was closely tied to a tighter international cooperation of SAIs.

¹ The author of this contribution had essentially the following documents at hand: the minutes of the Congresses of Madrid 1974 and of Lima 1977 (in which he had taken part), the Circulars and other documents of INTOSAI, recordings of talks with the Austrian key member of the working group tasked with drafting the declaration, Dr Peter Beran, as well as the publications generously provided by his then colleague at the European Court of Auditors and later Director General of the Italian Court of Audit, Mr Giorgio Clemente.



Dr Hubert Weber

The resulting developments can roughly be divided into three stages: the first stage was largely shaped by the definition and illustration of SAIs' own audit systems. At the same time, however, SAIs put INTOSAI's motto „**mutual experience benefits all**“ into practice by harnessing the exchange of experiences for areas such as audit methodology, education and training. During the second stage, SAIs engaged in a more intensive exchange of experiences and in attempts to implement elements of audit systems of other SAIs that were deemed to be useful. Not all of those efforts were crowned by success.

In the third phase, SAIs did not only delve into matters such as independence, the relation of pre-audit and post-audit, financial audit and performance audit, but were also spurred by the desire to merge the principles of government audit into one document. This was based on the idea that after 20 years of congressional activities with wide-ranging decisions and recommendations the time had come to prepare a document that would allow SAIs to go beyond the usual practice of having resolutions and recommendations scattered throughout various congress minutes.

As it turned out later, this document, which offers a systematic illustration of the principles of government audit, has been markedly more compelling in particular with regard to political institutions, and has therefore been a significantly more effective instrument for SAIs when it comes to pursuing their interests.

Apart from looking back at the drafting process of the Lima Declaration, this contribution aims to acknowledge the work of INTOSAI and its General Secretariat, but also the contributions of all those who have rendered outstanding services towards the realization of the Lima Declaration.

2. STEPS TOWARDS THE PREPARATION OF THE LIMA DECLARATION

2.1 The Contact Committee of Palermo in 1974

The idea of compiling the principles of government audit was first addressed at the meeting of the Contact Committee of the SAIs of the Member States of the European Community (today the Contact Committee of the Heads of Supreme Audit Institutions of the European Union and the European Court of Auditors) in Palermo in March 1974 in the framework of the agenda item “Exchange of opinions on the VIII Congress of INTOSAI in Madrid in 1974”.

Theme IV of this congress was “Basic problems in government audit with special consideration to the relevant recommendations adopted by INTOSAI Congresses”. The selection of this theme was based on the fact that the congresses, which have been held from 1953 onwards and take place every three years, had dealt with numerous fundamental questions of government audit in the framework of the manifold theme discussions. The time was therefore ripe to try to thoroughly analyse the decisions of the past congresses, not least in order to assess their validity.

Two motions shall be pointed out in this regard.

- The Italian delegation proposed to establish a working group at the General Secretariat of INTOSAI to be tasked with drafting a “charter” or a “declaration” of the principles of government audit, taking in particular into account the recommendations and decisions of the past congresses of INTOSAI.
- The German delegation suggested to present to the VIII Congress the idea of creating a working group whose task would be to elaborate an organizational summary of those decisions by taking an in-depth look at the themes addressed so far and to present this summary to all INTOSAI member SAIs at the IX international congress in Lima in 1977.

2.2 The Congress of Madrid in May 1974

Dr Peter Beran of the Austrian Court of Audit, who was tasked with reporting on the principles of government audit, explained in his introductory words, which were based on 22 country contributions, that, apart from very few exceptions, the approach of the government audit community to this matter was driven by unanimity and unity of sentiment. Following this, he outlined in detail issues such as independence, the scope of government audit, pre-audit and post-audit, financial audit and performance audit, the relation of a SAI with parliament and government and the quality of staff.

It turned out that the hope expressed by the rapporteur to have provided sufficient food for discussion was fulfilled convincingly.

In the course of the debate, Mr Antonino de Stefano, Director General of the Italian Court of Audit, announced a motion to assign to the General Secretariat in Vienna the task to elaborate a declaration on the founding principles of government audit to be presented to the forthcoming congress.

