

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

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4 *Last update: November 23, 2018*

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6 **Preamble**

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

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

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

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

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28 **Objective**

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

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

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

48 **Background Information**

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

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

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

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

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

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/>

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- Examine national Open Data and civic engagement strategies as they relate to the achievement of the SDGs.
 - 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.

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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?*”

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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:

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- 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.

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

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The adoption of the sustainable development concept, as well as the identification of SDGs, are the responsibility of governments, which issue their directives accordingly to the corresponding ministries in order for them to take the necessary measures to have these goals attained.

132 The role of SAIs in terms of following up the implementation of SDGs consists of verifying
133 whether ministries take the necessary actions to implement those goals in connection
134 with their own action plans.

135
136 SAIs may consider to count on an internal strategy to establish the appropriate
137 environment to fulfill the stakeholders' expectations by effectively addressing SDGs in
138 their annual audit programs.

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

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

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

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

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

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

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173 A quality assurance process ensures the audit work to be assessed under an
174 independence environment. The main purpose is to evaluate whether the controls have
175 been fulfilled and also to assess the controls themselves so as to identify whether they
176 are effective, properly implemented, and providing the desire outcomes. SAIs can

177 develop their own criteria based on their particular circumstances. Some questions
178 related to the SDG's quality assurance process are the following:
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- 180 a) Were the SDGs-related audits considered as part of the SAI's strategic objectives?
- 181 b) Were the SDGs-related audits carried out in accordance with the INTOSAI
182 requirements?
- 183 c) To what extent does the audit report clearly describe the context of the audited
184 subject?
- 185 d) To what extent is the audit report well-structured and drawn up? Does it include an
186 effective executive summary?
- 187 e) To what extent is the audit scope clearly justified?
- 188 f) Is the audit methodology appropriately defined and followed?
- 189 g) To what extent were the audits findings, conclusions and recommendations issued
190 logically and coherently issued, and supported by the pertinent and suitable
191 evidence?
- 192 h) To what extent have the audit results achieved the original objectives? Have they
193 provided useful information to improve public services, including those related to
194 the accomplishment of SDGs?
- 195 i) To what extent is there enough documentary evidence on team's capacities, audit
196 procedures, paperwork support, consultations, comments and oversight?
197

198 SAls could obtain information related to sustainable development programs from
199 auditees, which could include action plans, completion percentages and obstacles
200 hindering the implementation of SDGs. The information so obtained could be then
201 classified in a database, which could be updated periodically.
202

203 **Audit planning based on a risk-analysis approach** 204

205 As it is stated in the ISSAI 5130³, the selection of audits on specific subjects will have to
206 compete with relevant issues and other topics which are part of SAls and stakeholders'
207 priorities. That is why the selected audit subjects need to offer added value to the
208 institutional work of SAls.
209

210 Deciding what to audit is a fundamental issue which is as important as efficiently doing
211 audits. Audit selection involves choosing between alternatives, a technical approach to
212 do so is risk assessment.
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214 The risk-assessment approach consists of using criteria to rate and rank the components
215 that are included in audit universe of the SAls given their mandate. The idea is to create
216 an objective framework that provides evidence on the objectivity procedures followed by
217 SAls when deciding the content of their audit program.
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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

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

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

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229 An explanation on these steps is presented below:

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231 1. Identifying the audit universe

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

236
237 SDGs-related programs represent themselves a specific audit universe that could be
238 separated from the rest of potential auditable subjects and issues. In the case of SAIs
239 that are entitled to define the subjects and issues for future auditing, it would be advisable
240 for them to identify (1) the auditable entities, and (2) the following SDGs elements that
241 might fall under their jurisdiction⁵:

- 242
- 243 • programs,
 - 244 • program components,
 - 245 • processes, and
 - 246 • specific operations.
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248 This initial step of the audit planning methodology consists of:

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- 250 1) Creating a database with the auditable entities that fall under SAIs' jurisdiction.
 - 251 2) Adding to such database the corresponding programs that are administered by
252 them.
 - 253 3) Generating the necessary categories within the programs' field, that is to say
254 identifying program components, processes and specific operations.
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256 The final outcome of this exercise is the list of subjects-objects that are auditable by SAIs.

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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.

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.

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. All variables should be analyzed and audited in themselves to avoid their lack of pertinence despite public complaints or the results of different analyses.

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.

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.

304 **4. Establishing the scale to be allocated to the variables included in the risk**
 305 **function**
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307 It is advisable to use a descriptive scale to assign risk levels to each variable. The most
 308 common scale is high, medium and low, which can be converted into numerical values:
 309 high = 3, medium = 2 and low = 1.

310
 311 For example, programs with a budget higher than one hundred thousand dollars might
 312 be assigned with high = 3; from one hundred thousand dollars to fifty thousand dollars
 313 with medium = 2; less than fifty thousand dollars with low = 1.

314
 315 The scale has to be consistent for all variables, even when each one of them require a
 316 specific scale definition. For instance, an issue that is relevant for public opinion might
 317 be assigned with high = 3, and one that is not with low = 1. In this case, one can rule out
 318 medium = 2.

319
 320 **5. Calculating the risk level for each auditable subject**
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322 In order to explain a conventional way to calculate risk level, we are going to present a
 323 practical case.
 324

325 Assume that SAI of Country M has identified three programs related to SDGs that can be
 326 audited during the current fiscal year. After getting information from different internal and
 327 external sources, a working group within the SAI has agreed to consider that the size of
 328 *Budget funding* should be weighted with 20% of relevance; the *Impact on public welfare*
 329 with 50%; the *Recent audit coverage* with 20%, and the *Relevance in public opinion* with
 330 10%.
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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

332 Consider the following scale to define the risk level for each program:
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Total Score	Risk level
0 – 1.0	Low
1.1 – 2.0	Medium
2.1 – 3.0	High

335 As it can be seen from the tables above, Program 2 has the highest score (2.8); it falls
 336 within the High risk level.
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Objects	Total Score	Risk level
Program 1	1.9	Medium
Program 2	2.8	High
Program 3	1.4	Medium

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

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

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Conclusions

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

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

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

367

368 SAIs could include, as part of their audit report –financial or performance audit–, a special
369 aspect related to sustainable development. This could include the observations on how
370 auditees respond to the SDGs implementation, as well as the problems and obstacles
371 faced by them.

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

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WGVBS

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

384

385 **Sources**

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