

Annex 1:**BEIJING ACCORDS****XXI INCOSAI BEIJING 2013****Theme I****National Audit and National Governance****1. INTRODUCTION**

In recent years, the unprecedented and complex uncertainty experienced in the global economy has brought about new challenges for every country in their efforts to promote improved national governance.

The promotion of good governance in the public sector has been a key priority of the INTOSAI community for a long time. The 62nd Governing Board meeting of INTOSAI held in October 2011 unanimously approved the proposal by the National Audit Office of the People's Republic of China (CNAO) to have "National Audit and National Governance" as the first theme for discussion at the XXI INCOSAI. It was further decided that the CNAO would chair Theme 1. In terms of the XXI INCOSAI's Rules of Procedure, the CNAO successively completed the drafting of the principal paper, which was sent to all SAIs. Country papers drawn up by SAIs were collected and analyzed. Based on a thorough analysis of the country papers, a discussion paper was drafted by the CNAO.

The draft discussion paper was used to solicit input from delegates of SAIs attending the International Seminar on Beijing Declaration held in May 2013 in Beijing, China. The discussion paper consolidated the key points from the principal paper and all relevant inputs from the country papers submitted by 61 SAIs.

2. DISCUSSION RESULTS

The discussion paper served as a basis for group discussions for Theme 1 at the XXI INCOSAI. The discussions confirmed the importance of this theme. The recommendations from SAIs confirmed that national audit, with the support of INTOSAI, plays a critical role in improving national and global governance. The following main topics were discussed:

2.1 Relation between National Audit and National Governance

National auditing plays a central role in holding governments to account. Many SAIs describe the main function of national audit as an assurance function carried out by an independent and specialized institution established by law with its own full-time personnel. The role of an SAI in the national governance system is similar to that of the "immune system" in the human body, by preventing or revealing weaknesses in national governance.

Many countries in the world have recognized the need for an independent national audit institution with the necessary authority/powers within their respective constitutions. However, it should be recognized that the existence of independent audit institutions largely depends on good governance.

2.2 Important Role of National Audit in the Improvement of National Governance

Over the years, aligned to the principles of the Lima and Mexico Declarations, SAIs have played an active role in promoting the improvement of national governance. The following roles have been identified as having significance regarding the impact of national audit on national governance:

2.2.1 Creating awareness of safeguarding democracy and the rule of law

National audit is an important force in democracy and the rule of law by:

- Safeguarding the public interest by reporting on the use of public resources,
- Promoting the implementation of laws and regulations,
- Reporting on compliance with laws and regulations, and
- Imposing sanctions, where such a mandate exists.

2.2.2 Enhancing government performance

National audit plays an important role in promoting effective government especially in performance mainly through:

- Enhancing the economic, efficient, and effective use of public funds,
- Improving the operational mechanism of government organizations,
- Promoting the integrity, accountability and transparency of administration, and
- Promoting good practices of the public sector by sharing experience, methods and information.

2.2.3 Promoting honest and clean administration

National audit contributes to honest and clean administration by:

- Carrying out audits to ensure that government is held accountable for its stewardship over and use of public resources,
- Detecting fraud and irregularities,
- Imposing sanctions where audit institutions have judicial functions,
- Agreeing on a common INTOSAI definition for fraud and corruption, and incorporating this into the ISSAI framework, and
- Evaluating internal controls of the public sector, thereby mitigating fraud risk.

2.2.4 Safeguarding national security

National audit plays a role in safeguarding national interests. SAIs fulfill their functions of safeguarding national economic, social and ecological security by providing objective information, revealing existing weaknesses and putting forward recommendations for improvement.

2.2.5 Promoting the improvement of people's livelihood

A large proportion of public funds is meant for the improvement of people's livelihood. Audit institutions contribute by:

- Auditing primary service delivery areas such as education, medical treatment, disease prevention and control, health, poverty, social security, employment, housing, public transport, environmental protection, disaster forecasting and control, and disaster relief, and,
- Focusing audits on the allocation and/or utilization of resources in public interest.

2.3 Challenges faced by SAIs and possible responses

The complexity of national governance and fast changing audit environment require the SAIs to be responsive in order to remain relevant. The increasingly complex national governance requires that national audit has to adapt and innovate, beyond the existing knowledge and practices. SAIs should identify the strains this condition bring to its mandate and/or functions. This extends to the standard-setting process to ensure the continued relevance of the ISSAI framework.

SAIs identified the following issues to be addressed:

2.3.1 Perform audit duties with the vision of national audit serving national governance

- Ensure financial audit practices remain relevant by responding to current challenges,
- Regularly identify and prioritize stakeholder expectations,
- Pay close attention to economic and social challenges to enhance the relevance, insight and foresight of auditing,
- Strengthen the supervision over the misuse of power,
- Respond to concerns of citizens on fraud and corruption,
- Focus on improvement of management systems, mechanisms and institutions,
- Provide timely, objective and reliable information to stakeholders to make well-informed decisions, and
- Follow up the implementation of audit findings and recommendations.

