

Evaluating External Government Audit

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Question

Based on a review of recent literature on donor support to strengthen external government audit in partner countries: a) What factors have contributed to the successful support of independent and effective external audit institutions? b) What reform is feasible or recommended in countries where limited political will is a constraint? c) What have been the outcomes of donor support to external audit on corruption, accountability, and service delivery? d) Is there any evidence about whether and under what circumstances support for performance auditing delivers better outcomes than support to strengthen compliance or financial auditing?

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1. Summary

This rapid literature review of primary and grey sources found substantial evidence of the merits of donor support to Public Financial Management (PFM) initiatives but no specific evidence assessing donor support for external government audit, such as Supreme Audit Institutions (SAIs). PFM reforms are established as being generally beneficial, assist in reducing or preventing corruption, increasing transparency and accountability, as well as improving service delivery quality, although the exact impacts are difficult to measure. Certain conditions, such as a conducive political environment and active political will, bureaucratic alignment to implement the recommendations of audit findings, counter and sanction corrupt practices, have an impact on whether the external audit function is effective. Performance auditing has recently attracted more attention than traditional financial or compliance auditing and is seen by many sources to be conducive to improving accountability, although compliance and financial auditing are still viewed as the core of external audit.

There is a substantial body of literature on donor-assisted PFM reforms but a paucity of focused study or discussion of donor support to external audit specifically. Thus, the merits of external auditing and its different approaches appear in most sources as a subset of wider PFM reforms. This evidence gap may be due to the cost of examining the narrow focus required on donor-assisted external audit specifically. This is compounded by the complexity of gathering a sufficiently large database through surveys combined with the lack of access (for individual academics) to official datasets across countries. Furthermore, measuring the impact of SAIs, for example, is difficult due to the variety of regulatory structures that exist, inhibiting comparative cross-country studies, which has resulted in a preference for in-depth analyses. Only multilateral institutions such as the World Bank, Organisation for Economic Co-operation and Development (OECD), International Budget Partnership (IBP), and International Organisation of Supreme Audit Institutions (INTOSAI) have conducted comprehensive cross-country surveys.

However, the evidence does show that strengthened PFM systems and SAIs,¹ if they are independent and fully resourced, increase transparency and accountability, helping to combat corruption, when governments are made answerable to their audit findings. The evidence on the effectiveness of SAIs (against corruption) is mixed and not as strong as for PFM reforms in general, but there is now growing attention on the role of SAIs and their potential to strengthen anti-corruption aspects, particularly as a result of the media and citizen spotlight that was placed on public sector auditors during the COVID-19 pandemic.

Measuring the exact extent and effectiveness of the impact is more difficult, as PFM intervention results cannot be isolated from, for instance, other ongoing anti-corruption initiatives or governance reforms that also impact corruption levels. Additionally, reform effects are usually non-linear with multiple pathways, can be subject to setbacks and adaptation, and manifest over many years, whereas most studies tend to focus on short-term results. The same limitations would apply to measuring the impact of external audit on outcomes such as better accountability, reduction or prevention of corruption, and improved service delivery.

The impact of PFM interventions in preventing or reducing corruption increases when reforms are sector-specific and complemented by societal awareness initiatives, citizen participation, and

¹ OECD defines SAI as “a government entity whose external audit role is established by the constitution or supreme law-making body (OECD, 2016, p.18).

infomediary advocacy. This finding seems applicable to SAIs as the discourse is increasingly on improving comprehension of audit reports and wider dissemination to relevant stakeholders.

As flagged, performance auditing has recently attracted more attention in the literature than traditional financial or compliance auditing. This could be due to newer trends in viewing the role of SAIs as broader than just financial oversight extending into modernisation of the public sector, enhancing accountability to both politicians and citizens, as well as environmental accountability and advising governments on the implementation of the Sustainable Development Goals.

Sources from the previous 5 years are focused on with a few older articles referenced for historical context or if they are seminal.

2. Examination of External Audit and Oversight

Literature Assessing External Audit & SAIs

IBP - INTOSAI 2020 Report (November 2020)

The IBP website² describes this report³ as “the first ever comprehensive look at the strength of audit and oversight systems globally and comes at a time when SAIs are under enormous pressure to ensure governments are effective stewards of COVID-19 emergency spending in ways that advance the public interest and protect development progress.”

This seems to confirm the lack of evidence, especially empirical, on external auditing (EA) in general⁴. The narrower focus on “donor-supported external audit programme evaluation” has unsurprisingly resulted in uncovering hardly any data. However, many sources do examine EA in the wider PFM reform or SAI development context, which are often donor-supported.

INTOSAI 2020 Global Stocktake Report

The report’s goal is to provide an overview of SAI capabilities and performance internationally over the course of the previous three years using primary data from the INTOSAI Global Survey of its 195 members. It takes place triennially thus enabling analyses of trends over time, as well as including regional surveys showing regional comparisons (INTOSAI, 2020, pp. 14,18).

Bonollo Review of Academic Studies (2019)

Bonollo’s (2019) literature review of theoretical and empirical academic studies⁵ on the performance of SAIs found that the research up until now has predominantly been on SAIs in Scandinavia and Northern Europe, which are not donor-assisted countries⁶.

