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24 Auditing, accountability and anti-corruption: how relevant are autonomous audit agencies?

Carlos Santiso[1]

Government auditing and corruption control

Strengthening transparency and accountability in public finances is a defining challenge for emerging economies seeking to foster fiscal responsibility and curb corruption.[2] There is renewed interest in those oversight agencies tasked with scrutinising public spending and enforcing horizontal accountability within the state. However, little is known as to what explains the effectiveness of autonomous audit agencies (AAAs). How effective are they in enforcing financial accountability, improving fiscal governance and controlling corruption?

Institutional arrangements for government auditing

The core functions of AAAs, traditionally referred to as supreme audit institutions, are to oversee government financial management, ensure the integrity of government finances and verify the truthfulness of government financial information. AAAs contribute to anchoring the rule of law in public finances, including through the imposition of administrative sanctions. In some countries, they also perform key anti-corruption functions, such as overseeing asset declarations, public procurement or privatisation processes.

There exist different institutional arrangements for organising the external audit function, which can be regrouped in the following three broad ideal types:

(i) the **court model** of collegiate courts of auditors or tribunals of accounts with quasi-judicial powers in administrative matters, often acting as an administrative tribunal, such as in France, Italy, Spain, Portugal, Brazil or El Salvador;

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2 See C. Santiso, 'Banking on Accountability? Strengthening Budget Oversight and Public Sector Auditing in Emerging Economies', *Public Budgeting and Finance* 6(2) (2006); C. Santiso, 'Pour le meilleur ou pour le pire? Les parlements et le contrôle budgétaire dans les pays en développement', *Revue française d'administration publique* 117 (Special issue on State Reform and Budgetary Reform), forthcoming; C. Santiso, 'Lending to Credibility: The Inter-American Development Bank and Budget Oversight Institutions in Latin America', *CEPAL Review* 83 (2004); C. Santiso, 'Legislatures and Budget Oversight in Latin America: Strengthening Public Finance Accountability in Emerging Economies', *OECD Journal on Budgeting* 4(2) (2004).

(ii) the **board model** of a collegiate decision-making agency but without jurisdictional authority, such as in Germany, Netherlands, Sweden, Argentina or Nicaragua; and
(iii) the **monocratic model** of a uninominal audit agency headed by a single auditor-general and often acting as an auxiliary institution to the legislature, such as the US, the UK, Canada, Chile, Colombia, Mexico and Peru.

In practice, however, AAAs are unique hybrids that combine several elements of the different models. Key variations between agencies include the timing of control (ex-ante or ex-post), its nature (compliance or performance auditing), its effects (follow-up of audit recommendations), as well as its status (legal standing of audit rulings). The most important issue, however, concerns the agencies' approaches to fiscal control, which vary across countries and have evolved over time.

Fiscal control can be preventive, corrective or punitive. Compliance control is concerned with the formal adherence to budget rules and financial regulations, including through the imposition of administrative sanctions. Performance control is concerned with the manner in which public resources are deployed, emphasising the economy, efficiency and effectiveness of public spending. The trend is towards greater emphasis on the preventive and corrective functions of government auditing through ex-post performance auditing.

Measuring effectiveness of government auditing

We construct an indicator of institutional effectiveness of AAAs in 10 Latin American countries along the four key attributes, (i) their independence from the executive, (ii) the credibility of audit findings, (iii) the timeliness of audit reports, and (iv) the enforcement of audit recommendations, measured resorting to qualitative data. The aggregate indicator of institutional credibility is reproduced in figure 1 and its components in table 1.