2.3.2 Continue to strive for all SAIs to become independent

- Ensure SAIs have the necessary mandate and independence,
- Create awareness of the UN resolution on SAI independence, and
- Share the knowledge and insight on how to achieve full independence as envisaged by the Lima and Mexico Declarations.

2.3.3 Create a professional environment and conditions for national audit

- Promote the adoption of generally accepted financial reporting framework for the public sector,
- Apply ISSAIs and other relevant standards to increase the credibility of reporting,
- Improve the competence of audit institutions and personnel through learning and knowledge sharing, and
- Communicate audit results in a professional manner.

2.3.4 Strengthen capacity of audit institutions

- Continue SAIs institutional capacity building,
- Utilize IDI's capacity building initiatives,
- Share knowledge and experience to enhance audit efficiency,
- Strive to be a model organization for other public institutions.

2.3.5 Communicate and cooperate with stakeholders

- Strengthen cooperation with key stakeholders,
- Apply the principles of ISSAI 12 "The Value and Benefit of Supreme Audit Institutions – making a difference to the lives of citizens" and use the relevant guidance on "Communicating and Promoting the Value and Benefits of SAIs: An INTOSAI Guideline",
- Utilize the "INTOSAI Communication Guideline",
- Facilitate citizen involvement in the audit process and dissemination of audit results.

2.4 Role of INTOSAI in Promoting the Improvement of National Governance and Global Governance

INTOSAI, as all other organizations worldwide, is challenged by globalization and faces the need for modernizing its working procedures and methods in order to remain relevant to its stakeholders.

Therefore, INTOSAI adopted in 2004 its first Strategic Plan, by which the working structure of INTOSAI was modernized. INTOSAI has defined the procedures for developing, issuing and maintaining professional standards. These procedures are encapsulated in the Due Process for INTOSAI Professional Standards.

INTOSAI aims to position internal and external communication as a strategic function which contributes essentially to a smooth operation of the external government audit community.

In the last years, INTOSAI also has developed constructive working relations with various international organizations, such as UN, IPU and OECD.

Furthermore, INTOSAI has established a Standing Supervisory Committee on Emerging Issues.

All SAIs unanimously agreed that INTOSAI has an important duty to continue to promote good governance. INTOSAI needs to continue with the improvement of its own governance to become a model organization. This will guide and advance SAIs to promote the improvement of national governance in line with the principle of "mutual experience benefits all". As an international organization INTOSAI should actively participate in global governance initiatives and actively influence global governance.

INTOSAI should also play a more effective role in promoting the improvement of national governance and global governance, and to this end it should:

2.4.1 Guide and encourage SAIs to play a more effective role in improving national governance

Upon its establishment, INTOSAI identified that SAIs can execute their mandate effectively, only if they are independent from the agencies they audit and are protected against any form of external influence. INTOSAI also recognized that it is crucial that the audit methods of SAIs are based on state-of-the-art scientific and technical knowledge, and that their auditors have the necessary professional qualification and moral integrity.

Therefore, INTOSAI adopted the *Lima Declaration* as early as 1977 and stipulated the principle of independence of external government auditing in methodological and professional terms in the *Mexico Declaration* in 2007.

INTOSAI also adopted a series of ISSAIs and INTOSAI Guidance for Good Governance (INTOSAI GOVs), which also contribute to the promotion of good governance.

INTOSAI should continue to:

- Formulate guidelines for good governance,
- Cooperate with relevant international organizations or academic institutions,
- Follow international developments related to good governance,
- Enhance public awareness of the role of audit institutions in promoting the improvement of national governance,
- Build platforms of communication and exchange among SAIs through the existing working groups and regional organizations,
- Encourage cooperative audits in the areas of common interest and provision of technical support, and

- Strengthen its cooperation with other relevant international organizations, regional institutions, forums and the media.

2.4.2 Promote the improvement of global governance

As an internationally recognized organization INTOSAI should extend good governance from a national to a global level by:

- Disseminating the idea of good governance,
- Encouraging SAIs to provide international and transnational organizations with independent auditing services,
- Sharing good practices in global governance,
- Establishing a mechanism for the promotion of good governance,
- Strengthening the implementation of the INTOSAI Communication Policy and Strategy,
- Actively promoting global governance in the international community, and INTOSAI's contribution thereto,
- Expanding the work of different sub-committees, working groups, task forces and project groups of INTOSAI to deal with the concept of global governance,
- Encouraging cooperative audits in the areas related to global financial crisis and environmental protection,
- Strengthening the communication, coordination and dialogue with the United Nations, other international agencies, professional entities, and research institutions.