² <https://internationalbudget.org/publications/all-hands-on-deck-harnessing-accountability-through-external-public-audits/>

³ The evaluation is based on the findings of the Open Budget Survey (OBS) 2019, and more specifically, on survey questions that directly examine pertinent audit and oversight-related features in 177 countries.

⁴ Author’s own observation from the literature reviewed.

⁵ Only English language articles/studies published in international academic journals were selected in the period 2005-2015. Books, book chapters, and other works such as conference papers were excluded as were reports on country initiatives and SAI websites (Bonollo, 2019, p. 476).

⁶ Author’s own observation.

Almost all the studies in Bonollo's (2019, p. 475) **selection focused on performance audits (PA)** leading her to conclude that **academic interest has been drawn more to PA in the wave of recent trends**, with comparatively scant attention to traditional financial auditing (FA) and compliance audits (CA) despite these being the core functions of an audit. Compared to financial and compliance audit, more recent studies appear to place greater emphasis on PA (Bonollo, 2019; Johnsen et al., 2019).

Bonollo (2019, p. 475) found that **the majority of sources in her selection** measured progress made as a result of an SAI intervention by **employing qualitative data, descriptive indicators, and even anecdotal events rather than quantitative data**. The effectiveness of SAI efforts was frequently evaluated in terms of how quickly SAI findings and recommendations were implemented (by the executive or auditee) based on the assumption that this necessarily manifested in improved management outcomes whilst disregarding any long-term or unforeseen, potentially negative, "side effects" of the adopted measures (Bonollo, 2019, pp. 475-476).

Very few studies looked at potentially negative outcomes of SAI activity. Of the studies that did include hypotheses that SAI audit activity occasionally yields unforeseen adverse "side effects," such as the fear of innovation, the overproduction of reports, and the overuse of bureaucratic procedures, **none of them provided any quantitative assessment of these negative effects** (Bonollo, 2019, p. 476).

Other studies used the increased use of performance monitoring systems, reduction of wasteful expenditure, improvement of public service delivery, and SAI reports' influence on the learning process to measure SAI impact. But this data was obtained from questionnaires sent to SAIs and/or auditees, interviews, and from summaries of official documents, which introduced a **high level of subjectivity** (Bonollo, 2019, pp. 475). Some academics also looked at the benefits of SAI activities for politicians and the public by either **using theoretical methods or measuring perceived SAI impact from surveys** of citizens and elected officials (Bonollo, 2019, p. 476).

Bonollo (2019, p. 476) also noted that very **few researchers examined the long-term effects of SAI audit activities over a prolonged period**, so **longitudinal studies are required** to confirm whether SAI audit findings and directives are being followed (by the auditee) and to determine if audit reports' cumulative effects are significant.

INTOSAI 2017 Report on Synthesis of Evaluations of SAI Capacity Development Programs

The only recent report which looks at the donor support aspect but focuses on examining the dynamic between the donors and INTOSAI (Cooperation), rather than assessing the impact of the programmes on the SAIs, finding that: "there are few direct linkages between the Cooperation and its activities on the one hand and the reported successes on the ground on the other" (INTOSAI, 2017, p. 8).

OECD 2016 Report on SAIs and Good Governance

An assessment of "ten leading SAIs" from different SAI models and political environments to map various strategic approaches and limitations to making the role of SAIs more comprehensive, effective, and proactive across the policy cycle, whilst remaining relevant and responsive. The report found that there is "untapped potential" for SAIs' work to traverse "from oversight to insight and foresight" (OECD, 2016, p. 31).

The Role of External Audit

There are three key objectives that **Public Financial Management (PFM)** systems broadly focus on (ACCA, 2021, p. 11):

- achieving and sustaining a stable financial position (in short, medium, and long terms)
- efficiently allocating resources
- effectively delivering public goods and services

The four basic stages of **the PFM cycle** (ACCA, 2021, p. 15) are:

1. Budget formulation – strategic budgeting and budgeting preparation
2. Budget approval – legislative debate (parliamentary scrutiny) and enactment
3. Budget execution – accounting and reporting; internal controls and audit; resource management
4. **Budget evaluation – external audit, legislative oversight, and accountability** through SAIs and in many systems also Parliamentary Accounts Committees (PACs)

Public sector auditing's overarching goals are to strengthen accountability, promote the quality of governance, and ultimately improve the lives of the public (INTOSAI, n.d, p. 8). Audits serve as the fundamental building blocks of accountability for the use of public funds, auditors serve as the principal players, and auditing is a crucial component of PFM that advances these objectives (IBP 2020, p. 9). As per INTOSAI's vision statement⁷, **SAIs have a key role to “help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their citizens.”**

Yet, even prior to the severe stress the COVID-19 crisis placed on PFM systems, the Global Report on Public Financial Management (PEFA, 2020) revealed key weaknesses in PFM systems worldwide, especially in the final stage of the PFM cycle (stage 4) of **budget evaluation which it stated would require the most improvement** including **external audit, and oversight by legislative and SAIs.**

The IBP (2020, pp. 10-11) stresses that the PFM phases that come before external audit also affect **the EA function** which must be seen as **part of an ecosystem including “the enabling environment in which they work, and other actors such as legislators, civil society including the media, and the government – and processes”**. Therefore, the limitations, flaws, and shortcomings in any part of the ecosystem, such as a lack of political will, capacity or resources, impact EA and oversight outcomes. This reveals the complexity of isolating the performance of the EA function without also examining the functions earlier in the PFM cycle and it would be a reason why studies have looked at PFM reforms across the cycle, rather than evaluating donor support to the external audit function specifically.⁸

⁷ https://www.intosai.org/fileadmin/downloads/about_us/Overview/EN_INTOSAI_Strategic_Plan_2017_22.pdf

⁸ Author's own conclusion from review of literature.