The motion was expressly endorsed by the German and Luxembourgian delegation.

Eventually, this resulted in the following decision:

The Congress requests that the General Secretariat in Vienna – depending on the availability of personnel and funds and with the active assistance of other SAIs – classify and analyse the recommendations adopted by the Congresses held thus so far and compile the principles of external audit for presentation at the next INTOSAI Congress.

2.3 The Working Group

In order to realize the above-cited decision, a working group was set up, which counted among its members, apart from the already mentioned Mr de Stefano and Mr Beran, also Mr Franz Mittag of the Supreme Audit Institution of Germany.

In the course of 1975 this working group had three meetings, which were held in the premises of the Italian Court of Audit in Rome. A final meeting was hosted by the Secretary General of INTOSAI, Dr Jörg Kandutsch, in Vienna in September 1975, and was attended by the President of the Spanish Court of Auditors, Mr Servando Fernandez-Victorio (in his capacity as chair of the INTOSAI Governing Board), the President of the Supreme Audit Institution of Germany, Dr Hans Schäfer, the President of the Italian Court of Audit, Prof Guiseppe Cataldi, as well as by staff members of the respective institutions.

The draft of the fundamental declaration adopted at this meeting was forwarded to INTOSAI's members for comments.

Some notes on the working method:

In application of the decision taken by the Congress of Madrid, the working group divided the work in two conceptually completely separate phases, namely an analytical and a synthetic phase.

The need for a systematic analysis of the comprehensive congress-related material was in itself a formidable obstacle to a quick preparation of the Declaration. This could be alleviated by the fact that Mr Beran had drafted a classification document² already before the working group assumed its activities.

Based on this, the working group prepared two documents for the congress, a full classification of the extant recommendations of the INTOSAI congresses, as well as a synthetic compilation of the government audit principles resulting from these recommendations.

² The classification document comprised the following main categories:

1. International cooperation
2. Auditing in general
3. SAIs and their relations to other state institutions
4. The rights of SAIs
5. Audit methods and procedures
6. Reporting
7. Areas of activities of SAIs

These main categories were divided into 66 individual items.

Although the working group recognized primarily only the decisions and recommendations of the previous eight congresses as “obligatory reference points”, it also tried to cautiously fill gaps in cases going beyond those reference points and, correspondingly, to take into account all those principles that implicitly have been part of the principles laid down by the congresses. However, the working group refused to include new principles into the compilation.

2.4 The Congress of Lima in October 1977

The rapporteur on Theme 1 “The Lima Declaration of Guidelines on Auditing Precepts” was Mr Francesco Sernia from the Italian delegation. After providing a comprehensive overview of the background and methodology of the working group, he presented the draft declaration, which consisted of a preamble and seven chapters containing overall 25 sections. The rapporteur cited the sources of both the preamble and the 25 sections and outlined in a detailed manner the



remarks made in the numerous country contributions. After an intensive debate the Congress decided to set up a Committee, which would consist of the chair for the mentioned theme (chair: Venezuela, vice-chair: Fiji), the rapporteur from Italy and the Secretary from Indonesia and which would be attended by a delegate from the Federal Republic of Germany, Peru and the General Secretariat each.

This Committee was tasked with examining the submitted contributions and with presenting suggestions at the second meeting on this topic. The decision of the extended board was presented at the second meeting.

The intention was to recognize the value and practicality of the draft declaration and to avoid a decision with regard to what is understood by audit principles. Furthermore, it was planned to refrain from taking decisions that would be in contradiction with the constitutional and other legal provisions of an INTOSAI member state. Discussions on editorial and terminological questions were also to be avoided. Based on all this, it was proposed to name the document “Guidelines on Auditing Precepts” rather than “Declaration on the Principles of Auditing”.

The ensuing debate was largely focused on the preamble. According to the interventions, it was perceived to be too long and too ideological. The latter argument referred in particular to the words “... risk of the state becoming omnipotent”. The President of the French Court of Audit, Mr Désiré Arnaud, who had already previously echoed the critical remarks regarding the length of the preamble, declared his willingness to present a text that could serve as a basis for the committee meeting. This significantly shortened version, which set the focus on technical aspects, was only slightly amended compared to the version adopted by the Congress.