3. RECOMMENDATIONS

Given the outcome of the work done throughout the INTOSAI community on Theme 1 in anticipation of INCOSAI XXI, as well as the deliberations held during this congress, the INTOSAI members:

3.1 Recognize the important role that SAIs can play in strengthening national governance, thereby creating a basis for sustainable development and ensuring a "life of dignity" for citizens,

3.2 Reiterate the value of the independence defined in Lima and Mexico Declarations, without which SAIs would be limited in their contribution to national governance,

3.3 Confirm that, in fulfilling this responsibility SAIs need to contribute to:

- Promoting honest and clean government and administration,
- Increasing government's efficient, effective, economic and equitable use of public resources,
- Increasing transparency and accountability in the public sector,
- Creating awareness about safeguarding democracy and the rule of law,
- Safeguarding the public interests, and,
- Promoting the improvement of peoples' livelihood,

3.4 Confirm the value of ongoing, structured communication and engagement with stakeholders to give substance to the understanding of the needs of citizens in terms of national governance,

3.5 Propose that the INTOSAI standard-setting processes:

- Prioritize the development of further standards and guidance on matters relating to public sector auditing and national governance,
- Review the existing ISSAI framework and INTOSAI GOVs to ensure that audit methodology contributes to national governance, and
- Agree on a common INTOSAI definition for fraud and corruption.

3.6 Encourage the pro-active and widespread adoption of the full ISSAI framework by all INTOSAI members,

3.7 Call for continued and well-coordinated capacity-building activities throughout INTOSAI, with emphasis on the creation of "communities of best practices" to strengthen independence, professionalize audit offices and share knowledge and experience, to enable all SAIs to make a solid contribution to national governance in their countries,

3.8 Call for the urgent finalization of the SAI Performance Measurement Framework (PMF) to allow SAIs to measure their functioning, as well as to focus their strategic processes on contributing to national governance,

3.9 Recognize the critical role of the donor community in enabling and supporting the continuous processes of capacity-building and innovation,

3.10 Recognize the value of the work done at the level of INTOSAI subcommittees, working groups and task forces to ensure that SAI remain relevant, **use** the newly developed fundamental principles of auditing in the areas of financial, performance and compliance audit (ISSAI 100-400) to further strengthen these audit practice and **urge** the continued development of mechanisms to respond to the ever-changing audit environment and the needs of citizens.

Theme II: The Role of Supreme Audit Institutions on Safeguarding Long-Term Sustainability of Financial Policies

Introduction

Broadly stated, sustainable public finances are about meeting current and future obligations without passing on excessive levels of debt to future generations.

The long-term sustainability of financial policies is necessary to further the social and economic development of nations.

The Theme discussion paper concisely captured the importance of nations preserving sound public finances to maintain and foster economic growth, employment and standards of living. Further, given the economic globalisation, sustainability of public finances through the adoption of sound policies by government is also important for the world at large.

The size and structure of both public deficit and public debt, as well as the level and structure of public revenues and expenditures, have a significant influence on economic growth and stability.

Sound public finances and an appropriate monetary policy make a substantial contribution towards attaining the goals of low inflation and favourable financing terms, which over time, facilitate long-term planning and investments.

The sustainability of public finances has been on the INTOSAI agenda for many years now. In 1991, the INTOSAI Public Debt Committee started its work and was reorganized in 2007 into a Working Group. In 2008, INTOSAI established as immediate reaction to the financial crisis: the Task Force Global Financial Crisis, which was reorganized in 2012 into the Working Group on Financial Modernization and Regulatory Reform.

Moreover, a series of International Standards of Supreme Audit Institutions, ISSAIs (ISSAIs 5410 to 5450), on public debt has been published. Nevertheless, the financial, economic and budget crisis poses for SAIs special challenges which, in the public interest, could be addressed by SAIs as part of their audit function.

Understanding the macroeconomic imbalances and risks stemming from the financial system, both globally and nationally, and effective oversight of economic and fiscal affairs help to inform government decisions that contribute to the long-term sustainability of government policies.

Lessons derived from the global financial and economic crisis occurred in early 21st century, have underlined the strategic importance of governments maintaining sound public finances in order to create conditions for economic growth, employment and social well-being.

Discussion

- **INTOSAI's agenda relating to public finances sustainability**

It was recognized that, through independent and robust audits, SAIs contribute to attaining medium and long-term sustainability of financial policies, safeguarding public interest and enhancing national governance according to their mandates and their own practical situation.

The work of INTOSAI in promoting good governance in government has been enduring. In addition the adoption of the Lima Declaration and Mexico Declaration, with reference to the eight principles of independence of external government auditing in methodology and professional terms, has underlined INTOSAI's unwavering support in promoting the independence of SAIs and the importance of SAIs having appropriate mandates. Further the key role of SAIs was recognised by the UN General Assembly Resolution A/66/209.