The Audit and Oversight Ecosystem

The IBP (2020, p. 12) reiterates that: “Achieving effective audit and oversight requires several actors, conditions, and processes to be in place and working in tandem toward the goals of accountability and, ultimately, social and economic development”. Six components that are an integral part of the “**audit and oversight ecosystem**” include:

1. **Institutional framework** for SAIs which includes **independence of and sufficient resources** for SAIs to do their job (IBP, 2020, p. 12).
2. **SAI Audit Reports**: “The **quality and relevance of audit reports** are key determinants of the impact of the auditing function” (IBP, 2020, p.19).
3. Oversight by the legislature: **Timely deliberation of SAI audit reports by a committed legislative body** (IBP, 2020, p. 12).
4. Executive response: **Government’s response to, and implementation of, audit findings and recommendations** (IBP, 2020, p. 12).
5. **Independent follow-up**: Scrutiny to ensure audit recommendations are effectively implemented (usually by the legislature or SAI) as per the IBP (2020, p. 12).
6. **Public participation** in the audit and oversight process: Opportunities for the public to be involved in the auditing process and dissemination of information to relevant stakeholders (IBP, 2020, p. 12).

The Evolving Role of SAIs

Thus, SAIs conduct both so-called "classic" external audits (which verify that financial management and accounting practices adhere to legal and regulatory requirements) and "contemporary" performance audit (evaluations of the effects of public expenditures on public programmes and projects) (Smith et al., 2021, p. 67). These audits are undertaken in accordance with a set of standards authorised by the INTOSAI and the International Standards of Supreme Audit Institutions (ISSAIs).

The role of SAIs has now developed to also encompass an environmental oversight function by evaluating the performance of the government including progress on environmental objectives, targets, and pledges (Smith et al., 2021, pp. 67-69). However, “**most SAIs do not have a specific legislative mandate** (or no significant changes in the mandates since 2000), **to include or audit environmental issues and risks** within their current public-sector audit methodology” observe Smith et al. (2021, p. 75). With the expansion of their traditional financial audit role beyond the supervision of public-sector budgets and accounts to also include environmental aspects, SAIs are increasingly recognised as **playing a critical environmental governance role through environmental auditing improving transparency, and holding governments accountable** (Smith et al., 2021, p. 67).

The relevance of environmental audits and the shift in SAI's primarily financial-driven audit focus are underscored by **the large growth in environmental-related audits completed** in each of the three auditing realms of FA, CA, and PA, increasing from less than 50 to almost 800 over the past decade or so (Smith et al., 2021, p. 77). Although environmental audits are suitable for all types of auditing procedures (PA, FA, and CA) **most environmental audits over time were compliance-first, then performance-driven** (Smith et al., 2021, p. 77).

3. Success Factors supporting External Audit

Although evidence relating to the impact of donor support to EA is lacking, it is pertinent to utilise the studies and experiences from various systems of what factors strengthen EA and improve SAI performance, to better inform future donor programming in this sphere. Furthermore, it is reasonable to infer that PFM reforms in most low-income countries are usually donor-supported, so the findings on low-income countries have relevance.⁹

Pillar VII, indicator PI-30 (External Audit)¹⁰ of the PEFA Framework 2016 provides a framework to assess which factors support and strengthen the EA function.

The indicator covers the key **characteristics of external government audit** and consists of four dimensions: 1. Audit coverage and standards; 2. Submission of audit reports to the legislature; 3. External audit follow-up; 4. SAI independence (PEFA. 2020) which are examined below.

Enabling Factors & Inhibitors of SAI Performance

The INTOSAI Global SAI Stocktaking Report 2020 states that “**democratic backsliding and receding trust in government has constituted a global trend in the last decade**” (2020, p. 8) which could undermine the work of SAIs. In this context, it is even more important that SAIs are supported by strengthening the aspects below.

Institutional Framework for Supreme Audit Institutions

This component, employing three indicators and the assessment criteria of the Open Budget Survey, places a strong emphasis on **the independence of auditors and the auditing function**, which IBP (2020, p. 16) lays out as:

- (1) independent procedures are used to select and remove the head of the SAI,
- (2) financial security and sufficient resources for the SAI, and
- (3) a SAI must have enough operational freedom to conduct the audits they deem necessary

The SAI Stocktaking Report 2020 report sets out **factors inhibiting the effective performance of SAIs** (INTOSAI, 2020, p. 8):

1. **De Jure and de Facto Independence** – SAIs must have a clear legal mandate (de jure) establishing their independence from the executive (the auditee) as well as operational freedom to carry out audits without fear or interference (de facto) (INTOSAI, 2020, p. 22). Overall, there is a continued “slight” backslide in SAI independence, which is compromised especially in low-income and “limited democracy” countries, with new emergent threats (INTOSAI, 2020, pp. 22 - 24). Stronger SAI systems, with a more distinct line between the responsibilities of politicians, bureaucracy, and SAIs, are more possible in nations with higher-performing governments (INTOSAI, 2020, p. 26). SAIs have a key role in ensuring transparency and accountability of governments by having the power to decide the ambit, content, and publishing of audit reports without interference or pressure (INTOSAI, 2020, p. 28). SAI reporting freedom is more

⁹ Author’s own suggestion based on the literature.