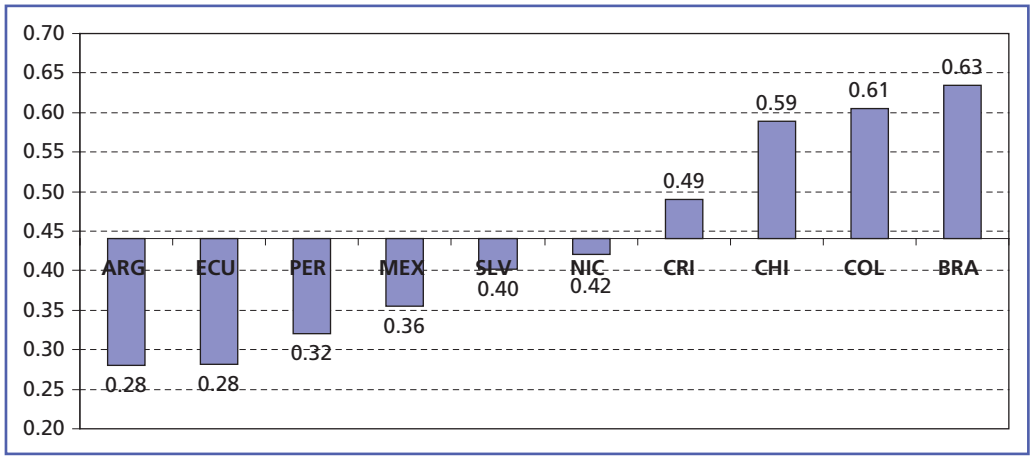


Figure 1: Indicator of effectiveness of autonomous audit agencies in Latin America (LAC10: 0.44)

Table 1: Indicator of effectiveness of autonomous audit agencies in Latin America

Country	Aggregate indicator	Independence	Credibility	Timeliness	Enforcement
ARG	**0.28**	0.44	0.22	0.13	0.33
BRA	**0.63**	0.88	0.42	0.24	1.00
CHI	**0.59**	0.78	0.40	0.18	1.00
COL	**0.61**	0.75	0.46	0.21	1.00
CRI	**0.49**	0.66	0.48	0.16	0.67
ECU	**0.28**	0.66	0.14	0.00	0.33
SLV	**0.40**	0.53	0.08	0.00	1.00
MEX	**0.36**	0.59	0.38	0.12	0.33
NIC	**0.42**	0.78	0.20	0.03	0.67
PER	**0.32**	0.78	0.12	0.04	0.33
LAC10	**0.44**	0.68	0.29	0.11	0.67

Note: Indicators are in a scale from 0 to 1, with lower scores meaning lower performance.

These data suggest that (i) the model of external auditing chosen does not predetermine overall agency performance; (ii) specific institutional arrangements greatly vary within ideal types and (iii) the broader governance context appears to have significant influence on organisational performance.

Government auditing and fiscal governance

Furthermore, statistical correlations suggest that, while AAAs do not have a direct influence on fiscal performance (budget deficits, volatility or out-turns), they do have an impact on fiscal governance and institutional quality, in particular corruption control (figure 2), bureaucratic efficiency (figure 3) and budget transparency (figure 4).

The data reveal a weaker connection between external auditing and adherence to the rule of law and constraints on the executive, which suggests that AAAs only marginally contribute to the systems of checks and balances. This latter finding confirms that, while AAAs could play a critical role in strengthening financial accountability, they often fail to do so because of structural dysfunctions in the systems of fiscal control in which they are embedded.[3]

3 See C. Santiso, 'Auditing for Accountability? Political Economy of Government Auditing and Budget Oversight in Emerging Economies', (Baltimore, MD: Johns Hopkins University, unpublished dissertation, 2006); C. Santiso, 'Keeping a Watchful Eye? Autonomous Audit Agencies, Fiscal Control and Financial Accountability in Emerging Economies' (mimeo, 2006); C. Santiso, 'Eyes Wide Shut: Reform and Capture of the Argentine Audit Agency' (mimeo, 2006).