Also as regards the “Guidelines on Auditing Precepts” it can be noted that the version drafted by the working group following the Congress of Madrid did not differ significantly from the one that had served as a basis for the Congress decision concerning the publication and dissemination of the document.

Owing to a motion of a member of the Chilean delegation to acknowledge the place of decision making, the document was entitled „**Lima Declaration**“.

3. DECISIVE ELEMENTS FOR THE PERMANENT VALIDITY OF THE LIMA DECLARATION

A common saying among auditors goes that an audit report must be put to the acid test before it can be published. The acid test refers, among others, to numerous in-house departments that critically examine the content and form of the reports from various perspectives. Given the fact that the draft elaborated by the working group had to withstand numerous country contributions and prove to be plausible in the framework of the Congress of Lima, namely the plenary sessions, the meetings of the responsible commission and specifically established committees, the illustration above is definitely also true for the Lima Declaration.

What is certain is that the working group, based on the recommendations of the previous eight congresses, did an excellent work and fulfilled the demand to not only present a review but also something of permanent validity.

If the outcome was sufficiently informative to provide answers to technical concerns, it was even more difficult to dispel doubts stemming from the apprehension that the government authorities could perceive the precepts laid down in the Declaration as exaggerated.

By choosing the term “guidelines”, the authors ensured that they do not have a legally binding character.

Elements that contribute to the permanent validity of the Declaration are outlined in numerous sections. The following illustration does not purport to be complete, nor does it establish a ranking as it exclusively follows the structure of the Declaration.

Section 2 of the Declaration comprises the attempt to address the issue of the relation between pre-audit and post-audit, which has then and again provoked discussions in congresses. The authors of the text were cognizant of the benefits of pre-audit, but also took into consideration the fact that by engaging in a pre-audit the auditing entity assumes some sort of responsibility.

By opting for the wording that the legal situation and the conditions and requirements of each country determine whether a SAI carries out pre-audits and that post-audits are an indispensable task of every SAI regardless of whether or not it also carries out pre-audits, the authors attained a balanced view in this regard.

In section 4, the audit of the legality and regularity of financial management and accounting is designated as the traditional task of SAIs. In addition to this type of audit, this section also describes audits geared toward examining the economy, efficiency and effectiveness of public administration as equally important, thereby acknowledging the already then perceivable trend towards a more intensive use of performance audits.

Section 5 rejects the notion of state institutions as being absolutely independent. It, however, calls for the functional and organizational independence of SAIs, which they need to accomplish their tasks. This section substantiates the impression that the authors of the Declaration refrained from taking extreme positions.

Section 10 (2) leaves it to SAIs to decide whether it is more expedient to carry out the audit at the institution to be audited or at the SAI itself.

This formulation was based on the consideration that, taking into account big volumes of files provided by the different administrative entities, a financial audit will probably have to be conducted inevitably at the headquarters of the SAI, while performance audits assessing the economy, efficiency and effectiveness of financial management are in general performed on site.

In this way, the Declaration took into account performance audits, which were stepped up at that time.

Section 13 (2) lays out the following:

Since an audit can rarely be all-inclusive, SAIs as a rule will find it necessary to use a sampling approach.

The numerous sampling models, however, have deliberately not been enumerated.

This underscores the fact that the authors refrained from going into detail.

Section 15 (2) The inclusion of seminars jointly organized with the United Nations (UN) and other institutions in the activities promoted by the exchange of experiences illustrates highly important concerns of SAIs.

Section 15 (3) The development of a uniform terminology of government audit – a long-standing concern of INTOSAI – was also the subject of debates held in the framework of the Congress of Lima.

The working group tasked with the drafting of the fundamental declaration also attached utmost importance to the unification of the terminology and noted with satisfaction that the General Secretariat had taken on the task of elaborating glossaries in cooperation with a corresponding institution³.

Section 19 Auditing public authorities and other institutions established abroad:

This is based on the idea that auditing is undoubtedly an official act involving coercive measures, which are not permitted under international law.