¹⁰ <https://www.pefa.org/node/4932>

constrained in low-income nations, as well as in nations with weaker levels of democracy and less effective governments (INTOSAI, 2020, p. 28).

2. **Independence of Heads of SAIs** – Regionally, SAIs in CREFIAF¹¹ and ARABOSAI¹² face the most challenges. Regarding the protection of Heads of SAIs, lower-income nations appear to be more susceptible as compared to countries with higher incomes. For SAIs that are a member of the Executive, adequate protection against termination is less usual (INTOSAI, 2020, pp. 24-25). By guaranteeing the auditor general's term, establishing the position of the auditor general in the country's constitution, and allowing the SAI to create its own programme of work, independence is reinforced (Caruana and Kowalczyk, 2021, p. 10).
3. **Access to Resources** – Inadequate financial and human resources (competency and staff shortages). Only 52% responded that they have adequate resources with low-income countries have more resource constraints (INTOSAI, 2020, p. 20).
4. **Financial and Administrative Autonomy** – With a global average grade¹³ of 64%, financial, managerial, and administrative independence continues to have the lowest level of stated independence with the most difficult regions for SAIs being ARABOSAI and CREFIAF (INTOSAI, 2020, pp. 30-31). Issues range from budget delays, and control over office administration and staff recruitment/management, to interference in SAI budget execution, in varying degrees across SAI systems (INTOSAI, 2020, pp. 31-33).
5. **Full SAI Access to Information** – This dropped from 70% to 44% in the wake of emergency laws and measures due to COVID-19 government responses (INTOSAI, 2020).
6. **SAI Governance and Transparency** – The report finds that **SAIs need to improve their own governance to achieve transparency of their working and recommendations, become accountable and improve their credibility**. This includes instituting PFM assessments, publishing performance reports, being subject to external audits, professionalising human resources, encouraging gender representation, female leadership, digitalisation and implementing a code of ethics (INTOSAI, 2020, pp. 34-47).
7. **Providing Quality Audit Services – Adoption and compliance with the ISSAIs** – 86% of SAIs report that they have adopted ISSAIs for all three types of audits (financial, compliance, and performance) with low-income countries more likely to adopt the ISSAI without any adaptation to their own country contexts (INTOSAI, 2020, pp. 50-51) possibly due to a lack of resources. There does not appear to be a clear correlation between reported compliance with ISSAIs and national income status or geographical origin, with 18% reporting full compliance and 68% reporting themselves as “mostly compliant” (INTOSAI, 2020, p. 51). Amongst the types of audits highest compliance with SAI PMF benchmarks on ISSAI standards is for PA (69%), next for FA (68%) and the lowest for CA (52%) with all three types registering significant gains from the previous 2017 Report (INTOSAI, 2020, p. 51). **The main reason cited for non-compliance is inadequate financial and human resources, as well as weak management systems** which in turn seem to correlate with the quality of audits (INTOSAI, 2020, p. 53). “The fact that 37% of SAIs don’t have a system in place for monitoring the quality of any of the audit streams”

¹¹ The Regional Council for the Training of Supreme Audit Institutions of Sub-Saharan Francophone Africa

¹² Arab Organization of Supreme Audit Institutions

¹³ Based on the average of the financial and administrative autonomy ratings as per Principle 8 of the INTOSAI Mexico Declaration (INTOSAI, 2020, p. 30).

is of concern (INTOSAI, 2020, p. 55), as these should be instituted alongside quality control systems to produce a robust audit process (INTOSAI, 2020, p. 57).

