

Paper on a Risk-Assessment Framework for SAIs to Incorporate Relevant SDGs-Related Programs in their Annual Audit Plans

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Preamble

At the 9th meeting of the INTOSAI Working Group on Value and Benefits of Supreme Audit Institutions (WGVBS), held in Arusha, Tanzania, on August 29-31, 2016, the members agreed the following:

Stemming from the roundtable discussion on the Sustainable Development Goals (SDGs), the WGVBS Chair proposed to prepare a paper on a risk-assessment framework for SAIs to incorporate relevant SDGs-related programs in their annual audit plans. Before defining the next steps, the IDI will share information on the capacity development program Auditing Sustainable Development Goals.

In this sense, a paper has been drafted by the WGVBS Chair to trigger the discussions thereof among the WGVBS members. The idea is to present the content of this document during the next Working Group meeting, to be held on September 6-8, 2017, in Mexico City.

For the preparation of this document, we took into consideration different INTOSAI products such as the INTOSAI Strategic Plan 2017-2022, the Abu Dhabi Declaration, the IDI Auditing Sustainable Development Goals Program, and the conclusions of the XXVI OLACEFS General Assembly, among others.

Objective

The purpose of this document is to provide a framework, which might be taken into account by Supreme Audit Institutions when defining audits on SDGs-related programs. This framework highlights the relevance of the risk-assessment approach in order to determine the audit plans that could meet the expectations of the different SAIs' stakeholders.

The ideas and suggestions that are expounded in this paper should be considered in the line of each Supreme Audit Institution's conditions, including their legal framework, mandate, institutional capacities, strategic priorities, etc.

This document is not aimed to become a compulsory guideline to INTOSAI members, rather its goal is to enrich the technical references that are available to SAIs community so as to deal, in an efficient manner, with the challenge of establishing a suitable audit coverage on SDGs-related programs.

Background Information

In September 2015, 193 countries committed themselves to formally adopting the 2030 Agenda for Sustainable Development, starting in January 1, 2016¹. This Agenda is comprised of 17 Sustainable Development Goals (SDGs)² which, according to the United Nations, are a universal call for action by all countries, poor, rich and middle-income to promote prosperity while protecting the planet. Each goal has specific targets that must be achieved by 2030. These 17 Goals include new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities.

The UN, in various forums and through the active engagement of INTOSAI, has underscored the indispensable role of independent and capable SAIs in the efficient, effective, transparent, and accountable implementation of the 2030 Agenda.

In view of the aforementioned, INTOSAI determined the SDGs as one of its five crosscutting priorities in its Strategic Plan for the 2017-2022 period.

In this context, INTOSAI has pointed out that SAIs, subject to their individual mandates and available resources, could contribute to the follow-up and review of the SDGs through the following actions:

- Advocate improvements in public financial management systems through, for example, improved governmental accounting and auditing practices.
- Review national transparency, risk management, anti-fraud protections, and internal control processes to contribute to corruption prevention efforts consistent with the United Nations Convention Against Corruption.
- Audit the capacity of national statistical and vital records systems to produce the data needed to ensure that no individual or social issue is “invisible” from a data standpoint and assess national preparations to report progress on implementation of the national sustainable development goals.
- Assess the validity of the chosen national targets and performance measures, the availability of baseline performance data, and the sufficiency of the overall performance measurement system.
- Evaluate the economy, efficiency and effectiveness of the key government programs for addressing a national sustainable development goal in a specific topical area (e.g., education, infrastructure, public health, etc.) and what needs to be done to better meet the goal.
- Review and engage in the “data revolution” by assessing government’s ability to harness large complex datasets for decision-making and use data analytics to pinpoint improvement opportunities.
- Examine national Open Data and civic engagement strategies as they relate to the achievement of the SDGs.

¹ Resolution A/RES/70/1, available on:

<http://www.un.org/es/comun/docs/index.asp?symbol=A/RES/70/1&referer=/spanish/&Lang=E>

² Further information available on: <http://www.un.org/sustainabledevelopment/>

- Report on the nation's overall progress in meeting the SDGs and/or providing data and insight for the country report to be developed as part of the global follow-up and review processes.