Based on the fact that international law is subject to constant changes, the document was not to be burdened by momentary positions.

Section 22 draws from the experience that technological possibilities are often overemphasized and results obtained with great efforts frequently fail to be analysed, or if so, not sufficiently. This section implies a warning that has remained valid also in the era of big data.

Section 25 (2) recommends to establish audit bodies of international and supranational organizations following the principles similar to those governing the audits carried out by SAIs.

In this context it is worth to have a look at the European Court of Auditors headquartered in Luxembourg. Its establishment was based on a democratization of the European Union, namely the fact that the exclusive power to grant the budget discharge to the Commission was transferred to the European Parliament, which rendered it necessary to establish, in addition to the political control exercised by the Parliament, a technical control.

The guarantee of independence and the scope of a SAI's mandate were decisively influenced by the Presidents of the SAIs of the then EU member states, whose considerations were guided by the principles of the Lima Declaration.

In order to become permanently valid, a document has, apart from dealing with the specific technical subjects in a thoroughly manner, to be structured in a way that enables a step-by-step approach to the subject matter. Furthermore, the language has to be clear and understandable. The Lima Declaration meets both these requirements with its tight structure and its easily accessible wording. We can rightfully claim that the Lima Declaration, with its characteristic fluent style, does not present a heavy burden for the reader. It rather guides them through the world of government audit in a didactical manner, thereby conveying an overall view of the matter.

³ Namely the International Institute for Legal and Administrative Terminology / Berlin. The work was published as the "European Glossary of Legal and Administrative Terminology".

One aspect, which had already been brought up in debates in Lima, concerned a certain weakness of the English version of the document. When this became evident again in the framework of an AFROSAI seminar, a linguistic revision was envisaged. In addition to the revision of the English version, the SAI of Canada also revised the French version. The Spanish version had already been prepared by Mr Ramon Muñoz⁴. The German original version was critically examined at the General Secretariat, which, however, led merely to some minor stylistic amendments.

Based on these versions, the General Secretariat had a brochure prepared in four languages in order to render it easier for INTOSAI's members to refer to the document.

Finally, this chapter shall be concluded with a quote by Giorgio Clemente⁵, a contemporary witness of the preparation of the Lima Declaration, who, as early as in 1978, the year following the Congress of Lima, demonstrated foresight:

The significance of the document clearly lies in the completeness of the themes addressed. The comprehensive issue of audit is in fact approached in all its dimensions, both from a "modern" point of view and also with respect to traditional values. In doing so, the Declaration offers several directions in which SAIs, regardless in which legal systems they become active, shall move.

4. THE SIGNIFICANCE OF THE LIMA DECLARATION IN THE FRAMEWORK OF INTOSAI AND ITS ACKNOWLEDGEMENT AT THE UN LEVEL

As conveyed in the framework of the Congresses of Madrid and Lima, numerous SAIs had been prompted to implement reforms of government audit in their countries based on decisions taken at previous congresses. This process was even further strengthened with the Lima Declaration and supported by the special edition described in the previous chapter.

The fact that the Lima Declaration was classified as a level-1-document – founding principles – in the framework of the International Standards of Supreme Audit Institutions (ISSAI) is ample testimony to the significance accorded to it by the community of SAIs. It is therefore very likely that many SAIs around the world will succeed in initiating reforms and fending off interferences in their rights by referring to the Lima Declaration.

⁴ Member of the Spanish Court of Auditors and later founding president of the Audit Office of the Community of Madrid

⁵ Giorgio Clemente, former member of the European Court of Auditors, Director General of the SAI of Italy in IL FORO AMMINISTRATIVO 1978

The efforts of INTOSAI to establish close relations with the UN can be traced back over decades. Its successes in this regard are not only limited to the fact that UN Secretary-Generals have honoured INTOSAI's congresses by sending greeting messages and that high-ranking UN representatives have participated in such congresses.

What deserves special mention are the UN/INTOSAI symposia, which have been held in Vienna, usually every two years, since 1971.