- a. **Audit coverage and audit types carried out** – “Audit coverage is an indicator of the degree to which the SAI meets its audit mandate” (INTOSAI, 2020, p. 58). Of the three types of audits, PA has seen a decline with only 40% of respondents from developing country SAIs saying they had met the benchmark, down 6% from 2017, suggesting that **achieving PA benchmarks is more challenging** for SAIs across most regions, **compared to CA and FA** (INTOSAI, 2020, p. 59). Analysis of the public value of SAIs' work reveals that **SAIs fall short of delivering value to the public** to the full extent that they are capable of with a comparative study showing that the SAI in question focused on scrutiny of the efficiency and effectiveness but avoided assessment of the policies themselves (Cordery & Hay, 2019).
- b. **Detecting and deterring corruption** – By looking into and exposing the misappropriation of money, **SAIs, play a deterrent and preventative role in the fight against corruption** (OECD, 2016, p. 25; McDevitt, 2020, p. 3) but the extent to which SAIs can address issues connected to fraud and corruption varies greatly, with 60% of SAIs responding that they have the mandate to investigate fraud and corruption themselves, an increase of 5% over the previous survey (INTOSAI, 2020, p. 61). **Nearly half of SAIs (45%) have enforceable corrective powers** and 42% of SAIs supervise national institutions whose primary responsibility is to handle corruption and fraud-related concerns (INTOSAI, 2020, p. 61). **The mandate of SAIs to combat corruption and fraud is stronger in nations with lower levels of democracy** than it is in those with higher income status and strong democratic systems with SAIs less likely to have legally binding corrective powers in the latter countries (INTOSAI, 2020, p. 62). But in certain countries like the UK, SAIs are legally obligated to report fraud or corruption, which is recommended (Chêne, 2018).
- c. **Publication and dissemination of audit results** – The audited entity and any pertinent stakeholders are given audit reports presenting the results and assessments of the audit process (INTOSAI, 2020, p. 63). However, **the effectiveness of the audit depends on how the findings and recommendations are utilised so audit reports should be of good quality and timely**. The responses to the Global Survey 2020 show that a majority of SAIs (61%) have submitted their consolidated annual audit report to the legislature within the time stipulated by the law (INTOSAI, 2020, p. 63) and this is corroborated by the SAI PMF sample as well. The findings demonstrate unequivocally that timely submission of the consolidated annual audit report by SAIs appears to be significantly related with the level of national income, indicating a connection with the resources available to SAIs (INTOSAI, 2020, p. 64). Furthermore, **SAIs should try to communicate their messages to all relevant stakeholders** (INTOSAI, 2020, p. 63). The latest survey shows that 70% of SAIs publish at least 80% of their audit reports (INTOSAI, 2020, p. 65). However, it is evident that **SAIs in less democratic nations publish reports less frequently**, suggesting that certain SAIs may find it difficult to report their findings to the public **due to the political climate** (INTOSAI, 2020, p. 67).
- d. **Follow-up of audit findings/recommendations** – 65% of responding SAIs have an internal mechanism in place **to monitor the implementation of the findings and recommendations given to the audited entities**, during all 3 types of audit streams, which is significantly less than the 86% in 2017, with every region experiencing the decline (INTOSAI, 2020, p. 68). **The degree to which SAI recommendations are followed by the Executive is a critical indication of the**

- effect of their work** but only half of their recommendations were partly or fully executed, according to SAIs' self-reporting, with the rate of implementation positively correlated with higher levels of democracy and country income status for all 3 types of audits (INTOSAI, 2020, p. 70). **Executive reaction or political will is the most significant barrier to delivering audit effectiveness internationally**, according to 60% of SAIs, and it accounts for 80% of respondents citing it as the major barrier in certain regions (INTOSAI, 2020, p. 70). Bonollo (2019) advises that a measurement of the impact of SAIs should be linked to what extent their recommendations are implemented in follow-up.
- e. **Stakeholder relations** – The capacity of SAIs to engage with other stakeholders is a key component of their ability to have an impact. Legislative oversight is a vital component of accountability but it necessitates **prompt utilisation of audit results by legislators** (INTOSAI, 2020, p. 72). Overall, 75% of SAIs claim to routinely communicate with the legislature, but only 47% claim to **regularly engage the legislature in follow-up conversations concerning the extent to which recommendations are being implemented** (INTOSAI, 2020, p. 72).
 8. **Capacity Development Support – Funding for SAIs has fallen in real terms and stagnated over the past several years, despite overall increases in global development spending** but the vast majority of SAIs in poor nations still receive support, while those in less democratic countries are less likely to do so because of donor policies (INTOSAI, 2020, p. 74). A rise in financing for global SAI capacity-building projects in recent years has been countered by a decline in the number of nations receiving bilateral assistance programmes with many SAIs still struggling to secure financial backing for capacity building, particularly those in low-income nations especially when the SAI plans to manage the programme itself (INTOSAI, 2020, p. 74). Although the INTOSAI community offers a lot of technical assistance, most of it—especially for big support projects—requires funding from donors (INTOSAI, 2020, p. 74). **Although this data indicates that the majority of SAIs are aided, it ignores the scope and duration of such assistance despite the fact that SAIs with high-capacity development requirements frequently need ongoing assistance** (INTOSAI, 2020, p. 77). However, SAIs have less trouble securing outside funding for activities that would be managed by other organisations such as IDI, peer SAIs, INTOSAI regional bodies, or external donors (INTOSAI, 2020, p. 78). International donors still lead in the provision of financial support (INTOSAI, 2020, p. 80) which is also required to meet the demand for future peer-to-peer support (SAI to SAI) (INTOSAI, 2020, p. 83).
 9. **Regional Support** – Success factors for regional support, cited by respondents, include that **the project is connected to the strategic priorities of the region and has specific project goals**; that a strong connection between their own goals and those of the donors is beneficial, reiterating the necessity for external cooperation to give members **consistent and ongoing assistance** (INTOSAI, 2020, p. 83). The most frequent explanation cited as **a factor for failure is a lack of human resources which is especially relevant given the low staffing levels and reliance on in-kind assistance in most regions** (INTOSAI, 2020, p. 98).

Political Will and Ownership of Reforms

A conducive political environment and high-level support has long been recognised as a prerequisite for successful EA performance (World Bank, 2020) but **political will can be insufficient without the buy-in of the implementing class of the executive** (OECD, 2016, p.