Due to these relevant aspects, during the XXII INTOSAI Congress, carried out in December 2016, in Abu Dhabi, United Arab Emirates, the participant SAIs discussed the Technical Theme I entitled “*How can INTOSAI contribute to the 2030 Agenda for Sustainable Development, including good governance and strengthening the fight against corruption?*”

As a result of this Congress, the *Abu Dhabi Declaration* was adopted. This document includes, among other matters, the conclusions of the Technical Theme I, referring to the actions to be taken by the INTOSAI and each SAI in order to contribute to the implementation of the 2030 Agenda for Sustainable Development. The following points are highlighted:

- INTOSAI aims to become an authoritative independent voice on the challenges facing the global community in planning and implementing the SDGs and reporting on their progress.
- INTOSAI plans to provide regular feedback to our own community on SDG-related audit issues, such as approaches, methodologies and results, in order to engage with, inform and encourage SAIs to do effective work in this area.
- INTOSAI will form an expert group with the following key objectives to be addressed in the period leading the XXIII INCOSAI in 2019:
 - i. developing and delivering frameworks for implementing the four approaches based on SAIs' initiatives, and a mechanism for monitoring progress and collecting information;
 - ii. supporting the production of high quality SDG-related information through these frameworks, and its sharing within the SAI community, and
 - iii. ensuring effective relations with the UN and other external partners, including informative and accessible reporting and maximizing the value of future INTOSAI/UN symposia on the theme.

Initial conditions required for SAIs to effectively address SDGs in their annual audit programs

SAIs may consider to count on an internal strategy to establish the appropriate environment to fulfill the stakeholders' expectations regarding this matter.

The first element that might be taken into account is to set out internal processes to define, obtain and manage relevant and updated data linked to the implementation of SDGs. It would be advisable to count on a specific area –as part of the organizational structure– that looks after the analysis on the relevant information that could steer the SAIs' activities in relation to auditing SDGs-related programs. As for this aspect, it would be advisable to allocate financial and human resources to be able to settle a data analysis institutional framework.

A second aspect that could be considered is the establishment/strengthening of a quality control process that should be in place in order to provide a reasonable assurance level in relation to the audits that will be covering the SDGs-related issues.

It is important to recall that a control system should include policies and procedures related to institutional goals, legal requirements and applicable regulations. The purpose is to guarantee that audits are carried out under high quality standards, and aligned with institutional objectives and principles.

When SDG auditing is included as part of the SAIs' annual audit plan, there should be a risk management program to properly anticipate potential vulnerabilities and avoid ruling out relevant subjects that should be included in the auditing perspective.

Quality control procedures must be embedded in every activity carried out by the SAIs to guarantee that strategic objectives are being accomplished. These procedures include, for instance, the different stages of the audit process and the controls implemented, such as the review of the final audit reports.

A key aspect of a quality control system is the designation of an overseer. This agent, who is independent from the audit team, undertakes an objective evaluation on significant issues, including the identified risks, the relevant opinions made by the audit team and their conclusions reached in the reporting phase. This overseer should also verify that institutional objectives are being accomplished, including the one relating to the auditing of SDGs.

A quality assurance process ensures the audit work to be assessed under an independence environment. The main purpose is to evaluate whether the controls have been fulfilled and also to assess the controls themselves so as to identify whether they are effective, properly implemented, and providing the desired outcomes. SAIs can develop their own criteria based on their particular circumstances. Some questions related to the SDG's quality assurance process are the following:

- a) Were the SDGs-related audits considered as part of the SAI's strategic objectives?
- b) Were the SDGs-related audits carried out in accordance with the INTOSAI requirements?
- c) To what extent does the audit report clearly describe the context of the audited subject?
- d) To what extent is the audit report well-structured and drawn up? Does it include an effective executive summary?
- e) To what extent is the audit scope clearly justified?
- f) Is the audit methodology appropriately defined and followed?
- g) To what extent were the audits findings, conclusions and recommendations issued logically and coherently issued, and supported by the pertinent and suitable evidence?
- h) To what extent have the audit results achieved the original objectives? Have they provided useful information to improve public services, including those related to the accomplishment of SDGs?