A special success for INTOSAI and its General Secretariat was the fact that the UN General Assembly adopted two resolutions on the independence of SAIs (A/66/209 of 22 December 2011 and A/69/228 of 19 December 2014), welcoming the Lima Declaration, which is based on the work of SAIs with regard to promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening SAIs.

The adoption of the 2030 Agenda and of the Sustainable Development Goals (SDGs) by the UN General Assembly on 25 September 2015 cannot be overrated. In the 2030 Agenda, the UN recognizes the important role of SAIs in implementing the SDGs. At the same time, the Agenda can be regarded as a commitment of the UN to strengthening SAIs.

Furthermore, this acknowledgment at the UN level also increases the certainty that the Lima Declaration will celebrate many more anniversaries.

**We shall therefore
congratulate
INTOSAI and its General
Secretariat
on this remarkable success.**



5. THE LIMA DECLARATION OF GUIDELINES ON AUDITING PRECEPTS

Preamble

The IX Congress of the International Organisation of Supreme Audit Institutions (INTOSAI), meeting in Lima:

- Whereas the orderly and efficient use of public funds constitutes one of the essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the responsible authorities;
- Whereas, to achieve this objective, it is indispensable that each country have a Supreme Audit Institution whose independence is guaranteed by law;
- Whereas such institutions become even more necessary because the state has expanded its activities into the social and economic sectors and thus operates beyond the limits of the traditional financial framework;
- Whereas the specific objectives of auditing, namely, the proper and effective use of public funds; the development of sound financial management; the proper execution of administrative activities; and the communication of information to public authorities and the general public through the publication of objective reports, are necessary for the stability and the development of states in keeping with the goals of the United Nations;
- Whereas at previous INTOSAI congresses, plenary assemblies adopted resolutions whose distribution was approved by all member countries;

RESOLVES:

- To publish and distribute the document entitled “The Lima Declaration of Guidelines on Auditing Precepts”.

I. General

Section 1. Purpose of audit

The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.

Section 2. Pre-audit and post-audit

1. Pre-audit represents a before the fact type of review of administrative or financial activities; post-audit is audit after the fact.
2. Effective pre-audit is indispensable for the sound management of public funds entrusted to the state. It may be carried out by a Supreme Audit Institution or by other audit institutions.
3. Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under public law. Post-audit by a Supreme Audit Institution highlights the responsibility of those accountable; it may lead to compensation for the damage caused and may prevent breaches from recurring.
4. The legal situation and the conditions and requirements of each country determine whether a Supreme Audit Institution carries out pre-audit. Post-audit is an indispensable task of every Supreme Audit Institution regardless of whether or not it also carries out pre-audits.

Section 3. Internal audit and external audit

1. Internal audit services are established within government departments and institutions, whereas external audit services are not part of the organisational structure of the institutions to be audited. Supreme Audit Institutions are external audit services.
2. Internal audit services necessarily are subordinate to the head of the department within which they have been established. Nevertheless, they shall be functionally and organisationally independent as far as possible within their respective constitutional framework.
3. As the external auditor, the Supreme Audit Institution has the task of examining the effectiveness of internal audit. If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit.

Section 4. Legality audit, regularity audit and performance audit

1. The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting.
2. In addition to this type of audit, which retains its significance, there is another equally important type of audit – performance audit – which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only

specific financial operations, but the full range of government activity including both organisational and administrative systems.

3. The Supreme Audit Institution's audit objectives – legality, regularity, economy, efficiency and effectiveness of financial management – basically are of equal importance. However, it is for each Supreme Audit Institution to determine its priorities on a case-by-case basis.

II. Independence

Section 5. Independence of Supreme Audit Institutions

1. Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
2. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks.
3. The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.

Section 6. Independence of the members and officials of Supreme Audit Institutions

1. The independence of Supreme Audit Institutions is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the Supreme Audit Institution and are answerable for these decisions to third parties, that is, the members of a decision-making collegiate body or the head of a monocratically organised Supreme Audit Institution.
2. The independence of the members shall be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members. The method of appointment and removal of members depends on the constitutional structure of each country.
3. In their professional careers, audit staff of Supreme Audit Institutions must not be influenced by the audited organisations and must not be dependent on such organisations.

