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How to select topics to have an impact on society?: Lessons learned from the INTOSAI Public Policy and Programme Evaluation Working Group

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Summary:

The annual meeting of the *INTOSAI Public Policy and Programme Evaluation Working Group* (Bucharest, 20-21 June 2024) focused on the theme: "Selecting the winners: How Supreme Audit Institutions (SAIs) choose "adequate" topics for performance evaluations and audits".

As a starting point, point 36 of the ISSAI 300 has been analysed: "Auditors should select audit topics through the SAI's strategic planning process by analyzing potential topics and conducting investigations to identify risks and problems"; and ISSAI 3000, in points 89-95 ("(...) process for selecting audit topics should consider the potential impact of the audit topic on providing significant benefits for finance and public administration, the audited entity or the general public with available resources (...))".

The following <u>sources can be identified for the identification of the most appropriate target area</u> and at the appropriate time to carry out an audit:

    – <u>The SAIs themselves:</u> Including in the medium-term planning the preferred control areas due to their relevance and visibility, temporal proximity, impact, among other factors. In the case of the Spanish Court of Audit, mention should be made of the implementation of the Recovery, Transformation and Resilience Plan, programmes and public policies in which to apply an evaluative approach to performance audits, aspects related to sustainability, transparency and the gender perspective, among others.

- Stakeholders or stakeholders: through the promotion of round tables, meetings on topics involving stakeholders, surveys with the possibility of making suggestions, among other actions.

- Independent experts and universities: Given his up-to-date and in-depth knowledge derived from his experience in research and analysis.

- Parliaments shall: National and regional, as in the case of Spain.

- Citizens: Through a procedure for the reception and study of your proposals.

It is also necessary to establish a strategy that facilitates the selection of topics. To this end, the SAI must design a *Top-Down* procedure consisting of 5 phases: 1) Identify strategic objectives and priorities; 2) Determine possible areas for auditing; 3) Acquiring in-depth knowledge of the areas; 4) Evaluate and prioritize the areas: and 5) Develop and approve a Strategic Plan with proposals for audits.

Finally, it should be possible to answer the following questions: Has the audit carried out been useful, has the problem or need addressed by the public action audited been solved?

Communication:

1. Why is it essential to select the topics to be audited?

The selection of the audit target area is a nuclear issue. Deciding on the subject, the program, the policy, the provision, the subsidy, the contracting, the entity or, in general, the public intervention that will be the object of the action of the Supreme Audit Institutions (SAIs), will depend on several factors, among which the type of audit to be carried out and the human and material means with which it is available stand out.

In relation to the type of audit to be carried out, in the first instance it is a question of answering the following questions: Why has the SAI done the audit, why has it decided to use the scarce resources it has in that work? In short, the purpose is to highlight the impact of the audit and the reasons that have led to interest in this issue.

When the audit that is intended to be carried out is performance or performance with an evaluative approach (consists of the application of criteria, methods and procedures specific to the evaluation of public policies and programmes to the performance audit), it becomes more important if the appropriate choice of the objective area is possible.

In relation to resources, it is important to highlight factors such as the competence framework of the SAI, the availability of methodological guides or manuals, the experience in carrying out this type of audit, the training of personnel dedicated to auditing, material resources in the form of computer programs and applications, the current environment in the Public Administration of transition from paper file to digital technology and the importance of guaranteeing the integrity, traceability and confidentiality of information, among others.

2. Can SAI International Standards help us in identifying the topics to be audited?

In the first instance, it may be asked whether the International Standards of Supreme Audit Institutions (ISSAIs) and the standards of the Development Initiative of the International Organization of Supreme Audit Institutions (IDI INTOSAI) help us in choosing the subject to be audited. In this regard, ISSAI 300 *Fundamental Principles of Performance Audit*, in its point 36) states that: "Auditors should select audit topics through the SAI's strategic planning process by analysing potential topics and conducting investigations to identify risks and problems". For its part, ISSAI 3000 *Standards and Guidelines for Performance Auditing,* points 89-95 state that: "(...) the process of selecting audit topics should consider the potential impact of the audit topic on providing significant benefits to finance and public administration, the audited entity or the general public with available resources (...)". For its part, the IDI *Performance Audit ISSAI Implementation Handbook* mentions as determining aspects for the selection of the topic to be audited the understanding of the interests and priorities of stakeholders (Government, Legislative, civil society organizations, citizens, etc.), the use of selection criteria to ensure that

the chosen topics are meaningful, auditable and consistent with the mandate of the SAI and the examination of the audit environment by conducting risk analysis.

