

# Transparency and confidence in the public sector



Advances in Supreme Audit  
Institutions in Latin America  
and the Caribbean

2002-2012



This document presents the key conclusions of a study conducted by the Inter-American Development Bank, in collaboration with the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS in Spanish) and the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and analyzes the trends and principal achievements of Supreme Audit Institutions in the Region during the past ten years.



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One of the fundamental principles of public financial management is that the government may not take any money from its citizens or spend it on their behalf without their express authorization, which is delegated to their legislative representatives. A country's budget is the primary source of legitimacy for taxation and public expenditure, and therefore, the executive branch must implement the budget as it was approved by the legislature. The government's primary obligation is thus to ensure that public funds are spent in accordance with the law. In order to do this, it is essential that an institution independent of the executive branch oversee the implementation of the budget and also, when necessary, impose any sanctions permissible by law, when funds are diverted. Protection or mitigation against such risk is the basic function of external government control, performed by Supreme Audit Institutions (SAIs).

## Origin of the reforms

The process of democratization in Latin America and the Caribbean encouraged reforms and improvement in public sector management, including government external control performed by each country's SAI. SAI organizations promote better accountability in government both internally to the government, as well as externally (i.e., to its citizens). In promoting fiscal transparency, compliance, and the citizens' involvement, the external control function maintains an important role in a continuous cycle that helps to improve the credibility and public trust in the government.

## Notable advances

SAI reforms in Latin America and the Caribbean have related primarily to **five areas**, which have been considered as key in promoting the development of a modern government control system.

Advances made during the past ten years have resulted in **modernized SAIs in more than 70% of the countries**. This marks a significant improvement from 2002, at which time the percentage was only half of what it is now. This also reflects the commitment of governments to improve transparency and confidence in the public sector.



### 1. Harmonization of government auditing practices.

Today, **80% of SAIs comply with international auditing standards**, which promote the application of uniform criteria to review and oversee the management of public funds. This, together with the consistency in managing public information, has allowed for greater comparability of information at the national, regional, and global levels. SAIs contribute to better governance and management of public funds, which in turn results in a positive impact on the business environment in those countries.

### 2. Standardization and development of services.

All SAIs in the Region engage in south-south and east-west cooperation, either directly or indirectly, by participating in regional and global committees and working groups, through coordinated audits, by knowledge sharing, and by performing peer reviews. Synergies resulting from these activities have helped



to contribute to the modernization of SAIs. Updating the government auditor profile through training and certification programs was identified in the study as a key aspect in service standardization. Today, in many countries within the Region the government auditor maintains a more positive image than in the past.

### 3. A risk and results-based technical approach.

As opposed to ten years ago, today **more than 70% of SAIs have modern strategic plans, which are based on risk and focus on results**, allowing for any obstacles to be quickly identified and addressed in a timely manner. The implementation of these plans is achieved by using modern audit techniques, such as the use of interrogation software, and effective follow-up mechanisms. This has led to a change from a preventive to a detective control approach, thus resulting in time and cost savings.

### 4. Transparency, greater access to information, and citizen participation

Today, **75% of SAIs not only publish and provide free access to audit reports, but there is also a growing trend to engage citizens** in the process of dissemination of such information and thus generating greater confidence in the use of public funds and paving the way for increased fiscal transparency. As such, several countries are conducting “participatory” or social audits that involve citizens in the review and monitoring processes, with the objective of detecting possible irregularities and poor management practices in an effective manner. The conclusions of these audits are then monitored by civil society organizations, thus,

transforming the voice of the citizens into a key control over public expenditures.

### 5. Diversification of services.

**More than 80% of SAIs offer specialized services**, such as performance, IT, or environmental audits, which are used primarily to determine the effectiveness of public expenditures, in order to address the public’s increasing demand for more than just compliance (with laws and regulations) audits. This trend is in conjunction with an increased level of cooperation and work with the private sector through the outsourcing of some specialized services to audit firms.