Section 7. Financial independence of Supreme Audit Institutions

1. Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks.
2. If required, Supreme Audit Institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget.
3. Supreme Audit Institutions shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

III. Relationship to Parliament, government and the administration

Section 8. Relationship to Parliament

The independence of Supreme Audit Institutions provided under the Constitution and law also guarantees a very high degree of initiative and autonomy, even when they act as an agent of Parliament and perform audits on its instructions. The relationship between the Supreme Audit Institution and Parliament shall be laid down in the Constitution according to the conditions and requirements of each country.

Section 9. Relationship to government and the administration

Supreme Audit Institutions audit the activities of the government, its administrative authorities and other subordinate institutions. This does not mean, however, that the government is subordinate to the Supreme Audit Institution. In particular, the government is fully and solely responsible for its acts and omissions and cannot absolve itself by referring to the audit findings – unless such findings were delivered as legally valid and enforceable judgments – and on expert opinions of the Supreme Audit Institution.

IV. Powers of Supreme Audit Institutions

Section 10. Powers of Investigation

1. Supreme Audit Institutions shall have access to all records and documents relating to financial management and shall be empowered to request, orally or in writing, any information deemed necessary by the SAI.
2. For each audit, the Supreme Audit Institution shall decide whether it is more expedient to carry out the audit at the institution to be audited, or at the Supreme Audit Institution itself.
3. Either the law or the Supreme Audit Institution (for individual cases) shall set time limits for furnishing information or submitting documents and other records including the financial statements to the Supreme Audit Institution.

Section 11. Enforcement of Supreme Audit Institution findings

1. The audited organisations shall comment on the findings of the Supreme Audit Institution within a period of time established generally by law, or specifically by the Supreme Audit Institution, and shall indicate the measures taken as a result of the audit findings.
2. To the extent the findings of the Supreme Audit Institution are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility.

Section 12. Expert opinions and rights of consultation

1. When necessary, Supreme Audit Institutions may provide Parliament and the administration with their professional knowledge in the form of expert opinions, including comments on draft laws and other financial regulations. The administrative authorities shall bear the sole responsibility for accepting or rejecting such expert opinions; moreover, this additional task must not anticipate the future audit findings of the Supreme Audit Institution and must not interfere with the effectiveness of its audit.
2. Regulations for appropriate and as uniform as possible accounting procedures shall be adopted only after agreement with the Supreme Audit Institution.

V. Audit methods, audit staff, international exchange of experiences**Section 13. Audit methods and procedures**

1. Supreme Audit Institutions shall audit in accordance with a self-determined programme. The rights of certain public bodies to request a specific audit shall remain unaffected.
2. Since an audit can rarely be all-inclusive, Supreme Audit Institutions as a rule will find it necessary to use a sampling approach. The samples, however, shall be selected on the basis of a given model and shall be sufficiently numerous to make it possible to judge the quality and regularity of financial management.
3. Audit methods shall always be adapted to the progress of the sciences and techniques relating to financial management.
4. It is appropriate for the Supreme Audit Institution to prepare audit manuals as an aid for its auditors.

Section 14. Audit staff

1. The members and the audit staff of Supreme Audit Institutions shall have the qualifications and moral integrity required to completely carry out their tasks.
2. In recruiting staff for Supreme Audit Institutions, appropriate recognition shall be given to above-average knowledge and skills and adequate professional experience.
3. Special attention shall be given to improving the theoretical and practical professional development of all members and audit staff of SAIs, through internal, university and international programmes. Such development shall be encouraged by all possible financial and organisational means. Professional development shall go beyond the traditional framework of legal, economic and accounting knowledge, and include other business management techniques, such as electronic data processing.
4. To ensure auditing staff of excellent quality, salaries shall be commensurate with the special requirements of such employment.
5. If special skills are not available among the audit staff, the Supreme Audit Institution may call on external experts as necessary.