3. What are the best sources for identifying the topics to be audited?

Therefore, the following sources can be identified to obtain the subject or content that should constitute the objective scope of the audit:

- <u>The SAI itself:</u> Through its strategic plan, which normally covers a period of two to four years. In the case of the Spanish Court of Audit, the Strategic Plan 2024-2027 includes the Institution's strategic objectives for that period and the lines of action, based on 4 pillars, one of which is *the carrying out of relevant audits*. The Plan is developed in a Biennial Operational Plan that establishes the criteria for the formulation of proposals for audit actions for the preparation of each year's Audit Program.

  Also, it is necessary to encourage the participation of the technical staff in the proposal of topics of interest, both the staff that performs the audits, as well as data analysts and other experts. Finally, it is worth mentioning the importance in this area of exchanging information and experiences in meetings with colleagues from other SAIs in the framework of INTOSAI working groups or the European Court of Auditors.

- <u>Stakeholders:</u> These are individuals or groups who are affected or likely to be affected by a public intervention or who may influence or have an interest in it. In a broad sense, the IDI considers the Executive, Legislative and Judiciary, the audited entities, citizens, civil society entities, the media, professional associations, universities, non-governmental organizations and donors as stakeholders. Stakeholder suggestions on possible topics of interest to the audit can be channelled through the promotion of round tables, information meetings with stakeholders identified as interested at the beginning of the audit, surveys with the possibility of making suggestions, among other actions.

– <u>Parliaments</u> shall: National and regional parliaments may have the power to propose audits on matters they consider to be in the public interest, as is the case with the Spanish Court of Audit.

– <u>Citizenship</u>: Some SAIs provide for the possibility for anyone to report irregularities or suggest topics for possible audit (Argentina, Spain, South Korea, Senegal, etc.), which are not binding. For this communication, a communication channel must be designed for the reception and study of proposals and to inform if, where appropriate, the suggestion will be incorporated into the audit actions or motivate their rejection.

4. The importance of designing a strategy to facilitate the selection of topics

It is also necessary to establish a strategy that facilitates the selection of topics. To this end, the SAI shall design a *Top-Down* procedure consisting of four phases:

1. <u>Determining strategic objectives and priorities:</u> The Spanish Court of Audit draws up a medium-term planning document that sets out the preferred audit areas based on criteria such as their relevance and visibility, proximity of the time frame to the current moment, and the potential social impact, prioritising audits that can have the greatest impact on society.

   The objectives to be achieved must be specific, measurable and aligned with the strategic priorities, and it is possible to carry out an evaluation of the achievement of them.

2. <u>Define the criteria for choosing the audit target area:</u> The SAI must define the criteria on which it will base the choice of the subject to be audited. These include: potential social impact (promoting equity, improving the quality of life of citizens, solving critical problems for society, issues subject to public debate, etc.); the level of risk (possibility of irregularities or significant deficiencies in management, legal breaches, etc.); alignment of the topic with the SAI's strategic priorities; the feasibility and available

resources (human, technical and financial) required; and, the timing or consideration of the appropriate time to conduct the audit.

The IDI includes the following list of criteria to be taken into account by the SAI when selecting the subject of an audit: Materiality in the context in which it is examined; it is an auditable subject; the potential impact; possible reputational risk for the SAI in case the topic is not audited; the public or legislative interest; relevance to society; the timing or timing of completion; the existence of previous audits on the subject; other planned or ongoing audit work on the subject carried out by other entities; and, if a request has been received from Parliament or any interested party for an audit on that subject. Based on the above criteria, a selection matrix can be constructed and each criterion can be scored so that the SAI can classify and prioritize the topics of the audits to be carried out.