29). This was demonstrated in Botswana’s public sector reforms studied by Botlhale (2019, p. 540), who observed that, “in the absence of consultation, they develop an ‘us vs. them’ mentality where the implementers (the bureaucratic cadre) tend to view public sector reforms as coming from them (that is, the executive arm of the government)”. Botswana’s bureaucrats reluctantly adopted the reforms, but results could have been improved if they had felt ownership over the process through consultation prior to the execution of such changes infers Botlhale (2019, p. 540). Similarly, Duri (2021, p. 7) concludes that “the message that emerges from the literature is the need to keep in mind that **even supposedly technocratic PFM reforms require political backing to have a significant impact**”.

SAls’ Impact on Corruption¹⁴

The evidence on the impact of SAls on preventing or combatting corruption is mixed but there is strong support for the potential role they can play in combatting corruption. The World Bank Report (2020a) covered many case studies on reforms to tackle corruption but noted that the studies lacked empirical comparisons, before and after the interventions, due to a lack of appropriate measurement tools.

While SAls are not per se anti-corruption agencies, their mandate to scrutinise government revenue and expenditure gives them a crucial role in preventing and identifying fraud and corruption inside the PFM system (Chêne, 2017; McDevitt, 2020).

Any PFM reforms that result in increased transparency are likely to assist in curbing and reducing corruption, as it becomes harder to disguise fraudulent activity and hide the proceeds of corruption the more transparent processes and decisions become (World Bank, 2020a, p. 24). So “**evidence from the public sector also suggests that audit independence and audit professionalism reduce a country’s corruption level**” (Gustavson and Sundström, 2016, as cited in Jeppesen, 2019, p. 2).

However, defining and measuring corruption is problematic as no standardised single definition of corruption exists. Many studies use Transparency International’s definition¹⁵: “abuse of entrusted¹⁶ power for private gain.” Furthermore, corruption manifests in **abundant forms, levels, and degrees**. It can be “**complex, entrenched, and clandestine**” (Wathne, 2022) and systemic or partly institutionalised, such as political corruption (Wathne, 2021, p. 14. World Bank, 2020a, p. 4).

The complexity of defining and measuring corruption as well as issues of causality make assessing any reduction in corruption levels similarly challenging.

1. **Reforms or interventions do not produce linear effects** but usually result in small changes over many years (Chêne, 2015; Wathne, 2022) – so the real impact is best assessed in a longer time frame. Furthermore, “the path to a lower corruption society is **long and non-linear**” and takes years if not decades to see results and the journey can never be regarded as “complete” due to setbacks and detours (Wathne, 2021, p. 20; World Bank, 2020a, p. 4).

¹⁴ This section uses information from Khan, M. (2022). *Public Financial Management and Corruption*. K4D Helpdesk Report 1197. Institute of Development Studies.

¹⁵ <https://www.transparency.org/en/what-is-corruption>

¹⁶ PFM does not aim to address private sector corruption.

2. **Evidence gaps:** as studies tend to focus on reforms and performance in finance ministries (rather than line ministries and below national government) (PEFA, 2020) so the **service delivery end**, where a significant portion of corrupt practices may take place, **is overlooked in such studies** representing an “evidence gap” (ACCA, 2021).

SAIs play a crucial role in phase 4 of the budget cycle which, as noted above, is one of the weakest areas of PFM performance (PEFA, 2020). **When a government gives SAIs the authority, resources, and confidence to take on the fight against corruption, they can help identify and prevent corrupt practices** (World Bank, 2020a, p. 24).

In a few observational studies, SAIs have been shown to be successful in reducing corruption (DFID, 2015). However, their effectiveness depends not only on **the SAI's resources and organisational capacity** but also on **how permissive the overall governance environment** is (Chêne, 2015). The use of specialised audits, such as forensic or performance audits, along with punitive sanctions, is effective in identifying and then reducing corruption, according to **a small body of reliable evidence**¹⁷ (DFID, 2015, p. 63; Chêne, 2015; Duri, 2021, p. 16).

Using PEFA ratings and governance index data for 99 countries, Long (2019, pp. 102-103) found a correlation between more transparent audit institutions and lower levels of perceived corruption. However, expenditure controls were more significantly correlated with lower perceived corruption levels than budgeting, reporting and auditing (Long, 2019, p. 110).

McDevitt (2020) recommends that SAIs utilise PA, as this type of audit has the greatest potential to detect and deter corruption by identifying systemic weaknesses in the country's PFM system.

Audit and Oversight Lessons from the COVID-19 Crisis

The COVID-19 global pandemic forced governments to become more agile and innovative as the substantial unplanned, urgent spending on healthcare severely tested EA and oversight systems. To expedite necessary purchasing many governments reduced or bypassed regular PFM controls such as procurement and spending checks, **parliamentary budget oversight, and audit requirements supplanting them with ex post facto approvals and audits** (ACCA, 2021). This **focus on tackling the crisis by employing extraordinary budget approval and execution but maintaining regular oversight procedures, even in the face of newly relaxed procurement and audit procedures** (ACCA, 2021) has resulted in gross mismanagement of resources even in countries like the UK which have normally robust PFM systems (Davies, 2020; NAO, 2022) and may result in future scandals being exposed (World Bank, 2020a, p. 3).

This underscored the importance of **ensuring that existing oversight institutions** (such as Parliament, the SAI, independent fiscal councils), civil society, and the general public **continue to be able to enforce comprehensive and transparent reporting and public accountability** procedures while the crisis or emergency support measures are being developed and implemented (Wendling et al., 2020; Quak, 2020). Olowo-Okere (2020) suggests this could be achieved through participatory auditing led by SAIs with citizen participation and civil society organisations. Bailey (2020) takes this further, proposing that the timing is ripe for closer civil society and SAI relationships for mutually beneficial outcomes as the COVID-19 crisis has spotlighted the role and work of auditors in the media and public eye.