Section 15. International exchange of experiences

1. The international exchange of ideas and experiences within the International Organisation of Supreme Audit Institutions is an effective means of helping Supreme Audit Institutions accomplish their tasks.
2. This purpose has so far been served by congresses, training seminars jointly organised with the United Nations and other institutions, by regional working groups and by the publication of a professional journal.
3. It is desirable to expand and intensify these efforts and activities. The development of a uniform terminology of government audit based on comparative law is of prime importance.

VI. Reporting**Section 16. Reporting to Parliament and to the general public**

1. The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published. This will ensure extensive distribution and discussion, and enhance opportunities for enforcing the findings of the Supreme Audit Institution.

2. The Supreme Audit Institution shall also be empowered to report on particularly important and significant findings during the year.
3. Generally, the annual report shall cover all activities of the Supreme Audit Institution; only when interests worthy of protection or protected by law are involved shall the Supreme Audit Institution carefully weigh such interests against the benefits of disclosure.

Section 17. Method of reporting

1. The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand.
2. The Supreme Audit Institution shall give due consideration to the points of view of the audited organisations on its findings.

VII. Audit powers of Supreme Audit Institutions

Section 18. Constitutional basis of audit powers; audit of public financial management

1. The basic audit powers of Supreme Audit Institutions shall be embodied in the Constitution; details may be laid down in legislation.
2. The actual terms of the Supreme Audit Institution's audit powers will depend on the conditions and requirements of each country.
3. All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions. Excluding parts of financial management from the national budget shall not result in these parts being exempted from audit by the Supreme Audit Institution.
4. Supreme Audit Institutions should promote through their audits a clearly defined budget classification and accounting systems which are as simple and clear as possible.

Section 19. Audit of public authorities and other institutions abroad

As a general principle, public authorities and other institutions established abroad shall also be audited by the Supreme Audit Institution. When auditing these institutions, due consideration shall be given to the constraints laid down by international law; where justified, these limitations shall be overcome as international law develops.

Section 20. Tax audits

1. Supreme Audit Institutions shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files.
2. Tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, Supreme Audit Institutions shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.

Section 21. Public contracts and public works

1. The considerable funds expended by public authorities on contracts and public works justify a particularly exhaustive audit of the funds used.
2. Public tendering is the most suitable procedure for obtaining the most favourable offer in terms of price and quality. Whenever public tenders are not invited, the Supreme Audit Institution shall determine the reasons.
3. When auditing public works, the Supreme Audit Institution shall promote the development of suitable standards for regulating the administration of such works.
4. Audits of public works shall cover not only the regularity of payments, but also the efficiency of construction management and the quality of construction work.

Section 22. Audit of electronic data processing facilities

The considerable funds spent on electronic data processing facilities also calls for appropriate auditing. Such audits shall be systems-based and cover aspects such as planning for requirements; economical use of data processing equipment; use of staff with appropriate expertise, preferably from within the administration of the audited organisation; prevention of misuse; and the usefulness of the information produced.

Section 23. Commercial enterprises with public participation

1. The expansion of the economic activities of government frequently results in the establishment of enterprises under private law. These enterprises shall also be subject to audit by the Supreme Audit Institution if the government has a substantial participation in them – particularly where this is majority participation – or exercises a dominating influence.
2. It is appropriate for such audits to be carried out as post-audits; they shall address issues of economy, efficiency and effectiveness.

3. Reports to Parliament and the general public on such enterprises shall observe the restrictions required for the protection of industrial and trade secrets.

Section 24. Audit of subsidised institutions

1. Supreme Audit Institutions shall be empowered to audit the use of subsidies granted from public funds.
2. When the subsidy is particularly high, either by itself or in relation to the revenues and capital of the subsidised organisation, the audit can, if required, be extended to include the entire financial management of the subsidised institution.
3. Misuse of subsidies shall lead to a requirement for repayment.

Section 25. Audit of international and supranational organisations

1. International and supranational organisations whose expenditures are covered by contributions from member countries shall be subject to external, independent audit like individual countries.
2. Although such audits shall take account of the level of resources used and the tasks of these organisations, they shall follow principles similar to those governing the audits carried out by Supreme Audit Institutions in member countries.
3. To ensure the independence of such audits, the members of the external audit body shall be appointed mainly from Supreme Audit Institutions.