3. <u>Determine the topics to be audited:</u> As an example: The European Recovery Instrument (Next*Generation EU Funds),*the implementation of the Recovery, Transformation and Resilience Plan, programmes and public policies in which to apply an evaluative approach to performance audits, aspects related to sustainability (financial, energy, environment and climate), integrity and transparency in public management, equality and a gender perspective, the achievement of the United Nations Sustainable Development Goals, the so-called *Emerging issues* or emerging issues (aspects related to aid and procurement of material for the fight against the COVID19 pandemic, public debt and deficit, inflationary pressures, demographic changes, labour shortages, anti-crisis measures adopted by the government, the incorporation of Artificial Intelligence into public management, among others).

4. <u>Acquiring in-depth knowledge of the subject matter to be audited:</u> To carry out an audit as exhaustive, precise and effective as possible, from which recommendations are

derived to improve public management, it is essential to know in detail the subject matter audited. This knowledge acquisition comes from the research and documentary study of objective scope, which includes the application regulations, the analysis of reports and previous studies, statistics, performance indicators and relevant data, consultations with experts, the case study, comparative analysis and *benchmarking,* the analysis of internal control systems, among other actions.

This knowledge of the subject to be audited will inform the feasibility of the audit, being able to evaluate the availability of resources and the technical capacity to carry out the audit of the selected subject.

5. Results of the survey on criteria for identifying and selecting topics

Prior to the above-mentioned meeting of the Working Group on Evaluation of Public Policies and Programmes, the General Secretariat of the Group sent the SAI members and observers a survey on the criteria for identifying and selecting the topics to be audited. A total of 22 entities responded, including the Spanish Court of Audit. The most significant results are as follows:

- SAIs are very autonomous in the choice of topics to be audited: 60% of the entities decide on all the topics. 84% report that their Parliament is able to order or suggest the target area of performance audits, although most of the topics are chosen by the Entity itself.

- The assessment of the global and formal risks are fundamental in the choice of the subject to be audited: 81% of SAIs report performing a risk assessment and 50% consider such an assessment to be very useful for the identification of topics.

- The identification of the topics to be audited is considered bottom-up: 95% of SAIs state that there are mechanisms in place for auditors to have the opportunity to propose topics, and 41% consider that such suggestions are always useful.

60% of the entities include external sources for the identification of the topics, including the suggestions made by the citizens.

- The selection of topics is based on strategic elements: 77% of SAIs respond that they follow a strategic planning process in the selection of topics. 45% of the entities state that they make the strategic plan public.

- The selection of topics follows quality criteria: 68% of SAIs reply that quality criteria take precedence in the selection of topics, observing the Standard Operating Auditing Standards (ISSAIs). Other factors mentioned are the potential for change arising from the audit, the timeliness of the audit, the cost, the auditability of the subject matter, and the Institution's reputational risk. 63% report that they carry out previous studies to substantiate the relevance of an audit topic.

- Finally, in relation to the cancellation or cancellation of an audit already selected: The cause comes from external factors in most cases (availability of data, reforms and structural changes, studies / evaluations of other agents, conflicts, causes such as COVID19, among others). 27% of SAIs state that there is a formal procedure to cancel an audit.

6. Conclusions

The effectiveness and impact of performance audits depends primarily on choosing the right topic at the right time.

To this end, the structures and procedures of the Supreme Audit Institutions should be appropriate and used appropriately to identify and select the audit objective areas. This identification of topics requires creativity and a high level of knowledge.

The main source of identification is the Institution itself through its Strategic Plan and its auditor and technical staff. Other notable sources are stakeholders, parliaments and citizens. In addition,

the International Standards contain guidelines and principles for the identification and selection of topics.

The selection of topics is influenced by institutional and external factors, such as risk prioritisation, parliamentary mandates, strategic plans or public debate.

Finally, following an performance audit, it should be possible to answer the following questions: Has the audit carried out been useful, has the problem or need addressed by the public action audited been solved?