¹⁷ Most of these studies are older than the five year focus of this report.

4. Potential Impact of External Audit

Donor Support for SAIs

Donors and multilateral institutions such as INTOSAI aim to “strengthen SAIs so that they can deliver a high-quality range of audit products which meet the expectations of parliaments, governments and citizens and contribute to sustainable improvements in the performance of a country’s public services” (INTOSAI, 2018, p. 9).

The Global Survey 2020 (INTOSAI, 2020, p. 74) found that **“global support for SAIs has stagnated in recent years and fallen in real terms”**. Though SAIs in less democratic nations are less likely to get assistance, which reflects donor development policies, the great majority of SAIs in poor countries do but the rise in financing globally for SAI capacity-building projects in recent years has been countered by a decline in the number of nations getting significant bilateral assistance (INTOSAI, 2020, p. 74). Many SAIs still struggle to secure financial backing for capacity building, particularly those in low-income nations especially when the SAI plans to implement the programme itself (INTOSAI, 2020, p. 74).

SAIs emphasise that for support to be effective it must be “owned” by the SAI, aligned with its goal, and have a high level of employee participation (INTOSAI, 2020, p. 75). **“Effectiveness of support can also be enhanced through donor coordination mechanisms which create a forum for regular dialogue on accountability, ensure effective communication and sound understanding of the country context”** (INTOSAI, 2020, p. 75).

Measuring Impact of SAIs

Bonollo¹⁸ (2019, p. 468) observes that **“although there is little doubt that SAIs’ audit work has some effect (direct or indirect, desired or undesired), it is very difficult to measure actual outcomes.”** Authors seldom suggest efficient quantitative outcome measurements when defining these positive/negative impacts; instead, they just use qualitative indicators or descriptions to convey the results (Bonollo, 2019, p. 471).

Impact on Corruption

SAIs have unclear anti- corruption mandates: Jeppesen (2019, p. 3) notes that the lines are unclear as “INTOSAI’s present exposure draft for a standard regarding corruption is entitled “Guideline for the Audit of Corruption Prevention in Government Agencies” (ISSAI 5700)¹⁹ and **does not cover the role of Supreme Audit Institutions (SAIs) in the detection of corruption, which is generally seen as a task for the police or other investigative agencies”**.

Additionally, although public sector auditors are required to detect “abuse”, the definition of what constitutes an abuse of authority covers some types of corruption but not others (Jeppesen, 2019, p. 3; Chêne, 2017, p. 3) and does not cover ethical misconduct (Bringselius, 2018).

Theoretically, auditing might either prevent or uncover corruption. These positions have some crossover so if auditors identify corruption, this may act as a deterrent, preventing

¹⁸ Bonollo (2019, pp. 468-469) literature review and synthesis covered 40 published articles, in international academic journals, on SAIs from 1990 – 2015.

¹⁹ Now relabelled and renamed as GUID 5270 since 2019.

additional corruption; conversely, if auditors prevent corruption, there will not be as much to uncover (Jeppesen, 2019, p. 3).

Political Corruption: Orders for goods and services, granting positions, or perks to a favoured party is “political corruption” through nepotism (patrons favouring family), clientelism (patrons favouring specific clients), and favouritism (patrons favouring specific social groupings) (Jeppesen, 2019, pp. 6-7). Often these modes do not leave evidence that is necessarily captured in documents. The literature suggests that “it may be difficult for auditors to prevent and detect political corruption because the exchange of intangible assets leaves little tangible evidence” (Jeppesen, 2019, p. 4). However, these corruption modes do stifle free competition and are likely to undermine economy, efficiency, and effectiveness in the audited entity (Jeppesen, 2019, p. 7). As a result, public sector auditors should examine the aspect of political corruption while conducting performance audits (Jeppesen, 2019, pp. 7-8). However, financial reporting errors might also manifest from political corruption, for instance when relatives of an auditee’s top management members engage in transactions with the entity as “related party transactions,” which should be declared in the financial reports (Jeppesen, 2019, p. 8). For anti-corruption activities especially, it is important that SAI staff are seen to be apolitical, ethical and objective to foster credibility (INTOSAI, 2016, pp. 17-18).

Jeppesen (2019, p. 9) concludes that the “political corruption creates problems with the three performance audit objectives of efficiency, effectiveness and economy. Because of their fraudulent nature, such misstatements are likely to be considered material by users of financial statements, regardless of the amount” so auditors should be responsible for identifying such instances of political corruption. He recommends that the relevant ISSAI standards explicitly need to include corruption as a main category of fraud and that **public sector auditors are given formal authority to detect corruption and/or to collaborate with other investigative agencies** (Jeppesen, 2019, p. 9).

The auditing community generally agrees that **preventing fraud and corruption is simpler than identifying them**. By enhancing transparency and accountability and assessing internal control systems with the goal of supporting an environment that reduces the chance for corruption, auditors in general and SAIs, in particular, may significantly contribute to preventive efforts (Chêne, 2017, p. 4).