- i) To what extent is there enough documentary evidence on team's capacities, audit procedures, paperwork support, consultations, comments and oversight?

Audit planning based on a risk-analysis approach

As it is stated in the ISSAI 5130³, the selection of audits on specific subjects will have to compete with relevant issues and other topics which are part of SAIs and stakeholders' priorities. That is why the selected audit subjects need to offer added value to the institutional work of SAIs.

Deciding what to audit is a fundamental issue which is as important as efficiently doing audits. Audit selection involves choosing between alternatives, a technical approach to do so is risk assessment.

The risk-assessment approach consists of using criteria to rate and rank the components that are included in audit universe of the SAIs given their mandate. The idea is to create an objective framework that provides evidence on the objectivity procedures followed by SAIs when deciding the content of their audit program.

In order to outline a risk-assessment approach, it is necessary to carry out the following steps:

1. Identifying the audit universe.
2. Defining the variables that will be included in the risk function.
3. Determining the variable weights.
4. Establishing the scale to be allocated to the variables included in the risk function.
5. Calculating the risk level for each auditable subject.
6. Carrying out a qualitative assessment to decide what to audit.

An explanation on these steps is presented below:

1. Identifying the audit universe

There are some SAIs whose mandates state that most of their compliance and performance audits must be carried out upon the request of the Congress. In that case, the methodology, as expounded in this paper, is not applicable.⁴

SDGs-related programs represent themselves a specific audit universe that could be separated from the rest of potential auditable subjects and issues. In the case of SAIs that are entitled to define the subjects and issues for future auditing, it would be advisable

³ ISSAI 5130 "Sustainable Development: The Role of Supreme Audit Institutions", available on: http://www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm

⁴ Financial audits might involve indirectly SDG topics since the execution of related programs might be reflected in the financial statements of the responsible agencies; therefore, the financial reporting framework of the programs linked to SDGs might be subject to the audit scope of SAIs.

for them to identify (1) the auditable entities, and (2) the following SDGs elements that might fall under their jurisdiction⁵:

- programs,
- program components,
- processes, and
- specific operations.

This initial step of the audit planning methodology consists of:

- 1) Creating a database with the auditable entities that fall under SAIs' jurisdiction.
- 2) Adding to such database the corresponding programs that are administered by them.
- 3) Generating the necessary categories within the programs' field, that is to say identifying program components, processes and specific operations.

The final outcome of this exercise is the list of subjects-objects that are auditable by SAIs.

2. Defining the variables that will be included in the risk function

Each subject-object combination can be ranked by using criteria that are defined by a set of variables that will be the basis to determine the risk level of each combination. The most common variables that are usually applied for these purposes are as follows:

- Financial significance.
- Budget increase.
- Former audit results of the subject.
- Former audit results of the object.
- Recent audit coverage.
- Public welfare impact.
- Public complaints.
- Relevance of the subject/object in the public opinion.

The selection of the variables depends on the particular context of each SAI.

If at national level one of the main challenges is income distribution, then the direct transfer payments made by government to the section of the population that struggles to maintain minimum levels of living, should be a priority through the concept *Public welfare impact*, and then it might receive a higher weight than the rest of the variables.

⁵ In some cases, there are certain restrictions for SAIs as to conduct audits on single fiscal years without being able to include, as an auditable issue, the long-term execution of public programs.

Finally, if SAIs perceive, as part of their institutional strategy, that it is important to engage in conjectural issues, then the concept *Relevance of the subject/object in the public opinion* should be pondered appropriately. This goes along the lines of ISSAI 12 (Principle 6, 5th paragraph): “SAIs should engage with stakeholders, recognizing their different roles, and consider their views, without compromising the SAI’s independence”.

3. Determining the variable weights

To determine the variable weights, different aspects should be taken into consideration such as the SAIs’ information obtained from their audit work, stakeholders perspective obtained through surveys or focus groups discussions, as well as other sources such as academic studies and technical documents.