Going forward, and consistent with the message delivered by H.E. Ambassador Martin Sajdik, Vice President of the United Nations Economic and Social Council, the coming years provide the opportunity for INTOSAI and its regional groups to strengthen their contributions to national and international development goals and priorities by highlighting the contributions and encouraging the perspectives of SAIs to Public Finance Sustainability. Further, the importance of transparent and accountable government was emphasised, and the role of SAIs recognised in this context.

It was suggested that INTOSAI may wish to consider undertaking research to develop a model approach to auditing financial sustainability, so as to provide a common framework for SAIs to enhance their institutional capacities. Such a model could embrace better practice approaches to auditing key elements of administration that bear on sustainability, such as taxation and other revenues, management of public debt, as well as international accepted benchmarks to assess performance.

Further, INTOSAI was encouraged to use its influence to continue to promote the development of harmonized financial reporting frameworks within the public sector to provide greater transparency in respect of government operations, particularly in relation to government debt.

- **The Role of SAIs in safeguarding the long-term sustainability of finance policies**

The role of SAIs in safeguarding the long-term sustainability of government policies and the financial effects is dependent on their mandate.

It was accepted that SAIs should not comment on the merits of specific policies of government or monetary policy but, in many countries, would be expected to draw attention to any aggregate or systemic issues that are of such significance that they may impact on the long-term sustainability of government policies and finances. In addition, SAIs should encourage transparency of information to better inform the public and key stakeholders, and accountability linked to the public finance framework in order to disclose the financial position and the existence of any constraints, risks and challenges which may require attention by government.

Some SAIs expressed concern with auditing the processes associated with budgeted or forecast positions regarding the sustainability of government finances, while others recognized the benefits of conducting such audits to highlight opportunities for system improvements.

The importance of the Lima and Mexico Declarations, and the UN General Assembly Resolution to strengthen SAIs, and to support each other internationally was recognized. Thus, when audits in relation to the sustainability of finance policies are to be conducted by SAIs their mandate may need to be enhanced.

Where their mandate is appropriate and financial sustainability is a priority for government, SAIs are able to add value through their external reporting role on matters affecting the long-term sustainability of government policies and finances. This strategic role is focussed on the achievement and preservation of sound public finances in order to create conditions for economic growth, employment and social well-being.

In deciding whether to undertake audits of the sustainability of finance policies, SAIs recognized that they would need to take into account the availability of appropriate skills and resources within their institution. In addition, it was acknowledged the risks to such audits are likely to be higher and require closer management.

Through independent and robust audits, SAIs contribute to attaining medium and long-term sustainability of financial policies, safeguarding public interest and enhancing national governance according to their mandates and their own practical situation.

An SAI's understanding of the sustainability of government finances will be informed by their deep understanding of government administration and their audits of the financial statements of government entities, audits of compliance with legal frameworks and, where applicable, performance audits of relevant topics such as the regulation and supervision of the financial industry, the integrity of a nation's taxation administration and the management of public debt.

Recommendations

There was consensus that the decisions of SAIs on undertaking audits focussed on the sustainability of government finances would be influenced by each nation's economic position and fiscal priorities, any significant risks or exposures in national governance, and the SAI's priorities and capacity.

When addressing the issues of financial sustainability, SAIs should consider the following:

- Building the ability to audit the stage of planning public finances, with the aim to prompt Executive and Legislative branches assessing medium and long-term prospective scenarios or projections associated to expected developments of economic cycles, debt servicing, public programs and other commitments such as social security, pensions, education and health care, as well as contingencies like natural disasters, climate change and financial shocks, for instance.
- Assessing governments' foresight related to economy, public finances and public debt, thus identifying risks and providing constructive recommendations.
- Enhancing compliance with fiscal rules, financial regulation and accepted standards of oversight, as well as adherence to the whole of government budgetary processes. The objective is to ensure accountability throughout phases of planning, execution, performance evaluation and outcomes achieved. Moreover, effective internal controls are to be improved with a risk management system.
- Fostering the evaluation of public financial policies. SAIs will continue to, conduct audits over the soundness, effectiveness and sustainability of financial policies, in order to promote economic development and social welfare in the context of each country.

- **Strengthening government financial statement audits, with the aim to establish and improve institutional financial framework and financial reporting standards, so as to present fairly the financial performance and position of government.**
- **Improving public finances performance audits, in order to encourage medium and long-term fiscal sustainability associated with good governance.**
- **Reinforcing public debt audits, considering direct commitments as well as other liabilities and financial contingencies, with the objective to identify issues and risks in the management and expected developments of sovereign debt and financial deficits.**