SAIs are crucial to ensuring accountability and transparency – by delivering reliable and timely audit results to legislators, the government, civil society, and the general public, the SAI can provide fiscal oversight as long as it has **independence and operational capability** (World Bank, 2020a, p. 24).

Recommendations: ACCA (2021) also suggests that SAIs be made more effective in holding governments accountable. This requires legislatures to allow such institutions to be **functionally and operationally independent**²⁰ and fully resourced which is **dependent on the political willingness and commitment to become more accountable** (ACCA, 2021) Additionally, it suggests giving the **highest audit institutions more authority** so that they can hold governments accountable by requiring them to make their findings and recommendations public

²⁰ The World Bank evaluated the independence of 118 SAIs in 2021. Only two of the 118 SAIs met all 10 of the assessment's independence indicators in full. Only around half of the SAIs met at least 8 of the 10 indicators. “As a result, there is much space for improvement in the degree of independence enjoyed by SAIs everywhere” (ACCA, 2021).

and giving them the authority to monitor how successfully those recommendations are being implemented (ACCA, 2021).

In times of crisis, like the COVID-19 outbreak, **a government can maintain solid PFM discipline with the aid of an efficient, independent SAI** (ACCA, 2021, p. 25). It can guarantee that procedures and controls are followed and offer some **openness and accountability** for the management of the government's finances, for example, undertaking "real-time audits" while the crisis is occurring (i.e., while public funds are being used for the response), as opposed to delaying financial statement reviews until the crisis has passed (ACCA, 2021, p. 25).

Impact on Increasing Transparency & Accountability

“SAIs are the chief auditors of the government and play a pivotal role in ensuring transparency and accountability” (World Bank, 2020a, p. 24). Impactful changes typically need a combination of multiple layered or sequential actions; there is no single success element nor one solution to fit all contexts and all countries (World Bank, 2020a, p. 4). **So increased transparency does not necessarily lead to increased accountability which depends on factors such as ease of access to and comprehension of the information** (World Bank, 2020a, p. 15). Where there are constraints “on civic space, political will and institutional capacity, reform champions, coalitions for change, “infomediaries,” such as journalists, an independent media where that exists and watchdog organizations, can play a critical role” in helping foster an enabling environment for greater accountability (World Bank, 2020a, p. 15). **Sector and function-specific interventions can be effective** and complementary to broader government-wide efforts to enhance transparency, integrity, and good governance (World Bank, 2020a, p. 13).

IBP (2021) believes that **SAIs can ‘lead the charge’ in strengthening accountability but need to be supported by a number of measures**, including the following:

- I. a government response that reflects attention to the audit findings and **acting on the report's recommendations**
- II. **independent investigation** on whether the measures recommended by the audit were taken, typically by the SAI or the legislature, and
- III. opportunities for **public engagement** to engage, influence, and support the entire audit process by civil society organisations, the media, and citizens (IBP, 2021; ACCA, 2021, p. 25; World Bank, 2020a, p. 15).

IBP's 2020 report reiterates and expands upon the PEFA (2020) finding (as in Section 2 of this report) on EA being the weakest phase of the PFM cycle. “Across INTOSAI regions, the weakest components in the audit and oversight ecosystem include **the executive's response to audit findings; the independent follow-up of these responses**, which threaten the ability of public sector audits to check government excesses; and **the lack of opportunities for the public to engage in and bolster audit and oversight efforts”** (IBP, 2020, p. 29).

For example, in procurement, the **two elements that have been consistently linked with decreases in corruption** across different jurisdictions are **transparency and increased frequency of audits** (that precipitate accountability) even though the success of anti-corruption reforms in public procurement has varied greatly (World Bank, 2020a, p. 7).

Increased transparency can make it harder to conceal corruption and fraud and thus induces greater compliance, **especially when supported by active, empowered infomediaries**, public

knowledge of government policies, official processes, and ready access to information which **increase avenues for scrutiny and thus accountability** (World Bank, 2020a, p. 15, p. 28; Bonollo, 2019, p. 475).

UK Case Study: When **public accountability mechanisms were bypassed and curtailed** during the COVID-19 pandemic in the UK, **“the gross mismanagement”** and possible misconduct in awarding contracts for the public procurement of personal protective equipment (PPE) **was exposed by the media, academia and civil society as “alternative mechanisms for accountability emerged to fill the hiatus”** (Sian & Smyth, 2021, p. 7).

Impact on Service Delivery

Isolating the causality between the external audit and oversight function and its impact on service delivery is challenging thus **there is a lack of data on this aspect**. Instead, general observations appear such as, when external audit coverage is wide and legislative oversight is strong this “has a positive impact on efficient service delivery since it holds the executive accountable” (World Bank, 2020b, p. 87). Assessment scores were used to draw general conclusions such as that **“external audit coverage improved which ensures accountability in the use of public funds for service delivery”** and that “measurement of efficiency and effectiveness of service delivery is limited by the absence of performance audits” (World Bank, 2020b, p. 88).

Outcome-based budgeting and performance budgeting techniques place a greater emphasis on results than inputs so **these strategies may enhance service delivery** (ACCA 2021, p. 27).

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Key websites

- INTOSAI: <https://intosai.org>
- OECD: <https://oecd.org>
- PEFA: <https://www.pefa.org>
- U4 Anti-Corruption Resource Centre: <https://www.u4.no/helpdesk>

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