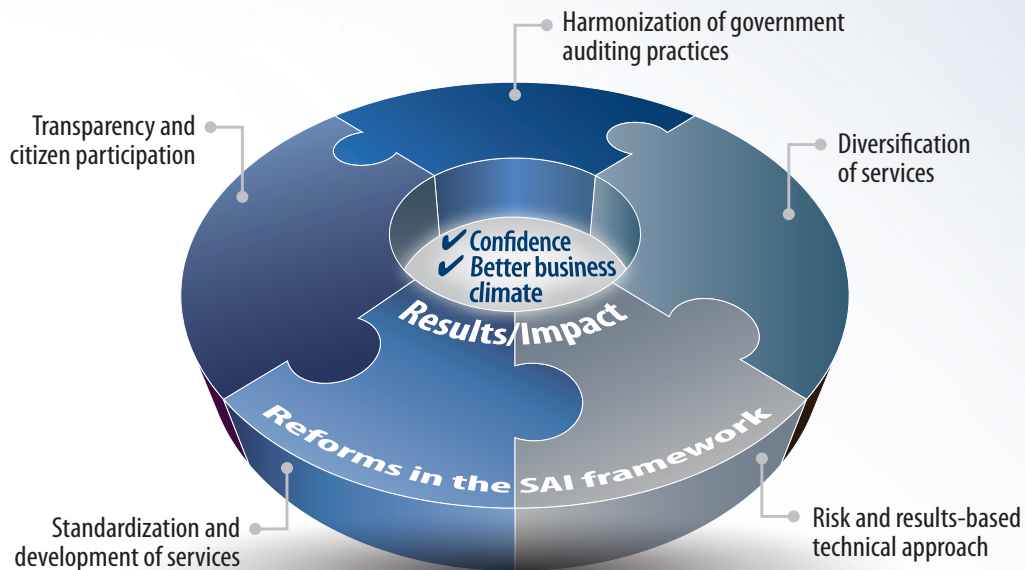
## Confidence and investment

A better business environment promotes an adequate climate for investment, a critical factor for growth. Improvements in the quality of SAI work and greater citizen participation can increase transparency and promote confidence and trust in the Region’s developing economies, therefore, strengthening the investment climate.

Direct foreign investment in Latin America and the Caribbean grew from US\$56 billion in 2002 to more than US\$170 billion in 2012.

Within the context of the public sector and development assistance, it is worth noting that the delegation of audits of development programs to government external control organizations has increased by more than 40%. Today, the Inter-American Development Bank has delegated the audits

## Continuous Cycle of SAI Reforms



of its financed operations to SAIs for almost **50% of its borrowing member countries**.

### The challenges ahead

One of the main challenges identified by the study is the need to move forward and conduct a more in-depth study of the reforms undertaken by SAIs in the Region, primarily focusing on the analysis and quantification of the impact of such reforms in government external control.

The study also identified the following key challenges that SAIs in the Region will need to confront in order to advance in their reform agendas.

- Undoubtedly, the main challenge is the aggregate of the five key areas mentioned for implementing a modernized approach to government control that will in turn increase the level of confidence and add value for the public and the country economies. In order to achieve this, it will be necessary to continue with modernization efforts in the 70% of the countries that have already undertaken this process, as well as expand such efforts to the remaining countries that have yet to modernize their audit services to become more standardized, transparent, and participatory, to include its citizens.
- The second challenge, as mentioned previously, is to continue advancing in defining and implementing metrics

to quantify the impact of SAI work and the results of having control management mechanisms in place related to greater integrity, efficiency and effectiveness of country public management systems. Developing business intelligence modules and information management tools are important for increasing the quality of service and promoting a more effective use of public resources.

- Finally, the study mentioned that continued SAI involvement in networks at both the regional and global levels, as well as advancements in the professional development of the government auditor will be necessary if modernization efforts are to be sustainable.



The IDB supports these initiatives through its **Strategy for Strengthening and Use of Country Systems** by supporting diagnostics of public finances and providing financial and technical assistance to almost all of countries in the Region. In addition, the IDB helps to facilitate regional and global strategic alliances, so that Latin American and Caribbean countries are represented in international discussions on best practices and government external control standards. The latter has been done in close collaboration with the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS in Spanish) and the Caribbean Organization of Supreme Audit Institutions (CAROSAI).



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