In fact, it is recommended that weighting decision be made by a team within the SAI in order to count on an objective framework to ponder the elements that will define the audit planning.

4. Establishing the scale to be allocated to the variables included in the risk function

It is advisable to use a descriptive scale to assign risk levels to each variable. The most common scale is high, medium and low, which can be converted into numerical values: high = 3, medium = 2 and low = 1.

For example, programs with a budget higher than one hundred thousand dollars might be assigned with high = 3; from one hundred thousand dollars to fifty thousand dollars with medium = 2; less than fifty thousand dollars with low = 1.

The scale has to be consistent for all variables, even when each one of them require a specific scale definition. For instance, an issue that is relevant for public opinion might be assigned with high = 3, and one that is not with low = 1. In this case, one can rule out medium = 2.

5. Calculating the risk level for each auditable subject

In order to explain a conventional way to calculate risk level, we are going to present a practical case.

Assume that SAI of Country M has identified three programs related to SDGs that can be audited during the current fiscal year. After getting information from different internal and external sources, a working group within the SAI has agreed to consider that the size of *Budget funding* should be weighted with 20% of relevance; the *Impact on public welfare* with 50%; the *Recent audit coverage* with 20%, and the *Relevance in public opinion* with 10%.

Objects	Budget funding (20%)		Public welfare (50%)		Audit coverage (20%)		Public opinion (10%)		Total Score
	Risk scale	Scores	Risk scale	Scores	Risk scale	Scores	Risk scale	Scores	
Program 1	3	0.6	2	1.0	1	0.2	1	0.1	1.9
Program 2	3	0.6	3	1.5	2	0.4	3	0.3	2.8
Program 3	1	0.2	1	0.5	3	0.6	1	0.1	1.4

Consider the following scale to define the risk level for each program:

Total Score	Risk level
0 – 1.0	Low
1.1 – 2.0	Medium
2.1 – 3.0	High

As it can be seen from the tables above, Program 2 has the highest score (2.8); it falls within the High risk level.

Objects	Total Score	Risk level
Program 1	1.9	Medium
Program 2	2.8	High
Program 3	1.4	Medium

6. Carrying out a qualitative assessment to decide what to audit

The following step is to decide what to audit given the capacities, expertise, budget and institutional priorities. For instance, the Supreme Audit Institution of Mexico defines its annual audit program during one of its Governing Board meetings considering the views and opinions of different areas within the institution.

Conclusions

Due to the different challenges for governments related to the achievement of Sustainable Development Goals, it is crucial for SAIs, willing to contribute to the UN 2030 Agenda, to count on a robust methodology to ensure the relevance and objectivity of their audit planning.

Specifically, one of the risks faced by SAIs is to overlook a relevant SDGs-related program in their audit planning. To prevent this, it is advisable for SAIs to gather complete, valid and reliable information on SDGs. This is why it is important to maintain a tight cooperation with government agencies, the legislative branch, the academic sector, international organizations such as INTOSAI, non-governmental organizations, and other relevant stakeholders engaged in the achievement of the UN 2030 Agenda.

In this regard, the INTOSAI has called for the Community of SAIs to pay attention to this matter. In its Strategic Plan 2017-2022, a crosscutting priority related to SDGs has been included. According to this, SAIs could contribute to the follow-up and review of the SDGs within the context of each nation's specific sustainable development efforts and SAIs' individual mandates.

As pointed out in the INTOSAI Strategic Plan 2017-2022, SAIs could expect to make valuable contributions to the national, regional, and global implementation, follow-up and review efforts of the SDGs. Among these different lines of action, SAIs must pay special attention at assessing the preparedness of national governments to implement, monitor, and report on progress of the SDGs, and subsequently to audit their operation and the reliability of the data they produce.

In addition to their own institutional strategies, SAIs should leverage the diverse initiatives that INTOSAI has developed in this regard such as the IDI Auditing Sustainable Development Goals Program, ISSAI 5130 "Sustainable Development: the Role of Supreme Audit Institutions", to name a few.

Sources

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