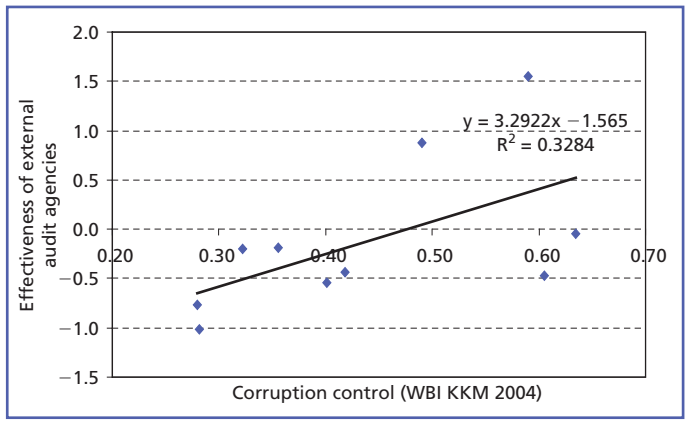


Figure 2: External auditing and corruption control

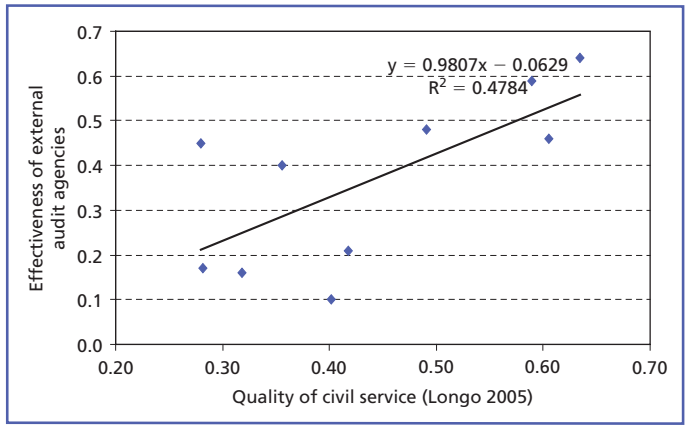


Figure 3: External auditing and bureaucratic efficiency

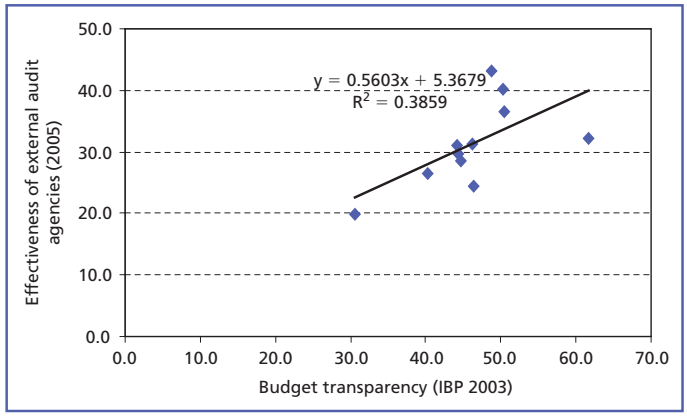


Figure 4: External auditing and budget transparency

Conclusions and policy implications

This research confirms that the contribution of AAAs to fiscal control and financial accountability is hampered by structural factors linked to the political economy of government auditing, in particular the dysfunctional linkages between government auditing, legislative oversight and judicial control.[4] It also underlines that budget institutions cannot be strengthened in isolation and that reform strategies based on radical reform or institutional transplant are likely to fail. The paradox of independence is that while AAAs ought to be sufficiently autonomous to act independently as oversight agencies, they must also develop effective functional relations with the institutions of accountability, the legislature, the judiciary and civil society.

4 C. Santiso, 'Budget Institutions and Fiscal Responsibility: Parliaments and the Political Economy of the Budget Process' (Washington, DC: World Bank Institute Working Paper No. 37253, 2005); C. Santiso, 'Parliaments and Budgeting: Understanding the Politics of the Budget', paper presented at the Annual Meeting of the Governance for Development Network of the IDB (Hamburg, Germany, on 12–13 December 2005).